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Featured Q&A With Our Board of Advisors

Q Talks between the government, protesters, and oil companies in Ecuador last week were snagged on the issue of prosecutorial immunity for protesters accused of sabotaging oil facilities in the Andean nation. How should the government address the issue of immunity? Can those protesters accused of illegal acts be granted immunity without encouraging lawlessness by other groups in the future?

A **Guest Comment: Phillip McLean:** "The Ecuadorian government has already rewarded those who participated in the 10-day strike that halted oil production and damaged machinery and pipelines by promising to divert two-thirds of the taxes it receives from the region's oil producers to local health, environmental and development projects. It is unlikely authorities will want to press cases against individual protesters. Initial estimates are that the stoppage caused a \$300 million loss to the country's treasury, which depends on oil for 25 percent of its revenues. At a time when international petroleum prices are at record highs, this oil rich nation is struggling to finance current expenditures. Responsible observers fear that despite a superficially rosy domestic outlook (six percent growth and low inflation—due mostly to dollarization), the country's fiscal stance is unsustainable. What happened in the oil producing provinces was symptomatic of the country's fundamental political weak-

ness. Important governing decisions are being made by strikers and protesters on the street—as exemplified by the overthrow of the elected president six months ago—and not by responsible, democratic institutions."

A **Guest Comment: Stephen Doneho:** "As is the case in so many countries, the people of Ecuador have over the years lost confidence in the willingness and ability of the ruling elite and institutions of government to provide basic needs for them. Given past impunity by political leaders, it

Continued on page 4

PHOTO OF THE DAY



The president of Brazil's Chamber of Deputies, Severino Cavalcanti, refuted allegations yesterday that he accepted kickbacks from a businessman operating a congressional restaurant. See related story on page 2.

Source: Chamber of Deputies.

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NEWS BRIEFS

Colombia: Three Million People without Power after Rebel Attack

Nearly three million people were without electricity yesterday in southwestern Colombia after suspected rebel attacks. Officials said they believed bomb attacks on a number of electrical towers may have caused the blackout in three provinces. Energy company **Isa** said it was trying to import power from neighboring Ecuador.

Source: *BBC News*.

Argentine August Inflation Up 0.4 Percent Over Last Month

Argentina's consumer price index rose in August 0.4 percent over July, according to state news agency **Telam**. The figure was slightly lower than the 0.6 percent estimated by Wall Street forecasters. July's CPI of 1.0 percent month-over-month was also lower than expected for that month. Despite the relatively good CPI figures, Argentina continues to have some of the highest annual inflation in the region, estimated at 9.6 percent for 2005. Venezuela's inflation, the highest in Latin America, is expected to reach 15 percent this year, by comparison.

Source: *Telam, UBS*.

CellStar Sells Asia Operations to Focus on North and Latin America

Texas-based **CellStar Corporation**, one of the three largest wireless logistics providers operating in Latin America, announced yesterday that it has sold its operations in China to **Fine Day Holdings Limited**. "The closing of this transaction...allows us to focus our attention on building successful operations in North America and Latin America," said CEO Robert Kaiser. The company's top Asia executives were let go recently.

Source: *company statement*.

Political News

Brazil's Cavalcanti Refutes Kickback Charge; May Lose Post Temporarily

The president of Brazil's Chamber of Deputies, Severino Cavalcanti, has been accused by a local businessman of accepting kickbacks from his restaurant in the amount of 10,000 reais per month. Cavalcanti yesterday released a statement refuting the charge, suggesting that businessman Sebastiao Augusto Buani, who runs a restaurant in the Congressional complex, is making up the story, which was published in the Brazilian weekly *Veja*

Opposition leaders plan to send a formal letter to Cavalcanti, asking him to step down temporarily while the authorities investigate the allegations.

over the weekend, so that congressional authorities will not take legal action on outstanding debts and allow him to renew his license for the restaurant, **Agencia Brasil** reported yesterday. Cavalcanti calls the accusation an attempt at extortion, and has contacted the minister of Justice, Marcio Thomas Bastos, and the Federal Police about the case, according to the



Cavalcanti

report. Cavalcanti says that Buani has a 150,000 reais debt with the Congress and his concession will not be renewed. But for now, opposition lawmakers plan to send a formal letter to Cavalcanti, asking him to step down temporarily while the lower house and the federal police investigate the allegations, Raul Jungmann, the leader for the Popular Socialist Party, told reporters yesterday in Brasilia. Legislators may ask the house ethics committee to move to oust Cavalcanti should he decline to leave voluntarily, Jungmann said, according to Bloomberg News.

