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Featured Q&A With Our Board of Advisors

Q Analysts and investors are concerned about the impact in Mexico of US automotive industry woes, given the Mexican auto industry's dependence on the US market for its exports. What is the outlook for Mexico's auto industry for this year? How will local industry performance weigh on Mexico's economy?

A **Guest Comment: George Magliano:** "In autos, Mexico is linked to the US because of NAFTA and proximity. Mexico's production base is geared for export, primarily for export to the US, and largely for Big Three programs. Of the 1.5 million light vehicles produced in Mexico last year, 1.1 million were exported. This is a double-edged sword. The negative aspect is that, since most of these are Big Three models, inventory problems and market share loss by Detroit have a severe negative impact on Mexican production. In the 2000-2002 span, Mexican output averaged about 1.8 million units a year. In this time frame, the internal Mexican market was growing from 900,000 to 1 million. The relationship with the Big Three also makes it difficult for Mexico to compete globally, since it lacks the capability to design cars for developing markets. Mexico actually imports 700,000 to satisfy domestic demand. However, the positive aspect is that Mexico gets some of the best, high priced, high value-added new programs from the Big Three—Ram, Silverado, PT Cruiser, and Avalanche. In

the next few years, Mexico will win out as Hermosillo gets a big piece of Ford's CUV and Chrysler puts a new crossover there. Toyota has the Baja plant. Nissan is also expanding, and the weak dollar has Volkswagen and other OEMs looking to expand in North America. In 2008-09, output will return to the 1.8-1.9 million unit range. This is great for the economy."

A **Guest Comment: Juan Pablo Becerra:** "Standard & Poor's views Mexico's automotive industry performance as linked to performance in the US market, due to the high export volumes of the Mexican

Continued on page 4

PHOTO OF THE DAY



Venezuelan President Hugo Chavez warned Sunday that his country could sever diplomatic ties with the US if the US did not extradite Cuban exile Luis Posada Carriles. See story, page 2.

Photo: ABN.

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NEWS BRIEFS

Forty-five Chilean Soldiers Feared Dead from Mountain Blizzard

As of early Sunday evening, the bodies of 26 Chilean army recruits had been recovered, while the military continued to search for 19 others after the recruits' regiment got trapped in a blizzard during a mountain training exercise last week. Local media are calling it the worst peacetime military disaster in Chile's history. The commander in chief of the army, Juan Cheyre, has dismissed the regiment's top three officers and ordered both an internal military investigation and a civilian one.

Source: El Mercurio, Reuters.

Haitian PM Urges Reconciliation

Haitian interim Prime Minister Gerard Latortue on Friday urged reconciliation among his countrymen and an end to vengeance. "The moment has come for us to be reconciled with each other, to forget about the past and to put all our energy into building the future," Latortue was quoted as saying. He did not offer any specific proposals. Supporters of exiled former President Jean-Bertrand Aristide say the release of what they call political prisoners is key to any reconciliation plan.

Source: Reuters.

Argentine Jobless Rate at 13 Percent in First Quarter

Argentina's unemployment rate fell to 13.0 percent in the first quarter from 14.4 percent for the same three months of 2004, but was up from 12.1 percent for the previous quarter. Underemployment declined to 12.7 percent in the first quarter, down from 15.7 percent a year ago and 14.3 percent the previous quarter.

Source: INDEC.

Political News

Chavez Threatens to Cut Diplomatic Ties with US if Posada Not Extradited

Venezuelan President Hugo Chavez warned Sunday that his country could sever diplomatic ties with the United States if the US did not extradite Cuban exile Luis Posada Carriles to face charges in Venezuela related to his alleged involvement in the 1976 bombing of a Cuban airliner that killed 73 people. "We can't rush things, but if the United States does not extradite Luis Posada Carriles, we will be forced to reconsider our diplomatic ties," Chavez was quoted as saying by the Associated Press during his weekly radio program. "It's difficult to have diplomatic relations with a government that shamelessly hides and protects an international terrorist." The Venezuelan government requested Carriles' extradition on May 13, just days before he was seized in Miami by

Venezuela news, Chavez said Sunday his government was interested in nuclear energy and could ask Iran for help with possible nuclear power projects, Reuters reported. Chavez has supported Iran in its defense against allegations by the US and Europe that it is secretly developing nuclear weapons. Iran claims its nuclear program is only for civilian energy uses.

