



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q China's President, Hu Jintao, is making his first visit to the region this week, meeting with leaders in Argentina, Brazil, Chile and Cuba. Reports suggest he will be signing significant investment agreements: \$20 billion in new FDI from China to Argentina reportedly has been discussed by officials. What is the economic and political importance of President Hu's visit? What possible stumbling blocks are on the horizon for Sino-Latin American relations?

A Guest Comment: Cynthia Watson: "Hu Jintao's post-APEC visits exemplify the gradual moves that the People's Republic of China (PRC) is making into the area. The consultations in Chile will focus on possible trade enhancement through a free trade agreement between Santiago and Beijing; China is already a large consumer of Chilean copper. In Argentina, Hu appears likely to discuss greater ties in the energy sector. The Cuba portion of the visit will cover biotechnology projects, sports, and the possibility of greater tourism in Cuba as Chinese citizens are increasingly able to travel as their sources of disposable income grow. Most importantly, following on President Lula da Silva's visit to Beijing in May, Brazil would like to see soybeans and natural resources go to China while increasing its market access there. Bilateral trade between these states has grown dramatically recently. Further, Brazil and

China share traditional concerns over sovereignty, leadership in the 'third world' and their particular regions, and the possibility of cooperation in space from Brazil's equatorial launch site. The increasing number of visits—by civilian and military leadership—to South America appear likely to continue without causing panic in Washington if they remain low-level and Washington is distracted by events elsewhere. Latin America is frustrated with Washington's lack of attention and failure to negotiate the long-promised FTAA. The current PRC investment in diplomatic and trade visits, however, are low enough to keep it off the top of anyone's agenda in the US government."

Q&A continued on page 4

PHOTO OF THE DAY



US Secretary of State Colin Powell traveled to Mexico yesterday to meet with Cabinet officials there about a renewed push for immigration reform. See related story on page 2.

Photo: US Department of State.

Inside This Issue

FEATURED Q&A: What is on the Horizon for Sino-Latin American Relations?	1	Copper Strike Continues in Chile.....	2
Colin Powell, Tom Ridge in Mexico for Immigration Talks with Cabinet Officials.....	2	Companies Deny Wrongdoing in Colombian Spirits Suit.....	3
FARC Rejects Prisoner Exchange, Calls for Uribe's Assassination.....	2	The Dialogue Continues: Freddy Thomsen Comments on Argentina's Latest Debt Offer.....	3

NEWS BRIEFS

Efrain Rivera Named Bausch & Lomb Corporate Vice President and Treasurer

Bausch & Lomb has named Efrain Rivera corporate vice president and treasurer. He succeeds retiring Alan H. Resnick. Rivera has been President of Bausch & Lomb Latin America and Canada; general manager of Bausch & Lomb Mexico; and vice president and controller of Bausch & Lomb's North American Vision Care business.

Source: company statement.

Deutsche Bank's Latam Private Equity Team Forms New Company

The former Latin American private equity team of **Deutsche Bank** have formed a new company, **Alathon Group LLC**. Ettore V. Biagioni, the former head of the Latin America Private Equity at Deutsche Bank, will lead the new company in collaboration with senior team members, and continue to manage Deutsche Bank's Latin America portfolio of private equity investments.

Source: company statement.

Tupperware's Gaylin Olson Retires, David Halversen Promoted

Gaylin L. Olson, **Tupperware's** group president over Asia Pacific and Emerging Markets since 2002, announced yesterday he will retire. Olson became the company's Latin America president in 1998. David T. Halversen will expand his role from group president of Latin America and the BeautiControl division at the company, to include Asia Pacific as well. Halversen has been with Tupperware for 12 years and is credited with improving Latin American sales in the past year.

Source: company statement.

Political News

Powell, Ridge in Mexico for Immigration Talks with Cabinet

Secretary of State Colin Powell arrived in Mexico City on Monday, where Homeland Security Secretary Tom Ridge and other Bush Cabinet officials were also gathering to meet with their Mexican counterparts

rejected. On October 27, Uribe said the government would release 15 rebels if the FARC reciprocated, in the hope it would lead to negotiations of a broader exchange of prisoners, *El Tiempo* reported. The government proposal calls for 50 jailed rebels to be freed in return for about 60 prisoners held by the FARC in jungle hideouts. The FARC's hostages include politicians, civilians, military and police officers and three American contractors. The FARC

"I sense that there could be a more favorable environment."

— US Secretary of State Colin Powell

in order to jumpstart progress on the legal status of Mexican immigrants in the United States. Powell told reporters yesterday that with the US elections now behind them, the Bush administration is ready to make a new push in Congress to legalize undocumented Mexican workers in the United States. "I sense that there could be a more favorable environment," Powell said. Issues relating to water and education are also on the agenda for talks today.

