www.thedialogue.org

Tuesday, November 15, 2005

Inter-American Dialogue

Latin America Advisor

Featured Q&A *With Our Board of Advisors*

Q **The US House Ways and Means Committee last month approved the repeal of the so-called Byrd amendment, a five-year old measure that allows the distribution to US firms of proceeds from anti-dumping duties, a practice the World Trade Organization (WTO) says violates global trade rules. Do you think Congress will repeal the Byrd amendment? What impact would repeal of the amendment have on US trade relations with Latin America?**

A **Guest Comment: Javier Tizado:** "Maybe someday, but not now. Let's not forget that this legislation carries the name of Senator Byrd, and that the law still has a lot of supporters in Congress, especially in the Senate. So, this still has a long way to go to get to the point of repeal. Now, it is true that some things are starting to change. The recently issued GAO report told the unappealing story that most of the money is distributed to a few industries, so it starts to sound more like 'corporate welfare' than 'leveling the playing field.' Also, other countries have started to play the retaliation game, targeting politically sensitive products for retaliation with the hope that these sectors will lobby for the repeal of the law. So, the politics are changing, but I doubt that we are there yet. Now, as far as the effect that an eventual repeal will have on US trade relations with Latin America, I think that it's minimal. Let's remember that the Byrd amendment does not change the basic provision of the US trade remedy laws; it merely directs that duties collected be paid out to the affected industry, rather than remaining in the US Treasury. The real issue that has affected US-Latin American trade relations has been the use—some would say abuse—of these laws. The repeal of the Byrd amendment will not change that. In some way, the question reminds me of the old story attributed to Josef Stalin. The story goes that, faced with public complaints of a housing shortage, he issued a decree requiring everyone to keep a goat in their apartment. He let the complaints about the goats grow to the maximum point, and then retracted the decree. Everyone was so happy with the retraction that no one complained again about the housing shortage. The problem

Continued on page 4

PHOTO OF THE DAY

Brazilian markets tumbled yesterday amid speculation Finance Minister Antonio Palocci may be on his way out. See related story on page 2.

Photo: Brazilian finance ministry.

Inside This Issue

NEWS BRIEFS

Madrazo Likens Lopez Obrador to Venezuela's Hugo Chavez

In one of the strongest attacks so far in Mexico's presidential contest, Roberto Madrazo of the opposition PRI party on Monday compared frontrunner Andres Manuel Lopez Obrador of the opposition PRD party to leftist Venezuelan President Hugo Chavez. "They have very similar attitudes. I see authoritarianism in them both, they think they possess the absolute truth and are in permanent conflict with capital," Madrazo told foreign journalists. Madrazo's comments came amid widespread indignation in Mexico at verbal attacks by Chavez against Mexican President Vicente Fox.

Source: Reuters.

Buenos Aires Legislative Panel Votes to Suspend Mayor

A special investigative panel of Buenos Aires legislators voted Monday to suspend Mayor Anibal Ibarra for 90 days in connection with a December 30, 2004 nightclub fire that killed 194 people. Critics say Ibarra should step down for what they say was lax code enforcement by building inspectors prior to the deadly nightclub blaze. Ibarra, a key ally of Argentine President Nestor Kirchner, said he would not step down.

Source: Associated Press.

Ecuador Raises 2005 Inflation Forecast

The Ecuadorean government on Monday raised is inflation forecast for this year from 2.9 percent to 3.7 percent. The revised forecast follows the government's dissolution of a special fund for pensions which has led to the injection of $385 million into Ecuador's economy in two months.

Source: Reuters.