Cuban Dissidents Hold Unprecedented Meeting

Some 200 Cuban dissidents held an unprecedented gathering Friday on the outskirts of Havana to call for political freedom and the release of political prisoners, Reuters reported. The government of Cuban Fidel Castro allowed the first meeting of the US-backed Assembly to Promote Civil Society umbrella group to take place, although it deported several European legislators and reporters who had planned to attend. The Italian and Spanish governments summoned the

“It's difficult to have diplomatic relations with a government that shamelessly hides and protects an international terrorist.”

– Venezuelan President Hugo Chavez

US immigration authorities and charged with entering the US illegally. 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. While the US Immigration and Customs Enforcement agency has not directly responded to inquiries on whether Posada will be extradited to Venezuela, it said last week that the US does not return people to Cuba or to countries acting on Cuba's behalf. Venezuelan Vice President Jose Vicente Rangel pledged last Wednesday that if the US extradites Posada to Venezuela he would not be sent to Cuba, but would be tried in the Andean country. Venezuelan courts twice acquitted Posada of plotting to bomb the plane, but he escaped from prison in 1985 while awaiting a third trial on appeal. In other

Cuban ambassadors in Rome and Madrid to explain the expulsions of two former Spanish senators and an Italian journalist amid already rocky relations between the European Union and the communist island. Meeting organizer Martha Beatriz Roque, a dissident economist who has spent four out of the last eight years in jail, pointed to the deportations as proof of the "totalitarian" nature of the Castro government. "No state, no regime, no party has the right to control a whole nation. That is why we are here," Roque was quoted as saying. However, several opposition groups did not attend the meeting because of Roque's reported close ties with right-wing Cuban exiles in Miami and her receipt of financial support from the United States, according to Reuters. The meeting was reportedly funded by Cuban exiles and included a videotaped message from US President George W. Bush played on a laptop computer. "The meeting does

not represent the majority of the opposition," Oswaldo Paya, a leading Cuban dissident, was quoted as saying. Paya said the meeting would only benefit Castro by allowing him to portray the participants as "counter-revolutionaries" paid by the US government to sow dissent. Roque said Friday's meeting was the first such gathering since Castro took power in 1959. A similar meeting was planned in 1996, but was called off after police arrested most opposition leaders.

US Arrests 60 Illegal Immigrants Working at Sensitive Locations

The US Immigration and Customs Enforcement agency (ICE) announced Friday that it had arrested 60 illegal immigrants from Mexico, Guatemala, and Honduras doing contract work at 12 "critical infrastructure sites." In a statement, ICE said all of the arrested immigrants were employed by Beaumont, Texas-based **Brock Enterprises**, and were working at several sites US officials fear could be targets of a future terrorist attack, including seven petrochemical refineries, three power plants, a national air cargo facility, and a pipeline facility located in six different states. "The aliens arrested in this operation had access to sensitive critical infrastructure locations and therefore pose a serious homeland security threat," said ICE head Michael Garcia. "Not only are their identities in question, but given their illegal status, these individuals are vulnerable to potential exploitation by terrorist and other criminal organizations." However, ICE said there was no evidence any of the arrested immigrants have terrorist ties or were plotting a terrorist attack. While all of the 60 immigrants were arrested on administrative immigration violations, some could face federal criminal charges for re-entering the United States after deportation, using fake documents to get jobs, or other crimes. Brock Enterprises is cooperating fully with ICE and is not a target of the investigation, ICE said. "It is believed that many of these illegal workers presented fraudulent documents to Brock Enterprises in order to gain employment," ICE said. The agency also noted that there is no evidence of any wrongdoing by any

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Discussion on

Remittances to Cuba

with

Sergio Bendixen,
Bendixen & Associates

Manuel Orozco,
Inter-American Dialogue

Wednesday, May 25, 2005
8:30 - 10:00 a.m.
Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, DC

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

Please include your name and organizational affiliation.

of the companies that own the facilities where the immigrants were working.

