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Featured Q&A With Our Board of Advisors

Q Argentine exports, led by agriculture commodities, will grow 13 percent this year, perhaps surpassing \$45 billion, Economy Minister Felisa Miceli told a conference earlier this month, adding that the country's trade surplus will exceed \$11 billion. Is Argentina's export economy, long criticized for being under-developed, reaching its potential? What factors are shaping Argentine exports, and what's the outlook for the mid to long term?

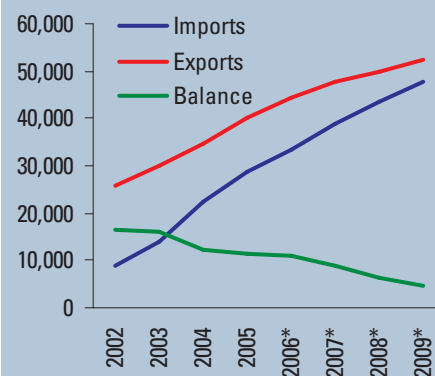
A Guest Comment: Javier Tizado: "World trade has had an important share in the notable growth of the global economy in the past four years. Key to this process has been the impressive development of China and India and their explosion into trade flows. In this context and in the framework of a domestic economy that operates with a sharply competitive exchange rate, Argentine exports have grown in this period at an average annual rate of 15 percent, energizing the economic recovery process of the country, whose gross domestic product has grown at an average annual rate of 9 percent since 2002. However, the total growth of exports, which reached 72 percent in those four years and to which prices (27 percent) contributed as much as volume (36 percent), is less than what was seen in Brazil and Uruguay, whose sales abroad grew 119 percent and 102 percent, respectively. Noteworthy during the period under analysis was the increase in the

export of soy and its derivatives, which grew to \$4.5 billion, and the strong growth of sales to China (\$2.125 billion), which has become an important market for Argentine exports. The chances of maintaining the current surplus level of \$11.0 billion appear difficult because of the decline in production of hydrocarbons, whose prices are fixed at levels clearly lower than international prices and have discouraged investment in the energy sector, exacerbating domestic consumption. As a result, it is believed that the contribution of the energy sector to the trade surplus, which is currently \$6.0 billion, will disap-

Continued on page 4

CHART OF THE DAY

Argentina's Foreign Trade
2002-2009 (\$US millions)



*forecast

Source: INDEC, M.A. Broda (CERA 08/06), Javier Tizado.

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NEWS BRIEFS

Guyana's Jagdeo Expected to be Re-elected President Today

Bharrat Jagdeo is expected to be re-elected in Guyana's presidential election today. Polls predict Jagdeo, of the People's Progressive Party/Civic (PPP/C), will defeat Robert Corbin of the People's National Congress Reform (PNCR), while the PPP/C will hold onto its majority in Guyana's 65-member parliament, according to Reuters. Previous elections in the former British colony have been marred by rioting in the capital, Georgetown. [Editor's note: look for a Q&A on Guyana's presidential election in this Friday's issue of the *Advisor*.]

Chavez: Venezuela Gaining Support for UN Sec. Council Seat

Venezuelan President Hugo Chavez said Sunday his country was winning broad support for election to a two-year seat on the United Nations Security Council despite US efforts to block Venezuela's joining the Council, the Associated Press reported. Chavez said during a visit to China that he had support China, Russia, and a majority of the countries in the African Union, the Arab League, Mercosur, and the Caribbean Community. The US is backing Guatemala for the seat.

SABMiller's Peruvian Unit to Invest \$102 Million

Anglo-South African brewer SABMiller announced Friday that its Peruvian subsidiary, **Backus and Johnston**, will invest \$102 million in infrastructure projects in Peru. In a press release, SABMiller said the projects include construction of a new "brewhouse," the expansion of an existing one, and a "significant upgrade of packaging capability across the country."

