

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 The United States Senate's Finance Committee on July 31 approved a free trade agreement with Peru, moving the two countries closer to a free trade deal. How will Peru profit from an FTA with the US? At what cost? Are small-and medium-sized businesses in Peru ready for the challenge of free trade with the US?

A Guest Comment: **Fernando Eguren:** "Looking at the agricultural sector, the FTA makes permanent the advantages of ATPDEA, which has benefited large and medium-size farmers on the Peruvian coast (the most modern and rich region in the country). These are a small percentage, and the areas they occupy don't approach 4 percent of the country's total cultivated land. ATPDEA's reach is rather limited, if one considers its ability to contribute to reducing rural poverty. With the FTA, the Peruvian market is opening itself to US agricultural production. There are two problems here for Peruvian agriculture: 1) North America's technological development in agriculture is much more than Peru's and 2) US agriculture receives immense subsidies (which haven't been reduced with the FTA; on the contrary, the FTA essentially ratifies unfair competition). For both reasons, imports to Peru from the US will negatively affect important essentials of national agriculture, which involve specifically the smallest and poorest farmers. The pressure of these

farmers has obligated the Peruvian government to offer subsidies, meaning another pressure on the always-tight national budget. The paradox is that, in the name of free trade, subsidies are being re-established. On the other hand, the Peruvian government speaks of an 'internal agenda' that supposedly must promote Peruvian agriculture's international competitiveness, but so far it's a flimsy, insubstantial agenda. In sum: it is probable that the FTA will deepen the distance between the large (and sometimes medium-sized) modern coastal exporting agriculture and the small, stagnant and impoverished agriculture elsewhere in the country."

Continued on page 4

PHOTO OF THE DAY



The killings of four political protesters over the past two days in Oaxaca state in southern Mexico have put Governor Ulises Ruiz in the international spotlight. See story on page 2.

Photo: Government of Oaxaca.

Inside This Issue

FEATURED Q&A: Are Small Businesses in Peru Ready for the Challenge of US Free Trade?1	Chile's Central Bank Holds Interest Rates Steady, For Now.....2
Political Violence in Southern Mexican State Escalates2	Brazil's Currency Rises on Strong Economic Outlook.....3
Mexico Sells \$12 Billion in Bonds to Pay Off More Expensive Debt.....2	The Dialogue Continues: Will Uribe Finally Defeat Colombia's Guerrillas?.....3

NEWS BRIEFS

Indonesia May Develop Oxy's former Ecuadorean Stake

Pertamina, Indonesia's state oil company, may jointly develop an oil area in Ecuador with **PetroEcuador**, a Pertamina official told Bloomberg News Thursday. Pertamina wants to buy a stake in Block 15, an area owned by PetroEcuador that was seized from **Occidental Petroleum** earlier this year when country officials declared the California-based company had illegally sold assets in the country. Ecuador produces about 530,000 barrels of oil a day, with state-run PetroEcuador accounting for 40 percent, according to estimates. [Editor's note: see related Q&A in the June 28, 2006 edition of the Dialogue's weekly *Energy Advisor*.]

Kansas City Southern Names Theodore Prince Int'l VP

Transportation company **Kansas City Southern** said it has named Theodore Prince, a former executive with "**K**" **Line America, Inc.**, as the new vice president of its international business unit. KCS has railroad investments in the US, Mexico and Panama. It serves northeastern and central Mexico and the port cities of Lázaro Cárdenas, Tampico and Veracruz, and has a 50 percent interest in the **Panama Canal Railway Company**.

Cherokee International Moving Mexico Plant to China

California-based **Cherokee International Corporation**, a manufacturer of custom-designed power supplies, announced Thursday that it plans to close its manufacturing operations in Guadalajara, Mexico by the first quarter of 2007 and move production to a newly built facility in Shanghai, China. The 35,000 square foot Guadalajara facility, in operation since 1988, employs 250 people. Cherokee expects to save about \$2 million through the move.

Political News

Political Violence in Southern Mexican State Escalates

A protester was shot dead yesterday when assailants fired on a march of about 8,000 people calling for the governor's resignation in the Mexican state of Oaxaca. Jose Jimenez, 50, was taken to a hospital with bullet wounds and pronounced dead on arrival, according to wire reports. After the

Striking teachers and other opponents of governor Ulises Ruiz have stepped up protests against what they call his abusive administration.

shooting, protesters set fire to a house from which gunfire seemed to originate. The Oaxacan political violence, which was unrelated to the deadlocked presidential election results that have brought thousands of protesters to Mexico City, has



Ulises Ruiz

Photo: Mexican Government

escalated in recent days as about 40,000 striking teachers and other opponents of state Governor Ulises Ruiz have stepped up protests against what they call his abusive and polarizing administration. On Wednesday, gunmen killed three indigenous people, including a 12-year-old boy, on a road about 150 miles from Oaxaca. The three reportedly had been heading to yesterday's protests in Oaxaca City. On Thursday Oaxacan artist Francisco Toledo, one of Mexico's most important living artists, said he planned to close cultural spaces in the Oaxaca City because of vandalism worries, according to Reuters. Ruiz, a member of the PRI party, was elected in 2004 for a six year term.

