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Inter-American Dialogue

Latin America Advisor

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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 During a visit to Europe this month, Chilean President Ricardo Lagos plans to promote Chile as a strategic location for international companies' corporate headquarters. What makes Chile attractive as a location from which multinationals can oversee their regional operations? How does it compare to other countries? What are the most important factors that companies consider when choosing where to locate their headquarters in Latin America?

A Board Comment: Adrian Cruz: "There are several reasons why President Lago's promotion of Chile as an attractive location for international companies' regional headquarters makes a great deal of sense. Having led such headquarters in three different continents for the last 30 years, I can unequivocally state that Chile fulfills most of the basic requirements we looked for: 1) human capital—Chile has a well educated, growing middle class and world class universities training future local managers with advance administration degrees. This is essential, since the headquarter's ranks should not depend on the availability of expatriate staff; 2) safety—Santiago de Chile is one of the safest capitals in Latin America, an important consideration when attempting to recruit expatriates or hold regional meetings. The police is not only well trained and competent, but efficient. They are incorruptible and courteous; 3) communications—Chile has an excellent communications network, which is critical for regional operations; 4) transportation—Lan Chile is unquestionably the best airline in Latin America with excellent equipment, service, and routes. The new airport is not only attractive, but efficient; 5) infrastructure—Santiago de Chile, though relatively small, has sufficient world-class hotels, restaurants, and other amenities to satisfy the most discriminating tastes; 6) investment climate—economic stability, the rule of law, an honest court system, the ability to repatriate profits, and a general absence of xenophobic legislation, all contribute to making Chile

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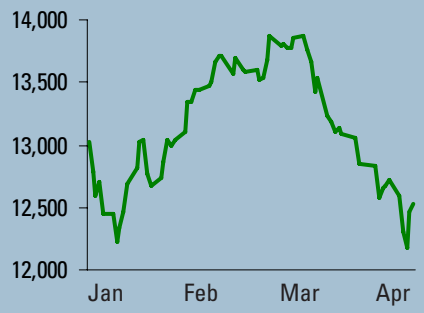
CHART OF THE DAY

Mexico's IPC Stock Index
2005 Year-to-Date Performance



Recent political noise in Mexico should not impact markets, the country's finance minister said Sunday. See story, page 2.

Source: Yahoo.com

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NEWS BRIEFS

Condoleezza Rice to Travel to Latin America April 26-30

US Secretary of State Condoleezza Rice will travel to Latin America April 26-30, 2005, visiting Brazil, Colombia, Chile, and El Salvador, the State Department announced Friday. During the trip, Rice will "highlight support for democracy, free trade and sustainable development in the region and beyond." The secretary, who will lead the US delegation to the Community of Democracies Ministerial in Chile, will also "discuss how to enhance our cooperation on such issues as drug trafficking and crime, poverty reduction, education and environmental protection."

Source: State Department press release.

Chile's IPSA Stock Index Breaks 2,000 Point Barrier

Chile's benchmark IPSA stock index broke the 2,000 point mark for the first time in its history on Friday. The index of the the 40 most liquid shares on the **Santiago Stock Exchange** rose as high as 2,004.92 before closing at 1,992.53. The index was led by gains in top Chilean power generator **Endesa**, which last year inaugurated a new hydroelectric plant and enjoys an excess supply of energy it can sell to companies that have deficits.

Source: Reuters.

Brazil Inflation 0.61 Percent in March

Brazil's IPCA consumer price index rose 0.61 percent in March, slightly above forecasts. March inflation, led by a hike in public bus fares, compared to a 0.59 percent increase in February. Last month's price increases are stirring speculation the Central Bank may once again raise interest rates this month.

Source: Reuters.