FARC Rejects Prisoner Exchange, Calls for Uribe's Assassination

Rejecting a government proposal for exchange of prisoners on Monday, the Revolutionary Armed Forces of Colombia (FARC) escalated antagonism with the Colombian government with renewed calls for the assassination of President Alvaro Uribe. BBC News reported yesterday that intelligence services have intercepted guerrilla communications calling on all units to concentrate on killing the president, who has survived 12 attempts on his life since he took office in 2002. The FARC's refusal of the prisoner exchange offer follows months of intensified security presence and military efforts to crack down on illegal armed groups, part of Uribe's democratic security agenda. In a statement posted on its website, the FARC insisted the government grant the rebel group two demilitarized zones before discussions on a prisoner swap take place—a demand the government has already

reiterated their demands that the government demilitarize the southern departments of San Vicente del Caguan and Cartagena del Chaira (Caqueta), as a condition for talks. "The government will not demilitarize any zones because it has to guarantee the safety of the people across the country," Interior and Justice Minister Sabas Pretelt said. The FARC—which does not recognize the current Colombian government—is opposed to Uribe's reelection bid for a second four-year term in 2006, an initiative that requires amending the country's constitution.

Economic News

Copper Strike Continues in Chile

Union workers at Chilean copper mine El Abra, majority-owned by US-based **Phelps Dodge Corp.**, told Reuters they were continuing their strike for a fourth day on Monday, with no sign of relenting until their wage demands are met. The two unions on strike represent about 85 percent of the staff at the mine and processing plant. "Since the past week relations with the company were severed and we haven't renewed contact. We don't know when it's going to end," Luis Ibaceta, a union official, told Reuters. On October 27, workers voted against the company's proposed wage and benefits package. Early last week, the company improved its offer slightly but not enough to satisfy the miners, who

say wages are below the Chilean industry average, Reuters reported.

Company News

Companies Deny Wrongdoing in Colombian Spirits Suit

The Colombian government has filed a lawsuit in New York accusing **Diageo PLC**, **Pernod Ricard SA**, and **Seagram Export Sales Co.** of illegally importing spirits via Colombian companies that launder drug money, according to reports. The lawsuit was filed Monday in federal court in Brooklyn and accuses the companies of "knowingly selling their products into illegal channels and receiving payment in the form of laundered proceeds from narcotics sales and other criminal activities," an Associated Press report stated. News of the suit broke over the weekend. Diageo's external affairs director for Latin America Bill Bullard was quoted by Reuters saying his company follows all Colombian laws and he had not yet seen the suit. As of yesterday, the other companies mentioned in the suit also profess innocence or say they haven't seen the suit yet. According to the *Financial Times*, Colombian government officials have for several years been threatening to sue spirits companies for unpaid taxes and duties on products smuggled into the country by third parties. The suit alleges that the actions of the companies are harming government-owned spirits production and distribution businesses.

Chile's Enersis Refinances \$600 Million in Debt Due in 2006

Chile-based energy company **Enersis** and its generating arm **Endesa** signed \$600 million in bank loans to refinance debt due in 2006. Enersis, which operates in Argentina, Brazil, Colombia and Peru as well as Chile, said the lead banks on the loan were **BBVA Securities**, **Caja Madrid**, **Citigroup Global Markets, Inc.**, and **Santander Investments Securities Inc.** Over 12 months Enersis has reduced its total debt load by \$310 million, according to Reuters, to \$6.386 billion at the end of September. Last month **Pacific Hydro**

The Dialogue Continues

A continuation of the November 4, 2004 Q&A

Q Argentina has 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: Freddy Thomsen:** "If by 'most creditors' the question implies a creditor acceptance rate of 80 percent or higher, the government's offer, as markets stand today, does not seem attractive enough. Not even the Argentine authorities are expecting such a massive acceptance by bondholders. Depending on market conditions, which make the present value of Argentina's offer more or less attractive, over the coming weeks one would expect acceptance of somewhere within the 60-80 percent range. Estimating, roughly, that \$100 billion of debt is at

stake, this would still leave a sizeable amount of defaulted debt in creditors' hands. Holders of this debt will presumably choose to put pressure through the courts. They are unlikely to achieve much, since Argentina and its advisers have put much thought into devising financial structures to keep the country's funds safe from creditors. Therefore, if this round of restructuring is reasonably successful, as it probably will be, the problem of Argentina's sovereign debt could finally leave the international headlines. However, looking at the amortization profile that would remain after this exchange, clearly, for many years, Argentina will have to behave much better fiscally than in the past if it is to avoid yet another debt crisis."

