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Featured Q&A With Our Board of Advisors

Q On Sunday, Argentines will cast their votes for representatives of the Lower House and one-third of the Senate. What's at stake in these elections? Who will be the most noteworthy winners and losers?

A **Guest Comment: Mario Canseco:** "This election is a referendum on Kirchner's tenure. While Kirchner has been extremely popular for his economic policies and for prosecuting military officers involved in the 'Dirty War,' he has never faced the ballot box test. He finished second to former President Carlos Menem in the first round of the 2003 presidential election, and took over after Menem withdrew from the runoff. Kirchner's staunchest supporters are contending in the capital city: Foreign Minister Rafael Bielsa as the leading lower house contender, and the president's wife—Cristina Fernandez de Kirchner—seeking a new term in the Senate. The most recent polls show Bielsa trailing leftist candidate Elisa Carrio and businessman Mauricio Macri, but the foreign minister is still expected to earn a seat under existing electoral regulations. The first lady is faring much better, with close to 40 percent in most surveys. In a way, the election could also settle the future of the Peronists, who have split into the pro-Kirchner Front for Victory and the more traditionalist Justicialistas under former President Eduardo Duhalde. If the pro-Kirchner fac-

tion manages to secure more seats, the current head of state would not only gain political capital, but also claim his place as the true leader of the whole Peronist movement."

A **Guest Comment: Carola Sandy:** "Sunday's congressional elections will effectively be a plebiscite on the Kirchner administration, from which the president is expected to emerge with a more solid mandate. In addition, these mid-term elections can also be viewed as a competition between
Continued on page 4

PHOTO OF THE DAY



Roberto Madrazo (foreground) effectively won the presidential nomination from Mexico's PRI party after Arturo Montiel (background) withdrew his bid on Thursday amid corruption allegations. See related story on page 2.

Photo: PRI.

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NEWS BRIEFS

Tourists in Yucatan Evacuated as Hurricane Wilma Approaches

Thousands of tourists were evacuated to shelters along Mexico's Yucatan coast in anticipation of the arrival of Hurricane Wilma on Friday. The powerful Category 4 hurricane was expected to make landfall at about noon today and send a 7 to 11-foot surge of water over the coast. Earlier this week, Wilma-related rains caused mudslides in Haiti that killed 10 people.

USTR Portman Urges EU to Improve Offer on Agriculture

US Trade Representative Rob Portman on Thursday called on the European Union to quickly improve its offer on agriculture in order to move global trade talks forward. "We need to pull this [agricultural] proposal together in a form that the 148 [WTO member] countries can look at it. We learned from Cancun that we have to have proposals in place before the meetings go ahead," Portman said in a conference call with reporters. The EU is seeking to deflect criticism it is endangering talks by not improving its offer on agriculture tariffs and subsidies.

Official: IMF Ready to Restart Loan Talks with Argentina

The International Monetary Fund is ready to resume talks with Argentina over a new loan agreement, IMF First Deputy Managing Director Anne Krueger said Thursday. "We'll be happy to start talks whenever they like," Krueger told a meeting of economists, analysts, and central bankers in Santiago, Chile. Argentina, which suspended its loan agreement with the IMF in August 2004, has said it hopes to resume talks before the end of this year.

Source: Reuters.

Political News**PRI's Montiel Ends Presidential Bid; Madrazo Poised to Win Nomination**

Arturo Montiel on Thursday withdrew his bid to become the candidate for president of Mexico from the opposition Institutional Revolutionary Party (PRI) amid allegations of corruption he said were aimed at forcing him out of the race, Reuters reported. Montiel, the former governor of the state of Mexico, said media reports that the finance ministry was investigating over \$3.2 million deposited in a son's bank accounts as well as family property deals were part of an orchestrated campaign aimed at knocking him out of the race and hurting the PRI's chances of winning the presidency. "The leak of information against my wife and children has hurt my dignity and that of my family, and is something I cannot allow," Montiel was quoted as saying by local daily *El Universal*. "I have decided to not continue in the contest." Montiel's withdrawal effectively hands the nomination to Roberto Madrazo, former PRI president and ex-governor of the state of Tabasco. Madrazo, however, faces an uphill battle against former Mexico City Mayor Andres Manuel Lopez Obrador of the Party of the Democratic Revolution. Lopez Obrador holds a solid lead in polls ahead of the July 2006 presidential election. The PRI is hoping to retake the presidency after its more than seven decades in power was ended with the election of the National Action Party's Vicente Fox in 2000.



Arturo Montiel
Photo: PRI.

Economic News**Ecuador's Trade Minister Doubtful of Timely US-Andean FTA Completion**

The timeline for completion of free trade talks between the United States and three Andean countries by the end of November may be optimistic, Ecuadorean Trade Minister Jorge Illingworth said Thursday.

