

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Mexican President Felipe Calderon met earlier this month with counterparts from Central America and Colombia to discuss plans to integrate the region's economy through infrastructure and energy projects. Did the leaders make meaningful progress on energy integration? If not, where should their priorities have been? Where do plans stand for the multi-billion-dollar Central American oil refinery that was proposed under the administration of former Mexican President Vicente Fox?

A Board Comment: Nicolás Mariscal: "I believe that the presidents made meaningful progress on energy integration. Indeed, they signed a new agreement that makes it possible to continue with the electrical interconnection phases within the Puebla-Panama region. Also, attention was given to exploring alternatives to supply natural gas to the region, either from Colombia, Venezuela, or Mexico (experts led by the Inter-American Development Bank are undertaking the corresponding studies). They also spoke about renewable energy, such as biofuels and ethanol. Regarding the refinery, it is encouraging to learn that the plans to build it were reactivated. The project's initiative is already there, and the convocation for the international bidding will be launched in November. There are several companies interested in building it, and they will be given the chance to determine the place where the refinery will be

located and the investments made, so as to be most cost effective. I think it was positive and necessary that President Calderon made adjustments to the number of barrels per day that Mexico may contribute, based on an objective estimate of the country's oil production. This puts the project on the way to true feasibility, avoiding overestimates that may compromise the investment. Finally, I am glad about the alliance of the Puebla-Panama Plan between Guatemala, El Salvador, Belize, Honduras, Nicaragua, Costa Rica, Panama, and Mexico, plus the recent and very welcome integration of Colombia. This alliance in the region is necessary for development and will help establish a scale economy,

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PHOTO OF THE DAY



The health of Cuba's Fidel Castro, who met Friday with a senior Chinese official, is improving, and it is possible the aging leader could make a full return to power, a US intelligence official said Tuesday. See story on pages 2-3.

Photo: Granma.

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NEWS BRIEFS

Mexico City Lawmakers Approve First Trimester Abortions

Mexico City's legislature voted Tuesday to legalize abortion during the first three months of pregnancy, Reuters reported. The vote is expected to increase tensions with the Catholic Church and lead to a court fight. Abortion rights supporters said they hoped the vote would be the start of a new trend across Mexico and other parts of Latin America, according to Reuters.

Chile's D&S Posts 68 Percent Profit in Q1 2007

Chilean retail giant D&S on Tuesday reported a 68 percent jump in its first-quarter net profit to 9.18 million pesos (\$US 17 million) compared to the previous quarter. Total sales increased 6.8 percent, after the opening in the past year of 18 new Lider brand stores and the January 2007 launch of the firm's discount line Ekono in 13 locations in Chile. The company expects local sales to grow an average 10 percent over the next three years, with sales this year growing at a slightly slower pace, D&S Chief Executive Officer Enrique Ostale said, according to local press reports.

Colombia's Exito Posts 47.1 Percent Growth in Earnings

Top Colombian retailer Almacenes Exito said Tuesday its first-quarter earnings surged 47.1 percent to \$8.86 million on rising consumer demand, Reuters reported. Exito, which is controlled by France's Casino, the Toro family, and Colombia's largest conglomerate, Grupo Empresarial Antioqueno, is in the process of integrating its operations with those of rival chain Carulla Vivero, in which Exito recently bought a more than 50 percent stake.

Political News

Ecuadorean Congress Fires All Nine Members of Country's Top Court

Ecuador's Congress on Tuesday voted to dismiss all nine members of the Andean nation's highest court, a day after the court reinstated 50 fired opposition lawmakers, according to wire reports. Fifty-two members of the 100-member Congress, including some of the fired lawmakers' replacements, voted to dismiss the entire Constitutional Court, accusing the Court of exceeding its authority by reinstating 50 of 57 lawmakers fired by Ecuador's Electoral Court last month. President Rafael Correa, who took office in January pledging political reform to rid the country of a "sewer" of political corruption, on Tuesday sent police to surround Congress and prevent the reinstated lawmakers from trying to reassume their posts. Some of the reinstated lawmakers said they decided not to try to

announced Tuesday that the assembly's 130 members will be elected September 30, and candidates will be allowed to start their campaigns in mid-August, the Associated Press reported. [Editor's note: see related Q&A in the April 18, 2007 [issue](#) of the *Advisor*.]

