



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q Frenchman and former European Union Trade Commissioner Pascal Lamy is expected to be elected to a four-year term as director-general of the World Trade Organization following the withdrawal from the contest last Friday of Uruguayan Carlos Perez del Castillo. How will Lamy's ascension to the top post at the WTO impact global trade talks? Will he be able to push the Doha Round forward? Is Lamy's election positive or negative for Latin America?**

**A Guest Comment: Shanker Singham:** "Pascal Lamy has enormous technical credibility with respect to WTO issues. He has looked with a critical eye at the way the WTO operates, once describing the mechanisms for negotiation as medieval. His kind of clear thinking ought to be welcomed by trade diplomats all over the world. It is sorely needed. One thing that Lamy is likely to try to change is the atmosphere of mercantilism that pervades trade negotiations. He will likely try to convince trade diplomats to remember their charge that the theory of trade liberalization rests on consumer welfare enhancement, and generally make the case for consumers throughout the world. On agriculture, his position as director-general will preclude him from overtly siding with the EU as opposed to the large agricultural producers, many of which are in Latin America. This is good for Latin American countries,

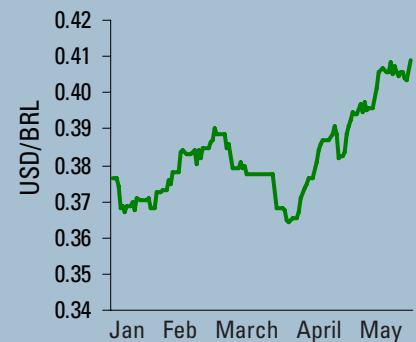
which have rightly set high store on what can be achieved in the agricultural negotiations. History has shown that the WTO functions best when it has firm and thoughtful leadership. Pascal Lamy has both of these qualities, and his appointment should help as we move the Doha Development Agenda process forward at Hong Kong and beyond."

**A Board Comment: Beatrice Rangel:** "Lamy's selection to head the WTO could not be more propitious in terms of breaking the current stalemate that has crippled the Doha Round. Mr. Lamy is known for his

*Continued on page 4*

### CHART OF THE DAY

**Brazilian Real vs. US Dollar**  
Year-to-Date



See related news brief on page 2.

Source: Oanda.com

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## NEWS BRIEFS

**OAS to Take Up Draft Resolution on Ecuador Today**

The Permanent Council of the Organization of American States will today consider a draft resolution on Ecuador. The resolution reportedly urges Ecuador to carry out a broad national dialogue and asks the OAS' secretary general to offer the Andean nation "all the necessary OAS resources" to strengthen democracy following the ouster by Congress last month of President Lucio Gutierrez, the third democratically elected president in Ecuador in eight years to fail to finish his term.

Source: OAS, The Miami Herald.

**Brazilian Real Closes at Three-Year High**

Brazil's currency, the real, strengthened 0.49 percent Thursday to close at 2.448 reals per dollar, its strongest level since May 8, 2002. Traders have attributed the recent strengthening of the real to the continuous flow of dollars into Brazil coming from steady exports. The real has gained some 8 percent against the dollar since the beginning of the year.

Source: Reuters.

**Pinochet Briefly Hospitalized After Suffering Mild Stroke**

Former Chilean dictator August Pinochet was briefly hospitalized on Thursday after suffering a mild stroke. Pinochet, 89, left Santiago Military Hospital after five hours and "looked normal, fully conscious," according to his spokesman. The ex-strongman, who ruled Chile from 1973 to 1990, has suffered at least two other mild strokes in the past. He also suffers from diabetes and wears a pacemaker. Courts have cited Pinochet's ill health in twice blocking his trial on human rights abuses.

Source: Associated Press.

## Political News

**US Charges Posada with Breaking Immigration Laws**

The US government on Thursday charged Cuban exile and suspected terrorist Luis Posada Carriles with violating immigration laws. Posada, who reportedly snuck across the border from Mexico two months ago, was seized by US immigration authorities in Miami on Tuesday after he emerged from hiding. The Immigration and Customs Enforcement (ICE) division of the Department of Homeland Security (DHS) alleges that Posada "entered the United States without inspection in violation of the Immigration and Nationality Act," according to a statement released Thursday. Agency officials said Posada would be held in custody without bond and would have an initial hearing in an immigration court in El Paso, Texas, on