Economic News

Brazilian Markets Fall Amid Worries Palocci May Go

Brazilian markets tumbled on Monday amid investor concerns Finance Minister Antonio Palocci, respected on Wall Street for his conservative approach to economic policy, will be forced to resign. Brazil's currency, the real, fell 2.17 percent to 2.21 per dollar, its biggest loss since August 19 and ending a 10-day rally that lifted the real to a four-and-a-half year high against the dollar, according to Reuters. Meanwhile, the country's benchmark Bovespa stock index, lost 0.96 percent to close at 30,219 in a broad-based sell-off. Brazil's benchmark global bond due in 2040 also fell, losing 1.062 points to bid 120.313, Reuters reported. Speculation that Palocci may be forced to step down has been growing amid allegations of past corruption when he was mayor of the city of Ribeirao Preto in Sao Paulo state and differences over economic policy with other members of President Luiz Inacio "Lula" da Silva's cabinet, including cabinet chief Dilma Rousseff. Last week, Rousseff said she disagreed with Palocci's proposed long-term plan for fiscal discipline and criticized his economic policies as "rudimentary." On Saturday, Lula issued a statement saying he was not considering replacing Palocci or changing economic policy. Still, several names are circulating as possible Palocci replacements, including Senator Aloizio Mercadante, a member of the ruling Workers Party who in the past has been a critic of the Lula government's conservative economic policies; Palocci aide Murilo Portugal, who is considered to be a fiscal conservative; and Planning Minister Paulo Bernardo. [Editor's note: look for a Q&A on the impact of Palocci's possible departure in this Thursday's issue of the *Latin America Advisor*.]

Several names are circulating as possible Palocci replacements, including PT Senator Aloizio Mercadante, Palocci aide Murilo Portugal, and Planning Minister Paulo Bernardo.

Political News

Venezuela-Mexico Spat Grows, Both Countries Recall Their Ambassadors

Venezuela and Mexico recalled their ambassadors on Monday after Venezuela refused to apologize for hostile comments made by Venezuelan President Hugo Chavez against his Mexican counterpart, Vicente Fox. Early yesterday, Venezuelan Foreign Minister Ali Rodriguez labeled as an "aggression" Mexico's ultimatum that Venezuela apologize for the comments or face a break in diplomatic relations and pre-emptively pulled Venezuela's envoy to Mexico. A few hours later, the Fox government responded by announcing the withdrawal of its ambassador to Caracas. Both countries have left business attaches in charge of diplomatic relations at their respective embassies. In an interview on CNN, Fox said that Mexico would consider cutting ties completely if Venezuela continued to insult Mexico. "We have to put a stop to anything that offends the dignity of the country or its institutions, and that's it. That defense will go as far as necessary," Fox stated. The spat erupted last week after Chavez called Fox "a puppy of the empire" for supporting the United States' push for a Free Trade Area of the Americas at the Summit of the Americas this month in Argentina. The remark by Chavez was in response to Fox's comment to reporters after the Summit that "there we have some presidents, fortunately a minority, who blame other countries for all their problems." The two governments had been preparing a joint state-

Vicente Fox
Photo: Los Pinos.

ment aimed at ending the diplomatic spat, but tensions erupted again on Sunday when the Venezuelan leader, during his weekly television show, said Mexican President Vicente Fox left the November 4-5 Summit of the Americas "bleeding from his wound" and warned the Mexican leader "don't mess with me, sir, because you'll get pricked." That prompted Mexico to give Venezuela a one-day ultimatum to apologize or diplomatic ties would be severed. US State Department spokesman Adam Ereli on Monday refused to weigh in on the diplomatic spat between Mexico and Venezuela. "This issue is something between Mexico and Venezuela. It's not something that you need to drag the United States in," Ereli said.

Bolivia's Morales and Quiroga in Statistical Tie a Month Before Vote

The two frontrunners in Bolivia's December 18 presidential election are in a statistical dead heat, Reuters reported, citing an opinion poll published Monday. According to the survey conducted by polling firm **IPSOS Captura** for a group of Bolivia's largest newspapers and television stations, opposition leader and coca farmer Evo Morales has 30.7 percent support ahead of next month's election, while conservative former President Jorge Quiroga has 28.7 percent. With the poll's margin of error at 2 percent, Morales and Quiroga are in a statistical tie. Businessman Samuel Doria Medina was in third place with 13.9 percent. According to Bolivian law, if no candidate garners more than 50 percent of the votes in the presidential election, the vote goes to the a joint session of Congress, where lawmakers choose between the top two finishers. Bolivians will also elect a new Congress.

