

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** Argentina this week submitted its debt restructuring offer to the US Securities and Exchange Commission for approval. Do you think the government's current offer is sufficient to lure most creditors? How much longer do you expect to see Argentina's debt restructuring efforts drag on?

**A** **Guest Comment: Miguel Kiguel:** "The debt saga is entering a new, critical phase, and most people expect that it eventually will lead to a successful debt restructuring of Argentina's public debt. Argentina has entered a path with no return. The government announced its 'final' offer, which does not include substantive changes relative to the June offer. The main surprise was that there were no surprises. There is optimism in the government and in some financial circles, but the positive outcome is not granted, as the government will have to overcome many obstacles along the way, such as operational issues, legal challenges, and the coordination of the reception of offers from many creditors in different jurisdictions, while there could be extensions of deadlines if the government does not reach the majorities it seeks. But most analysts believe that the government this time is determined to leave the default behind in an effort to become a 'normal' country. The dynamics of the offer will very much depend on the momentum of the negotiations. So far, the government

has the momentum on its side, especially as it reached an agreement with the pension funds, and made progress with the local banks and insurance companies. The next step is to gain support from the external bondholders, who at the moment appear to be reluctant to accept. Argentina's offer is close to what creditors can accept, but it still needs to close a deal. To get 70 percent of bondholders to accept the offer might require some additional flexibility. My impression is that it will probably have it, especially because the IMF program is awaiting the outcome of the exchange, and President Kirchner probably wants to show the debt restructuring as one of his impor-

*Continued on page 4*

### PHOTO OF THE DAY



Mexican President Vicente Fox, left, speaks with Panamanian President Martin Torrijos during a visit to Panama yesterday, before flying to Brazil to participate in the Rio Group Summit.

*Photo: Los Pinos.*

### Inside This Issue

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## NEWS BRIEFS

**Brazil Records \$3.01 Billion Trade Surplus in October**

Brazil posted a \$3.01 billion trade surplus in October, despite imports reaching a high for the year. Imports totaled \$5.84 billion last month, up from \$5.75 billion in September and \$5.03 billion in October 2003, while exports amounted to \$8.84 billion, down from \$8.92 billion in September but up from \$7.57 billion in October 2003. For the 12 months through October, Brazil's trade surplus stood at \$32.59 billion, roughly equivalent to the government's forecast for full-year 2004. The surplus comes amid strong demand for Brazilian commodities such as soy and iron. Brazil's economy is expected to grow 4.5 percent this year.

Source: *Agencia Estado, Reuters.*

**France's Societe Generale Sells Argentine Unit to Banco Banex**

French financial services group **Societe Generale** on Wednesday announced the sale of its Argentine subsidiary, **Banco Societe Generale Argentina**, to local banking group **Banco Banex**. "This move is in line with Societe Generale's focus on developing its retail banking activities in its strategic zones of which Latin America is not a key component." Societe Generale said.

Source: *company statement.*

**Mexico's Vitro to Set Up Factory in China**

Mexican glass maker **Vitro** plans to establish a \$30 million factory in China as part of a strategy to expand its glassware markets in Asia. The factory outside Shanghai will have an annual production capacity of 60 tons of glass, with operations to begin in 2006. It will employ 400 workers.

Source: *Reuters.*

## Political News

**Latin American Leaders Congratulate Bush on Election Victory**

Leaders throughout Latin America on Wednesday sent US President George W. Bush their congratulations for his victory in Tuesday's election amid hopes a second Bush term would see both continuity and progress on a slew of bilateral and multilateral issues. Mexican President Vicente Fox called Bush while en route to Brazil to attend the Rio Group summit of Latin American heads of state, congratulating the president and inviting him to visit Mexico "in the near future," Fox's office said in a statement. Both leaders pledged continued cooperation on bilateral issues, including migration, security, the fight against terrorism and organized crime, and economic links. In January, Bush proposed an ambitious immigration reform that would grant millions of Mexican immigrants temporary worker status in the US, although little has been done since then to follow up on the proposal. Bush also received a note of congratulations from Brazilian President Luiz Inacio "Lula da Silva, who stressed cooperation on combating global poverty, inequality, and instability, according to Brazilian news service Agencia Estado. Brazil's foreign minister, Celso Amorim, said he believed the Bush administration would be more respectful of multilateral bodies such as the United Nations. "I have confidence—and perhaps it is naive on my part—that we will have a Republican government that is more multilateralist, more akin to George Bush Sr., in a second Bush term," Amorim stated. In terms of negotiations for a Free Trade Area of the Americas, which is now almost certain to miss a January deadline for completion amid US resistance to Brazilian and other Latin American countries' demands that the US end massive agriculture subsidies, Amorim said he did not see any changes in the Bush administration's approach. "I don't believe it would be much different with a Democratic administration, either," said Amorim, who has been a key figure in Brazil's trade negotiation strategy. Argentine President Nestor Kirchner sent

