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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at rsimpson@thedialogue.org

Annual Predictions Survey 2005

Editor's note: we are pleased to publish the second in our series of Latin America Advisor "Annual Predictions Survey" results. Today's topic: Sino-Latin America relations in 2005. Survey results will run in the Advisor through January 3.

Q In 2004, we witnessed growing economic ties between Latin America and China. What are your predictions for Sino-Latin America relations in 2005? How concerned is the United States about these ties? How might the US respond?

A Guest Comment: Mario Marconini:
"In 2005, Sino-Latin America relations should be focused on the implementation of the myriad of government-to-government understandings, some involving more or less private interests, between China and the various Latin American countries. For the most part, China saw in the continent a golden opportunity to secure supplies of much needed inputs for its ever-growing economy. In order to avoid delays or other inconveniences, China has also committed to high sums of investment in infrastructure so as to avoid being surprised by bottlenecks in transport and logistics chains for commodities of interest. Its Latin American policy should 'welcome' continuing trade deficits with the region in 2005, and much investment should take place where regulation is clear and investor-friendly. For the US, the question lies

in China itself and not in its ties to Latin America. If Latin America contributes to sustaining a growing and prosperous China, this may not be a bad deal, since it may even help to move China to where the US would like it to be on matters much more sensitive and global in nature, such as its exchange rate policy. As to geopolitics, China should hardly budge from its pragmatic approach to international relations: its move to Latin America is commercial in nature, not to be confused with a bold political stride into one of the US' most traditional areas of influence in the world."

A Board Comment: Myles Frechette:
"Chinese President Hu Jintao recently visited Chile, Brazil, and Argentina. China's huge popula-

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Brazilian President Luiz Inacio Lula da Silva and Chinese President Hu Jintao sought to expand economic ties during a visit to Brazil by Jintao in November. Photo: Agencia Brasil.

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NEWS BRIEFS

Menem to Return to Argentina, Will Run for President Again

Former Argentine President Carlos Menem said Monday he would return to Argentina after a court struck down a warrant for his arrest. Menem, who was president from 1989 to 1999, said he would start organizing a campaign to run for president in 2007. Menem ran in last year's presidential race in Argentina, but withdrew from a planned second-round vote after it became clear that current President Nestor Kirchner would win. Menem fled to Chile a year ago to escape arrest related to his alleged possession of multimillion-dollar Swiss bank accounts.

Source: Associated Press.

Chile's Peso Currency at 11-Month High Against Dollar

The Chilean peso closed at 563.30/563.80 versus the dollar on Monday, its strongest level in 11 months. Traders said the peso's strengthening was in line with global currency trends, which indicate a weakening dollar. The peso has appreciated 5 percent against the dollar in less than two weeks.

Source: Reuters.

Steelmaker Arcelor Buys 21 Percent of Brazil's CST

Luxembourg-based steelmaker Arcelor announced Monday that its Spanish subsidiary had purchased a 20.51 percent voting stake in Brazil's Companhia Siderurgica de Tubarao (CST) for 431.8 million reais (\$US 160.7 million). Arcelor said that with its consolidation of control of CST it was considering combining its Brazilian holdings into a single public company.

Source: company statement.

Political News

Chilean Court Upholds Charges Against Pinochet

A Chilean appeals court on Monday upheld the indictment and house arrest of former dictator General Augusto Pinochet on human rights charges during his 1973-1990 military regime, the Associated Press reported. Pablo Rodriguez, Pinochet's defense lawyer, immediately appealed Monday's ruling. "We have prepared today an appeal before the Supreme Court, and

Pinochet's defense lawyer immediately appealed the ruling.

we want to demonstrate our utmost confidence that the country's superior tribunal is going to correct what in my judgment constitutes an error by the Court of Appeals," Rodriguez said. Yesterday's ruling came as Pinochet recovered in a Santiago military hospital from a mild stroke he suffered on Saturday, Chilean daily *La Tercera* reported. Last week Judge Juan Guzman indicted Pinochet, charging him for nine kidnappings and one homicide during his rule in connection with "Operation Condor," a coordinated strategy by South American governments to quell dissidents. An official report by the civilian government that succeeded Pinochet in 1990 claims at least 3,190 people were killed for political reasons during his regime.

