



Inter-American Dialogue

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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

Featured Q&A With Our Board of Advisors

Q Brazil is one of five emerging market countries invited to participate in a meeting of the G7 economic powers next month. What is the significance of this invitation? Will it result in concrete economic benefits for Brazil?

A **Guest Comment: John Williamson:** "The G7 has become an embarrassing anomaly in recent years, issuing communiques which preached to non-member countries about what they should be doing to fix the world economy, but unable to take substantive action because the countries that needed to change their policies were not included. To correct this, the G7 has at last invited five major emerging markets to participate in its deliberations. As one of the five largest emerging markets and the principal economic power in Latin America, Brazil was naturally included in the invitation list. One would hope that in due course the world will benefit from this revision, as the major emerging markets learn to accept their global responsibilities and make their policy decisions accordingly. Brazil may have to shape its policies to gel with those elsewhere, which is more likely to impose direct costs than to bring it benefits. Of course, Brazil will benefit along with other countries if the hope of more consistent international policy-making is realized. But to expect more tangible (or quicker) benefits than this would be unrealistic. At the same time, one should understand that it is China

rather than Brazil which is likely to be pressed to change its policies in the interest of global consistency in the short run."

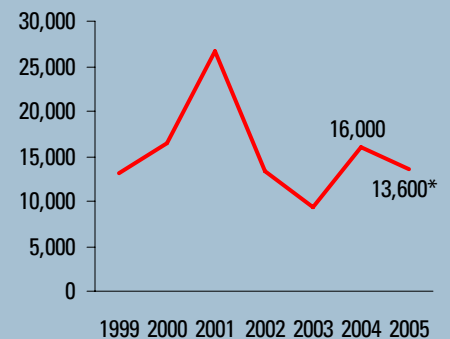
A **Guest Comment: Donna Hrinak:** "The invitation from the G7 is concrete acknowledgement of the global leadership role to which Brazil can legitimately aspire and which the world should expect of a country with Brazil's considerable human and natural resources, and economic and political dynamism. For too long leading global actors have dismissed Brazil as a player and potential ally, while Brazil has failed to assume the responsibilities required of a

Continued on page 4

CHART OF THE DAY

FDI in Mexico

1999-2005 (\$US millions)



*Advisor survey average forecast

See related news brief on page 2.

Source: INEGI, Reuters, Latin America Advisor

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NEWS BRIEFS

Senate Approves Bush Nominee to Head Department of Commerce

The US Senate approved President George W. Bush's appointment of **Kellogg Co.** CEO and Cuban-American Carlos Gutierrez to be secretary of commerce. During his confirmation hearing before a Senate committee earlier this month, Gutierrez vowed if approved to fight unfair trade practices abroad.

Source: *Associated Press.*

Mexico FDI Totaled \$16 Bn in 2004

Foreign direct investment totaled \$16 billion in 2004, Economy Minister Fernando Canales said Monday. The figure was up from \$10.7 billion in 2003. Mexico should see \$13.6 billion in FDI in 2005, according to the average of six institutional forecasts collected by the *Advisor* during an informal survey last month.

Source: *Reuters.*

Chile Posted Retail Sales of 4.6 Percent in 2004

Retail sales in Chile grew 4.6 percent in 2004 compared to the previous year, the National Chamber of Commerce (CNC) said Monday. Last year's figure was at the low end of the CNC's expectations due to greater consumer caution amid higher unemployment. Retail sales in December rose 6.2 percent year-on-year.

Source: *CNC.*

Telmex Issues \$1.3 Billion in Debt

Telefonos de Mexico (Telmex) sold \$1.3 billion in debt on Monday as part of an ongoing debt restructuring. Telmex's local shares rose 1.03 percent to close at 20.68 pesos, while its New York-listed shares increased 0.94 percent to end at \$36.69.

Source: *Reuters.*

Economic News**S&P Upgrades Ecuador Ratings on Financing, Debt Improvements**

Standard & Poor's said Monday it raised its ratings on Ecuador, citing the Andean country's improved budget financing and debt picture. In a release, S&P said it raised Ecuador's long-term foreign and local currency sovereign credit ratings to "B-" from "CCC+," with a "stable" outlook. "The government is expected to improve the profile of its external debt during 2005, given an important financing cushion (about US\$400 million) from the World Bank and the Inter-American Development Bank," S&P credit analyst Lisa Schineller said. The multilateral loans

“President Lucio Gutierrez and his economic team ... are anticipated to continue to hold the line on increased expenditure amid a high oil-price environment.”

