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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 The head of the US border patrol told a congressional subcommittee last week that 175 percent more "other-than-Mexicans" (OTMs) had been caught trying to enter the US illegally in fiscal year 2005 compared to fiscal year 2004. What accounts for the increase in OTMs? How vulnerable is the US to Mexico border crossings by potential terrorists?

A **Guest Comment: Jack Devine:** "Aside from the obvious economic draw of the United States, the increase of intending immigrants from countries other than Mexico appears to be the result of processing loopholes. The Department of Homeland Security (DHS) can easily deport Mexicans back across the border, but OTMs from other Latin American countries, China, and elsewhere are held in detention centers and then often released with orders to appear for immigration hearings within 30 days. It seems that they are released because DHS simply does not have the capacity to hold, process, and deport them swiftly. Not surprisingly, those released do not appear in 30 days, but rather disappear into the fabric of American life. Word of this trend has traveled fast and a surge in OTMs has been the result. With respect to possible terrorist infiltration, the US intelligence community has known and publicly acknowledged that al Qaeda-affiliated terrorists have considered using the U.S.-Mexican border as an entry point into the

United States for the purpose of carrying out terrorist attacks in our country. With so many undocumented individuals slipping through the border undetected—the Pew Hispanic Center estimates 500,000 a year—and detected OTMs being released by immigration authorities for lack of processing capacity, it is not difficult to imagine that terrorist organizations would seek to exploit these vulnerabilities. To tighten security along the border, close the loopholes, and thwart the terrorists, it is imperative that Congress appropriate adequate funds to DHS to increase the number of full-time border patrol agents, immigra-

Continued on page 4

PHOTO OF THE DAY



Information Minister Andres Izarra said yesterday that legislation in the US Congress to initiate Cuba-style US radio and television broadcasts into Venezuela sought to isolate his country. See related story, page 3.

Photo: Venezuelan Ministry of Information.

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NEWS BRIEFS

Brazilian Workers Party Leader Takes Leave of Absence

Paulo Rocha, the leader in Brazil's lower house of the governing Workers' Party, will take a leave of his post until August, after his name came up in a corruption probe, the party's leadership said in a statement yesterday. Investigators conducting the probe reportedly found evidence that his secretary withdrew money from an advertising company's bank account that is allegedly being used by the Workers' Party to pay bribes to lawmakers.

Source: *Bloomberg News*.

Rio Group Foreign Ministers Begin Meetings in Argentina

The foreign ministers from the 19 Latin American nations of the Rio Group started two days of talks yesterday outside Buenos Aires, in advance of a Rio Group presidential summit next month, and the November presidential Summit of the Americas, to be held in Argentina. In addition to the upcoming summit, the ministers also discussed political and economic rebuilding efforts in Haiti and Latin American trade ties with the European Union.

Source: *Associated Press*.

Telefonica CTC Profits Double First Half of Year on Stronger Peso

Chilean phone service provider **Telefonica CTC** on Friday said its net profit for the first half of the year more than doubled, helped by a stronger peso. Telefonica CTC Chile earned 21.364 billion pesos in the January-June period of 2005, compared with 10.098 billion pesos in the same period last year.

Source: *Reuters*

Economic News

China's New Exchange Rate Policy May Benefit Region, Analysts Say

Yesterday's announcement that China will make its exchange-rate policy more flexible could have a positive impact on growth in the Latin American region, analysts say. While the timing of China's announcement—devaluing the yuan 2.1 percent and pegging it to a basket of currencies instead of the US dollar—took some market watchers by surprise, the move has been long-anticipated and was made under increasing pressure from foreign governments. While the immediate implications of the revaluation don't necessarily mean big gains for Latin American countries, the prospect of a more stable, growing China bodes well for exporters. "Over time, the broader positive impact of continued economic dynamism in China is likely to be

producers for exports to the US market and are net importers vis-a-vis China."

Brazil Unemployment Falls to Four-Year Low

The Brazilian government said on Thursday its unemployment rate fell to its lowest level on record in June, Bloomberg News reported. Unemployment in Brazil's six largest metropolitan areas fell from 10.2 percent in May to 9.4 percent, the lowest since the government began keeping records of the indicator in October 2001. The strong employment numbers come amid recent corruption allegations facing President Luiz Inacio "Lula" da Silva's administration, that his ruling Workers Party (PT) paid some lawmakers \$13,000 per month in exchange for their political support. Analysts say economic growth as well as Lula's political support among Brazilians will depend on the whether job creation and increasing wages

“The long-term impact of the new exchange rate policy ... will vary from country to country.”

