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Featured Q&A With Our Board of Advisors

Q The US dollar last week hit a nine-year low—relative to a basket of major currencies—on concerns over the US current account deficit. How do you see dollar volatility affecting Latin America's economies? Do you expect volatility of the US dollar will drive foreign investors in Latin America toward different sectors than before (e.g., to non-export industries)?

A **Guest Comment: John Williamson:** "Volatility between the dollar and other major international currencies like the euro and yen is an inconvenience to Latin America, but it is not a disaster. Moreover, it has been happening for 30 years now, and shows no sign of easing. Since most Latin American currencies are now floating, dollar depreciation does not automatically imply changes in competitiveness or inflationary pressures (and it will actually decrease the real cost of servicing foreign debt since that is mostly denominated in dollars). However, maintaining the macroeconomic neutrality of dollar depreciation implies that the Latin American countries need to keep their effective exchange rates roughly constant, and allow their currencies to appreciate against the dollar. When the Asian currencies appreciate against the dollar, as they surely will at some stage, it will make sense for Latin American countries to allow their currencies to appreciate even further against the dollar. It would be

a serious (and probably costly) mistake to worry about preventing exchange rates against the dollar appreciating when other currencies are also appreciating so that this does not imply a real effective appreciation."

A **Board Comment: Michael Gavin:** "UBS has been working under the assumption of a substantial dollar depreciation for a considerable period of time; our target for end-2005 has long been USD1.40/EUR, and we see continued dollar depreciation in 2006. With almost all of Latin America now operating under flexible exchange rates,

Q&A continued on page 4

PHOTO OF THE DAY

Chilean President Ricardo Lagos



President Ricardo Lagos is the first-ever Latin host of the APEC meetings, which begin this week. See coverage on page 3.

Source: Presidencia de la Republica

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NEWS BRIEFS

Anheuser Busch Sells Chile Stake

Missouri-based brewer **Anheuser Busch** sold its 20 percent stake in Chile's biggest brewer **CCU** for \$299 million in an auction on the Santiago Stock Exchange on Friday. Chilean brokerages **Celfin** and **Banchile** together won the auction for the shares. CCU is the dominant brewer in Chile, with nearly 90 percent market share.

Source: Reuters.

Air Canada CEO Sees Latin America as Competitive Advantage

Air Canada's CEO told an audience yesterday that his airline, which emerged from bankruptcy yesterday, has become an "obvious choice" for passengers travelling between Asia and Latin America. He said visa requirements for travellers passing through the United States on their journey make Toronto a more attractive destination for international travelers, and Air Canada will take advantage of the situation, he says. CEO Robert Milton added that the airline, which emerged from creditor protection on September 30, is on track with most of its plans, and its stock in Toronto gained more than 5 percent on Monday.

Source: Canadian Broadcasting Corporation.

Azure Hires Teofanov for Latin America Sales

London-based IT company **Azure**, a spinoff last year of **British Telecom**, has hired Pedrag Teofanov as its new southern Europe & Latin America sales director. Teofanov was previously with **Nortel**. Azure provides technology and consulting relating to billing and revenue management functions at telephone and media companies.

Source: company statement.

Economic News**Peru's Economy Continued to Grow in September**

Peru's economy grew in September 4.52 percent, year over year. Fishing and gas production accounted for much of the increase, according to a Reuters report. Peru's GDP growth in September was lower than the 5.97 percent in August, yet higher than the 3.75 percent growth in July, the National Statistics Institute reported. Peru's current economic expansion, at 39 months, is the longest on record since the government began compiling growth data in 1984, Reuters reported. Economists expect the trend to continue. Analysts have suggested that Peru could even attain a coveted investment grade rating in the future. "Peru is making progress

Ortiz told reporters following a conference in Mexico City. "The bank is moving in this direction," Ortiz said, declining to say when the bank may make the change. A shift away from the current system may help the government better control inflation, analysts say. Mexico's inflation rate jumped to a 19-month high of 5.4 percent in October.