Thursday. Posada's lawyer, Eduardo Soto, said Thursday, according to Reuters. The new requirements, aimed at spurring competition in Mexico's \$45 billion pension industry, comes in response to criticism that fund managers have been too slow in taking advantage of more flexible investment rules implemented early this year that allow pension funds to invest in riskier assets, such as stocks and foreign bonds. At the end of March, only six out of 15 pension fund operators had invested in stocks, and only one had invested in foreign bonds, while more than 95 percent of pension fund operators' "higher risk" portfolio remained in largely short-term Mexican government and corporate debt, according to Reuters. The Consar spokesman, Carlos Ramirez, said the regulator plans further measures to boost competition. [Editor's note: see related Q&A in the May 17, 2004 issue of the *Latin America Advisor*.]

## Economic News

**New Rule for Mexican Pension Funds Aims to Spur Competition**

Starting next month, private pension fund operators in Mexico will be required to include in their account statements comparisons of their own commissions and returns with those of competitors, a spokesman for industry regulator Consar

*The Immigration and Customs Enforcement (ICE) division of the Department of Homeland Security (DHS) alleges that Posada "entered the United States without inspection in violation of the Immigration and Nationality Act."*

June 13. The 77-year old Posada, a former CIA collaborator and longtime opponent of Cuban President Fidel Castro, told *The Miami Herald* last week that he slipped into the United States in March and sought political asylum, but he later withdrew the request. US officials said Posada would have the opportunity to seek a re-determination of his custody status at a bond hearing before an immigration judge. Posada's lawyer, Eduardo Soto, said he would file an asylum request again and ask to be freed on bond, Reuters reported. Soto said he would also ask for the hearings to be moved to Miami. Last week, the Venezuelan government requested Posada's extradition to face charges related to his alleged involvement in the 1976 bombing of a Cuban airliner that killed 73 people. While ICE has not directly responded to inquiries on whether Posada will be extradited to Venezuela, it said ear-

## Company News

### Report: America Movil Interested in Buying Spanish Mobile Firm Amena

Mexico-based regional mobile giant **America Movil** is interested in acquiring Spain's **Amena**, the European nation's third-largest mobile phone operator, Spanish newspaper *Cinco Dias* reported Thursday. America Movil's acquisition of Amena would be part of the possible break-up of Amena's parent firm, **Auna**, Spain's second-largest telecommunications holding company. One of Auna's main shareholders, **Santander** bank, reportedly favors splitting up the holding company's cable television and mobile phone operations and then selling them. Auna's other controlling shareholders include utilities **Union Fenosa** and **Endesa**. Santander has said Auna is worth more than 12.5 billion euros (\$US 16.1 billion), with Amena accounting for most of the value, according to Reuters. America Movil has also reportedly expressed interest in acquiring a stake in another Spanish mobile operator, **Xfera**. Earlier this month, a spokesman for America Movil owner Carlos Slim said the company was looking to expand into Spain, which is the home country of **Telefonica**, America Movil's main rival in Latin America. America Movil has more than 68 million subscribers throughout Latin America, while Telefonica's mobile unit, **Telefonica Moviles**, has some 51 million clients in the region.

### Aerolineas del Peru Aims for August Launch, Eyes Service Expansion

Peru's new airline, **Aerolineas del Peru**, plans to launch domestic service by mid-August and hopes to expand its routes to serve destinations elsewhere in Latin America after its full year of operations, the chairman of sister airline **Aerolineas Argentinas** said Thursday, according to Reuters. Aerolineas del Peru will start by seeking to tap into Peru's attractiveness as an adventure tourism destination, with three planes flying Peru's main domestic routes, including service to Cuzco, said Antonio Mata. Cuzco is the gateway to the

## Special Advisor Report

### *Despite Gains, Challenges Remain in Dominican Republic*

By Devin Finn

WASHINGTON—Fiscal reform and a renewal of economic growth remain looming challenges to the government of the Dominican Republic, despite significant advances since the election of President Leonel Fernandez in May 2004, according to experts and officials participating in a forum sponsored by the Inter-American Dialogue on Thursday.

"The turnaround is impressive," said Jose Fajgenbaum, deputy director for the Western Hemisphere at the International Monetary Fund, which approved a new 28-month, \$670 million loan to the Dominican government in January. "Everybody is quite surprised."