- *S&P Credit Analyst Lisa Schineller*

should allow Ecuador to proceed in the first quarter of this year with a \$300 million bond issue and a voluntary swap of \$1.25 billion in 2012 global bonds, Ecuador's first debt issuance on international markets since a 1999 default. Schineller said S&P projects the Ecuadorean central government's interest payments will fall to 17 percent of revenue in 2005, down from over 20 percent in the past. "In addition, President Lucio Gutierrez and his economic team, whose management of demands for higher wages and pensions was better than expected, are anticipated to continue to hold the line on increased expenditure amid a high oil-price environment," Schineller stated. However, the analyst noted that Ecuador's spending flexibility is "very limited" due to higher payroll expenses as well as to debt costs and other non-discretionary spending. She said Ecuador needs to implement fiscal and other reforms ahead of a decline in world oil prices. Last year, Gutierrez withdrew a bill to reform the country's oil sector and boost declining oil production amid political resistance.

Political News**United Nations Will Suspend Mediation Efforts in Colombia**

The United Nations will suspend efforts to mediate talks between the Colombian government and Marxist rebels, UN officials said Monday, according to Reuters. UN special advisor James LeMoyné's "good offices mission", which has been trying to broker an agreement between the government and rebels since 2001, will close down in April, officials said. "Both sides agree that conditions do not now exist for a good offices mission," an unnamed UN official was quoted as saying. "But they will keep the possibility open for the future." Since taking office in August 2003,

President Alvaro Uribe has taken a hard-line stance against the rebels, putting the country's largest rebel group—the Revolutionary Armed Forces of Colombia, or FARC—on the defensive. He refuses to negotiate with the FARC until the group agrees to a cease-fire. The government's capture of a FARC leader, Rodrigo Granda, in neighboring Venezuela last month has provoked a diplomatic crisis between Colombia and Venezuela, with each accusing the other of violating their sovereignty.

Company News**Telecom Italia Sells Stake in Chile's Entel for \$934 Million**

Telecom Italia said Tuesday it sold its 55 percent stake in Chile's second-largest mobile operator, **Entel**, to Chilean investment group **Almendral** for \$934 million, Reuters reported. Telecom Italia said the sale of Entel, which will lower its net debt by 1.1 billion euros (\$US 1.4 billion), is in line with the company's international

strategy. "The disposal of Entel S.A. is consistent with Telecom Italia's strategy of rationalizing its international portfolio and focusing on areas of strategic interest with potential for growth," the Italian firm said in a statement. Entel, which has about 3 million customers and a 35 percent share of Chile's mobile market, has a market value of about \$975 million. It was displaced as Chile's largest mobile operator earlier this month after Spain's **Telefonica Moviles** completed its acquisition of the local mobile unit of **BellSouth** as part of a \$5.85 billion region-wide deal. With the acquisition, Telefonica Moviles' has a roughly 49 percent share of Chile's mobile market.

Trading in Bavaria Shares Halted Amid Talk of Sale to Foreign Brewers

Trade in local shares of Colombian brewer **Bavaria** was suspended Monday until the close of the market after they soared 18 percent amid rumors that large foreign beer makers were aiming to buy it, Reuters reported. Bavaria's stock was selling at 36,760 pesos before trade was halted, compared to 31,120 pesos at the close on Friday. Many investors speculate Bavaria, South America's second-largest brewer, is for sale despite denials by company officials. Bavaria has said it has received no offers and has no plans for an immediate sale. However, CEO Richard Obregon reportedly said the company would present an offer to shareholders if the price was \$9 billion. **SABMiller** and Belgium's **InBev** are reportedly both interested in buying Bavaria, although Inbev denied Monday that it has conducted talks with Bavaria on the sale, according to Bloomberg News. Bavaria has a market value of about \$3.2 billion. Colombia's stock exchange index rose 59.58 points, or 1.4 percent, to 4,409.30, with Bavaria contributing 48.2 points to the gain. Bavaria's shares have gained 36 percent in three days and more than doubled over the past year.

Citigroup Able to Sell Brazilian Fund After Ending Legal Dispute

Citigroup has resolved a legal dispute that will allow it to sell a \$651 million private

The Dialogue Continues

A continuation of the January 21, 2004 Q&A

Q **Panamanian President Martin Torrijos last week proposed a "drastic" fiscal reform plan, including spending cuts and tax increases which he says are needed to help the government avoid defaulting on its \$9.4 billion debt. Do you expect Torrijos' fiscal reform package to be approved? What impact will proposed tax increases have on local businesses, foreign investment, and economic growth?**