Political News

State Council Declares PRD's Sabines Winner of Chiapas Governor's Race

Juan Sabines of the leftist Party of the Democratic Revolution (PRD) won the governor's race in the impoverished Mexican state of Chiapas by about 6,300 votes, the state's electoral council announced Sunday, according to the Associated Press. The council said Sabines, a 38 year-old former mayor of Chiapas' capital city of Tuxtla Gutierrez, received 553,270 votes in the August 20 election versus 546,988 for his opponent, former federal Senator Jose Antonio Aguilar, of the Institutional Revolutionary Party (PRI), which said it would challenge the results before the Federal Electoral

The Federal Electoral Court is expected today to issue its verdict on alleged irregularities in the presidential election and announce the results of a partial recount.

Tribunal. The PRI and the National Action Party (PAN), which at the last minute backed Aguilar, say Sabines won because of widespread fraud and irregularities. The disputed election is seen as a mirror image of Mexico's July 2 presidential election, which PRD candidate Andres Manuel Lopez Obrador lost to the PAN's Felipe Calderon by just 0.6 percent, or about 240,000 votes. The Federal Electoral Court is expected today to issue its verdict on alleged irregularities in the presidential election and announce the results of a partial recount. The Court is not expected to overturn the results. The victory of Sabines in Chiapas, however, could give a boost to supporters of Lopez Obrador to continue their protests in favor of a full recount, Todd Eisenstadt, an analyst of Mexican politics at American University, told the *Advisor* last week [Editor's note: see related Q&A in the August 23, 2006 issue of the *Advisor*]. In other Mexico political news, business owners in the city of Oaxaca plan to close their doors tomorrow to protest the federal government's failure to halt violent protests that have

hurt tourism, Reuters reported. Demonstrators are demanding the resignation of Oaxaca state Governor Ulises Ruiz, and related violence has left some six people dead.

Company News

Glencore Submits Winning Bid in Colombia Refinery Auction

Glencore International AG, a Swiss mining and commodities supplier, on Friday outbid Brazilian state-run oil and gas company **Petrobras** to expand and modernize Colombia's second-largest oil refinery, Bloomberg News reported. Glencore bid \$630.7 million for a 51 percent stake in the refinery, \$35.7 million higher than Petrobras' offer. The remaining 49 percent

stake will stay in the hands of Colombia's state owned oil company, **Ecopetrol**. Proceeds from the sale will go toward an \$800 million project to boost output at the refinery, located in the port city of Cartagena, to meet rising domestic demand for oil. The refinery currently produces 75,000 barrels per day (bpd). "The project aims to raise the refinery's capacity to 140,000 barrels per day, improve gasoline quality to comply with national and international environmental specifications, and optimize financial and operational indicators," according to the project's description on Ecopetrol's Web site. Colombia is the fifth-largest oil exporter in Latin America, but analysts say it could become a net oil importer if it fails to stem a decline in production. "It is very well known in the energy sector that if there are no substantial oil discoveries by the year 2008, Colombia could go from an oil exporter to an oil importer," Hernan Arizmendi-Posada, CEO of **LAGO Energy**, told the weekly *Latin America Energy Advisor* earlier this month. Glencore is a privately owned company

with diverse assets in metals, minerals, hydrocarbons and agricultural products around the world. In Colombia, Glencore has wholly-owned subsidiaries that operate two coal quarries, according to the company's Web site. Japan's **Marubeni Corporation** and **BP North America** bid on the Cartagena project earlier in the year, but only Glencore and Petrobras proceeded to Friday's auction, according to Ecopetrol's Web site.

Economic News

Morales Cancels Energy, Forest Concessions in National Parks

Bolivian President Evo Morales on Friday announced the withdrawal of energy and forestry concessions inside some 20 national parks, Reuters reported. The government did not specify which energy companies would be affected, but Spain's **Repsol YPF**, France's **Total**, and Brazil's **Petrobras** have exploratory concessions within Bolivia's national parks. Morales said there would be an increase in the number of troops assigned to protect forestland and that the government would work to bring schools and other services to residents, on whom Morales called in turn to protect the areas, according to state news service ABI. "You are the forest rangers of this area, and we need to work together better to defend our forestal preserves," he was quoted as telling a crowd in the town of Cocos Lanza, part of the 18,000 square-kilometer Madidi preserve. Since taking office in January, Morales has sought to exert greater government control over Bolivia's national resources, nationalizing the country's energy sector on May 1.



