

Inter-American Dialogue

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|--|---|
| Bernard Aronson
Managing Partner,
ACON Investments LLC | Donna Hrinak
Co-chair, International
Trade, Competition,
and Government
Affairs Practice,
Squire, Sanders &
Dempsey L.L.P. |
| Diego Arria
Director,
Columbus Group | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Joyce Chang
Global Head of
Emerging Markets
Research, J.P. Morgan
Chase & Co. | Paul Laudicina
Vice President,
A.T. Kearney |
| Adrian Cruz
Senior Partner,
ACPZ Venture Capital,
LLC | Juan Felipe Munoz
President,
Hemispheric Partners |
| W. Bowman Cutter
Partner,
E.M. Warburg
Pincus | Thomas F.
McLarty III
President, Kissinger
McLarty Assoc. |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Beatrice Rangel
President & CEO,
AMLA Consulting |
| Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son | José Antonio Ríos
International President,
Global Crossing |
| Michael Gavin
Head of Latin
America Econ.
Research, UBS | Everett Santos
CEO, Emerging
Markets
Partnership |
| George W. Grayson
Professor of Govt.,
The College of
William & Mary | Roger Scher
Head of Latin
American
Sovereign Ratings,
Fitch Ratings |
| Peter Hakim
President,
Inter-American
Dialogue | Tony Smith
Partner,
Schmeltzer, Aptaker
& Shepard |

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

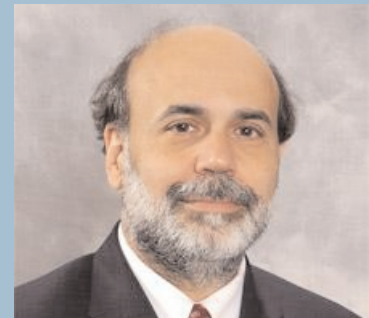
Q The US and other major trading nations are blaming the European Union for an impasse in negotiations threatening to derail the WTO's Doha Round. What are your predictions for the talks? Will the Hong Kong ministerial take place in December as planned?

A Board Comment: Tony Smith: "It certainly appears that the EU was responsible for the demise of the agricultural discussions at the Doha Round. The US negotiators were committed to making progress, but the EU steadfastly refused. I do believe the US will keep the pressure on to convene the Hong Kong ministerial. This isn't a question of the Bush administration finally getting the importance of reducing agricultural subsidies to the developing world. This is a question of the competitiveness of US agriculture in the worlds' markets. Structurally, the US will be a net winner in agriculture if worldwide subsidies are reduced, including ours. Our farmers are generally the most competitive in the world. There are certain crops where this is not the case, but if Tom Freidman made the case for the importance of technological brilliance for manufacturing, in *The World is Flat*, that is the US advantage in many of our agricultural sectors. In addition, our fiscal policies are in disarray. The deficit and debt are, I believe, unsustainable. The tax cuts, the Iraq War, Hurricanes Katrina/Wilma etc.,

the drug benefit—the list goes on. The administration has been threatening to cut subsidies since it took office. A WTO agreed position that all countries need to do that would be 'pennies from heaven' for the administration. The same may not be true for the Congress."

A Board Comment: Jon Huenemann: "Predictions are tough at this time, but it is quite clear the EU is in the spotlight, as one would expect at this point. Although some within the EU have attempted to shift the focus off the EU's limits in agriculture, the major players outside the EU have all
Continued on page 4

PHOTO OF THE DAY



President Bush on Monday nominated Ben Bernanke, above, to replace Alan Greenspan as chairman of the Federal Reserve. See related analysis on page 3.

Photo: Federal Reserve Bank of Atlanta.

Inside This Issue

- | | |
|---|--|
| FEATURED Q&A: Will Trade Negotiators Break the Impasse in the WTO's Doha Round?1 | Colombia's Comcel to Propose \$218 Million Debt Shelf.....3 |
| Wilma Leaves Mexico's Caribbean Beach Hotels in Shambles.....2 | CEO: HSBC to Push Into Mexico, Brazil, Other Emerging Markets.....3 |
| CAF Announces \$1 Billion Financing Initiative.....2 | Special Advisor Q&A with Bear Stearns' David Malpass on Bernanke Nomination3 |

NEWS BRIEFS

Honduran Ex-President, Contra Supporter Jose Azcona Dies

Former President of Honduras Jose Azcona died Monday at his home from heart problems. He was 78.



