

Inter-American Dialogue

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|--|--|
| Bernard Aronson
Managing Partner,
ACON Investments LLC | Peter Hakim
President,
Inter-American
Dialogue |
| Diego Arria
Director,
Columbus Group | Donna Hrinak
Director for Corporate
and Govt. Affairs,
Kraft Foods Inc. |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| Joyce Chang
Global Head of
Emerging Markets
Research, J.P. Morgan
Chase & Co. | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Adrian Cruz
Founder and Senior
Partner,
Crisis Simulations
International, LLC | Nicolás Mariscal
Chairman,
Grupo Marhnos |
| W. Bowman Cutter
Partner,
E.M. Warburg
Pincus | Juan Felipe Munoz
President,
The Otun Group |
| Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co. | Thomas F. McLarty III
President,
Kissinger McLarty
Associates |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Beatrice Rangel
President & CEO,
AMLA Consulting |
| Jonathon Flott
Senior Economist for
Latin America, Africa
and the Middle East,
General Motors | José Antonio Ríos
International President,
Global Crossing |
| Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son | Andrés Rozental
President,
Mexican Council on
Foreign Relations |
| Michael Gavin
Head of Latin
America Econ.
Research, UBS | Everett Santos
President,
DALEC LLC |
| George W. Grayson
Professor of Govt.,
The College of
William & Mary | Roger Scher
Head of Latin
American
Sovereign Ratings,
Fitch Ratings |
| | Tony Smith
Senior Counsel,
Schmeltzer, Aptaker
& Shepard |

Featured Q&A With Our Board of Advisors

Q Huge global current account imbalances could slash the wealth of treasuries and investors in about 50 countries if there is a sudden 10 percent drop in the dollar and in US stock and bond markets, IMF visiting scholar and University of Virginia Professor Francis Warnock wrote in a report published last month. What impact would a sudden sharp decline in the dollar have on Latin American economies?

A Guest Comment: **José Luis Machinea:** "A sharp decline of the dollar in the months to come would have quite a negative impact in Latin American economies, mainly through a world recession that follows a sharp increase in US interest rates. Furthermore, the uncertainty that normally accompanies that kind of adjustment would affect the region through an increase in country risk. However, we don't think this is the most probable scenario. We believe that a more vigorous pace of activity in Europe and Japan, against the backdrop of the Asian and especially Chinese economies' robust expansion, might offset the lower growth expected in the United States and allow the world economy to accomplish an orderly adjustment of global imbalances, without a recession and a sharp dollar depreciation. Clearly, the chances of having this positive outcome will depend a great deal on the extent of the supply shock, represented by the continued

rise in oil prices and the consequent implications in terms of a tightening of monetary policy to stifle inflationary pressures. A too early tightening of fiscal and monetary policies in Europe and Japan, in the context of a less dynamic US economy, could drive the world into a recession. Thus, even though the Latin American and Caribbean region has followed fiscal and external policies that make the region less vulnerable to external shocks than in the past, the final impact will depend on the capacity of the world economy to cope with the risks represented by inflation and the correction of global imbalances without experiencing a hard landing."

Continued on page 4

PHOTO OF THE DAY



Andres Manuel Lopez Obrador called for continued protests after Mexico's electoral court rejected his demand for a full recount of the July 2 presidential election. See story on page 2.

Photo: Lopez Obrador Web site.

Inside This Issue

FEATURED Q&A: What Impact Would a Sharp Drop in the Dollar Have on Latin America?1	Eight Killed in FARC Attacks Ahead of Uribe's Inauguration.....3
Lopez Obrador Calls for Continued Protests in Wake of Court's Ruling2	New Foreign Exchange Rules Go Into Effect in Brazil.....3
Castro Recovering Quickly, Does not Have Stomach Cancer—Cuban VP2	Subscriber Notice: August 16 Discussion on Brazil's Presidential Election Outlook3

NEWS BRIEFS

Petkoff Withdraws from Venezuelan Presidential Race

Opposition leader Teodoro Petkoff dropped out of Venezuela's presidential race on Friday, the Associated Press reported. Petkoff said he would support a single candidate from among the country's split opposition to run against President Hugo Chavez on December 3. Petkoff, editor of Venezuela's *Tal Cual* newspaper, said he would continue working to oppose Chavez, whom he calls authoritarian.

Embraer Board Appoints Successor to Mauricio Botelho

Brazilian jetmaker Embraer announced Friday that its board of directors appointed Frederico Fleury Curado to succeed Mauricio Botelho



Botelho and Fleury Curado

Photo: Embraer

as president and CEO of the company. In a press release,

Embraer said the 45 year-old Fleury Curado would take over in April 2007. Botelho will remain as chairman of the company's board. Fleury Curado has been executive president of Embraer's airline market division for the past eight years.