Morales in the forest reserve of Madidi.

Photo: ABI.

Subscriber Notice

*CAF, OAS and the Inter-American Dialogue
invite you to the*

Corporación Andina de Fomento (CAF) Conference on Trade and Investment in the Americas

with

José Miguel Insulza
OAS Secretary General

Luis Carranza
Peruvian Finance Minister

Francisco Carrión
Ecuadorean Foreign Minister

Sergio Bitar
Partido por la Democracia (PPD)

Joaquim Ferreira Levy
Inter-American Development Bank V.P.

Guillermo Perry
World Bank Chief Economist for Latin America

Anoop Singh
IMF Director of the Western Hemisphere Department

Thursday, September 7
9:00 a.m. to 5:30 p.m.

and

Friday, September 8
8:30 a.m. to 1:00 p.m.

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

Featured Q&A*Continued from page 1*

pear in 2008-2009. Nevertheless, the maintenance of an undervalued currency, with its effect of acutely competitive dollar costs in several sectors of production, has encouraged the sustained growth of manufactured exports, as much those of agricultural origin as those of industrial origin. Added to the continuance of good international prices for primary products, this will allow a continued increase in exports, which are estimated to total \$50 billion in 2008, with a surplus of \$6.0-7.0 billion."

A Guest Comment: Vladimir Werning: "Argentina's growth and the recovery of its export sector are an offspring of the marriage between the post-devaluation macro equilibrium and the pre-devaluation infrastructure investment. Conventional thinking still tends to place undue emphasis on the presumed support provided to Argentina's economy from favorable external conditions, when in reality cyclical external factors acted as a constraint on Argentina's export potential in 2005 (exports grew 16 percent—of which 1 percent reflected higher prices and 15 percent owed to growth in shipments). The drag then originated in Brazil's modest domestic demand growth and the normalization of agricultural prices relative to their 2004 peak. Fortunately, those external drags are being left behind and the potential for export growth has broadened. Unfortunately, actual export performance so far this year—a 12 percent rise in nominal exports, 8 percent due to price rises and 4 percent to shipment growth—is now being constrained by internal factors: tax disincentives are pushing down fuel shipments, export bans are doing the same with meat shipments, and less than ideal weather has limited the export potential of certain crops. Meanwhile, the administration's cheap peso policy favoring tradeable goods producers is providing more ben-

efits to import substitution than to exports. This is a by-product of the simultaneous—but contradictory—policy objective of stimulating domestic demand through moderately expansionary fiscal and monetary stances. Consequently, shipments of industrial manufactures are rising at a 12 percent pace this year, practically unchanged from the 11 percent performance of last year. As long as domestic demand management fuels real GDP growth that doubles its potential rate, businessmen will not be motivated to deliver the qualitative export jump that the peso devaluation promised. Today, Argentine exporters are likely to be holding onto a lot of untapped potential: as a share of total world exports, Argentina's exports have fluctuated between 0.27 percent (in the stagnant 1980s) and 0.49 percent (in the peak of the 1990s boom), but this year they represent 0.40 percent of world exports, less than 0.44 percent prior to the peso's 2002 maxi-devaluation. That relative decline would be normal in the immediate aftermath of a balance of payments crisis, as the recovery of domestic demand and profitability leads goods producers to prioritize the supply of the local market. But after several years export performance should begin to move up in relative terms—as it did in Brazil. Today's high level of exports (relative to historical parameters) is a positive development in itself. But it is also a distraction from the more relevant fact, which is that the current global cycle is offering export opportunities which Argentina is not fully exploiting."

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

Vladimir Werning is a Vice President at *J.P. Morgan Chase & Co.*

Latin America Advisor

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Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Elisabeth Burgess,
Reporter

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

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Vice President, Social Policy

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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

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