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LATIN AMERICA ADVISOR

Featured Q&A *With Our Board of Advisors*

Q A Brazilian senator last week introduced a bill that would give Brazil's Central Bank greater autonomy from the central government. What is your appraisal of the proposal and what are the prospects for its passage?

A Guest Comment: Antonio Aires: "It is certainly a polemic subject. And there is a basic division of opinions, even within the government. On one side, there are the so called 'developers,' who demand low interest rates, tax cuts, low-rate government funding, and government investments, and thus understand that the Central Bank should be subject to government economic policies. On the other side, there are the monetarists, whose principal concern is to control governmental expenditure and curb inflationary pressures. Within this political framework, the bill comes at a time where there is much discussion about increasing interest rates *vis-a-vis* Brazil's urgent development and job creation needs. It also comes at a time where the investment grade rating for Brazil has become a real possibility. And last but not least, at a time when the Workers' Party government is certainly worried about positioning itself in the best way for re-election, and thus does not seem likely to support the idea of a more orthodox and independent Central Bank. Given all these circumstances, we do not see this bill being approved during the present government."

A Guest Comment: Christopher Garman: "Senator Ney Suassuna's (PMDB-PB) Central Bank (CB) autonomy reform proposal is fairly simple and doesn't deviate much from the model of CB autonomy adopted in many other countries: directors of the CB would gain fixed and staggered mandates, and they can only be sacked with a clear justification by the executive and subsequent approval from the senate. If approved, the CB certainly would gain in credibility and subsequently may have to be less 'orthodox' in convincing market

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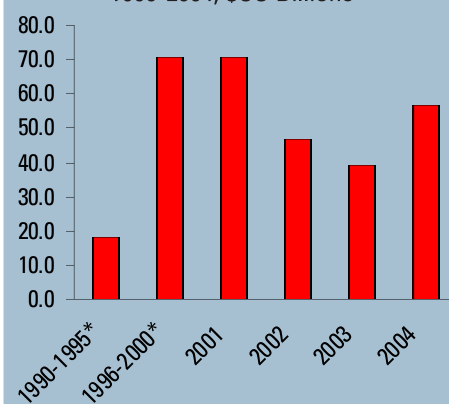
CHART OF THE DAY

Net Foreign Direct Investment in Latin America & the Caribbean
1990-2004, $US Billions



See related story, page 2.

Source: ECLAC.
** annual average*

Inside This Issue

NEWS BRIEFS

IMF to Ask Argentina to Respect Investors' Rights

The International Monetary Fund will ask Argentina to respect investors' rights as a condition for a new loan agreement, IMF Managing Director Rodrigo de Rato said Tuesday. "The IMF considers it indispensable that rules for local and international investment be clear and respectful," de Rato was quoted as saying. Argentina and the IMF are set to renew talks on $13.3 billion loan agreement following Argentina's successful conclusion of its debt swap offer last month.

Source: Bloomberg News.

US Business Group Elects New Chairman, President

The board of directors of the US Council for International Business (USCIB) has elected **Deloitte Touche Tomatsu** CEO William G. Parrett as chairman, effective April 15, USCIB said Tuesday. The Council also said its board elected Peter Robinson, currently senior vice president and chief operating officer, as president, also effective April 15. In December, the USCIB was involved in the launch of a global anti-piracy initiative aimed at improving enforcement of intellectual property protection, including in Latin America.

Source: USCIB press release.

Kavulich Steps Down as Head of US-Cuba Trade Group

John Kavulich announced Tuesday that he had resigned as head of the US-Cuba Trade and Economic Council. Kavulich cited frustration with the US and Cuban governments, careless journalism, and the emergence of "two-bit hustlers" in the US seeking to exploit new openings in US-Cuba trade.

Source: The Miami Herald.