Company News

Mexico's Axtel Seeks to Raise $345 Million in US, Mexican IPO

Mexican local and long-distance company **Axtel** said Monday it and its shareholders plan to raise $345 million in an initial public offering in Mexico and the United States, Reuters reported. The Monterrey-based Axtel, which did not announce a date for the IPO, said it expects to raise $95 million for itself and $250 million for shareholders. The offering is being managed by **Banamex** in Mexico and by **Credit Suisse First Boston** internationally. Axtel, which was founded a decade ago to battle for clients in a market dominated by former public monopoly **Telefonos de Mexico** (Telmex), operates in 12 cities, and also offers Internet and data transmission services. Most of Telmex's competitors now focus on data transmission services and big corporate clients, leaving the bulk of the residential market to Telmex, which ended September with 18.14 million fixed lines in use in the country. After the Mexican government opened the long-distance market to competition in 1997, foreign companies invested millions in network infrastructure across the country. However, legal obstacles and high interconnection fees paid to Telmex to use its network in areas where new market entrants did not have access made it difficult to make profits.

Featured Q&A

Continued from page 1

in US-Latin American trade relations has been the use and abuse of the US trade remedy laws. Let's not forget about that, just because we do not have to live with the goat any longer. If use and abuse of the trade laws was a problem in US-Latin American trade relations before the Byrd amendment, why should we expect the problem to disappear just because Congress repeals the Byrd amendment?"

A **Board Comment: Jon Huenemann:** "I would like to be hopeful that the Byrd amendment will be repealed, given that the US has been found to be out of compliance with its international obligations due to Byrd, but I am not putting any money on the prospect that it will be repealed. House Ways and Means Committee Chairman Bill Thomas has made the first serious effort to bring the US into compliance, and the administration is backing him, but in spite of the fact that the repeal is inserted in some 'must pass' legislation most believe it will not survive the legislative conference process given the pressure being brought to bear on the congressional leadership by Byrd supporters, especially in the Senate. If the US Congress can muster the ability to pass the repeal, it will upgrade US credibility at the global trade negotiating table, which could only help as we face an extremely tough road in bringing Doha to a successful conclusion. No matter what the arguments in support of the Byrd legislation, the fact is the US has been found to be out of compliance and our inability to come into compliance undermines the US effort to get others to follow WTO rules and panel decisions. Everyone within the system must follow the rules or their value is diminished. A successful Byrd repeal effort, for the same reasons, would also benefit our trade efforts with Latin America. It would not materially change the fact that the US would retain and no doubt administer its trade remedy laws in an aggressive manner, but it would remove an argument about WTO compliance that is used against the US, especially when we are trying to get Latin American countries to comply with WTO rulings. Failing to comply with international obligations makes any country's calls for adhering to the rule of law ring hollow."

" If the US Congress can muster the ability to pass the repeal, it will upgrade US credibility at the global trade negotiating table, which could only help as we face an extremely tough road in bringing Doha to a successful conclusion. "

- Jon Huenemann

A **Guest Comment: Gary Clyde Hufbauer:** "Congress could make a wonderful gift to the American people, and indeed the whole world, by repealing the Byrd Amendment. But when was the last time Congress played Santa Claus to the national interest rather than special interests? I would be very pleasantly surprised if the House and Senate passed the repeal amendment. In fact, I'll put repeal on my Christmas list. But I won't be overly disappointed if my stocking turns up empty."

Javier Tizado *is President of Tubos Trans Electric in Argentina and former Argentine Secretary of Industry, Commerce, and Investment.*

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

Gary Clyde Hufbauer *is a Senior Fellow at the Institute for International Economics.*

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

Subscription Inquiries are welcomed at freetrial@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