– Joydeep Mukherji

more important for Latin American producers than the direct impact of the new exchange rate for the Chinese currency," **Standard & Poor's** credit analyst Joydeep Mukherji wrote in a emailed release yesterday. But not all countries in the region will benefit equally. "In our view, the [yuan] revaluation should not have a long-term positive effect on Mexican exports," New York investment bank **JPMorgan Chase** wrote today in a research note. S&P analysts also said that Latin America can expect mixed results of the China revaluation. "The long-term impact of the new exchange-rate policy in China on the region will vary from country to country," Mr. Mukherji said. "Many countries in South America, especially commodity exporters, rely increasingly on the Chinese market for their sales. Others, such as [Mexico] and many Central American countries, often compete with Chinese

are maintained. The number of unemployed people dropped to 2.05 million last month from 2.24 million in May and 2.55 million a year earlier, the government said. More than 3.1 million jobs have been created under Lula's government since he took office in January 2003, the Labor Ministry reported. The central bank's plan to increase the benchmark Selic lending rate nine times between September 2004 and April 2005 has brought about an economic slowdown and an increase in unemployment. Growth in Brazil is expected to slow to 3 percent this year from a record 4.9 percent, in 2004, according to a July 15 survey by the central bank. The decline in unemployment and rising wages in industry and commerce are expected to fuel growth at least temporarily, even as the Selic remains at 19.75 percent, a 21-month high. Despite annual export growth over the last two and a half

years averaging 26 percent, falling commodity prices and a strengthened real may result in slower export growth in Brazil, according to some analysts. The currency has gained 29 percent in the past 12 months.

Company News

Coca-Cola's 2Q Results Buoyed by Strong Latin America Performance

The Atlanta-based **Coca-Cola Company** reported yesterday that its overall second quarter revenues increased seven percent year-over-year, buoyed in part by strong sales in Latin America. Unit case volumes last quarter increased in the double-digits in Brazil and Venezuela, as well as countries in Central and Eastern Europe, and North Asia, the food and beverage company said. Coca-Cola's Latin America operations overall delivered unit case volume growth of 9 percent in the second quarter. Latin America net revenues in the quarter increased 18 percent. In Mexico, unit case

Latin America Results

(% change from previous year)

	Second Quarter	Year-to-date
Unit Case Volume Net	9%	8%
Revenues Operating	18%	15%
Income	20%	13%

Source: company release

volume increased 8 percent in the quarter. In Brazil, unit case volume growth for the quarter was 17 percent. In Argentina, strong consumer marketing activities and bottler execution drove unit case volume growth of 5 percent, Coca-Cola said. The company's Trademark Coca-Cola led the performance with unit case volume growth of 7 percent in the quarter.

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Senators' Immigration Bill Would Require Illegal Aliens to Leave US

Senators John Cornyn (R-TX) and Jon Kyl (R-AZ) on Tuesday proposed a bill calling for dramatic immigration reform. Under the bill, all of the estimated 10 to 12 million illegal aliens in the US would be forced to leave the country before being allowed to participate in a guest worker program, which would permit immigrants to stay in the US for two years at a time for a maximum of six years, without their families. "Those who are here today illegally will have to return, every one of them, to their country of origin," Cornyn said at a press briefing. Illegal immigrants would have five years to leave the US, and those who refuse would face fines of \$2,000 a year for each year they stayed beyond the deadline if they subsequently left and then tried to apply to immigrate legally. The Cornyn-Kyl bill is an alternative to a rival bipartisan bill introduced in May by Senators Edward Kennedy (D-MA) and John McCain (R-AZ) that would allow some illegal immigrants to get jobs legally and eventually gain citizenship without having to first leave the country.

Source: Reuters, Office of Sen. John Cornyn.