Azcona
Photo: Casa
Presidencial.

Azcona, who was president of Honduras from 1986 until 1990, is remembered for allowing Nicaragua's Contra rebels to seek refuge on Honduran soil, where they received training and aid from the United States. He is also credited with helping negotiate peace accords to end the region's violent civil wars.

Source: Associated Press.

Piracy Rising in Uruguay, Mexico

Piracy of movies has risen 35 percent this year in Uruguay and 70 percent in Mexico, the antipiracy regional director of Latin American operations for the Motion Picture Association of America said at a convention in Orlando on Monday. "Pirated DVDs are being sold on the street or are on the Web even before their theatrical release," Marcio Goncalves said. As solutions, he proposed police involvement, statements on tickets, bag searches, signs in theaters, and educating theater owners in the US to prevent the use of camcorders to illegally film movies.

Source: Reuters.

IMF Completes Review of Colombia Loan Agreement

The International Monetary Fund said Monday its executive board completed a first review of the Fund's \$583.8 million loan agreement with Colombia. In a press release, the IMF's first deputy managing director, Anne Krueger, praised the Colombian government's "strong economic policies."

Source: IMF press release.

Economic News**Wilma Leaves Mexico's Caribbean Beach Hotels in Shambles**

Hurricane Wilma devastated hotels at Mexico's Caribbean beach resorts, causing multimillion dollar damage, the head of a local hotel association said Monday, Reuters reported. "It is a true catastrophe for the hotel industry," said Jesus Almaguer, head of the Association of Hotel Owners for Quintana Roo state, home to the popular resorts of Cancun and Cozumel. Wind and rain from Wilma, which struck Mexico's Yucatan peninsula over the weekend, blew in hotel windows, ruined beds and furniture, and cut off power and running water, forcing at least three hotel chains to shut down temporarily. The **Marriott** and **Ritz-Carlton** hotel chains closed their resorts in Cancun until the end of December—through the peak

tourists home and rebuilding the tourism industry was a national priority.

Economic News**CAF Announces \$1 Billion Financing Initiative**

The Andean Development Corporation on Monday approved \$1 billion in funding for projects in Bolivia, Brazil, Colombia, and Ecuador, as well as to support Latin America's banking system. "CAF continues its conceptual and financial support for a renewed development agenda for the region, by stimulating initiatives for the integrated promotion of stability, efficiency, and social equity" CAF President Enrique Garcia said in a press release. The regional lender said it would provide \$300 million to Colombia to help cushion the fiscal impact of its large public-sector pension liabilities. CAF also said it approved a

Goldman Sachs said in a report Monday that Mexico probably will lose a quarter of a percentage point in economic growth this year, dropping it to 2.5 percent, and will lose up to \$1.5 billion in tourism revenue this year because of Wilma.

Christmas tourist season. Almaguer estimated that 80 percent of all rooms in Quintana Roo's \$3 billion-per-year hotel industry were damaged. The cost of reconstruction would be \$1.5 billion—nearly double the Mexican tourism ministry's estimate of \$800 million—and take 3-4 months, he said. According to Bloomberg News, Almaguer said the state hotel association is seeking a \$500 million loan from a development bank to finance reconstruction. **Goldman Sachs** said in a report Monday that Mexico probably will lose a quarter of a percentage point in economic growth this year, dropping it to 2.5 percent, and will lose up to \$1.5 billion in tourism revenue this year because of Wilma, according to Bloomberg News. Meanwhile, some 30,000 tourists remained stranded on Mexico's Caribbean coast, the Associated Press reported. President Vicente Fox said getting the

revolving partial credit guarantee of \$150 million to support Colombia's access to syndicated loans from international commercial banks. For Brazil, CAF approved \$100 million to partially finance the investment plan of electric utility **Centrais Eletricas Brasileiras** (Eletrobras) for generation and transmission assets, as well as general corporate purposes. CAF also said it would lend \$100 million to finance social development goals in Ecuador, and would allocate \$50 million for exploration of silver, lead, and zinc in Bolivia's San Cristobal mine, one of the largest silver mines in the world and owned by a subsidiary of the US' **Apex Silver Mines**. "Finally, an expansion of \$310 million was approved for the line of credit for banks with a solid and proven relation with the Corporation. The new credit facility will help these first class banks of great importance in their countries to adapt to current

market needs," CAF said in the press release.