Economic News

Negotiator: Ecuador Would Sign Free Trade Agreement with US

Ecuador would likely sign a free trade agreement with the United States, the Andean nation's number two negotiator in the talks said late last Thursday, according to Reuters. "I have the belief that the commercial agreement with the United States is going to be signed," Blasco Penaherrera was quoted as saying during a meeting with Wall Street bankers in New York. "The process is going to go forward at the same pace as it was going before. Of

course, we still have two more rounds and ... we're going to find problems, we're going to be strong in our positions." Penaherrera's comments were in contrast with statements made by other officials in the month-old administration of President Alfredo Palacio, who assumed office after former President Lucio Gutierrez was ousted by Congress. On April 29, new Trade Minister Oswaldo Molestina tied Ecuador's participation in the trade talks—launched a year ago—between the US, Ecuador, Colombia, and Peru to a more flexible US stance on agricultural subsidies and tariffs, according to Reuters. Penaherrera said last Thursday, however, that he did not see US agriculture subsidies as a definitive obstacle. "Those subsidies are logical because the European Union subsidizes its agriculture,

Featured Q&A*Continued from page 1*

subsidiaries' production to the US. So while Mexican automotive production is seen as cost-effective, Mexico-based production facilities are not immune to the impact of production cuts to rebalance retail inventories. Therefore, the tough

“A faster relocation of US plants to Mexico by the Big Three, but particularly GM, could be a positive surprise.”

– *Alonso Cervera*

US automotive environment will have a direct impact on the automotive industry, resulting in potentially lower export volumes for Mexican OEMs and auto part suppliers. S&P expects domestic automotive retail sales during this year will be around the 1.1 million units, showing a 1 percent growth compared with 2004. Moreover, we anticipate the performance of the Mexican automotive industry to be similar to 2004 (representing almost 11 percent of Mexican manufacturer GDP), given that the internal demand may somewhat offset the lower exports.”

and more importantly China subsidizes ... everything ... but I think we have a way out of that,” he said. The US has said it would only agree to reduce agriculture subsidies as part of global trade talks involving the European Union and Japan. [Editor's note: see related Q&A in the May 2, 2005 issue of the *Latin America Advisor*.]

Argentina Mulling Extending Requirement for Capital Inflows

The Argentine government is considering extending the 180-day time period that capital inflows remain in the country amid a threat to exports from a strengthening peso currency, Reuters

A **Guest Comment: Alonso Cervera:** "The outlook for the Mexican auto industry is mixed, as positives associated with stronger demand for auto parts are offset by weak external demand for cars and trucks. A faster relocation of US plants to Mexico by the Big Three, but particularly GM, could be a positive surprise. Overall, we think that fears about the impact of potential output disruptions at Ford and GM on the Mexican economy appear exaggerated. Part of this is simply because the vehicle industry has been on a downturn since 2000, and its relative importance to the economy is now about two-thirds of what it was back then. Similarly, fears of the impact on the balance of payments may be overblown, particularly after considering the import component of Mexican exports of cars and trucks."

George Magliano is Director of *Automotive Industry Research for the Americas at Global Insight.*

Juan Pablo Becerra is an Associate for *Corporate Ratings at Standard & Poor's.*

Alonso Cervera is an Economist at *Credit Suisse First Boston.*

reported. "The possibility of extending the period is under analysis," Economy Minister Roberto Lavagna was quoted as saying during a press conference. Since June 2003, the government has required all capital inflows to remain in the country for at least 180 days as a means of restraining the peso's appreciation, which exporters say weakens their competitiveness. The government has said it wants to keep the exchange rate at about 3 pesos per dollar to maintain competitiveness, and the Central Bank has intervened daily and bought hundreds of millions of dollars toward that end. Nevertheless, the peso traded near a 12-month high of 2.895/2.875 per dollar on Friday.

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