Bush Pledges to Work with Congress on Immigration Proposal

US President George W. Bush said Monday he planned to work with members of Congress to push through immigration reform. Responding to a reporter's question during a press conference at the White House, Bush said the nation's current immigration system was not working and repeated his proposal for a temporary guest worker program that would allow millions of Mexican migrants to legally enter the United States to work. "The sys-

tem we have today is not a compassionate system. It's not working. And as a result, the country is less secure than it could be with a rational system," the president stated. Bush proposed the temporary guest worker program in January, but did little to pursue the proposal in Congress this year amid a tight presidential race and opposition by some lawmakers to relaxing immigration restrictions. Yesterday he said the his proposed program would not result in "automatic citizenship" for immigrants. "The American people must understand that ... if somebody who is here working wants to be a citizen, they can get in line like those who have been here legally and have been working to become a citizen in a legal manner," Bush said. Since taking office in 2000, Mexican President Vicente Fox has pushed for an immigration agreement that would allow more Mexicans to legally live and work in the United States, but the September 11, 2001 terrorist attacks pushed the issue down on the US' list of priorities. Last month, during a meeting in Santiago, Chile for the APEC summit, Fox told Bush he wanted to meet with him in Washington soon to try to reach an agreement on immigration, according to Reuters. In related news, the US Federal Railroad Administration (FRA) denied a petition from **Union Pacific Railroad** to waive federal safety inspections of freight trains entering the US from Mexico, Reuters reported. The FRA said Union Pacific failed to "sufficiently demonstrate" that waiving the inspection requirement would not endanger railroad safety.



Bush said the US immigration system is "not working." Photo: White House

US Justice Department Approves Funds to Demobilize Paramilitaries

The US Department of Justice has approved the use of government funds to aid Colombian paramilitary groups in the process of disarmament, *The Miami Herald* reported. The State Department and Congress must now approve the measure, a \$3 million program by the US Agency for International Development,

which will seek to help disarm and reintegrate paramilitary members into civilian life. The controversial proposal generated months of legal debate because US law bans assistance to terrorists, a designation the State Department has given to the Armed Self-Defense Forces of Colombia (AUC), the country's largest right-wing paramilitary group. In addition, some lawmakers and human rights advocates are concerned the Colombian government may grant immunity from prosecution to individual paramilitary members who have committed human rights violations in exchange for agreeing to lay down their arms. Earlier this month, 1,400 AUC turned in their weapons on Friday in what was described as the largest demobilization of an illegal armed group in Colombia's history. Over 3,000 members of the AUC have demobilized to date. Under a plan by Colombian President Alvaro Uribe, some 20,000 paramilitaries are expected to follow suit by 2006.

Economic News

Minister: Brazil's Trade Surplus Should Fall to \$20 Billion in 2005

After a year of solid economic growth, Brazil's trade surplus next year should fall to about \$20 billion, the country's trade minister said Monday, according to Reuters. Luiz Fernando Furlan estimated Brazil's trade surplus will decline next year after reaching a record \$32 billion in 2004 amid a competitive local currency, increased agricultural exports, and low imports. "The surplus will be smaller, though not a great deal next year as exports are likely to grow less than imports. We expect a surplus in the vicinity of \$20 billion ... and probably something similar in 2006," Furlan was quoted as saying. Furlan predicted exports this year of over \$94 billion, representing about 30 percent growth from 2003 levels, while he put imports at \$62 billion, or about 28 percent higher than last year. Furlan also said Brazil's country risk was declining and moving it closer to investment grade status. Rating agencies are now more likely to upgrade Brazil's debt from its current "junk bond" category,

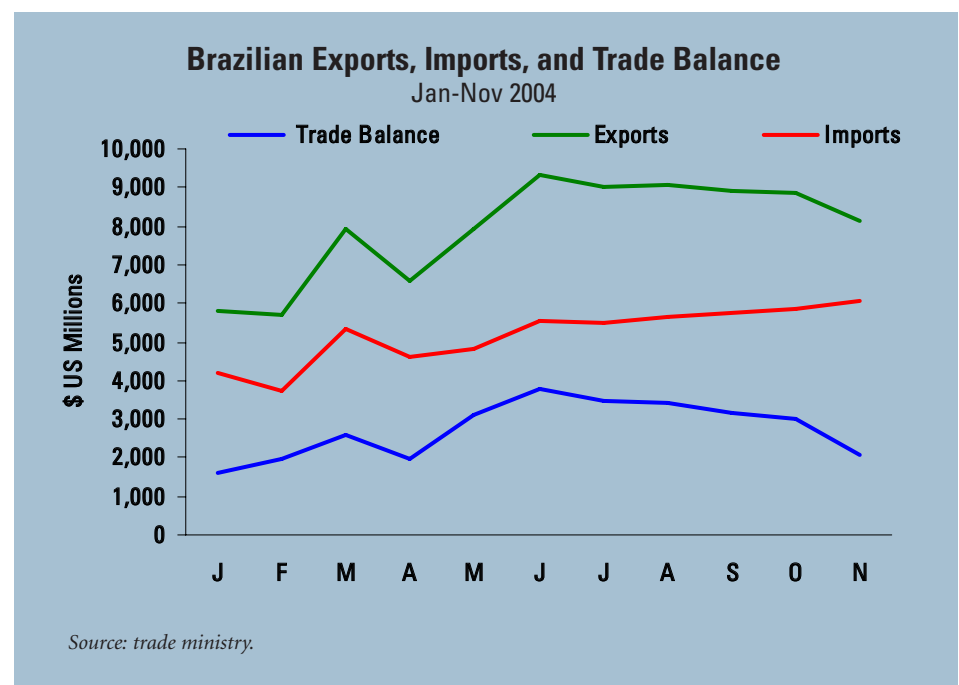
raising Brazilians' hopes for cheaper borrowing and increased foreign and domestic investment in 2005. However, lower global prices for Brazil's exports and a strengthening of the country's currency, the real, will reduce export revenues. Furlan said an exchange rate of three reais per dollar "would be stimulating for Brazil's foreign trade." The minister attributed his higher-than-average prediction for economic growth of 5.5 percent in 2004 to increased industrial production this year.

