

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 Muñoz
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 | Carlos Paz-Soldan
Partner,
Saul Ewing, LLP |
| Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's | Beatrice Rangel
Managing Director,
AMLA Consulting LLC |
| 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
Chairman of the
Board of Trustees,
Mexican Council on
Foreign Relations |
| Javier Garza
Chairman and CEO,
Grupo Domos
Internacional | Everett Santos
President,
DALEC LLC |
| | Roger Scher
Head of Latin
American
Sovereign Ratings,
Fitch Ratings |

Featured Q&A With Our Board of Advisors

Q Investors were perplexed after Venezuelan President Hugo Chavez last week announced plans to end his country's membership in the International Monetary Fund, a move that would trigger a "technical default" with bondholders, who under a clause in the bond sale agreements could demand accelerated payment. Will Venezuela pull out of the IMF? What would be the consequences for Venezuela's debt and for its economy in general?

A **Guest Comment: Vince McElhinny:** "Venezuela's decision to leave the World Bank and the IMF is a well-timed move to hasten the declining credibility and power that these institutions have long exercised in Latin America on behalf of the US and European donors. Coming on the heels of the World Bank board's deepest governance crisis in many years and the pending departure of Paul Wolfowitz, Venezuela's move highlights a possible strategy for other developing countries seeking structural governance reforms at the World Bank by showing that choosing not to be part of it is a real option, particularly as hope fades for the board's ability to reform itself. Venezuela's announced withdrawal of its \$250 million contribution also deepens the Fund's budgetary problems. While the move should have little effect on Venezuela's own economic health, it punctuates what most large borrowers have already been doing. Mexico, Brazil,

Argentina, and Ecuador have all paid down their debts to the IMF and are borrowing less from the World Bank. Venezuela's decision simply goes one step further to suggest that middle-income countries are no longer beholden to the Bank and Fund's technical advice or preferential credit—both of which have been demonstrably ineffective for many developing countries. Poverty and inequality in Latin America stands largely unchanged over the past two decades. The question is how many other countries will or can follow Venezuela's 'how-to' kit for leaving the Bretton Woods institutions ..."

A **Guest Comment: Claudio Loser:** "... Chavez's recent announcement that he would pull out of the Bretton Woods sister institu-

Continued on page 4

PHOTO OF THE DAY



Colombian Vice President Francisco Santos said Tuesday Colombia could revise its ties with the US if the US-Colombia free trade agreement is not passed. See [story](#) on page 2.

United Nations file photo.

Inside This Issue

- | | | | |
|---|----------|--|----------|
| FEATURED Q&A: Will Venezuela Pull Out of the International Monetary Fund? | 1 | Repsol YPF in Talks with Investors Over Stakes in Argentine Unit..... | 3 |
| Colombia Warns it May Revise Ties with US if Trade Deal Fails to Pass | 2 | CIE Selling its Majority Stakes in Three of its South American Ops | 3 |
| US-Mexico Pilot Trucking Program on Track—US Official | 2 | Subscriber Notice: May 11 Discussion on Haiti Under Rene Preval | 3 |

NEWS BRIEFS

Pope Arrives in Brazil Today for Start of Five-Day Visit

Pope Benedict XVI will start a five-day visit to Sao Paulo, Brazil today where he will convey a "strong message" on poverty, corruption, and violence and on the growth of the Protestant church in Latin America, according to the Vatican's secretary of state, Cardinal Tarcisio Bertone, the Associated Press reported. It will be Benedict's first trip as pope to Latin America, home to one half of the world's Roman Catholics, where he will address the decennial Conference of Latin American Bishops.

US Military Hires Firm to Build Migrant Complex in Guantanamo

The United States military announced Tuesday that it hired Florida-based **Islands Mechanical Contractors Inc.** to construct a complex to house migrants at its Guantanamo Bay naval base in eastern Cuba, the Associated Press reported. In January, naval officials told the AP that they were preparing for a possible exodus of Cubans due to President Fidel Castro's illness, but on Tuesday did not say whether the complex was intended for Cubans or other migrants.

Banamex to Offer No-Downpayment Mortgages

Mexico's **Banamex**, a subsidiary of US banking giant **Citigroup**, said Tuesday it will offer no-downpayment mortgages to draw in low-income customers, Reuters reported. The bank said that **Genworth Financial Inc.** would insure the higher-risk mortgages. Separately on Tuesday, Banamex said it plans to increase its loan portfolio by 30 percent this year.

