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Featured Q&A With Our Board of Advisors

Q Murder, kidnapping, and other crime in Latin America are a serious deterrent to investment in the region, raising costs and driving some investors to look elsewhere, according to a recent report by the Council of the Americas. How are Latin American governments coping with the challenge of enhancing public security? Are they investing sufficiently in the police and criminal justice systems? Should investment in security come before other priorities, such as education, public health, and infrastructure?

A Guest Comment: Jack Devine: "It is clear that investors are concerned about security in Latin America and so is the general public. In the past six months, for example, we've seen ordinary Mexicans taking action peacefully (the march on the Zocalo last June) and violently (the gruesome lynching of police officers in San Juan Ixtayopan) in response to the lack of personal security and rising kidnapping and crime rates in the capital. A report by the Inter-American Development Bank indicated that there were at least 15,000 reported kidnappings in Mexico from 1992 to 2002, second only to Colombia. Because many kidnappings go unreported due to fear of retribution and police collusion, this number is likely much higher. There is a lot private-sector firms and private citizens can do to mitigate security risks—hiring a security detail,

conducting thorough threat assessments and security analyses, or implementing a crisis management plan. Ultimately, however, it's up to the government to take the lead in providing security and meting out justice. Governments realize that kidnappings and violent street crime are not random but highly organized, institutionalized in many ways, and negatively affecting investment and economic development. In response, Latin American governments must invest heavily in security as a top priority by standing up robust but streamlined law enforcement programs, making

Continued on page 4

CHART OF THE DAY

US Agricultural Sales to Cuba
2001-2003 (in \$US thousands)



US Senator Byron Dorgan on Thursday accused the Bush administration of seeking to halt the sale to Cuba of US agricultural goods, which grew to more than \$114 million in 2003. See related Capitol Hill Watch news item on page 3.

Source: US Department of Commerce.

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NEWS BRIEFS

Kirchner Calls Economy Minister to Express Continued Support

Argentine President Nestor Kirchner called Economy Minister Roberto Lavagna last night to express his support for the minister. Rumors of Lavagna's possible dismissal by Kirchner spread throughout the country yesterday, helping to send the MerVal stock index down 2.24 percent. Various rumors held that Lavagna would leave the government because of a conflict with Central Bank President Martin Redrado over the use of the Bank's international reserves, and due to the postponement of Argentina's debt restructuring offer.

Source: Clarin.

Devaluation of Venezuela's Bolivar Set for January 1

The Venezuela government will devalue the bolivar from its current fixed exchange rate of 1,920 per dollar to 2,150 per dollar on January 1, Finance Minister Tobias Nobrega said Thursday. The 10.7 percent devaluation of the bolivar had been previously announced as part of the government's budget for 2005, although officials did not say the date when the devaluation would become effective. The government imposed currency controls early last year after the bolivar tumbled against the dollar.

Source: Reuters.

AIG Buying Stake in Brazilian Retail Venture

US insurance company AIG is paying \$50 million for a 14.86 percent stake in a joint venture between Brazilian retailers CBD and Sendas, the companies announced Thursday. CBD and Sendas created the venture last year to better compete with foreign competitors such as Wal-Mart.

Source: Reuters.

Political News**Rights Court Upholds Peru's Conviction of Lori Berenson**

The Inter-American Court of Human Rights (IACHR) on Thursday upheld Peru's imprisonment of American Lori Berenson for collaborating with leftist rebels in the mid-1990s, Reuters reported. In its ruling, the IACHR, the Western Hemisphere's top human rights court, said the government of Peru did not violate Berenson's rights in a civilian trial in 2001. Berenson was arrested in Peru in 1995 and convicted of treason in 1996 as a leader of the Tupac Amaru Revolutionary Movement by a hooded military judge. She was sentenced to life in prison. In 2001, she was retried in a civilian court after the 1996 conviction was overturned and sentenced to 20 years in jail on the lesser charge of terrorist collaboration.

“ [The IACHR's ruling] is undoubtedly a great satisfaction and tranquility for Peruvian justice and all Peruvians.”

- Peruvian President Alejandro Toledo

Peruvian President Alejandro Toledo, who recently declared war on terror in what some critics say is part of a strategy to lift his single-digit popular approval ratings, welcomed the IACHR's ruling. "It is undoubtedly a great satisfaction and tranquility for Peruvian justice and all Peruvians," Toledo said yesterday, according to the Associated Press. Last week, Toledo's Cabinet chief, Carlos Ferrero, said the government would not release Berenson if the IACHR ruled in her favor. The IACHR was Berenson's last avenue of appeal, according to Reuters.

