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Latin America Advisor

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Featured Q&A *With Our Board of Advisors*

Q Mexican billionaire Carlos Slim Helu and other local business leaders are expected today to announce a proposal to boost economic growth in Mexico though long-delayed reforms. What is the significance of the proposal? How will it impact economic policy in Mexico?

A Guest Comment: Tapen Sinha: "In two words: not much. First, businesspeople do not decide on policy reforms—the federal government does. Fights among political parties made sure that there was no significant reform in the past five years. None of the three big parties have any appetite to concede any political ground this election year. Second, Mexican business leaders have a bad history of trying to take a leading position on reform of any sort. They have thrived under monopolies bestowed upon them by successive governments in exchange for funds for re-election. Third, Mr. Slim Helu has shown very little inclination to relinquish his near-monopoly with Telmex—as a result, phone calls within Mexico costs ten times as much as in the United States. Other businesses, such as air travel and financial services, are just as bad. Given that these businesses are very profitable, most business people have no incentive to do anything except to make sure that the government does not allow more competition. Not surprisingly, in the competitiveness report, published by the World Economic Forum on Wednesday, Mexico slipped down seven places to a new low rank of 55 below both China and India. Fourth, Mr. Slim Helu has been busily expanding his empire (with a net worth of $24 billion and counting) in other countries. He promised Bill Clinton on Tuesday that he would connect Gaza to the Jordanian phone network. He has expanded his phone business in Chile, Colombia, and Peru. Like a good businessman, he is diversifying his risk—reform in Mexico will increase his risk."

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PHOTO OF THE DAY

Venezuelan President Hugo Chavez on Wednesday criticized the US for not deporting suspected terrorist Luis Posada Carriles to Venezuela. See related story on page 2.

Photo: ABN.

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NEWS BRIEFS

Puerto Rican Police Tighten Security After Nationalist's Death

Police in Puerto Rico tightened security at federal buildings amid fears the death of a Puerto Rican nationalist could lead to a resurgence of pro-independence violence. The killing last Friday of 72 year-old Filiberto Ojeda Rios, the leader of the militant independence movement known as the Macheteros, in a shootout with FBI agents sent to arrest him for the 1983 armed robbery of a **Wells Fargo** depot in Connecticut, sparked immediate anti-US protests on the island, a US commonwealth since 1952. The Macheteros have vowed to avenge Ojeda's death.

Source: Associated Press.

Bank of America Expands Free Remittance Service for Mexico

Bank of America said Wednesday it was expanding to all of the United States a service for its Hispanic customers to send money home to Mexico for free. The bank said its SafeSend service allows checking account holders to remit money to more than 4,500 locations throughout Mexico without any transfer fees. Remittances to Mexico, which totaled $16.6 billion in 2004 and is expected to grow to almost $20 billion this year, is the country's second-largest source of income after oil exports.

Source: company statement.

Mexico's IPC Index Closes at Record High for Third Straight Day

For the third straight session, Mexico's benchmark IPC stock index closed at a record high on Wednesday, ending up 0.43 percent at 15,869.33 points. Since the start of the year, the IPC has risen 2,951.45 points, or 22.85 percent.

Source: El Universal.

Economic News

Report: Latin America Less Competitive Than a Year Ago

Latin American economies are less competitive overall than they were a year ago, according to an annual report published Wednesday by the Geneva-based World Economic Forum (WEF). Sixteen out of the 18 Latin American countries ranked in terms of their economic competitiveness scored lower this year than they did in 2004, the WEF said in its *Global Competitiveness Report 2005-2006*. Colombia and Argentina were the only two Latin American countries out of the total of 117 worldwide included in the report to move up in the rankings, which is based on economic data and the results of a survey of 11,000 business leaders. Colombia is the 57th most competitive country in the world, up from 64th in last year's report, while Argentina edged up two places to 72. Meanwhile, Mexico and Brazil both fell seven places to 55 and 65, respectively. "Both Mexico and Brazil suffered major plunges in those indicators that capture the quality of their public institutions, including factors such as judicial independence and favoritism of government officials in policy-making and procurement decisions," the WEF said in a press release. The WEF noted that Venezuela, where business leaders are complaining about increasing government attacks on the private sector, continued a "precipitous decline" in the annual rankings from 2001, when it was listed as the 62nd most competitive economy in the world. In this year's report, Venezuela fell another four places to 89. In Venezuela, the WEF said "widespread mismanagement has led to strong deterioration in all areas measured by the index: the macroeconomic environment has become highly unstable, the quality of public institutions has been eroded and there has also been a measured decline across a broad range of technology indicators." Chile remained the most competitive Latin American economy, ranking 23rd in this year's report, down a notch from a year ago. The three most competitive countries in the world remained Finland, the US, and Sweden, the same as last year.