Bush a note of congratulations, stating his commitment to pursue "frank dialogue and mutual respect," Argentine daily *La Nacion* reported. Interior Minister Anibal Fernandez acknowledged the Bush administration's support for Argentina, which has counted on US backing as it undertakes the largest ever debt restructuring in history following a calamitous debt default in early 2002. "For us to say that things have been bad for us with Bush would be a lie," Fernandez stated. Colombia's govern-

“ For us to say that things have been bad for us with Bush would be a lie. ”

- Argentine Interior Minister

Anibal Fernandez

ment praised the US presidential election as a strong display of democracy, with Vice President Francisco Santos saying "democracy on the continent has been strengthened" as a result, Colombian daily *El Tiempo* reported. During Bush's first four years, the US has given Colombia \$2.5 billion in assistance, with 80 percent of the funds dedicated to fighting "narcoterrorism." The US is also in the middle of free trade talks with Colombia as part of negotiations that include Peru and Ecuador. Venezuela's ambassador to the US, Bernardo Alvarez, said the end of the US presidential campaign signals a new era of a "more substantive" and "less political" dialogue between the US and Venezuela. Alvarez said he hoped US-Venezuela relations would lead to cooperation on areas of common interest, such as energy. US-Venezuela relations have soured in recent years amid Venezuelan President Chavez's strong criticism of US "imperialism" and the war in Iraq, and Chavez's charges of US support for opposition attempts to oust him. Despite the many statements of congratulations and pledges of cooperation, Bush remains widely unpopular in Latin America. According to Chilean-based polling firm **Latinobarometro**, the proportion of Latin Americans holding a favorable view of the US has fallen from 73 to 64 percent since Bush took office in

2001, Inter-Press Service News Agency reported. A poll on the presidential election conducted by the University of Maryland and Canada's **Globescan** found that 42.5 percent of respondents in nine Latin American countries favored Kerry over Bush, while only 19 percent supported re-election for Bush, according to Inter-Press.

## Company News

### Brasil Telecom Reports Lower Third-Quarter Net Profit

**Brasil Telecom** on Wednesday reported a third-quarter net profit of 116.2 million reais (\$US 41 million), down 21 percent from a net profit of 147.6 million reais for the same three months of 2003, Reuters reported. The company said net revenues rose 15 percent year-on-year to 2.4 billion reais, boosted by a mid-year telephone rate hike of about 7 percent and a smaller increase in September, as well as by higher revenues from public telephone services, long-distance service, and data transmissions. However, increased revenues were more than offset by higher interconnection costs and by a 65.8 million-real provision for labor and work issues. EBITDA (earnings before interest, taxes, depreciation, and amortization) increased 2.6 percent to 984 million reais.

### CCU Posts \$8.6 Million Q3 Net Profit

Chilean beverage maker **CCU** on Wednesday reported an \$8.6 million third-quarter net profit, up from \$6.9 million for the same period a year ago, according to Reuters. CCU, Chile's largest brewer, said third-quarter revenue rose 4.9 percent year-on-year to \$155.4 million, boosted by a 13.1 percent increase in revenue from beer sales in Argentina. Revenue from wine sales fell 3.5 percent to \$39 million due to a decline in sales in Chile. However, operating income at CCU's wine unit rose 12 percent to \$3.1 million due to cost cutting. CCU said consolidated operating profit, or income before interest, taxes, non-cash items, and extraordinary items totaled \$13.2 million, up 6 percent from a year ago.

## The Dialogue Continues

### *A continuation of the November 2, 2004 Q&A*

**Q** Uruguayans on Sunday elected leftist Tabare Vazquez of the Frente Amplio to the presidency, ending 170 years of rule by Uruguay's two traditional parties--the Colorados and Blancos. Where will Vazquez take Uruguay? How will his election affect US-Uruguayan relations? Will Vazquez's election give pause to US investors encouraged by the signing last month of a bilateral investment treaty between the two nations?