Freddy Thomsen is the head of E.F. Thomsen economic consultancy in Buenos Aires.

Ltd., Australia's biggest renewable energy company, signed a conditional agreement to sell electricity to **Chilectra SA**, the distributor owned by Enersis, Bloomberg News reported. On Santiago's stock exchange yesterday, Enersis gained 0.3 percent in a generally down market, to close at 92.00, and was the most active stock of the day, the Associated Press reported.

Cencosud's Disco Acquisition on Track; Argentina Revenues Up

Cencosud SA, Chile's second-largest supermarket concern, says its acquisitions in Argentina are on track, and the company will have revenue of about \$3.2 billion next year after taking control of Argentine supermarket chain **Disco SA**. Company Chairman Horst Paulmann told

Bloomberg News that after the Disco acquisition, the company's sales will be evenly distributed between Argentina and Chile. Last week struggling Dutch retailer **Ahold** announced it had "partially completed" the sale of its 99.94 percent controlling interest in Disco to Cencosud by transferring the ownership of approximately 85 percent of the outstanding Disco shares, a deal valued at \$315 million. The remaining approximately 15 percent of the Disco shares "will be transferred to Cencosud as soon as legally possible," the company said in a statement released Tuesday, because those shares are subject to certain Uruguayan court orders processed in Argentina. Paulmann also said his **Montecarlo** stores will be merged with the **Santa Isabel** supermarket chain, which Cencosud bought from Ahold earlier this year, Bloomberg News reported.

Featured Q&A*Continued from page 1*

A Guest Comment: Kenneth Maxwell: "What more paradoxical story can there be than the growing role of China within Latin America today? While the United States runs up huge trade deficits with China that serve to engorge the coffers of the last great Communist regime on Earth, Washington has reduced its policy attention in the Western Hemisphere to the narrow, increasingly atavistic, and mutually reinforcing preoccupations of a decrepit old Communist dictator in Havana and Cuban-American politicians in Miami. Together they perpetuate a post-Cold War mini-Cold War across the Florida Straits and make this the sum total of US interest in the Americas. But this obsessive focus is so narrow and blinkered that it does not even extend to Cuba's neighbor to the east, the floundering republic of Haiti. With Washington struggling to sustain troop levels in Iraq, the United States in its own 'backyard' has devolved peacekeeping to the soldiers of Brazil (Washington's competitor for leadership in South America and a country which is currently greatly benefiting from increased Chinese trade), and, even more remarkably, to (guess who) Chinese policemen! As to what is going on in South America, the US Treasury by all accounts has put the region out to pasture. If the Chinese are foolish enough to spend \$20 billion dollars in Argentina this week it will be with dollars the US helped China earn, and on assets the Argentine government (with US acquiescence) has cut loose from their European and American investors. Maybe the defaulted bondholders would be better off seeking redress in Shanghai. Perhaps all this is healthy and inevitable in a globalized world still run by leaders who must pay attention to localized politics in order to win elections. But it is, to say the least, all very curious."

A Guest Comment: Geoffrey Milton: "I cannot recall such a high level visit from the Chinese government to these four countries at the same time. Cuba is presumably just a gesture to its communist ally in the region, but economically the other three are very significant. China wants to secure key

resources for its economic development, it is buying up ore deposits or investing in their development (e.g. copper from Chile) and focusing on strategic partnerships such as Brazil (they make up two of the four constituents of the 'BRIC' sector). Argentina may not be so obvious, yet it is a pariah in the international financial community so new money from China could pay dividends in the long run with energy and agribusiness. China certainly has the dollar reserves and credit rating to go on a spending spree and not be dependent upon the goodwill of the West's multinational trading firms to keep its factories running."

A Guest Comment: Claudio Loser: "China has been a major client of Latin America for years, even at the height of the Cultural Revolution. Now, China has become the second largest client of the Argentina, Brazil and Chile. China wants to secure the supply of raw materials for its booming economy, and can also help finance some long term investment projects. However, one should not overestimate the willingness or ability of China to invest in the region. President Hu Jintao's visit has been surrounded by exaggerated claims of help, particularly in Argentina. Argentine officials, even president Kirchner, sent messages to the media about an impending financial package, including enough money to repay the debt to the IMF. The suggestions of major announcements forced Chinese representatives to indicate that claims were unrealistic, and had taken them by surprise."

Cynthia Watson is a Professor at the National War College. Her views are not those of the National War College or any US Government agency.

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