Company News

Colombia's Comcel to Propose \$218 Million Debt Shelf

Colombian mobile operator **Comcel** will today propose to periodically sell up to \$218 million in debt under a shelf registration, an unnamed spokeswoman for Comcel's Mexico-based parent, regional giant **America Movil**, said Monday, according to Reuters. "It's a shelf ... for up to 500 billion [Colombian] pesos," the spokeswoman was quoted as saying. Under a shelf registration, a company may sell debt in one or more separate offerings, with the size, price and terms to be determined at the time of the sale. Comcel will propose the debt plan at an extraordinary shareholders meeting. Comcel dominates Colombia's mobile market with over 11.3 million users—more than 60 percent of the market—followed by the local unit of Spain's **Telefonica Moviles**. **Colombia Movil** and **Avantel** also offer services in the steadily growing mobile market. Earlier this month, Colombia's Superintendency of Industry and Commerce reported that the number of mobile subscribers in the country has risen 75 percent since the start of the year to 18.3 million.

CEO: HSBC to Push Into Mexico, Brazil, Other Emerging Markets

British bank **HSBC Holdings PLC** plans to expand its consumer-finance business into more emerging markets, including Mexico and Brazil, HSBC Group Chief Executive Stephen Green said in an interview published in *The Wall Street Journal* on Monday. "Any analysis of the demographics of emerging markets tells you that consumer finance is going to be an important part, and a rapidly growing part, of the financial-services spectrum for a long time to come," said Green, who is considered a candidate to succeed Sir John Bond as chairman of HSBC. Green said HSBC plans to make a big push into Brazil, Mexico, and Turkey, and will con-

Special Advisor Q&A

Bear Stearn's David Malpass Comments on Significance for Latin America of Bush's Nomination of Bernanke for Federal Reserve Chair

Editor's note: on Monday, President Bush announced the nomination of Ben Bernanke to replace Alan Greenspan as Chairman of the Federal Reserve when Greenspan's term expires in January. Yesterday the Advisor contacted David Malpass, Chief Economist at Bear Stearns, to ask him about the significance of Bernanke's nomination for Latin America. Below are his comments.

Latin America Advisor: What might Mr. Bernanke bring to the Fed if he is approved by the US Senate, and particularly what might his influence mean for monetary policy in Latin America?

David Malpass: Dr. Bernanke will mostly focus on US monetary policy, with the goal of price stability and a healthy economy. However, he has shown considerable interest in monetary policies outside the U.S. In a 2004 speech to [the Cato Institute], he discussed the pros and cons of dollarization and of currency stability regimes for smaller countries and seemed to have an open mind on the topic. I think Latin America would see a big rise in per capita median incomes if it modified its monetary policies to focus more on currency stability as a step to achieving price stability. Brazil could cut interest rates (now an incredibly high 19 percent) much faster and Mexico could add substantially to its growth rate.

LAA: What will be the impact of Mr. Bernanke's avowal to maintain Mr. Greenspan's policies and consolidate gains made on price stability, etc.?

Malpass: Latin America benefits when the US avoids inflation and deflation. Bernanke will have that as one of his primary goals. This probably means higher US interest rates than the current 3.75 percent, but should mean relatively low average interest rates over the next decade. This should continue to benefit Latin America.

LAA: How might they affect Latin American central bank policies?