**A** **Guest Comment: Alonso Cervera:** "We expect Vazquez to maintain a relatively market-friendly stance in upcoming weeks and months, particularly given the narrower-than-expected margin of victory in the first round. In an environment of high global growth, high commodity prices, and low interest rates, Vazquez will likely follow the policies adopted by his predecessor. It will be more interesting to see how he chooses to address periods of economic stress and uncertainty, particularly given different viewpoints he may have relative to those of Danilo Astori, his economy minister. We do not expect his election to materially affect US-Uruguayan relations; however, it will likely take some time for his cabinet to get to know their US counterparts. Overall, we think investors globally for several months had been anticipating a Vazquez victory; in this sense, this week's headlines are unlikely to affect investor sentiment."

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**Alonso Cervera** is an Economist at Credit Suisse First Boston.

### *A continuation of the November 3, 2004 Q&A*

**Q** Ecuador's Congress has voted to launch impeachment proceedings against President Lucio Gutierrez on charges that he misused public funds for campaign purposes. Do you think Gutierrez will be impeached? What political and economic fallout do you expect from the impeachment drive?

**A** **Guest Comment: Adrian Bonilla:** "Ecuadorean politics have not been stable since the mid 1990s. The largest opposition parties have officially committed to impeaching President Gutierrez. This event marks, in some way, the start of Ecuador's presidential campaign. The impeachment will very probably take place; however, it is uncertain whether the president will submit to Congress. The president has the option to legally challenge and disobey Congress. Since, at the moment, there is no constitutional majority that supports his removal, one possible scenario is that Gutierrez is judged as being "in contempt," but continues in office. Another scenario, that of dissolving Congress and producing an authoritarian solution *a la* Fujimori—if it could be undertaken by the Executive—does not seem politically viable. The possibility that Ecuador again faces a fight between the branches of government seems inevitable if trends continue."

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**Adrian Bonilla** is Assistant Academic Director and Research Coordinator at FLACSO Ecuador.

**Featured Q&A***Continued from page 1*

tant successes entering the 2005 congressional elections."

**A Guest Comment: Vladimir Werning:** "... While acknowledging that holdouts will be significant, we believe that market prices are an inflection point for participation and maintain a constructive outlook. That said, the government, the official community, the creditor groups, and Wall Street will all be biased to entertain different expectations for investor participation levels, but none can pretend to have an advantage over the others in anticipating that outcome precisely. Particularly in the case of a complex debt restructuring like Argentina's that 1) has not benefited from a prior consensus among debtors and creditors over debt sustainability; 2) lacks official creditor financial support; 3) contains inefficiencies like GDP warrants; 4) remains so narrowly calibrated to market prices—themselves implying historically low recovery levels—despite very favorable external conditions; 5) does not, as of yet, offer visible (and objectively affordable) cash sweeteners; 6) may occur in a piecemeal fashion—given unsynchronized regulatory approvals across multiple jurisdictions; and 7) may confront legal delays at best and complications at worst. Marrying acceptability and sustainability of the proposal remains tough, but Argentina has a unique opportunity and the limited, but sufficient, means required to tilt the scales and surprise the skeptics if it so wishes. Moderate enhancements to the offer could do the trick, and political conviction about the benefits of that financially modest (but politically non-trivial) trade-off is required. Unfortunately, three years after default politicians may have become immune to such considerations as a consequence of excessively enthusiastic critics wrongly timing their predictions that economic growth would suffer if measures like full normalization of financial relations were delayed."

**A Guest Comment: Carola Sandy:** "Representatives of various bondholder groups—including the umbrella creditor group GCAB, which claims to represent about \$37 billion of defaulted debt globally—have rejected the latest restructuring offer (given the meager improvement over the June proposal, when the 18-K was published) and criticized the government's unwillingness to negotiate with its creditors. This suggests that the restructuring process could be difficult, since some bondholders are likely to challenge the government in the courts, in an effort to pressure the government to improve its offer. Lawsuits may cause delays at various stages of the process; if such delays are significant, this could derail the government's plans to close the exchange in mid-January and get the IMF program back on track in early 2005. Our base case view is that there will be small improvements to the government's offer, which could be announced when the bond exchange is formally launched (expected November 29), or perhaps later."

**Miguel Kiguel** is President of Nuverse in Argentina and former Chief of the Cabinet of Economic Advisers in Argentina's Ministry of Economy.

**Vladimir Werning** is an Economist at J.P. Morgan Chase & Co.

**Carola Sandy** is Economist for Argentina, Peru and Colombia at Credit Suisse First Boston.

**Correction**

In yesterday's *Advisor* Q&A, the name of a commentator, Andres Mejia Acosta, was misspelled. Also, Mejia Acosta was mistakenly quoted as saying the Social Christian party has 75 percent of the seats in Ecuador's Congress. In fact, the party has approximately 25 percent of the seats in Ecuador's Congress.

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