Venezuela Increases Aid Offer for US Hurricane Victims

Venezuelan President Hugo Chavez on Sunday offered to increase his country's

donations and aid to United States victims of Hurricane Katrina, which last week ravaged several Gulf States and flooded most of New Orleans. Chavez has raised state oil company **PDVSA's** cash donations to the victims of the hurricane from \$1 million to \$5 million, to be given out through its **CITGO** subsidiary, and he offered to donate 1 million barrels of gasoline to the New Orleans area, also through CITGO, "for immediate delivery," according to a summary of the president's broadcast circulated by local businessman Ulrico Reale. Chavez also accused US President George W. Bush of taking no action or acting too late while on vacation at his ranch. [Editor's note: look for related Q&A in

tomorrow's edition of the *Latin America Advisor*.] In related news, leaders of several Latin American countries with high migrant populations in areas affected by the hurricane have been reaching out to their citizens. An estimated 140,000 Mexicans were affected by the hurricane, and 70,000 remain unaccounted for, President Vicente Fox told the *New York Times*. Mexico has earmarked \$175,000 to set up consular offices and communications links to help Mexican victims, and is telling its citizens that US officials have agreed not to prosecute any undocumented migrants seeking aid, according to Mexican daily *El Universal*.

Economic News

Latin American Leaders Rush to Cushion Consumers from Fuel Prices

Several Latin American leaders have taken to the airwaves to calm consumer fears in their countries over fast-rising fuel costs. Market prices for oil spiked near \$70 per barrel last week on fears that Hurricane Katrina's damage would hurt supplies and refining capacity. Chilean President Ricardo Lagos announced on national television Sunday a new package of measures to soften the impact of the surging price of

gasoline, the MercoPress news agency reported yesterday. President Lagos said that monetary interest generated by the South American country's Copper Stabilization Fund (estimated in several hundreds of million dollars) will be diverted to help soften future crude price increases. "The Fund's resources will be effective until June 30 next year, when the new elected authorities will then decide whether to extend the facilities or not," Lagos said. The popular left-of-center leader also announced that Chilean government-owned oil company ENAP will be refining all the country's oil currently in stock, as well as new purchases of imported raw crude, due to high refining prices. A special task force headed by Finance Minister Nicolas Eyzaguirre and ENAP CEO Enrique Davila will be responsible for the implementation of the package, according to the report. The "price of gasoline during the coming September national independence celebrations will not reach the value anticipated."

“ [The] price of gasoline during the coming September national independence celebrations will not reach the value anticipated.”

- President Ricardo Lagos

ed," Lagos said. In related news, neighboring Argentine President Nestor Kirchner said late on Friday that his government "will not accept under any circumstance" a hike in gasoline prices, according to the state news agency Telam. Argentina has for several months been placing onerous taxes on oil exports in order to keep domestic prices artificially low. On Sunday in Mexico, President Vicente Fox said in a speech he plans to issue a decree later this week to counter the effects of Hurricane Katrina on domestic energy prices and supplies, according to the Associated Press. No details of the plan were revealed.

Hurricane Katrina's Economic Impact on Region Minimal, IDB Says

The Inter-American Development Bank's

president said yesterday he expected no negative implications for Latin American economic growth rates as a result of Hurricane Katrina, Reuters reported. "In the short run, we have some problems, but I don't think the (impact from the) hurricane will be affecting growth of the region," Enrique Iglesias said in remarks to reporters in Tokyo, where he is traveling. Iglesias, who will be replaced at the IDB October 1 by Colombian diplomat and former minister of economic development Luis Alberto Moreno, said the damage from Hurricane Katrina was affecting some Central American countries that rely on oil refineries along the US Gulf coast, and he was also concerned about a possible decline in exports to the United States. The IDB sees the region growing 5 percent or more in 2005 on pricier oil and commodities, and estimates growth at 6 percent in 2006.

Brazil, Mexico Among Top 10 Global Business Locations, Survey Says

Amid a growing preference for investing in emerging markets, global companies rank Brazil and Mexico among the 10 most attractive global business locations, according to the results of a survey released on Monday by the United Nations Conference on Trade and Development (UNCTAD). UNCTAD's Global Investment Prospects Assessment (GIPA) survey of 325 transnational corporations, or TNCS, found that the companies rated Brazil and Mexico the fifth and sixth most attractive countries in which to invest. China ranked as the most attractive, followed by India, the United States, and Russia. Six of the top ten countries were from the developing world, the survey found. Regionally, Asia and Eastern Europe have the best prospects for foreign direct investment (FDI), while "Latin America is likely to maintain its recent FDI recovery," according to the survey, which also included responses from FDI experts and investment promotion agencies. FDI in Latin America totaled \$42.4 billion in 2004, up from \$36.5 billion in 2003 and reversing four straight years of declines, although the 2004 figure was still well below the \$88.2 billion worth of FDI recorded in 1999, according to the World