Political News

Colombia Warns it May Revise Ties with US if Trade Deal Fails to Pass

Colombia, one of the United States' staunchest allies in Latin America, may review its relations with the US if the US Congress does not approve a free trade agreement between the two countries, Vice President Francisco Santos said Tuesday, according to Reuters. In an interview on a local television program, Santos said failure to approve the trade deal would send "a clear message, one that closes doors with the United States and perhaps could lead to a revising of ties on Colombia's part." The vice president did not specify what changes Colombia would make to its relations with the US, which has provided the Andean nation with billions of dollars in aid to fight drug traf-

material for cocaine, fell almost 10 percent last year amid record eradication attempts, the Associated Press reported on Tuesday, citing an unnamed source. Official figures are expected to be released next month.

Economic News

US-Mexico Pilot Trucking Program on Track—US Official

A pilot program to open the US-Mexico border to unhindered cross-border trucking is on track and should be in place by July despite safety concerns, US Undersecretary for International Trade Franklin Lavin said Tuesday, according to the Associated Press. "We fully intend to go ahead with liberalization in July. So we're on track," Lavin was quoted as

Santos said failure to approve the trade deal would send "a clear message, one that closes doors with the United States and perhaps could lead to a revising of ties on Colombia's part."

fickers. Santos' remarks follow a visit last week to the US by President Alvaro Uribe, who sought to lobby support for the proposed free trade agreement. During his visit, Uribe met with key Democratic lawmakers, who have expressed concern about protection of labor rights in Colombia and alleged ties between supporters of Uribe and illegal right-wing paramilitary groups. A spokesman for Senate Majority Leader Harry Reid (D-NV) suggested that the future of continued US aid to Colombia and the free trade agreement would depend on the resolution of the "para-political" scandal and unsolved murders of trade unionists in the Andean nation. US Deputy Secretary of State John Negroponte, in Colombia on Wednesday in a show of support for Uribe, said he believed the trade agreement would soon be approved by Congress. In related news, the United Nations Office on Drugs and Crime estimates that the amount of land in Colombia used to grow coca, the raw

telling US business leaders at a luncheon sponsored by the American Chamber of Commerce in Mexico City. Lavin said he believed "Mexico has lived up to its responsibility" in addressing safety concerns raised by the US Congress. US labor and environmental groups oppose opening US highways to Mexican trucks, arguing that Mexican trucks do not meet US safety standards. Last month, the Teamsters Union, the Sierra Club, Public Citizen, and the Environmental Law Foundation filed a lawsuit in federal court to block the pilot program, citing safety and environmental concerns. An April launch of the pilot program was delayed for additional public comment under pressure from the US Congress, according to the AP. Under the one-year pilot program, announced in February, US trucks will get to make deliveries into Mexico for the first time ever, while a select group of Mexican trucking companies will be allowed to make deliveries beyond the 20-25 mile commercial zones currently in

place along the US' southwest border. Bush administration officials say the program will simplify cross-border transportation and lower costs by no longer requiring Mexican and US truckers to transfer their cargo. US Secretary of Transportation Mary Peters has said the Department of Transportation has put in place a "rigorous" inspection program to ensure the safe operation of Mexican trucks crossing the border. [Editor's note: see related Q&A in the March 5, 2007 [issue](#) of the *Advisor*.]

Company News

Repsol YPF in Talks with Investors Over Stakes in Argentine Unit

Spanish oil company **Repsol YPF** is holding talks with investors interested in buying stakes in its Argentine unit, **YPF**, Repsol Chairman Antonio Brufau said Tuesday, according to Bloomberg News. Speaking at the company's annual shareholders' meeting, Brufau did not name any potential buyers or say when the sale will take place. Also, there was no information as to the size of the stakes to be sold, although Brufau said Repsol planned to keep control of the unit. Brufau suggested the investors might be Argentine, stating "it's always good to have local partners." Repsol is considering selling shares in the unit through a public offering, he said. Last year, Brufau suspended a plan to sell stock in YPF to small investors. Repsol is aiming to diversify its investments away from Latin America, where Argentina, Brazil, and Bolivia make of two-thirds of its output. Future production by the company has been hurt by nationalizations, while output has fallen in Argentina. Brufau aims to invest more in finding oil and gas in Africa and the Middle East, according to Bloomberg News. The company has also bought fields in the United States.