In Washington for what will be the thirteenth round of negotiations on the agreement between the US, Ecuador, Peru, and Colombia, Illingworth said at a forum sponsored by the Inter-American Dialogue that he has concerns about prospects for this week's meetings. The final round of talks is scheduled for November 14 and negotiators expect they will wrap up before Thanksgiving. Illingworth said he hopes the four countries' legislatures will approve the accord by June 2006. While he said the US position urging significant reductions in agricultural subsidies at the World Trade Organization last week is a positive sign, progress is not moving quickly enough. "I frankly feel that the agriculture issue will not be solved by November 23," Illingworth said. "The US has been tough at the table." As electoral calendars in all three Andean countries heat up, trade officials fear the talks will be overshadowed by campaigning and the momentum of debate on the deal's passage will be lost in their respective legislatures. Peru and Colombia will hold presidential elections next April and May, respectively, and Ecuador in October of 2006. Legislative and local races will precede them. Andean heads of state plan to meet with US President George W. Bush on November 4 to speed up trade talks between their countries.

Company News**Coca-Cola Posts 37 Percent Growth in Q3 Profit on International Sales**

Coca-Cola Co., the world's largest soft-drink company, on Thursday reported a 37 percent jump in third-quarter profit, in part due to solid sales growth in Mexico, China and other growing international markets, according to Reuters. In the July-September period, earnings rose to a higher-than-expected \$1.28 billion from \$935 million a year earlier. Demand boosted sales throughout Latin America, led by growth in Brazil, Chile, Venezuela and Argentina. Analysts see tremendous growth potential in markets like Brazil, whose population of 186 million is double that of Mexico's and where per capita soft

drink consumption is half that of Mexico's. Third-quarter sales volumes were up 4 percent in Mexico, Coke's largest market in Latin America. North America accounts for 30 percent of Coke's sales, where revenues were up 3 percent. Worldwide unit case volume grew 5 percent in the third quarter, led by international unit case volume growth, the company said in an earnings statement on its Web site. Revenue rose to \$6.04 billion from \$5.6 billion, exceeding Wall Street estimates of \$5.95 billion. Coca-Cola is boosting spending on marketing and advertising this year to promote new calorie-free drinks such as flavored Dasani water and catch up in the noncarbonated drinks market. CEO Neville Isdell said the Q3 results are a sign that the company is making progress in its effort to end a prolonged slump and return to a period of sustainable long-term growth. "I am satisfied with our progress to date and believe that our 18-to-24-month turnaround is on track," Isdell told analysts, according to Bloomberg.

Bancafe Says it is Not a Creditor of Bankrupt US Brokerage Refco

Bancafe, Colombia's biggest state-owned bank, said Thursday it is not a creditor of US commodities and futures brokerage **Refco** despite being listed as such in the company's bankruptcy filing, Reuters reported. "Bancafe has already asked Refco's representatives to correct this information," the bank was quoted as saying in a statement. In a listing of its top 50 unsecured creditors included in its bankruptcy filing earlier this week, Bancafe was listed as the fifth-largest creditor, with a claim of \$176 million. However, the Colombian bank could have been confused with a Guatemalan bank of the same name, according to Reuters. The Guatemalan Bancafe said yesterday it was too early to comment on the matter, Reuters reported. Refco, the largest US independent commodities and futures brokerage, filed for bankruptcy after its chief executive was charged with fraud and the company's stock price collapsed. Caracas-based **BCO Hipotecario Inv.** was listed as Refco's 11th-largest unsecured creditor, with \$85.8 million owed.

By the Numbers: A Monthly Look at Latin American Data by the Inter-American Dialogue's Claudio Loser

Economy Drives Consumer, Government Confidence in Argentina



WASHINGTON—Argentina is getting ready for crucial mid-term elections on Sunday. President Nestor Kirchner came to power in 2003 with only 24 percent of popular vote in the first round (no second round took place as the front-runner, former president Menem, had withdrawn because he had little chance of winning). Kirchner has characterized this election as a plebiscite/vote-of-confidence on his policies. The economy has been growing nicely, but inflation has been creeping up, and has now reached double digits, even without a major devaluation.

I have said in the past that the political process is directly affected by economic conditions. In a situation like that of Argentina, where fears of inflation are just beneath the surface, we need to look not only at economic activity, but prices as well. Ahead of the election, the chart below combines these two economic indicators and compares them with the behavior of consumer confidence and confidence in government, published by Universidad Torcuato Di Tella. I defined an "economic conditions index" by subtracting one half of the rate of inflation from the monthly rate of economic growth, under the assumption that people will be less sensitive to a one percent increase in prices than a one percent increase in economic activity. An increase in activity increases the index, and an increase in inflation reduces the value of the index.