Malpass: Mexico and Brazil already target inflation. Bernanke is a world expert on this, creating good lines of communication and constructive interest in each other's experiences.

tinue to develop its business in Asia. In Mexico, HSBC plans to offer credit cards to a customer base that uses primarily debit cards, he said. "That's part of a wide-ranging retail-banking strategy for Mexico, where we are also growing our deposit products [and] remittance products for the very considerable flow of retail remittances," Green was quoted as telling the *Journal*. In 2002, HSBC bought

Mexico's **Grupo Financiero Bital**. Last week, Mexico's Banking and Securities Commission said defaults on credit card loans were growing faster than performing loans, while nonpayment of consumer loans has increased for five straight quarters [Editor's note: look for a Q&A on Mexico's consumer lending market in next Monday's issue of the *Latin America Advisor*].



President Bush announced Bernanke's nomination at the White House yesterday.

Photo: White House.

Featured Q&A*Continued from page 1*

agreed that the EU must generate more flexibility in agricultural market access at this point or the talks likely will grind to a halt in advance of Hong Kong. This is high stakes poker, but it has to happen this way. If the EU does come back with a proposal on agricultural market access that is beyond the G-20's proposal and short of the US proposal (which is the most ambitious in agriculture market access), then we will have the makings of more progress. If not, it will be a very close call as to whether we have enough to move forward, but it does not look good. If the EU is able to muster the political courage and come up with something viable but short of the US proposal in market access, this will make some in the US agriculture community who do not relish more access into the US market happier than if the US proposal were the framework for a deal. In other words, we have a crowd here that is secretly cheering for the French while at the same time despising some aspects of their objectives, like a dramatic expansion of geographical indications. At the same time, within the G-20 we have some who want to eliminate export subsidies, eliminate trade-distorting domestic support, and very substantially cut developed country agriculture tariffs while doing virtually nothing in the way of tariff cutting themselves all in the name of special and differential treatment and in spite of their global competitiveness. At the end of the day, this formula is not sustainable, and if we get beyond this very serious impasse in agriculture because the EU is able to generate a serious step forward then G-20 major players will have to fork up some pretty serious market access not just in agriculture, but in services and industrial goods too ..."

A Guest Comment: Richard Bernal: "There are still big gaps between the big players on crucial agricultural trade issues, at a time when the crucial year-end WTO ministerial is looming. It looks like we could go to Hong Kong like we went to Cancun—with the hope that the pres-

ence of ministers would lead to a breakthrough in the trade talks. As the principal players attempt to settle differences centered on resolution of the core or gateway issues, development issues continue to remain on the back-burner. Development issues cannot be treated as an annex, an afterthought in what is supposed to be a development round."

A Guest Comment: Ed Gresser: "It is very hard to imagine [the Hong Kong ministerial] being cancelled. They will probably make some progress, maybe not enough to be satisfied to declare the ministerial a success, but enough to keep the round going ... I think the US has made some pretty respectable offers—not having gotten all the way to where we will be in the end—they have been received as such internationally. Most of the big players—Brazilians, Australians, etc.—feel the US has acted in good faith this time ... In the road to the Hong Kong ministerial, the gateway to all the rest of it is: what are the rich countries going to do about farm subsidies and tariffs? For the moment, big Latin American countries are probably pretty comfortable because they are saying, we want to see good faith from the rich countries, but if they get their way on that, they will have to sort of suck it up next year."

Tony Smith is a member of the Advisor board and a Partner at *Schmeltzer, Aptaker & Shepard*.

Jon Huenemann is a member of the Advisor board, Principal in the International Department, *Miller & Chevalier*, and a former Assistant US Trade Representative with responsibilities in the Americas.

Richard Bernal is Director General of the Caribbean Regional Negotiating Machinery.

Ed Gresser is Director of the Trade and Global Markets Project at the Progressive Policy Institute.

Latin America Advisor

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

Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Devin Finn,
Reporter

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director of Special Projects

Dan Erikson,
Director for Caribbean Projects

Claudio Loser,
Senior Fellow

Judith Morrison,
Executive Director, Inter-Agency Consultation
on Race in Latin America

Marifeli Perez-Stable,
Vice President for Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription inquiries are welcomed at fretrial@thedialogue.org

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

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher nor do they represent any consensus of belief. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.