CIE Selling its Majority Stakes in Three of its South American Ops

Mexican entertainment company **CIE** said on Tuesday it was selling majority stakes in three of its South American operations

Subscriber Notice

Inter-American Dialogue Discussion on

**Haiti Under René Préval:
A One-Year Assessment**

with

Robert Fatton Jr.
University of Virginia

Mark L. Schneider
International Crisis Group

James Dobbins
RAND Corporation

Friday, May 11, 2007
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.

in a deal worth \$150 million, Reuters reported. CIE Chief Executive Jaime Zevada said the company will retain a 24 percent stake in its live entertainment operations in Brazil, Argentina, and Chile, which are now comprised under a newly created company called **Newco**, according to Reuters. CIE plans to use the proceeds from the sale to pay down its debt, which stood at 6.52 billion pesos (\$US 601 million) at the end of March. Zevada said the company also wants to refocus its resources on its Mexico operations. Revenue from Brazil, Argentina, Chile, and the United States accounted for 11 percent of CIE's total revenue of 2.413 billion pesos in the first quarter of this year, according to Reuters. The bulk of the

company's revenue comes from its horse-racing track and conference center operations in Mexico City, as well as its 44 sports betting shops, lottery and bingo halls across Mexico.

Two reasons: 1) cut and 2) paste

Did you know that the daily **Latin America Advisor** is available in text-based, HTML format?

Simply send an email to freetrial@thedialogue.org for delivery.

Featured Q&A*Continued from page 1*

tions—the IMF and the World Bank—reflect his deep suspicion about, in his view, their close association with the US. This move was intended to show Venezuela's independence from the traditional economic power structure, in conjunction with his initiative to create a competing Banco del Sur, but like many other actions it clearly was not well thought through. The IMF and the World Bank, even with their shortcomings, are the most inclusive and operationally relevant international financial institutions. If Venezuela were to leave these organizations, it would be in the company of only North Korea and Cuba as outsiders in any discussion on the reform of the international financial system, and thus its influence would be watered down, rather than enhanced by President Chavez's action. Of similar importance, Chavez belatedly found out that the sovereign country bonds would be in technical default if the country were to leave. Already, the markets have reacted adversely: the country risk premium has risen by some 70 basis points since the beginning of the year, the Venezuelan stock market has declined sharply, and capital flight continues. The consequences for Venezuela can only be negative, at a time when it remains the slowest-growing economy in the region since Chavez came to power, glossed over by persistently high oil prices. Most likely, Chavez will reconsider and maintain a very low-key relationship with the Bank and Fund, but it may well go the other way, even at a high cost to Venezuela."

A Guest Comment: Alberto Bernal: "... The relevant question now is how does President Chavez work himself out of the current quandary without compromising his political credentials too much and without generating market havoc. There is no easy answer. I see four possible scenarios going forward: 1) President Chavez 'backs down' because he realizes that the political gain from leaving the IMF does not surpass the cost of having to comply with acceleration requests (*i.e.*, investors asking Venezuela to pay

them back immediately). We give this scenario a 30 percent probability; 2) Chavez does not back down and nothing happens (*i.e.*, people do not accelerate). We give this scenario a low 10 percent probability, as this scenario assumes that investors forego a profitable business opportunity; 3) President Chavez does not back down and holders of 25 percent of, say, the 2020s, 2016s, or 2010s, which are bonds that trade below par value, decide to request an acceleration from the fiscal agent. The holders of 2020s would make an economic gain of nine points (10 percent) if bondholders decide to ask for immediate repayment at par value and the Chavez administration complies with such a request. We give this scenario a 30 percent probability of occurrence; 4) Venezuela invites investors to tender all of their outstanding bonds, so that the IMF clause can be removed from the covenants. This will imply that the government pays a huge premium to investors so that people in the end tender in an eventual exchange. We give this scenario a 30 percent probability. The main risk is that the president does not comply with the request for acceleration if scenario three does in the end materialize. If that were to happen, Venezuela would enter uncharted territory, as rating agencies would be forced to declare Venezuelan debt in default. We do think that if this scenario materializes the 'growth story' of Venezuela could be affected, even if oil prices remain high. Regardless of the outcome, we think that the risk/reward balance of investing in this credit at this time remains biased to the downside, hence our recent decision to move to an underperform on the credit."

Vince McElhinny is Program Manager in the Latin America and Caribbean Dept. at the Bank Information Center.

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

Alberto Bernal is Assistant Director of Emerging Markets Fixed Income Research at Bear Stearns.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2007

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

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. 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.