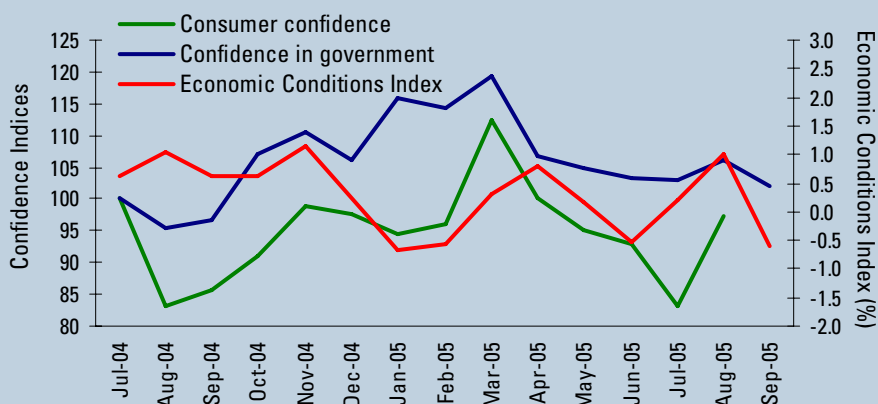
The first observation is that the consumer confidence and confidence in government indices move generally together, with a few exceptions like early 2005, when there were serious questions about the exit from the debt default, even with a good economic performance.

The second observation is that in general, the confidence indices have moved in line with the Economic Conditions Index. Initially, with activity growing strongly, the economic conditions index did well, and so did confidence. Subsequently, with inflation rising, the confidence indices suffered. Observing recent months, the government may have reasons for concern. Activity may be doing well, but it is seen as linked

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Economic Performance and Confidence Indices in Argentina

July 2004–Sept 2005



Source: Universidad Torcuato Di Tella, National Institute of Statistics, Argentina

Featured Q&A*Continued from page 1*

President Kirchner and former President Duhalde for political dominance. Kirchner and Duhalde both belong to the Peronist party but are supporting different lists of candidates in the congressional elections. The most recent opinion polls suggest that the candidates to the Senate and the Lower House that are backed by Kirchner will win key congressional races, some of them by wide majorities. For example, the expected margin of victory by Senator Cristina Kirchner, the president's wife, over Hilda Duhalde is expected to be in the 15-25 percent range. After the elections, Kirchner's faction could have as much as 40 percent of the seats in the Senate and be in control of the largest group in the lower House. Having direct control over a larger proportion of Congress should allow Kirchner to push legislation through Congress relatively easily. A strong political victory would also give the government political capital and flexibility to negotiate with the IMF (yielding to some of the Fund's demands for fiscal and monetary restraint)."

A Guest Comment: Graciela Romer: "The next elections will be more than a test to evaluate support for Kirchner's administration; it also will put at stake the political future of the main candidates (Lopez Murphy, Carrio, and Macri) and

also the overall pattern of the political map for the next presidential contest in 2007. The principal battle will be the Buenos Aires province, where the wife of the current president, Cristina Kirchner, and the wife of his predecessor, Hilda Duhalde, are competing for two seats in Argentina's Senate. This situation brings into play the future of Peronism, both in terms of its internal leadership structure and its ideological profile. The winners: first Nestor Kirchner, whose triumph nobody seems to doubt; also, Carrio and Macri (candidates with a great capacity to manage a future conservative-progressive coalition) should be counted among the winners, since both of them will have a place in the parliament even if they don't succeed at arriving in the first place. Perhaps the person who seems to stand as the main loser of the elections is the former economy minister of the Fernando De La Rúa administration and potential leader of the conservative camp, Ricardo Lopez Murphy, who probably can't get a ticket for a seat in the Congress."

Mario Canseco is Managing Director for *Global Scan* at *Angus Reid Consultants*.

Carola Sandy is Economist for *Argentina, Peru and Colombia* at *Credit Suisse First Boston*.

Graciela Romer is Director of *Graciela Romer & Asociados* in Buenos Aires.

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Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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By the Numbers*Continued from page 3*

to government spending. As a consequence, inflation is high, even with some attempts at price controls and will certainly increase after the elections. With these prospects, it is very likely that the decline in consumer confidence, already known for September, may be accompanied by lower confidence in government. Under those conditions, the electoral outcome may well leave the president weaker than he hoped for. For certain, as a good economist I will have a better explanation after the elections. We may want to see the links between economic performance and elections in other countries to confirm that it is really the economy that determines political outcomes, or a large part of them.

Claudio Loser is a Senior Fellow at the Inter-American Dialogue and former Head of the Western Hemisphere Department at the International Monetary Fund.