Fajgenbaum, who heads the IMF mission in the Dominican Republic, described the country's financial dire straits leading up to the 2004 elections as a cycle of currency depreciation, inflation, increased debt, and loss of investor confidence.

Twenty percent inflation in May 2003 rocketed to over 65 percent a year later, while scandals rocked the Dominican Republic's poorly supervised banking system.

But a turnaround in confidence reversed the cycle and spawned recovery in economic activity that was reminiscent of the 1990s, when the country experienced the fastest pace of growth in Latin America.

Inflation fell 2.1 percent from September 2004 to March 2005, while interest rates have fallen about 45 percent since June 2004, according to Temistocles Montas, an economic advisor to President Fernandez.

The Dominican government must now focus on improving its tax collection system and electricity sector, while at the same time continuing the 4 percent growth it recorded in the first quarter, Montas said.

Bernardo Vega, former Dominican Central Bank president and ambassador to the United States, noted that while Mexico's own 1995 banking disaster required seven years to repair, the seven-month recovery of the Dominican Republic's banking system was remarkable.

However, obstacles to complete economic health remain. Analysts warn of the dangers of an overvalued peso, which appreciated by 50 percent since the end of 2003.

In addition, there are concerns the government may boost domestic spending ahead of congressional elections next May, while public debt remains a looming problem.

Also, Fernandez, who has vowed to trim the public sector deficit to 1.8 percent in 2006 from almost 7.0 percent in 2004, lacks a majority in Congress to pass a needed tax reform package.

Last month, the government swapped \$1.1 billion of its 2006 and 2013 global bonds for paper maturing five years later, creating some financial breathing room.

**Featured Q&A***Continued from page 1*

character, his stern belief in trade, and his work to open the agricultural sector in Europe. While at the European Commission, Mr. Lamy was scolded more than once by the government of France for his guidelines to make trade in agriculture more competitive. He also is a no-nonsense man that will not allow filibustering or negotiations to drag

“ [Lamy] is a no-nonsense man that will not allow filibustering or negotiations to drag without result.”

– *Beatrice Rangel*

without result. He is a workaholic and great ally of African and Caribbean nations. This explains his popularity among so many countries of the developing world. I found his books on trade to be visionary and erudite. I think he will be a good ally of Latin America insofar as Latin America re-enacts the miracle of the Uruguay Round: to stick together on one position and under clear leadership.”

**A** **Guest Comment: Roberto Teixeira da Costa:** "Initially there are two aspects that should be taken into consideration: the length of the mandate and his qualifications as director-general. Supachai Panitchpakdi's mandate was shared with Mike Moore, dividing the term. In addition, all indications are that Mr. Lamy has the reputation of being an excellent manager. It is quite obvious that in order to occupy the position of director-general at an institution like

Inca citadel Machu Picchu, which attracts 500,000 tourists a year. "We want to have 12 planes in Peru at the end of our first year of operation," Mata was quoted as telling reporters. "The idea is to build up the fleet to eventually fly

WTO there are two basic pre-requirements. One is to have the expertise in international trade, and the second is to have good managerial talent. Certainly, Mr. Lamy meets such requirements. I personally do not have any doubt that Mr. Lamy is committed to the success of the Doha Round. It does not go through my mind, even remotely, that after his personal effort to occupy such a position, he will not do whatever is possible to push the Doha Round forward. That will imply a firm commitment to accomplishing progress at the Hong Kong meeting at year end. In order to make that viable during the next months, preparatory meetings will be essential. Mr. Lamy is perfectly aware of all the necessary ingredients to make a meeting like that work. In an organization where the search for consensus is an essential element, his diplomacy and *phisque du role* is an important factor. Concessions from all parties involved would have to be given in order to obtain success. I believe he knows where and when the most important players will have to put their cards on the table. As far as Latin America is concerned, we all expect that Mr. Lamy will clearly demonstrate his impartiality in dealing with very sensitive issues that interest our region, particularly export subsidies."

**Shanker Singham** is Co-Chair of the *International Trade, Competition, and Government Group at Steel, Hector & Davis.*

**Beatrice Rangel** is a member of the *Advisor board and President of AMLA Consulting.*

**Roberto Teixeira da Costa** is a member of the *board of Brazil's Banco Itau.*

within Latin America." Mata did not say how much Spain's **Marsans**, the parent company of Aerolineas del Peru, would invest in the new airline. He did say, however, that the carrier will have start-up costs of \$10 million, he said.

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