Economic News

Mexico Sells \$12 Billion in Bonds to Pay Off More Expensive Debt

Mexico said Thursday it had sold 135 bil-

lion pesos (\$US 12.4 billion) of local bonds in order to pay off more expensive World Bank and Inter-American Development Bank debt. Demand for the offering was exceptionally strong. Earlier reports had stated Mexico wanted to raise \$7 billion to pay down up to \$9 billion in foreign debt. The additional money from the offering will be used to bolster government coffers after the Treasury bought back \$3.4 billion worth of dollar-denominated bonds in recent weeks, according to

Bloomberg News. Mexico stands to save more than \$50 million in interest payments as a result of the successful transaction, according to one Wall Street analyst, and government officials have said it could mean up to \$250 million in savings, according to wire reports.

Chile's Central Bank Holds Interest Rates Steady, For Now

Chile's central bank held its benchmark lending rate at 5.25 percent at its monthly meeting Thursday, according to a government press release. The decision reflected weaker economic growth data of late, but does not yet signal an end to rising interest rates, according to some analysts. New York investment bank **JP Morgan Chase** is forecasting a rate of 5.50 percent by the end of the year, and 5.75 percent by the end of the first quarter of 2007, before Chilean authorities "will consider the rate normalization process complete." The central bank has emphasized that monetary conditions are "expansionary," JP Morgan analyst Vladimir Werning wrote in a research note today. In related news, Chile's retail sector may be feeling the pinch of slower economic growth and higher fuel costs. **D&S**, the country's largest supermarket chain, said on Thursday that its second quarter 2006 net profit fell 21 percent over a year ago. Net income for the second quarter amounted

to 8.36 billion pesos (\$US 15.5 million). The drop in sales at stores open at least a year could be helped by the company's \$800 million three-year expansion plan, company officials said in a release. D&S has opened 17 new stores this year. The company's financial services division has also done better, recording revenues of \$35.4 million during the second quarter, up from \$27 million over the same period last year. "This increase is due to the 24.2 percent growth in outstanding credit receivables and the greater use of [store credit cards]," D&S said in a statement.

Brazil's Currency Rises on Strong Economic Outlook

Brazil's real currency rose to its highest level in over a month Thursday, as increased exports and low inflation fueled market appetite. The real rose 0.5 percent to 2.1565 per dollar near the market's close yesterday afternoon. Market watchers say Brazil's ample foreign reserves should continue to help the country's economic stability. "Significant FX inflow allowed the central bank to resume its aggressive intervention in the FX spot market ... it purchased \$5.1 billion last July and likely more than \$2.0 billion this month so far," **JP Morgan** analysts wrote in a research note today. Foreign reserves will surpass \$70 billion in the next couple of days and are already above the gross sovereign debt of \$69 billion, the bank said.

Company News

Centennial Reports Decline in Fiscal Q4 Revenues from Caribbean Ops

Centennial Communications said Wednesday that revenues from its Caribbean operations declined 3.3 percent for its fiscal fourth quarter ended May 31 compared to the same three months a year earlier. In an earnings release, Centennial, which offers service in Puerto Rico, the Dominican Republic, and the US Virgin Islands, as well as six US states, said revenues from its Caribbean operations totaled \$124.7 million in the fiscal fourth quarter, compared to \$128.9 million a year

The Dialogue Continues

A continuation of the August 8, 2006 Q&A

Q **Colombia's FARC rebel group stepped up its attacks ahead of the inauguration on Monday of Alvaro Uribe for a second four-year term as president. Does the recent wave of attacks indicate that the FARC is worried about the security implications of a second Uribe administration? What is the FARC's strategy for the next four years? Will Uribe have the time and political capital to continue paramilitary demobilization and tackle an agreement with the guerrillas?**

A **Guest Comment: Marc Chernick:** "Bogota was eerily quiet on Monday as Alvaro Uribe prepared to begin his second four-year turn. The center of the city was completely cleared to provide security for the visiting dignitaries in town to attend the inauguration. The FARC in previous days had managed to explode a car-bomb in Bogota and police authorities arrested several FARC militants who were accused of planning terrorist acts. In the end, the inauguration occurred without incident. Many had hoped that Uribe would make a dramatic gesture toward peace. Instead, he made oblique references about his willingness to negotiate peace and his concern about reverses in the security situation. Nothing more. For many it was a disappointment. There was no indication that the government would place peace negotiations as a high priority. What is clear is that the FARC is not concerned about the security situation.