Political News

Chavez Calls US Hypocritical in Wake of Judge's Deportation Ruling

Venezuelan President Hugo Chavez on Wednesday called the United States hypocritical after a US immigration judge ruled the day before that Cuban exile and suspected terrorist Luis Posada Carriles could not be deported to the South American country to face charges that he masterminded the 1976 bombing of a Cuban airliner that killed 73 people, the Associated Press reported. While not ruling out the

Latin American Countries' Competitiveness

World Economic Forum Global Rankings, 2005 vs. 2004

	2005	2004		2005	2004
Finland	1	1	Peru	68	67
United States	2	2	Jamaica	70	65
Sweden	3	3	Argentina	72	74
Canada	14	15	Panama	73	58
Chile	23	22	Venezuela	89	85
Uruguay	54	54	Guatemala	97	80
Mexico	55	48	Nicaragua	99	95
El Salvador	56	53	Bolivia	101	98
Colombia	57	64	Dom. Rep.	102	72
Costa Rica	64	50	Ecuador	103	90
Brazil	65	57	Paraguay	113	100

Source: WEF.

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possibility that Posada could be deported to another country, Judge William Abbott ruled Tuesday that Posada could not be sent to Venezuela or Cuba, citing conventions against sending a person to a country where he could face torture. Chavez said the decision was hypocritical amid charges the US government has committed human rights abuses in Iraq and elsewhere. "They're the ones who torture," Chavez was quoted as saying in a reference to accusations of abuse at US military prisons in Iraq and Guantanamo Bay, Cuba. Venezuela's foreign ministry said the country's Constitution prohibits torture and insisted the US comply with Venezuela's extradition request.

Company News

Colombia's Telecom Cancels Deal with Telmex, Plans Auction

State-run **Colombia Telecomunicaciones** (Telecom) canceled a preliminary agreement to partner with **Telefonos de Mexico** (Telmex) and will hold an auction to allow other companies to bid for it, Bloomberg News reported on Wednesday. Last week, Telecom had suspended the agreement amid criticism of the deal by politicians as well as from Colombia's top auditor. Controller-General Antonio Hernandez has said a memorandum of understanding between Telecom and Telmex, under which the Mexican company would pay $350 million for a stake of 50 percent plus one share in Telecom and assume as much as $3 billion in debt over 15 years, lacked transparency and was too generous to Telmex. Last week, Hernandez questioned the legality of the agreement and said the sale should be open to competition. According to Bloomberg News, Telecom has agreed to follow Hernandez's suggestions for a third-party valuation of the company and to make the deal transparent. Telmex spokesman Arturo Elias Ayub said the company will reconsider its options in light of Telecom's decision to cancel the agreement. "We have to see what the new rules of the game are and make a decision on whether or not to enter the auction," he was quoted as saying. Earlier this month, the head of Spain's **Telefonica**, Cesar Alierta, met with Colombian President Alvaro Uribe to discuss the Spanish firm's interest in partnering with Telecom, Colombia's largest telephone company with some 2.4 million lines in service in 2004. **ETB** and **EPM**, the publicly owned companies for the cities of Bogota and Medellin, respectively, have also expressed an interest in Telecom.

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Five Lawmakers Go to Haiti With Rice to Assess Election Preparations

Five lawmakers accompanied US Secretary of State Condoleezza Rice to Haiti on Tuesday to assess the country's readiness for presidential and legislative elections planned for November 20. Reps. Ileana Ros-Lehtinen (R-FL), Kendrick Meek (D-FL), John Shadegg (R-AZ), and Mel Watt (D-NC), and Sen. Mike DeWine (R-OH) were present during Rice's meetings with interim Prime Minister Gerard Latortue, interim President Boniface Alexandre, and members of the country's Provisional Electoral Council. Meek, whose district includes many Haitian immigrants, said he was surprised by Rice's directness in talking with Haitian officials, but said many details still need to resolved. Rice urged officials to speed up preparations for the elections—the first to be held in the country since a February 2004 revolt toppled the government of then President Jean-Bertrand Aristide—and to ensure that voting was "open and inclusive and fair." DeWine said the US should support Haiti, but warned against high expectations. "Haiti is full of disappointments," he told reporters.