Bank. The UNCTAD survey also found that more developing countries were becoming major sources of FDI. "Developing-country TNCs are increasingly using outward investment to

Responses from transnational corporations

- | | |
|-------------------|--|
| 1. China (87%) | Most attractive global business locations in 2005-2006. |
| 2. India (51%) | |
| 3. USA (51%) | |
| 4. Russia (33%) | |
| 5. Brazil (20%) | |
| 6. Mexico (16%) | |
| 7. Germany (13%) | |
| 8. UK (13%) | |
| 9. Thailand (11%) | |
| 10. Canada (7%) | |

Source: UNCTAD

become global players, which ends up benefiting other developing countries as well," said UNCTAD Secretary General Supachai Panitchpakdi in a press release. Several Latin American companies, including Mexico's **Cemex** and **America Movil**, and Brazil's **Petrobras**, have become major sources of investment in the region.

Company News

America Movil to Invest \$160 mn in El Salvador Cellular Expansion

Regional cellular phone giant **America Movil's** El Salvador subsidiary said last week it expects to invest \$160 million through 2006 to expand its network across the country, Reuters reported. **Telecom de El Salvador's** CEO Alberto Davison told reporters, "We will make important investments to continue expanding cellular coverage." Phone companies are investing heavily in Central America, once considered a market where too few people earned enough money to afford mobile phone service. But market analysts have been surprised this year by the higher-than-expected penetration of mobile telephony in poor African countries, and expect Central America could follow the same development path.

Featured Q&A*Continued from page 1*

is no surprise that protest leaders feel they should not face the law either. Problem is, the lack of judicial certainty is precisely at the root of much of the problem this nation faces. Enforcing the rule of law, sanctity of contracts, and transparency as a basis for governance in dealing with its citizens, and investors, by the way, would allow a resource-rich Ecuador to prosper and be able to better provide for its people. Re-establishing respect for the law starts at the top, and Ecuador's leaders must subject themselves and their institutions to the rules if they expect their citizens to abide by the law."

A Guest Comment: Andres Mejia Acosta: "The Ecuadorian government needs to show a stronger commitment to upholding the rule of law, if it wants to recover some lost credibility before its citizens and foreign investment. Over the past year, the events that led to the dismissal of Supreme Court Judges, the return of former president Bucaram from exile, and the fall of President Gutierrez have confirmed the idea that the judicial system is an instrument to cement political alliances or be used for political blackmail. The request of granting prosecutorial immunity to amazonic protesters seeks to justify vandalism with their legitimate demand for more concrete social investment in the region. The Palacio administration cannot afford to endorse that tradition of justifying the means by the ends, which among other things, has tolerated the ousting of three presidents in the past decade. Ensuring a proper and fair trial to find the individual parties responsible for social violence can be a good opportunity for president Palacio to show Ecuadorian citizens and foreign investors that he is taking concrete actions to improve the judicial system. Granted, the current government is politically weak, but tolerating vandalism would further undermine his ability to make credible threats to other anti-social movements—and formal political players—in the future."

A Guest Comment: Steve Johnson: "Ecuador's rule of law is weak at best. Last April, Congress fired President Lucio Gutierrez for illegally dismissing Supreme Court judges. One NGO estimates the country has 55,000 so-called 'junk laws' that contradict each other, encouraging litigants to bribe magistrates for favorable decisions. Political parties are run by 'owners,' not by elected leaders. Multiple factions in a fractious congress fight more than they agree on measures to move the country forward. In principle, providing immunity for acts of sabotage only reinforces notions that laws exist to be broken. But protesters have a point: the government petroleum monopoly—now beset by an internal tug-of-war in the Palacio administration—doesn't give much back to local municipalities, while government mismanagement claims most of the revenues. That's why governments should not own underground commodities. Instead, citizens should have property rights that include what's below their land. With oil in the hands of ministry officials, it's way too easy for foreign investors to make backroom deals that neglect public accountability. As president, Lucio Gutierrez reportedly tried to concede rights to Ecuador's major oil fields to China. Now who benefits from that?"

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Latin America Advisor

is published every business day by the *Inter-American Dialogue*, Copyright © 2005

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Latin America Advisor is published every business day by the *Inter-American Dialogue*
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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