They are patient. They can easily wait four more years, a small interval after 40 years of insurrection. They believe, as most theorists of insurgency have always contended, that each year that goes by without a defeat is a victory. They are confident that the situation will turn toward a renewed clamor for a political solution to the conflict. The most stunning event at the inauguration was the display by legislators from the Polo Democratico Alternativo, the leftist coalition, who held up photos during Uribe's speech showing soldiers and police held captive by the FARC. The legislators were making a statement in favor of what is known in Colombia as the 'Humanitarian Accord,' a long-stalled proposal to exchange prisoners between the government and the FARC. If peace negotiations begin, they will begin around the issue of prisoner exchange. Already, several foreign governments have expressed their desire to facilitate an accord. Many prominent Colombians, including former President Alfonso Lopez Michelson, the Catholic Church and others have continued to pressure for such an agreement. The question is not whether Uribe has the political capital to initiate negotiations with the guerrillas, but whether he has the political will. The country is ready for a renewed round of negotiations."

Marc Chernick is Research Associate Professor at Georgetown University.

ago. The company said a 4 percent year-on-year decline in wireless revenues to \$92.5 million was primarily due to lower access and airtime revenue in the Dominican Republic and Puerto Rico. Although the company's subscriber base in the Caribbean expanded 12.2 percent year-on-year to 739,200 customers, most of the growth came in the prepaid segment, resulting in a 16 percent decline in

monthly ARPU (average revenue per user) to \$41. Caribbean wireless revenues were also hurt by more aggressive marketing of companion rate plans in Puerto Rico. Revenue from Caribbean broadband operations grew 2 percent year-on-year in the fourth fiscal quarter to \$36.8 million amid an increase in both switched access lines and dedicated access line equivalents.

Featured Q&A*Continued from page 1*

A **Guest Comment: Carlos Mateo Paz-Soldan:** "The FTA has been likened to 'major surgery without anesthesia—necessary but very painful.' Polls and the results of the election of the pro-FTA Garcia as president confirm that despite the apprehensions of integrating with the world's largest economy, a majority of Peru's population understands the benefits of and supports the FTA. The FTA will consolidate and expand the remarkable growth that Peru has witnessed since the inception of the ATPA program in 1991. The US has become the destination for over 40 percent of Peru's manufactured exports and nearly 30 percent of its total exports. It is estimated that over 1 million people in Peru are employed in US-related trade. Growing non-traditional exports such as textiles and apparel (over \$1.2 billion), and so-called agroexports such as asparagus, have contributed to full employment in coastal regions of Peru such as Ica and La Libertad and to a concurrent reduction of nearly 40 percent in extreme poverty levels in these regions. While traditional farming interests in the impoverished Andean highlands are concerned about being displaced by subsidized US imports, part of the answer lies in agricultural conversion efforts such as President Garcia's *sierra exportadora* program. Garcia has announced a \$500 million road and infrastructure plan intended to make *sierra exportadora* a reality by improving the access of highland producers of emerging niche products such as artichokes, broccoli, cut flowers, and fruits to global markets via coastal ports. On another front, Peru's PYMEs (small businesses) should do well. The FTA has well-developed sections on trade capacity building focused in part on maximizing benefits of the FTA for PYMEs. The uniqueness, quality, and creativity of Peruvian arts and crafts, furniture, gastronomy, and apparel is already allowing Peruvian businesses, assisted in part by a worldwide web of entrepreneurial immigrant communities, to make their mark in various niches of the global market-

place. The FTA will provide this sector with a platform for further growth and expansion. Cognizant of the above, Peru's Congress approved the FTA by an overwhelming margin of 79 to 14. Unfortunately though, for all its merits, approval of the FTA by the US Congress has been caught up in partisan and timing issues in a congressional election year, and it is uncertain whether approval will be secured in the early fall or even in the lameduck period."

A **Guest Comment: John Murphy:** "Peruvians are more than ready for a free trade agreement with the United States; in fact, Peru's exports to the United States have risen two-and-a-half-fold over the past three years, one of the fastest rates of growth in exports to the US achieved by any economy in Latin America. Peru's \$5 billion in exports to the United States supported an impressive 800,000 jobs in 2005—three times the number a decade earlier. This figure represents roughly a quarter of Peru's formal sector employment, underscoring how economic ties to the United States are providing Peru with critically needed jobs, income, and tax revenues. Most of the jobs created by exports to the United States in recent years are outside Lima; agribusiness jobs, for instance, have transformed many communities along the northern coast. This favorable development has helped to reverse decades of migration to the capital."

Fernando Eguren is President of the Board of Directors of Centro Peruano de Estudios Sociales (CEPES) in Peru.

Carlos Mateo Paz-Soldan is a Partner at Schmeltzer, Aptaker & Shepard.

John Murphy is Vice President for International Affairs at the US Chamber of Commerce and Executive Vice President of the Association of American Chambers of Commerce in Latin America (AACCLA).

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.