US Intelligence Official: Fidel Castro Could Return to Power

Cuban leader Fidel Castro's health is improving and he may be able to make a full return to power, Reuters reported on Tuesday, citing an unnamed senior US intelligence official. The official said the 80 year-old "probably has rebounded" from emergency intestinal surgery in July and a possible second operation in November. "Whether that means he's ever going to experience a full recovery would be speculating," the official was quoted as saying. "It certainly is possible. One can't rule it out. And it's the same thing with retaking power. I think it's unlikely at this point,

Some of the fired lawmakers fled to neighboring Colombia to request political asylum after substitute lawmakers asked a local judge to arrest them for attempting to harm national security.

enter Congress, fearing for their safety. Others fled to neighboring Colombia to request political asylum after the substitute lawmakers asked a local judge to arrest them for attempting to harm national security, according to Reuters. Correa and the fired lawmakers have been locked in a standoff in recent weeks over a proposed assembly to rewrite Ecuador's Constitution. Last month, the Electoral Court approved Correa's request that the assembly have unlimited powers, including the ability to fire legislators and the president himself. Congress, which in February approved the referendum on the condition that the assembly not be able to dissolve the legislature, responded by voting to fire the president of the Electoral Court, which in turn ordered the dismissal of the 57 lawmakers. In an April 15 referendum, Ecuadoreans voted in favor of creating the assembly. The Electoral Court

but we can't entirely rule it out." Before undergoing surgery in July, Castro transferred power to his younger brother, Raul Castro, the first time he has ceded power since taking control of the country in 1959. Castro has not made any public appearances since July, appearing only in photographs and video footage. His condition has been a closely guarded state secret, and has prompted speculation that he would never fully return to power. In December, then-US intelligence chief John Negroponte said Castro was close to death. Current intelligence chief Mike McConnell said this year will mark the end of Fidel Castro's rule in Cuba. But US officials now say Castro could remain a decision-maker on major issues, including foreign policy, according to Reuters. In recent weeks Castro has resumed a more public role, penning editorials in Cuban state-run newspapers and meeting with

foreign dignitaries, while appearing to have regained some weight.

Economic News

Colombian Senate Committee Passes Limit on Transfers to Local Govts.

A Colombian Senate committee on Tuesday approved a bill aimed at limiting cash transfers to local authorities from the national government, Reuters reported. The Senate's constitutional affairs committee overcame resistance from lawmakers from parties aligned with the government of President Alvaro Uribe to approve the measure, which would limit central government cash transfers to a maximum yearly increase of 5 percent plus the inflation rate as part of Uribe's plan for fiscal reform. Still, the legislation, which must be approved by both chambers of Congress by the end of June, faces tough opposition from local mayors and governors. Under Colombia's 1991 Constitution, the government must transfer nearly half of all tax revenue increases to towns and provinces. The government says the transfer cap would help Colombia recapture the investment-grade credit rating it lost during its 1999 financial crisis, according to Reuters.

Official Predicts Foreign Investment in Mexican Mining Will Double

Foreign investment in Mexico's mining industry will double to \$3.5 billion this year, partly because of surging metals prices, Bloomberg News reported on Tuesday, citing Mexico's General Mining Coordinator, Norberto Roque. Roque said companies from the US, Australia, and Canada, including **Pan American Silver Corp.**, **Goldcorp Inc.**, and **Farallon Resources Ltd.**, will invest 83 percent of the amount in copper, gold, silver and zinc exploration. Mexico's approximately \$5 billion in annual mining exports account for 3.6 percent of Mexico's gross domestic product, according to Bloomberg News. Mexico accounts for 2.2 percent of world metals production and receives 5 percent of global investment. It is the world's third-largest producer of silver.

Special Advisor Report

Politics Holding up Economic Growth in Brazil—Analyst

By Elisabeth Burgess

WASHINGTON, DC—Brazil's desire to join Russia, China, and India as one of the world's fastest-growing economies is hampered by a lack of political leadership, Colombia University economist and Brazil specialist Al Fishlow said Tuesday.

"[Brazil] is a country where the politics don't provide leadership," Fishlow said at an Inter-American Dialogue panel discussion about the first 100 days of Luiz Inacio Lula da Silva's second four-year term as president of Latin America's largest economy.

Among many challenges, Fishlow said Brazil's Congress has much more work to do on tax reform and the state pension system. He projected the country will meet targets for economic growth of over 4 percent per year, but said that it will not grow more than 5 percent per year without also investing at a rate of 25 percent.