Dubai Company to Invest \$100 Million in Buenos Aires Port

Dubai-based **DP World** said Sunday it would invest \$100 million in expanding its recently-acquired Buenos Aires port, according to Gulf News. The shipper and port operator, which was at the center of a US political firestorm earlier this year over foreign ownership of security-sensitive industries, acquired the Buenos Aires asset under its \$6 billion purchase of **P&O** in February.

Political News

Lopez Obrador Calls for Continued Protests in Wake of Court's Ruling

Andres Manuel Lopez Obrador, the runner-up in Mexico's July 2 presidential election, on Sunday called for continued protests after the country's electoral court on Saturday rejected Lopez Obrador's demands for a full vote-by-vote recount, instead ordering a partial recount. In a speech to tens of thousands of supporters in Mexico City's Zocalo central square, Lopez Obrador asked them to gather in front of the Federal Electoral Tribunal tonight and said he would demand that the Tribunal "correct" its decision, the Associated Press reported. The Tribunal ruled Saturday that only ballots from 9 percent of 130,000 polling places be recounted. The partial recount will begin

the city millions of dollars per day. The government on Friday increased security at Mexico City's international airport, and at power plants and oil refineries, in anticipation of possible protest actions by Lopez Obrador supporters, Reuters reported.

Castro Recovering Quickly, Does not Have Stomach Cancer—Cuban VP

Fidel Castro is recovering from stomach surgery quickly and will return to power in a few weeks, Cuban Vice President Carlos Lage said Sunday, according to the Associated Press. "In a few weeks he'll be recovered and he'll return to his duties," Lage said Sunday during a visit to Bolivia. "Fidel's going to be around for another 80 years." Lage earlier denied reports from Brazil that Castro, who turns 80 on Sunday, had stomach cancer. On Saturday,

The partial recount will begin on Wednesday and is expected to conclude by the weekend.

on Wednesday and is expected to conclude by the weekend. According to a research note published this morning by **Credit Suisse**, the number of votes to be recounted is roughly 5.3 million, or about 20 times the margin of victory of approximately 240,000 votes by conservative Felipe Calderon. "The conclusion of the upcoming recount should not be seen as the end of the Tribunal's work on assessing the results from the July 2 presidential elections," Credit Suisse analyst Alonso Cervera wrote. "We are probably still at least a couple of weeks away from the end of this process," Cervera added, noting a September 6 deadline for the Tribunal to declare a president-elect, who would take office on December 1. Lopez Obrador is showing no signs of letting up his campaign to be declared the winner, promising "new actions" and new civil resistance measures, and asking his followers "to prepare ourselves for a struggle that may last longer," the AP reported. Last week, his supporters established protest camps in Mexico City, blocking traffic and costing

Brazilian daily *Folha de Sao Paulo* reported that Cuban officials had told Brazilian President Luiz Inacio Lula da Silva and members of Lula's Workers' Party that Castro has a malignant stomach tumor and could be unable to return to power. Lula also denied the report. Last Monday, Castro transferred power to his 75 year-old brother, Defense Minister Raul Castro, to undergo surgery and to recover from the operation. It was the first known instance of Fidel Castro ceding power in his 47 years of rule on the island. The news prompted celebrations among Cuban exiles in south Florida and the US government to step up efforts to push for democratic change in Cuba. In what was called a "message to the people of Cuba," US Secretary of State Condoleezza Rice on Friday said the US was committed to supporting a free Cuba. "All Cubans who desire peaceful democratic change can count on the support of the United States. We encourage the Cuban people to work at home for positive change, and we stand ready to provide you with humanitarian

assistance, as you begin to chart a new course for your country," Rice said. Meanwhile, *The Miami Herald* reported this morning that broadcasts into Cuba by US government-funded TV Marti, have been increased. The US has contracted a private aircraft out of Key West to transmit aerial broadcasts, which are more difficult for the Cuban government to jam.

Eight Killed in FARC Attacks Ahead of Uribe's Inauguration

Colombia's FARC rebels killed eight people, mostly police and soldiers, in stepped up attacks ahead of the inauguration today of Alvaro Uribe for a second four-year presidential term, Reuters reported. In Cali, five police officers and a civilian were killed in a car bomb explosion, while two soldiers were shot to death in the southwestern province of Tolima while searching for explosives. The violence brought the death toll for the week to 32. Uribe, who was re-elected in May after Congress passed a measure allowing presidents to serve consecutive terms, is expected to continue his hardline campaign against the FARC rebels. Four years ago on the day of Uribe's first inauguration, rebels lobbed missiles into Bogota that killed 21 people and injured 60. Dozens of foreign dignitaries are expected to attend today's ceremony. The US delegation will be led by Treasury Secretary Henry Paulson, according to Reuters. [Editor's note: look for related Q&A in tomorrow's issue of the *Latin America Advisor*.]