Political News**PRI Wins Decidedly in Local Mexican Elections**

Mexico's opposition Institutional Revolutionary Party (PRI) won two of Sunday's four state governor elections and had the lead in a third state according to preliminary results, Bloomberg News reported. The PRI had 58 percent of the

The mechanism to substitute the corto would be a reference interest rate.

in most of the areas we recognize as credit weaknesses, in particular containing the economy's external vulnerability and increasing the still-low tax burden," Sebastian Briozzo at Standard & Poor's told the *Advisor* on Friday. [Editor's note: see related Q&A in the November 12, 2004 issue of the *Latin America Advisor*.] In related news, Peruvian police said on Monday they seized over 700 kg of cocaine hidden in a frozen rare giant squid that was bound for study in Mexico and the United States.

Mexico Considering New Inflation Control Mechanism

Mexico's Central Bank chief said yesterday the country may start the practice of setting a benchmark interest rate, scrapping the current "corto" system of setting rates by reducing or increasing lending to banks, Bloomberg News reported yesterday. "Obviously, the mechanism to substitute the corto would be a reference interest rate," Central Bank President Guillermo

vote in Tamaulipas while the candidate of the ruling National Action Party (PAN) had 31 percent, with 93 percent of the ballots counted. In Puebla, the opposition group had 50 percent of the vote, while President Vicente Fox's center-right PAN party had 36 percent, the state electoral institute said after tallying 98 percent of the votes. With 23 percent of the vote counted, the PRI candidate led with 37 percent, followed closely by the PAN candidate's 35 percent. In the state of Sinaloa the PRI led with 47 percent, versus 46 percent by the PAN, with 96 percent of the votes counted. The PRI was not able to regain control of Tlaxcala from the left-of-center Party of the Democratic Revolution (PRD), where Fox's party led by one percentage point over the PRI's 34 percent, with 96 percent of the vote tallied. The PAN took control of the country in 2000 after seventy-one years of PRI rule. Analysts say the PRI may be well positioned to take back the presidency in 2006 following a series of wins in mid-term legislative voting last year. Using gubernatori-

al elections to gain advantage over Mexico's two other main political parties—the PAN and the PRI—would reinforce its lingering influence in the country. Sunday's results give the PRI control of 16 of 32 governorships. "First, the PRI is still a very well organized, effective political machine, without a doubt, and second, they probably are doing a better job fielding more competitive candidates," analyst and consultant in Mexico City Jon French told the *Advisor*. "Second, they still have very strong ties to the labor unions and can get the vote out." The PRI widened its plurality in Congress last year and has won eight of the last 12 gubernatorial races. It has governed three of the four states that voted Sunday—Tamaulipas, Sinolaus and Puebla—since the party's founding in 1929. Despite acknowledging the PRI's long-standing political strength, French advised not jumping to conclusions about the 2006 presidential race. "Remember Howard Dean. It's so early, that how viable any frontrunner is, is highly dubious," he said.

Company News

Cemex Sells Two US Plants to Brazil's Votorantim

Mexican cement and construction giant **CEMEX, S.A. de C.V.** announced yesterday that it plans to sell its assets in two US-based plants for about \$400 million to Brazil's **Votorantim Cimentos LTDA**. "Votorantim presented a non-binding offer for the Charlevoix and Dixon-Marquette cement plants, and other associated operating assets [in the Great Lakes region of the US]," Cemex said. The transaction is expected to close next quarter, pending finalization of details. "Total production capacity of both cement plants is close to 2 million metric tons a year and represents about ten percent of the operating cash flow generation of our US business," Cemex said. Last month Cemex said third-quarter net income more than doubled to a record high as a result of strong prices and rising demand from the US. The company's debt resulting from big acquisitions in Europe, however, has been worrying stock analysts.

Meetings

Editor's Note. Two high-profile meetings are taking place this week in Latin America: the hemispheric defense ministerial in Quito, Ecuador, which began yesterday, and the APEC summit in Santiago, Chile, which begins Friday. Below is a summary of key issues leaders are scheduled to discuss.

Defense Ministerial in Quito

Overarching themes... The goal of the meetings, according to the US, is to help close any seams in the hemispheric security network that "the nexus of terrorism, drugs and organized crime can exploit," according to one US official quoted by the Defense Department's press service.