"The same national accounts that everyone is lauding for reducing the level of taxes-to-income showed an appalling lack of investment in Brazil, and I would say that that is the real problem," Fishlow declared. He said the country needs more investment in the agricultural west, and in railroad and port infrastructure. Lula's Growth Acceleration Program—announced earlier this year—is unlikely to generate enough investment, he said.

But Lisa Schineller, an analyst at ratings agency **Standard & Poor's** and a panelist at Tuesday's event, had a more positive view of Brazil's political leadership.

She said Brazil has made "immense progress" in the last ten years, crediting former President Fernando Henrique Cardoso and Lula for keeping macroeconomic policy "in the broad sense moving forward in a very different way than in Brazil's past."

"I think that should not be underestimated in terms of leadership," said Schineller. "I also think it's important to be realistic [about] the pace one can expect in a democracy with extreme inequality and poverty issues, with also a multiparty system ... and given this system of intense vested interests that hits all parties, progress will be slow."

Brazil's ambassador to the United States, Antonio Patriota, said he was surprised to hear Fishlow comment "that politics in Brazil didn't provide leadership."

Brazil—part of an informal alliance with Russia, India, and China, known by the acronym BRIC—is expected to be one of the world's top economies in the next 40 years or so, said Patriota.

"If one looks at the politics of the other three BRICs, it's quite obvious that Brazil is a much more accomplished democracy. I don't think there's any question of that, whether you look at" China, Russia, or India, he stated.

Patriota said that a recent study of the BRIC countries indicates Brazil won't achieve the same growth levels as India and China, but "that this would still bring Brazil into the first six economies within the next 40 years or so."



Patriota.
Brazilian govt. file photo.

Featured Q&A*Continued from page 1*

through which the region may attain greater production with lower costs and better possibilities for international competition."

A Guest Comment: Ted Izatt: "Coming shortly after passage of the ISSSTE pension reform, President Felipe Calderon went into the meetings with a strong domestic political position. We believe the visit underscores the growing importance of Pemex within the regional energy chain. The fact that regional leaders are increasingly looking to work with Mexico and

“We believe the visit underscores the growing importance of Pemex within the regional energy chain.”

— *Ted Izatt*

Pemex in developing stable energy policy suggests to us that Pemex will become even more strategic to the future of Mexico and the entire region. As such, we believe the prospects for further fiscal reform of Pemex are increasing and that any reform will be positive for Pemex's credit quality. Our view is that the proposed refinery will ultimately be built, given its importance to the development of a robust regional economy. Clearly, it is in the interest of Mexico to solidify its position as a major supplier of crude in the region and, by committing to provide crude to the new refinery, it will further the significant role of Pemex to the economic development of the region. Having said this, we believe the timing for the actual construction of the new refinery could be slower than current estimates, given the number of political jurisdictions that will need to approve it and other hurdles (e.g., environmental) that will need to be overcome. We have an 'outperform' recommendation on Pemex."

A Guest Comment: Olga Abizaïd: "The renewed commitment toward a Mesoamerican refinery, leaving the decision of its location to private investors, was the biggest announcement of the meeting in Campeche. However, the fate of the \$6-8 billion refinery depends on the attractiveness of the conditions of the tender to be released in November. During the Vicente Fox administration, companies interested in the project included Shell, Exxon, Chevron, BP, and Petrobras. That list has become much shorter. So far, four companies have shown interest—Reliance Industries Limited (India), China National Petroleum Corporation, Valero Energy Corporation (US), and Itochu Corporation (Japan). But all except China National seem lukewarm, due partly to the relative uncertainty of access to reasonably priced crude oil supplies. Mexico's drastic cutback in the amount of oil that Pemex would contribute to the refinery (from 220,000 to 80,000 bpd) is a source of concern for potential investors. Although Colombia also offered to provide crude oil (dependent upon successful continuation of exploration efforts), unless access to alternative and affordable sources of crude oil is secured, there is the risk that part of the projected installed capacity of 360,000 bpd could be idle. Political variables will also affect the economic viability of the refinery project. Venezuela's offer to build a refinery in Nicaragua and Panama's efforts to attract investment from Occidental Petroleum Corporation for their own refinery may act against the original idea of the Plan Puebla-Panama to create synergies and promote economic cooperation."

Nicolás Mariscal is a member of the Advisor board and Chairman of Grupo Marhnos in Mexico.

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