Political News

Mesa Calls for Early Elections in Bolivia to Avoid "Bloodbath"

Bolivian President Carlos Mesa on Tuesday called for early elections in August to replace him, saying he would not use force to end opposition-led highway blockades that have paralyzed the poor South American nation's economy. "This is the only way to prevent a bloodbath," Mesa was quoted as saying in a televised address by Reuters. "They have tied my hands in every way to keep me from going forward. We've done everything we can." The announcement by Mesa, whose term would not normally end until 2007, came one week after he submitted his resignation to Congress for a vote, claiming that he could not govern the country amid widespread highway blockades that threaten to strangle the economy. Congress rejected his resignation, and most political parties signed a four-point pact with the government in which they pledged, among other things, to pass Mesa's version of a controversial new hydrocarbons law. However, the powerful Movement Toward Socialism party, led by indigenous coca farmer and former presidential candidate Evo Morales, refused to sign the pact, and Morales said the blockades would continue until Congress approves an increase in royalties on foreign mining firms from 18 to 50 percent. Mesa has refused to concede to Morales, saying such an increase would scare off foreign investment in Bolivia's oil and natural gas sector. But the government says the highway blockades are taking a toll, costing the economy $13.8 million a day, according to the Associated Press. The blockades have virtually cut the nation in half, preventing agricultural exporters in eastern Bolivia from getting their goods to port. Some 1,500 trucks with rotting cargoes were reported stranded in the central region of Chapare, Reuters reported.

> "They have tied my hands in every way to keep me from going forward. We've done everything we can."
>
> *- Bolivian President Carlos Mesa*

Protesters in Ecuador Demand Gutierrez Fire New Supreme Court

An estimated 10,000-20,000 protesters in Cuenca, Ecuador's third-largest city, demanded Tuesday that President Lucio Gutierrez dismiss the newly appointed Supreme Court, Reuters reported. "We're giving Gutierrez 10 days in which to speak up and correct his policies," Paul Carrasco, the prefect of Azuay province, of which Cuenca is the capital, was quoted as saying. "We must get back to a state of law." Protests have intensified in the Andean nation since December, when a majority in Congress allied with Gutierrez voted to dismiss 27 out of the 31 Supreme Court justices. Critics say the move was unconstitutional, but Gutierrez said it was justified because the justices were in the pocket of the opposition Social Christian Party (PSC), which led a failed effort to impeach him in November. However, the PSC refuses to support a referendum proposed by Gutierrez on a new process for appointing justices to the Court unless the current justices are themselves dismissed. On Monday, 4,300 court employees went on strike to protest the December firings, saying they would not return to work until politically independent judges are appointed, according to Reuters.

Economic News

Report: FDI in Latin America and the Caribbean Rose 44 Percent in 2004

Foreign investment in Latin America and the Caribbean rose steadily last year after four years of declining inflows, according to a report released Tuesday by the United Nations' Economic Commission on Latin America and the Caribbean (ECLAC). Foreign direct investment in the region rose 44 percent in 2004 to reach $56.4 billion, the first increase since 1999. The United States remained the region's largest investor, providing 32 percent of capital inflow, while Europe's level of investment declined. Brazil's received the greatest boost in foreign investment in 2004, attracting US$18 billion, an increase of 79 percent, followed by Mexico, which saw $17 billion in foreign investment. Trinidad and Tobago, El Salvador, and Colombia also gained a significant amount of FDI. Foreign investment growth in Latin America and the Caribbean in relation to the rest of the world has diminished substantially in recent years, according to the report. A limited ability to attract new and greater investment, particularly in the advanced technology sector, separates the region from other developing countries like India and China. A move from concentration on the traditional services sector—where much of Latin America's FDI is directed—to more technology-based services would benefit countries' capacity to compete for value-added investments, the report said. The challenges lie in improving the quality and impact of investments by improving human and technological capabilities, and evaluating inflows in the context of development strategies, Jose Luis Machinea, executive secretary of the Santiago, Chile-based ECLAC, said in his presentation of this year's report. Foreign investors seeking efficiency in developing markets have found it in China, ECLAC warned, and Latin America—particularly Mexico and the Caribbean—must focus their efforts on improving efficient political institutions to ensure stable investment environments. As the presence of multinational companies has decreased in Latin America and the Caribbean in the past few years, local private companies—what the report calls "trans-Latins," including Brazil's state-owned oil company **Petrobras** and mining company **CVRD**, and Mexico's **Telmex**—have begun to exercise more influence.