Economic News**Argentine Telephone Workers' Strike Causes Service Disruptions**

A strike by 20,000 Argentine phone workers demanding higher wages and

improved conditions caused disruptions in the services of the country's two major telephone companies. The work stoppage by workers at **Telefonica de Argentina** and **Telecom Argentina** continued for the sixth day, as a meeting of union leaders and company officials failed to produce results, Argentine daily *Clarín* reported. Telefonica de Argentina said the strike created disruptions after workers stormed two buildings owned by the two telephone giants and camped out outside. Spokesmen for the two companies said service has been cut off to some countries. Union and company officials met at the labor ministry in Buenos Aires for a second day to try to reach an agreement. Workers are demanding a 25 percent increase in wages and say the companies have refused to boost salaries as Argentina's economy expands, according to Bloomberg News. Secretary of Labor Carlos Tomada urged both sides to resolve the conflict.

Minister: Chile Should Boost Copper Production to Meet Demand

Chile needs to increase copper production in order to meet growing global demand, Chilean Finance Minister Nicolas Eyzaguirre said Thursday. Continuation of current record high prices may encourage substitution of copper by other metals, Eyzaguirre said. "Prices for copper at \$1.4 are dangerous," Eyzaguirre told reporters. "Probably supply should expand more rapidly." Prices for the metal have risen by 53 percent in the last 12 months, according to Bloomberg News. Eyzaguirre said opening state-owned copper giant **Codelco** to a partial privatization may help fund the company's huge expansion plans, Dow Jones reported Thursday. Codelco and other mining companies are increasing investment to meet rising demand from China, the world's largest consumer of copper. Chile's Constitution bans outside

investors from participating in Codelco's existing copper mines or surrounding deposits that could replenish these mines. However, investors could participate in new, isolated copper deposits. Codelco is also considering joint ventures with foreign companies involving both existing mines and new processing facilities as a means to finance the company's expansion. Chile is the world's largest copper producer.

Company News

Mexico's Comerci Wins Contract with Aggressive Offer; Shares Slide

Shares of Mexico's **Comerci** fell on Thursday after it was announced the retail store chain had won a contract to provide Christmas shopping vouchers by offering a steep discount on the vouchers, Reuters reported. Comerci's local shares closed down 3.21 percent to end at 12.36 pesos, while its ADRs fell 2.19 percent to \$22.30. The declines in the company's shares followed the news that it had a contract from the Mexico City government to provide some \$146 million in vouchers to city employees, beating out two rivals—**Wal-Mart de Mexico** (Walmex) and **Grupo Gigante**—for the contract by offering an aggressive discount of 35.68 percent on the face value of the vouchers. Comerci, which has been awarded the coveted contract for the past three years, won it last year with a discount offer of 26.62 percent. Analysts said the steeper discount this year would lower fourth-quarter earnings. Comerci, Gigante, and another retail chain, **Soriana**, are locked in fierce competition with Walmex, whose strategy of aggressive expansion and low prices has propelled it to quickly become Mexico's largest retailer in the last few years. Earlier this week, Soriana announced it would invest \$300 million in 2005 to open new stores and expand into Mexico City, where it will compete head-to-head against Walmex.

Brazil's Net Says Closing of Debt Deal Pushed Back to Early 2005

Brazilian cable operator **Net Servicos de**

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Senator Accuses Bush Administration of Trying to Halt US Ag Sales to Cuba

Sen. Byron Dorgan (D-ND) on Thursday accused the Bush administration of trying to shut down US agricultural trade with Cuba. In a statement, Dorgan said the Treasury Department's Office of Foreign Assets Control (OFAC) was diverting resources meant for the war on terrorism to halting farm sales to the Caribbean nation. "With our trade deficit soaring, you would think the administration would be working to boost exports. Instead, OFAC is using resources that could fight terrorists to instead thwart the cash sales of hundreds of millions of dollars in farm products to Cuba," Dorgan said. The senator's accusation came amid fears by some US farm groups that the administration will start to require Cuba to deposit money for the purchase of farm goods in US banks before shipments leave port, possibly prompting Cuba to halt purchases out of concern the money could be seized by the US government before goods leave port. Dorgan said he plans to introduce legislation to strop OFAC "from using strong-arm tactics to thwart the sales."