A **Guest Comment: Ambler Moss:** "President Martin Torrijos is taking advantage of the presidential 'honeymoon' to fulfill a major promise in his inaugural speech last September. He said that public finances were 'in a deplorable state whose magnitude we have not yet begun to discover.' The country's social security system also needs an immediate overhaul, he said. Raising taxes is never a popular move with the private sector, and these measures are no exception. Nevertheless, Torrijos will probably get legislative approval for measures, which include

fiscal austerity. He has been encouraged to do so by the International Monetary Fund, which said in late November that 'the government's commitment to prudent fiscal policies is part of a broader strategy for promoting sustained economic growth, including policies for good governance, further integration in the regional and global economy, and improving the international competitiveness of Panama, particularly in the export-oriented service sectors.' The IMF also noted that the growth figure for 2004 would likely be about 6 percent, led by export-oriented services and a boom in construction that has been stimulated by temporary tax incentives. If it works according to plan, Torrijos' package should help the economy by building confidence in its stability, both locally and with foreign investors."

Ambler Moss is Of Counsel at Greenberg Traurig P.A. in Miami and a former US Ambassador to Panama.

equity fund in Brazil that owns a controlling stake in **Brasil Telecom**, the country's third-largest telephone operator, Bloomberg News reported Monday. The Grand Court of the Cayman Islands has lifted two injunctions that froze the assets of private equity fund **CVC/Opportunity** since 2002 and barred Citigroup from replacing fund manager Daniel Dantas after Citigroup reached a settlement with Luis Demarco, a former partner of Dantas at CVC/Opportunity. Demarco, who left the fund in 1999, had demanded a \$1 million settlement as a bonus and payment for his stake in Opportunity, Dantas' asset management company. Citigroup estab-

lished the fund to take part in Brazil's 1998 sale of telecommunications assets and hired Dantas to manage the companies it bought. Several companies that invested with Citigroup, including **Telecom Italia**, have brought lawsuits against the fund and complain that Dantas has too much control. In addition to Brasil Telecom, Citigroup owns shares in two cellular telephone companies in Brazil—**Telemig Celular** and **Amazonia Celular**. Brasil Telecom's shares fell 23 centavos, or 2.1 percent, to 10.74 reais on the **Sao Paulo Stock Exchange** Monday. The stock has fallen 38 percent over the past 12 months.

Featured Q&A*Continued from page 1*

country that seeks greater respect. There is now a harmonic convergence between Brazil's willingness to step up to the plate and the G7's recognition that Brazil can make important contributions to global economic discussions and actions. In the short term, at least, this political benefit

“There is now a harmonic convergence between Brazil's willingness to step up to the plate and the G7's recognition that Brazil can make important contributions to global economic discussions and actions.”

- Donna Hrinak

will outweigh any concrete economic return. Two additional points are worth noting. While the Lula administration is responsible for Brazil's new expression of a global leadership role, the initiative is enjoying success because it is not Lula's, not the PT's, and not strictly the Brazilian government's, but a principal component of Brazilian-ness, *i.e.*, of the Brazilian identity. It is an aspiration grounded in the country's history through civilian and military governments alike, and is today widely shared across the political spectrum. Second, because being a world leader implies not just respect and recognition but responsibilities as well, the G7 and others will be watching to see how well Brazil balances its sincere interest in provoking new thinking about the world economy with management of the impatient and sometimes unruly emerging market 'constituency.'

A Guest Comment: Jose Barrionuevo: "Brazil's invitation to participate in the G7 meeting next month is a critical landmark of the rapidly growing prominence of Brazil in world affairs. It underscores its vital importance as one

of the largest and most populated economies in the world as well as its increasing leadership role in Latin America. In light of the US administration's emphasis on advancing a Free Trade Agreement for the Americas, Brazil's invitation also highlights its critical role in fulfilling a meaningful free trade agreement. Without Brazil, no free trade of the Americas will take place. Because of Brazil's strong commitment to free trade under conditions that also benefit Brazilians, progress in this area will continue to hinge on initiatives by the US administration to open up the US to Brazilian exports as well. As the old saying goes, 'it takes two to tango,' and dancing to the G7 tune would also require G7 initiative and compromise. Brazil is patiently waiting for its partner. In this sense, the invitation highlights Brazil's new prominence not only as a Latin American leader but, as we move forward, as an emerging market leader willing to challenge the world's status quo to strengthen global ties in a way that finally raises the living standards of the many, and thankfully there are many Brazilians in the world. Brazil has often been called 'the sleeping giant.' The invitation is a recognition that the giant is awake and already making an impact."

John Williamson is a Senior Fellow at the Institute for International Economics.

Donna Hrinak is a member of the Advisor board, Senior Counselor for International Trade & Government Affairs at Steel Hector & Davis, and a former US Ambassador to Brazil.

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