Company News

Costs, New Strategy Weigh on D&S' 2004 Earnings Results

Chilean retail giant **D&S** said Tuesday its 2004 net profit fell 75 percent to 5.3 billion pesos ($US 9 million) due to acquisition costs and adjustment to a new marketing strategy, Reuters reported. Administration and sales costs offset a 21 percent increase in revenue to 1.44 trillion pesos from 1.19 trillion pesos in 2003. D&S cited the conversion into its supermarket chain **Lider** of seven new stores acquired last year from France's **Carrefour** and the implementation of an "everyday low prices" approach similar to that of US retail power Wal-Mart as significant administrative costs, which rose 39 percent. Despite costly growing pains, D&S is looking to raise profits by reaching more of Chile's households. "D&S still represents a rather low percentage of households' spending in the country and there is a broad margin left to serve the growing needs of Chilean homes," Chief Financial Officer Miguel Nunez said in a company statement posted Tuesday. D&S said it will focus on its enhanced Presto card and the further development of private labels as means to expand its presence. Among hypermarkets, compact hypermarkets, and supermarkets, the company currently has 78 stores.

Featured Q&A

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agents it is committed to fighting inflation. The more difficult question to answer concerns political feasibility. Independent of the fact that a senator from the PMDB has introduced this reform for debate, the real obstacle to its approval lies with the PT. More leftist segments of the PT evaluate the proposal as an undue reduction of executive powers and cast it as a liberal, 'Washington Consensus' reform. Given that this is a year in which the PT will hold internal elections to re-elect its national and local leadership, the proposal has everything to generate an intense debate within the PT. The good news for the reform, however, is that apparently there is a growing consensus within the Lula administration on its potential benefits. If at the end of last year PT leaders and ministers in the Lula administration were divided over the merits of the reform, now there is a consensus over its potential benefits. The mere fact that Finance Minister Antonio Palocci has supported an open debate over CB autonomy in the senate should be seen as an indicator that he has the green light from President Lula to generate support for the reform. In essence, the reform's approval will therefore depend on the success that the economic team has in reducing resistance within the PT bit by bit over the upcoming months. Such a task isn't easy, but it may be feasible if the economy keeps growing and if the CB begins to reduce interest rates by the second half of the year."

> "... The reform's approval will ... depend on the success that the economic team has in reducing resistance within the PT ..."
>
> *- Christopher Garman*

A Guest Comment: Joao Marcus Nunes: "In Brazil, we have an inflation target, but we do not have an independent central bank. The US has an independent central bank, but not an inflation target. So the two things do not necessarily have to go together. But in Brazil, the Central Bank has *de facto* independence—it decides monetary policy on its own. But the fact is that it has very little power. If it is constitutionally independent, this has a different meaning than the sort of independence it has now, which is associated with the fact that Lula has decided he will not interfere in its decisions. That may not be true for another, different president sometime down the road. In Brazil, the big question is how independent—even if it is constitutionally independent—can the Central Bank really be due to the fiscal side of the matter. Everyone doubts very much that the Central Bank will never finance the treasury if it is called to do so ... Even if the Central Bank gains independence now, I don't think that will increase credibility very much because I think credibility is linked to the public-sector finance situation. To have a really independent Central Bank in the short, medium and long run—constitutionally granted or not—it will be after the public finances have reached another stage, maybe once the debt is on a clear, downward trend, the deficit is falling, and the government has reduced expenditures, because now we have a tax burden that is almost 40 percent of GDP. Over the next six months this will not be put to a vote. The short-term chances of this being voted are very small, especially because nobody foresees a crisis situation, and in Brazil if there is no crisis situation, they will not do it. And they will not do it in a crisis situation either."

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