Source: Office of Sen. Byron Dorgan, The Mercury News.

LatAm Governments Defend Kofi Annan Against Coleman Editorial

Several Latin American governments rallied to support United Nations Secretary General Kofi Annan after Sen. Norm Coleman (R-MN), the chair of the Western Hemisphere subcommittee, called this week in a *Wall Street Journal* editorial for Annan's resignation. Coleman criticized Annan over a brewing "oil-for-food program" scandal at the UN which "occurred on his watch." Chile, which currently holds a two-year seat on the UN Security Council, has "strongly backed Annan" in recent days. Annan also got strong support Wednesday in a meeting with the ambassadors from other Latin countries, including Argentina, Colombia and Mexico, among other countries in the world.

Source: Sacramento Bee.

Comunicacao has delayed the closing of a 1.3 billion real (\$US 478 million) debt restructuring until the first quarter of 2005, the company's head of investor relations, Leonardo Pereira, said Thursday, according to Reuters. Last month, Pereira said the company hoped to have the restructuring done by the end of this year. On Thursday, however, he said the company cannot launch the debt swap until creditors sign the debt restructuring agreement, which is expected by December 20. Net said last month it would issue 1.8 billion shares through a private placement to raise funds for the debt restructuring. Net defaulted on \$870

million worth of bonds in 2002. In June, the company announced an agreement by its controlling shareholder, **Globopar**, to sell its 30-60 percent stake in Net to Mexican fixed-line giant **Telefonos de Mexico** (Telmex) for between \$250 million and \$370 million. The size of the stake to be bought by Telmex depends on creditor approval. Based mainly in Sao Paulo, Net provides cable television services under the brand name NET, high-speed broadband Internet services under the name Virtua, and data transmission services using both satellite and terrestrial technology under the name Vicom. Net has 1.36 million customers in Brazil.

Featured Q&A*Continued from page 1*

officials accountable, enacting real judicial reform, and demonstrating strong political resolve on the issue."

A Guest Comment: Stephen Donehoo: "As USTR Robert Zoellick often says, 'investment capital is a coward and goes only where it feels secure and welcome.' Latin American nations, and especially those with smaller markets and economies, have begun to realize the importance of security in making their countries attractive to investment (transparency and judicial security are equally important, by the way). Since President Uribe came to office, Colombia has successfully made securing its people and territory a priority. Its reduction of violent criminal activity in every category was recently trumpeted in the equivalent of a national road show for international investors by Uribe and members of his economic and national security cabinet team. While Colombia has had help from the US in the form of training, equipment, logistics, and intelligence, it has also increased the size of its security forces and its own spending, through special tax levies to achieve these results. That said, a secure environment is futile without healthy, educated, and skilled workers, high-speed Internet and telecommunications to service accounts, and roads, bridges, ports, and airports to move products to markets. All these elements are part of a broader national security strategy that Latin American nations must balance as they prioritize their resources."

A Guest Comment: Jon French: "The crime and security problems in Mexico are somewhat a deterrent to foreign investment here, but not appreciably in view of the continuing substantial flow of foreign investment dollars to this country—Mexico's large domestic market and proximity to the US remain a strong attraction to multinational companies. Much in the manner that any international expansion implies taking risks, foreign investors in Mexico must consid-

er risks to personal security, property security, cargo hijackings, and intellectual copyright infringements. Most of these risks can be ameliorated and overcome with proactive security and prudent common sense measures. The Mexican government over the past few years has finally been prodded to respond aggressively, not only to address concerns of foreign investors, but also an increasingly impatient and vocal Mexican public. Recent good news includes establishment of the Federal Investigative Agency (AFI) in 2001 to address white collar crime, drug trafficking, kidnappings, etc. Modeled after the FBI, AFI is quickly becoming an effective police authority that can be trusted to address the endemic crime problem in the country. In addition, Mexico City police, with guidance from former NYC mayor Rudy Giuliani, are undertaking numerous initiatives to reform and professionalize the police department. As a result of a mass demonstration in Mexico City in June, Federal and city authorities are under strong public pressure, prompting commitments to further major budget increases in 2005 for public safety. Still lacking is any progress on substantive judicial reform and patience, since the good news above will take years to bring the crime problem under control."

Jack Devine is a *Founding Partner and President of The Arkin Group LLC, and a former Acting Director of the US Central Intelligence Agency's Directorate of Operations.*

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