Political News

OAS Secretary General Race Tightens After Flores Withdraws Candidacy

On the eve of a vote to select the next secretary general of the Organization of American States, former President of El Salvador Francisco Flores on Friday withdrew his candidacy, saying he did not want to create divisions within the region, the Associated Press reported. "I want to sacrifice my aspirations to give the region an opportunity to unite and begin a renewed effort to join together," Flores was quoted as saying. "My resignation could result in the true objective which is [a region] united." Ambassadors from the OAS' 34 member states will meet today to elect a new secretary general after one of the most hard-fought contests for the post in the OAS' 57-year history. Flores, whose candidacy was backed by the United States, was competing for the post against Chilean Interior Minister Jose Miguel Insulza and Mexican Foreign Secretary Luis Ernesto Derbez. Before Flores' withdrawal, Insulza was considered the favorite, having at least 16 out of the 18 votes needed for victory, but former Flores backers are expected to throw their support behind Derbez, making for a closer race. Key to the outcome will be the vote of the 14 Caribbean member states. Last week, Caribbean Community Secretary General Edwin Carrington said Insulza could count on at least 10 Caribbean votes.

> "I want to sacrifice my aspirations to give the region an opportunity to unite and begin a renewed effort to join together."
>
> ***– Former President of El Salvador Francisco Flores***

Colombian Paramilitary Group Threatens to Leave Peace Talks

Colombia's largest paramilitary group on Sunday threatened to abandon peace talks if the government did not make changes to a proposed law that would send paramilitary members who committed atrocities to prison, the Associated Press reported. Ernesto Baez, a spokesperson for the United Self-Defense Forces of Colombia (AUC), said it did not make sense for the paramilitary fighters to disarm if they would be sent to jail. "If we have to decide to head back to the mountains, the first ones to feel sorry about this decision will be us, the AUC," Baez was quoted as saying. Colombian President Alvaro Uribe has said he wants Congress to approve by July a bill that would provide amnesty to the vast majority of demobilizing paramilitary fighters but force those found guilty of committing atrocities to serve 5-8 years in prison. Demobilization of the AUC has stalled since the bill was introduced two months ago. Before then, more than 4,000 out of the AUC's 20,000-strong force had surrendered their weapons. Human rights groups have condemned the bill as too lenient on the paramilitaries, which are accused of massacring hundreds of peasants.

Economic News

Political Noise in Mexico Should Not Impact Markets - Finance Minister

There is no reason why Mexican financial markets should be affected by recent political noise, Finance Minister Francisco Gil said Sunday, according to Reuters. Speaking with reporters on the sidelines of the Inter-American Development Bank conference in Japan, Gil said it wasn't clear that recent declines in Mexico's stock market was the result of the legal case against popular Mexico City Mayor Andres Manuel Lopez Obrador, and noted that stocks recovered some of its recent large losses by the end of last week. "It's difficult to connect what's happening in the stock markets with politics because other markets such as the bond and foreign exchange markets have been stable," Gil

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was quoted as saying. Analysts will be watching Mexico's markets closely in the wake of Congress' decision last Thursday to strip Lopez Obrador of his immunity from prosecution so that he can face charges he disobeyed a court order to halt construction on a hospital access road in Mexico City in 2001. The decision could keep Lopez Obrador, the favorite in the 2006 presidential election, out of the race, since Mexican law bars individuals who are charged with a crime from running for public office. The mayor has called for his supporters to launch a nationwide campaign of civil disobedience to protest what he says are politically motivated accusations meant to keep him out of next year's presidential contest.

Fitch Ratings: Latin American Bank Ratings Improved in 2004

Latin American bank ratings were remarkably stable in 2004, with positive trends overall driven by changes in the political, economic, and banking environments in various countries, in contrast to the two previous years, **Fitch Ratings** said in a report released last week. Upgrades in long-term foreign currency ratings surpassed downgrades last year 31 to six, a reversal from a ratio of 72 downgrades to 52 upgrades in 2003, according to the report, which was based on Fitch's analysis of its rating changes of 49 commercial and savings banks, four development banks, and three supranational banks operating in Latin America in 2004. Local currency ratings were upgraded 43 times in 2004, with no downgrades at all. The average local currency rating for the region at the end of 2004 was 'BB+', increasing from 'BB' at year-end 2003, while the median local currency rating improved significantly over the course of the year, to 'BB+' from 'B+' at year-end 2003. Despite these positive rating changes, the average Latin American bank remains relatively low-rated, with a 'BB-' foreign currency rating, a 'BB+' local rating, and 'C/D' individual rating. Although some regional banks' ratings are under pressure due to different internal and external factors, Fitch said the more stable macroeconomic outlook for many countries in the region should result in lower bank rating volatility in 2005. Changes in bank ratings are linked directly to the state of the economic, political, or banking environment in a particular country.