Science and technology cooperation is a key part of the agenda. The United States hopes to explore further cooperation in Argentina, Brazil, Paraguay and Uruguay. "We want to assert our commitment to cooperation in science and technology in the region," a US official said. Since 2002, the Defense Department has launched several initiatives on science in Latin America, including a new Office of Naval Research Bureau in Chile and the US Army Materiel Command research bureau in Buenos Aires.

Peacekeeping and roles for military... The ministerial will also focus on strengthening hemispheric peacekeeping. The US delegation will express continued support for Latin America's contribution to the UN peacekeeping force in Haiti. Brazil is leading the effort, which includes nine Latin American countries, to restore peace and order in the Caribbean nation.

APEC Summit in Santiago

Overarching themes...The 21 members of the Asia-Pacific Economic Cooperation (APEC) group plan to focus on trade and reinforce their commitment to supporting WTO's Doha Round trade talks, and on putting the free trade agreement talks on the broader APEC agenda.

Intellectual Property... Intellectual property will be a key issue. China has offered to host a symposium on intellectual property rights next year.

AIDS... Thailand's Prime Minister Thaksin Shinawatra said AIDS was continuing to kill thousands of people in APEC countries each year, describing it as no less threatening to humanity than terrorism.

Terrorism... The Philippine government Monday was unanimously elected as APEC's new chairman of the Counter-Terrorism Task Force. The government said in a statement that the nomination is "an expression of confidence by the international community in the country's leadership in the war against terrorism."

Taiwan/China question... US President George W. Bush and China's President Hu Jintao are expected to discuss the sensitive issue of Taiwan on the sidelines of the Santiago summit. Taiwan has worked many years to develop relations with Latin American countries that recognize its legitimacy. China claims Taiwan as its territory, and Hu wants the "one China, different interpretations" policy to be supported by the international community.

The Chilean government declared Friday a holiday in the capital to reduce street traffic and will close major roads for the day. Large-scale protests could erupt.

Sources: wire reports, *La Tercera*, MercoPress, Xinuanaet, *Santiago Times*.

Featured Q&A*Continued from page 1*

this is pretty distant thunder for Latin America. Other things equal, a weaker USD/EUR cross is likely to lead to somewhat stronger Latin currencies in terms of the US dollar, but somewhat weaker in

“...Many foreign investors in the region switched from targeting domestic markets to exporting during the currency crises over the past decade.”

- *Jonathan White*

terms of the Euro. This may affect their direction of trade (for example, more exports to and fewer imports from Europe, and more imports from and fewer exports to the United States) but it is not likely to alter Latin economies' savings, investment or growth in any major way."

A **Guest Comment: Jonathan White:** "Behind the performance of the US economy, dollar volatility ranked the second most important factor impacting foreign direct investment decisions, based on the latest results of an ongoing A.T. Kearney survey of Global 1000 CEO attitudes and intentions regarding FDI destinations. Countervailing and unpredictable forces underlie the dollar's volatility. The rise in US interest rates has led to the unwinding of fast-moving US portfolio investments overseas, helping lift the dollar at times over the past months. But, the US's large and growing deficits are expected to continue to put downward pressure on the greenback. As a result, managing debt and revenue streams across curren-

cies has become more challenging, and critical long-term corporate investment planning has been further complicated. However, a strategic shift on the part of corporate investors from investing in export industries to domestic-oriented industries in Latin America would have to account for local market opportunities and improved conditions, not just concerns over the dollar, as such. It is true that many foreign investors in the region switched from targeting domestic markets to exporting during the currency crises over the past decade. However, this was a function of the overall weak macroeconomic climates in these countries, which undermined profitability. To argue that the reverse could happen given dollar volatility would likely require the profitability of US-denominated assets to erode in a similar fashion relative to real-based or peso-based assets. This is not to say that the dollar's weakness may not impact FDI-decisions in Latin America. On the contrary, US investors may wish to reinvest local earnings in their Latin American subsidiaries rather than repatriating them into dollars at a less than favorable exchange rate. Such a decision would likely also involve an assessment of the potential for healthy rates of return in those markets in the future."

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