Source: State Department, Reuters, The Miami Herald.

Burton Blasts Opposition Pact Against Nicaraguan President Bolanos

Rep. Dan Burton (R-IN), chair of the House International Relations Subcommittee on the Western Hemisphere, last Friday condemned the recent efforts of former Nicaraguan Presidents Arnoldo Aleman and Daniel Ortega to join ranks and oust senior officials in the government of current President Enrique Bolanos. "I strongly condemn the recent attempts by the Aleman-Ortega 'Pact' to remove senior officials of the Bolanos administration on questionable legal grounds, and we will continue to oppose all political elements that attempt to subvert Nicaraguan democracy and attempt to undermine the free and fair elections in 2006," Burton said in a statement. Last week, Nicaragua's opposition-controlled National Assembly voted to strip Bolanos' interior minister and other senior officials of their immunity from prosecution to face charges that they broke election laws. A similar move against Bolanos was suspended after Ortega instructed lawmakers from his Sandinista party not to support such an action, in the name of "dialogue." During a hearing yesterday, Burton submitted a resolution calling on the US government to "actively support the aspirations of the democratic political and social forces in the Republic of Nicaragua toward an immediate and full restoration of functioning democracy in that country." The resolution was referred to the House IR Committee.

Dan Burton
Photo: Office of Rep. Dan Burton.

Source: Office of Rep. Dan Burton.

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Featured Q&A

Continued from page 1

Guest Comment: Carlos Janada: "Long overdue structural reforms are unlikely in the run-up to the 2006 general election. The Fox administration has attempted to gain congressional approval for a number of reforms aimed at raising investment, enhancing technological change, and accelerating growth. The opposition-dominated Congress has blocked these efforts, and as a result the Mexican economy now appears to be losing additional international competitiveness. Mexico's US market share declined from 11.8 percent in mid-2002 to 10.8 percent in June 2004 to 10.3 percent in June of this year. China, a key competitor of Mexico, has increased its US market share from 12.7 percent in June 2004 to 14.0 percent this June. While the increase in China's market share is related, in part, to demand-side factors such as the elimination of limitations on its textile exports to the US under the multi-fiber agreement, other factors appear to play an important role in the deterioration of Mexico's international competitiveness. Structural constraints are responsible for much of Mexico's reduced competitiveness. Implementation of long overdue structural reforms aimed at lowering energy costs, increasing the flexibility of labor markets, and reducing the vulnerability of the country's public finances would attract new investment, facilitate technological innovation, and enhance the country's international competitiveness."

Guest Comment: Manuel Suarez-Mier: "It is difficult to analyze a proposal that has not yet been made public, and for this reason I reserve my opinion for a future occasion. Yet, a few general comments can be made on the information that has been published until now. First, in a country like Mexico, with weak public institutions and a basic disagreement on the model of a nation that the conflicting political forces want, it is always laudable that a group of concerned citizens get together of their own volition to propose an agreement to the nation on important subjects. Second, the problem of an agreement as broad and ambitious as the one being proposed by this self-described ideologically 'plural group,' is that it might end up becoming a pastiche of general platitudes. This is frequently the only way to get a covenant from a diverse group that can only coalesce on a fairly low common denominator. Third, it is clear that in a country where public insecurity represents perhaps the most serious problem for the people, and an effective rule of law is a distant hope, to propose addressing such problems as a priority for an agreement is a good idea. The trouble is how to do it, and then how to reach the necessary political accord to translate the proposals into effective measures. Fourth, the other priorities are just as compelling—just economic development, promotion of human capital, encouraging capital formation and reform of public administration—and require also a clear diagnosis of the problems, a good strategy to address them, and the building of consensus, alluded to in the previous point. Unfortunately, ambitious and well intentioned reform proposals like this one have been tried in Mexico before, and have invariably failed. Let's hope that on this occasion the plans are not only good but able to be sold to the country's dysfunctional body politic in this election season. The proponents of the agreement would do well to devote the greatest possible efforts to promote their project with the present and potential leaders of the country."

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