Subscriber Notice

Discussion on a new book

Transforming Socialist Economies: Lessons for Cuba and Beyond

with

Shahid Javed Burki
former World Bank Vice President

Jorge I. Dominguez
Harvard University

David Dapice
Tufts University

Daniel Erikson
Inter-American Dialogue

Thursday, April 14, 2005
4:00 - 6:00 p. m.
Inter-American Dialogue
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Washington, DC

RSVP to meetings@thedialogue.org or by fax at (202) 822 9553.

Please include your name and organizational affiliation.

Company News

Peru Okays Telefonica Moviles' Takeover of BellSouth Operations

Peru's transportation and communications ministry on Friday approved the takeover of the local mobile operations of **BellSouth** by Spain's **Telefonica Moviles** despite concerns the deal puts too much control of Peru's mobile market into the hands of one company, Reuters reported. With the acquisition, part of a $5.85 billion purchase by Telefonica Moviles of BellSouth's operations in the region announced last year, the Spanish firm will have a nearly 70 percent market share, followed by **Telecom Italia Mobile**, with a 27 percent share. The ministry, however, conditioned the deal's approval on Telefonica Moviles' return of bandwidth within two years.

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Featured Q&A

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an attractive venue for regional headquarters. And lets not forget the wine ..."

Guest Comment: Akira Kudo: "Mitsubishi Corp. considered other locations, including Miami, for the advantages of its accessibility and being in the US; Panama, for its accessibility; and Santiago, for its political and economic stability. Sao Paulo was chosen in part because of Brazil's importance as the single-largest national market in the region, and in spite of its being somewhat inconvenient in terms of travel to other countries in the region. The establishment of Sao Paulo as our regional headquarters has proven to be very beneficial on a regionwide basis; there we are well-positioned in terms of gathering market-oriented information, servicing local clients, and sensing the dynamic changes in the socioeconomic environment. Chile, for its part, might promote its own attractiveness to multinational companies by highlighting its unique position as a financial center as well as an IT hub and an intelligence headquarter."

> "If the multinational company's operations in a country involve more than coordination of regional operations ... Chile loses out to Mexico, Brazil, and even Colombia."
>
> *– Jerry Haar*

Guest Comment: Jerry Haar: "Chile remains one of the most attractive business locales in the Hemisphere. Its business environment, internationally integrated economy, successful FDI track record, highly skilled workforce, and strong institutions give the country a strong competitive edge. Santiago, like other regional operation centers in Montevideo and Panama, offers first-rate telecommunications and financial services infrastructure plus the benefit of size. (In this case, 'small is beautiful.' Any multinational executive doing business in Sao Paulo and Mexico City knows full well the huge problems of transportation and public safety that those cities present.) On the other hand, if the multinational company's operations in a country involve more than coordination of regional operations—that is, manufacturing along with large-scale marketing, sales, and distribution—Chile loses out to Mexico, Brazil, and even Colombia. In these instances, the optimal choice is regional coordination from within a large and attractive country market. Ironically, the optimal locale for coordination of multinational companies' regional operations is not located in Latin America and the Caribbean but in the US—namely, Miami."

Board Comment: W. Bowman Cutter: "I would agree with President Lagos' comments regarding Chile as an ideal headquarters country and believe that this is a logical and appropriate direction for Chile to envision. Chile has a stable democratic government; efficient financial markets; a highly developed telecommunications system; and significant international relationships with most regions of the world. Chile's competitive advantage over the long run is going to be found in the development of these strengths."

Adrian Cruz *is a member of the* Advisor *board and Senior Partner at ACPZ Venture Capital, LLC.*

Akira Kudo *is CEO for Latin America at Mitsubishi International Corporation.*

W. Bowman Cutter *is a member of the* Advisor *board and a Partner at E.M. Warburg Pincus.*

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