House Okays Radio and TV Broadcasts to Venezuela

The House of Representatives on Wednesday approved an amendment authorizing the US to initiate radio and television broadcasts into Venezuela. The broadcasts would "ensure the Venezuelan people have the opportunity to hear the positive ideals of freedom, security, and prosperity" and "provide a consistently accurate, objective, and comprehensive source of news to Venezuela," according to the amendment's sponsor, Rep. Connie Mack (R-FL). The broadcasting initiative resembles a similar decades-old program for communist Cuba, to which the US government's broadcasts programming via Radio and TV Marti. Mack has been an outspoken critic of the government of Venezuelan President Hugo Chavez, whom he labels an "enemy of freedom" and a threat to the United States. The move rankled Venezuela's government. Information Minister Andres Izarra said yesterday in a televised press conference from Caracas the legislation "seeks to isolate Venezuela."

Source: Office of Rep. Connie Mack, The Miami Herald.

Senate Approves Blocking Aid to Countries That Fail to Extradite

The Senate on Wednesday approved an amendment to a \$31.8 billion foreign aid bill for the next fiscal year that would eliminate most aid to countries that refuse to extradite people charged with crimes in the United States. The amendment, sponsored by Senator Saxby Chambliss (R-GA), would cut off most aid to countries that do not hand over individuals charged with crimes in the US in non-death penalty cases. Chambliss cited countries, including Mexico, Costa Rica, and Venezuela that oppose life sentences and in some instances will not extradite a person who faces a sentence beyond a certain limit. The measure would not apply to aid for counternarcotics or law enforcement.

Source: Reuters, Office of Sen. Saxby Chambliss.

Featured Q&A*Continued from page 3*

tion and customs enforcement investigators, and detention bed space, as called for in the Intelligence Reform and Terrorism Prevention Act of 2004."

A Board Comment: James R. Jones: "Mexico's long land border with the United States is the most likely entry for illegal activity whether that be drug trafficking or undocumented humans. This is especially true for activity coming from the south. With bad economic conditions in Central America, more people from those countries are trying to tra-

“ Given the high state of border patrol activity [on the US-Mexican border], it is more likely that terrorists will try to enter the US through Canada. ”

— James R. Jones

verse Mexico to seek opportunities in the US. Mexico has been fairly diligent about trying to police its southern border but it has the same difficulty catching these determined immigrants as the US does on its southern border. To date, there appears to be little if any terrorist attempts to enter our country through Mexico. Given the high state of border patrol activity there, it is more likely that terrorists will try to enter the US through Canada. Those borders are not as thoroughly patrolled."

A Board Comment: George W. Grayson: "While the Bush administration fights an inconclusive war 6,200 miles away in the Middle East, the erosion of social controls continues at an alarming pace in Mexico, whose future is much more important to security interests of America than is Iraq's. The surge in OTMs attempting to enter the US is mirrored by a sharp increase in OTGs (Other than Guatemalans) sneaking from Guatemala into Chiapas and, to a

lesser extent, Tabasco. The scores of crossing points into Southern Mexico have, de facto, erased its southern border. The closest analogy is the so-called 'frontier' between Haiti and the Dominican Republic. Thus far, Central Americans, Brazilians, Peruvians, and Ecuadorians make up the lion's share of the OTGs. However, there are also Asians and Middle Easterners clamoring to gain entry into Mexico in order to reach the US. Mexico's major detention center in Ixtapalapa is hugely overcrowded. The result is that—as in the US—many illegal aliens are released in the hope they will show up for deportation hearings. Most do not. As long as Mexico collects only 12 percent of its GDP in taxes, it will not meet the educational, health, and employment needs of its population. The country's National Migration Institute is hobbled by an inadequate budget, understaffing, and turf conflicts with a dozen federal, state, and local agencies. If Washington wants to prevent another 9-11-type tragedy, it must get serious about regulating access to our nation. In addition to beefing up the Border Patrol, the government must begin the long-term process of issuing harder-to-counterfeit IDs. Schemes addressing the border won't prevent unlawful entries unless they are complemented by strict workplace enforcement of laws against hiring illegal workers."

Jack Devine is President of The Arkin Group LLC in New York City.

James R. Jones is a member of the Advisor board, former US ambassador to Mexico, and Co-Chair of Manatt Jones Global Strategies LLC.

George W. Grayson teaches at the College of William & Mary and is writing a book on Mexico City Mayor Andres Manuel Lopez Obrador. He is a member of the Advisor board.

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General Manager, Publishing

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Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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