Economic News

New Foreign Exchange Rules Go Into Effect in Brazil

New foreign exchange rules in Brazil that allow exporters to keep part of their dollars overseas for as long as they want went into effect on Friday, Reuters reported. The new rules are a diluted version of a proposal that would have let exporters keep all sales proceeds abroad. However, the government decided against that proposal because of fears it would hurt tax revenues. The rules that went into effect on Friday do not specify the percentage of

sales proceeds that exporters can keep abroad, saying that Brazil's national monetary council will determine that amount, according to Reuters. Last month Finance Minister Guido Mantega said the council would allow exporters to keep 30 percent of their dollars overseas. Previously, exporters were required to repatriate dollars by buying Brazilian reais within 210 days of exporting, helping prop up Brazil's currency. However, most econo-



Mantega
Photo: Brazilian government

mists do not expect the new rules to affect the fundamentals for the real, which has been trading near a five-year high against the dollar, according to Reuters. In other Brazil news, President Luiz Inacio Lula da Silva has widened his lead over former Sao Paulo state Governor Geraldo Alckmin ahead of the country's October 1 presidential election, according to a poll published on Friday. The **Ibope** poll showed Lula with 44 percent voter support versus 25 percent for Alckmin, up from a 44-27 percent edge for Lula in an Ibope poll published the week before.

Subscriber Notice

An Inter-American Dialogue Roundtable Discussion on
Brazil's Presidential Election Outlook

with

David Fleischer
BrazilFocus and University of Brasilia

Lisa Schineller
Standard & Poor's

Paulo Sotero,
O Estado de Sao Paulo

Wednesday, August 16, 2006
8:30 to 10:00 a.m.
Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, DC

RSVP to meetings@thedialogue.org
Please include your name and affiliation.

Featured Q&A*Continued from page 1*

A Guest Comment: Claudio Loser: "External imbalances have been piling up worldwide in recent years. Thus, it is almost inevitable that the US dollar will continue to fall in value in the near future. The change can be smooth or traumatic, and nobody really knows how and when it will happen. The impact of a

“The change can be smooth or traumatic, and nobody really knows how and when it will happen.”

- *Claudio Loser*

US dollar decline will be two-fold. If the rearrangement is sudden, world economic activity will slow down or decline. In these circumstances, commodity prices will decline from their current peaks and the region will be hit directly and significantly. The impact of a US dollar devaluation on Latin America's asset position is far from clear. The value of Latin America's investments abroad, including foreign reserves, would decline in terms of other major currencies. However, Latin American assets (some \$700-750 billion) are dwarfed by the liabilities abroad, some \$1.5 trillion, mostly denominated in US dollars. Excluding foreign direct investment, Latin America ends up with a net debtor position of some \$300 billion, so that a US dollar decline may even reduce the debt burden, although distributed unevenly between the private and public sector. Still, the impact on economic activity of all the turmoil may more than offset this positive effect on the region's asset position, as prices of Latin American exports decline."

A Guest Comment: Ricardo Arriazu: "A current account deficit reflects an excess of expenditures over income, and

must be the counterpart of surpluses in other countries. As such, it cannot be considered either a 'bad' or a 'good' development without evaluating the characteristics of these expenditures and their financing. Recent increases in the US current account deficit reflect excess expenditures both of the public sector (twin deficits) and—primarily—of the private sector (negative saving rates), and must be adjusted. The effects of a sudden, sharp decline in the dollar on Latin American economies would be mixed. Initially, commodity prices would increase *pari-pasu* with increases in world GDP measured in dollar terms, but capital flows and international trade might be disrupted if holders of dollars decide to change their portfolio in response to declines in the real value of their holdings. The unit of account of many Latin American countries is *de facto* the dollar. The negative long term effects of a sudden decline in the value of the unit of account will probably be severe. Even though a decline in the dollar might help in the reduction of global current account imbalances, I much rather prefer a solution through rebalances of saving rates in deficit and surplus countries."

José Luis Machinea is Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean.

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

Ricardo Arriazu is head of Ricardo H. Arriazu y Asociados in Buenos Aires and a former alternate Executive Director of the International Monetary Fund.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2006

Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Elisabeth Burgess,
Reporter

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
Senior Associate, US Policy

Claudio Loser,
Senior Fellow

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

Manuel Orozco,
Executive Director, Remittances and Rural Development Project

Marifeli Pérez-Stable,
Vice President, 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.