Company News

Embratel Settles Disputes with Two Local Fixed-Line Companies

Brazilian long-distance operator **Embratel** said Monday it had agreed to pay two local fixed-line telephone companies a total of 457 million reais (\$US 169 million) to end several legal disputes, Reuters reported. Embratel, which is controlled by **Telefonos de Mexico** (Telmex), said it would pay **Telemar** 304 million reais and **Brasil Telecom** 153 million reais to settle the disputes, which number 46 court cases and another 105 being considered by telecommunications regulator Anatel. The disputes include disagreements about interconnection rates.

Embratel said the impact of the payments on its fourth quarter EBITDA (earnings before interest, taxes, depreciation and amortization) and profits "would not be significant." Earlier this month, Embratel—Brazil's largest long-distance company—announced it would issue \$704 million in new shares, sending the company's local shares and ADRs plummeting due to concerns the announcement included few details about how minority shareholders would be affected. Embratel said it needed to raise additional capital to strengthen its financial position, pay down debt, and finance other acquisitions by Telmex. Telmex acquired Embratel in June for \$400 million. In other Brazilian telecommunications news, mobile operator **Telesp Celular** said Monday it would raise nearly 2 billion reais from a planned share increase, according to Reuters. Telesp Celular said that investors had subscribed to almost 97 percent of the new shares being offered. The operator's controlling shareholders—Spain's **Telefonica** and **Portugal Telecom**—subscribed 58.2 percent of the preferred and ordinary shares offered, and almost 7 percent of the ADRs. Telesp Celular plans to use the proceeds from the share increase to pay off short-term debt and boost its stake in local mobile operator **Tele Centro Oeste Celular Participacoes**.



Annual Predictions Survey

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tion and its enormous economic growth require commodities such as grains, petroleum, and minerals. Latin America has all three. Soybean exports from Brazil and Argentina will grow in 2005 as will Chilean copper exports. Chinese businessmen on the trip talked about investing in infrastructure and even issued letters 'of interest.' But they invest cautiously; expect little in 2005. The US-China relationship spans a complex, sensitive, and broad range of interests that curb China's actions in Latin America. Hu Jintao did not visit Venezuela. But China seeks to expand its presence and influence by persuading Panama, Paraguay, and some Caribbean countries to break diplomatic relations with Taiwan, thus increasing its support in multilateral organizations. While commodity sales to China represent a windfall for Latin America, China's economic growth poses a looming challenge. Reforms in China have produced huge economic results. Although wages today in China are low, the income of average Chinese has almost tripled in the last twenty years. If this continues for another generation, China can become a prosperous, globally integrated market economy. Many countries in Latin America must intensify economic and social reforms to attract investment and move beyond reliance on commodities. Otherwise, they risk remaining poor, with low wage jobs, and unable to compete in the global economy."

A **Guest Comment: Steve Johnson:** "China's huge economy is either poised for more tremendous growth or appalling disaster. In either case, the outcome could send tidal waves to the Americas. Propelled by a pragmatic embrace of market reforms, China's economy is ballooning by about 8 percent annually. But China needs that kind of expansion to provide jobs for 1.2 billion citizens and retire government debt amounting to 160 percent of its \$1.2 trillion GDP. China needs access to energy and raw materials to fuel its industries as well as markets to unload its manufactured goods. Latin America

is a promising trade partner because it has lots of resources, its economies still depend on commodity exports, while state and family monopolies happily strangle the growth of local business. But Latin American leaders don't want their countries to stay in poverty status forever. In November, China agreed to a \$20 billion investment in Argentina in return for an opening for Chinese goods. Barely a month later, President Kirchner figured out what Chinese workers (paid about 25 cents an hour) would do to Argentina's weak industrial sector and announced new trade barriers just to keep out Chinese textiles. China didn't like this but is prepared to wait perhaps betting that Argentina and neighbors like her have bankrupt governments that need cash. The United States used to buy mostly raw materials from Latin America, but about 15 years ago we began pushing economic reform and trade to help nurture more complex markets. If China wants a healthy trade partner in Latin America, it will have to do the same."

Mario Marconini is Senior Partner at *MM Asociados* and former Foreign Trade Secretary of Brazil.

Myles Frechette is a member of the Advisor board and a former US Ambassador to Colombia.

Steve Johnson is Latin America Policy Analyst at the Heritage Foundation.

... In tomorrow's Advisor: *Annual Predictions Survey Results, Part III: Inflation Expectations for Latin America in 2005.*

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