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Featured Q&A With Our Board of Advisors

Q Ecuadorean authorities are investigating allegations of market manipulation related to payment of the country's foreign bond debt. How well protected are investors against such tampering? What can governments and financial institutions do to prevent it?

A Guest Comment: **Alvaro Clarke de la Cerda**: "It is necessary to increase investor protection against these and other types of actions. There is a weakness that, in my opinion, comes from the legal framework for the bond contracts that should prevent these types of situations. But, having to do with circumstances whose origin is with a country's high-ranking officials, any type of enforcement can be relatively complex ... Normally, bond contracts should protect investor rights with regard to these types of situations or those that could eventually affect the value of the instruments. Those bond contracts are made in a specific jurisdiction, which in most cases is the United States or Europe. As a result, one should hope that investors or bondholders are relatively protected by the jurisdiction and the respective contract. The main problem could be in the enforcement of these contracts. On the one hand, the financial institutions that participate in the issuance of these instruments can include diverse situations in the contract, with their respective remedies, like in the case that has been in the news recently. But, this has to be

accompanied by an enforcement system in the public sphere ... And I believe that in this area there is still a lot to improve ... in perfecting regulatory norms with respect to sovereign bonds. It's a different matter when it's about sovereign bonds and corporate bonds. In the latter case, enforcement is much easier because there's not an important political component behind it. However, in the case of sovereigns there is one. And there is probably a regulatory void that has not been well addressed because it probably implies taking on some kind of political compromise, but which is necessary to do."

Continued on page 4

PHOTO OF THE DAY



The presidents (left to right) of Peru, Colombia, Bolivia, Ecuador, and Chile, met in Tarija, Bolivia on Thursday for a summit of the Andean Community of Nations (CAN). See related [story](#) on page 2.

Photo: ABI.

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NEWS BRIEFS

Chilean Central Bank Keeps Interest Rate at 5 Percent

Chile's Central Bank held its overnight lending rate unchanged at 5 percent for a fifth month, Bloomberg News reported. Annual inflation in Chile rose to 2.9 percent in May, and consumer prices rose 0.6 percent from the previous month. To prevent the Chilean economy from overheating due to its record trade surplus of \$3.2 billion in May, economists expect policy makers to lift rates in the second half of the year to 5.5 percent, according to Bloomberg News.

Telmex Denies Being in Talks to Acquire Argentina's Supercanal

Mexican telecom giant **Telmex** said on Thursday it is not in talks to buy Argentine cable television company **Supercanal**, Reuters reported. Arturo Elias Ayub, spokesman for Telmex's owner, Mexican billionaire Carlos Slim, said Telmex was looking for cable opportunities in the region, including Argentina, but denied media reports the company was buying Supercanal. Telmex has been snatching up cable companies throughout Latin America as part of a strategy to compete with rivals by offering so-called "triple-play" packages of data, video, and telephone services.

Chile's AES Gener Obtains \$440 Million Loan to Build New Plant

Chilean electricity generation company **AES Gener** said Thursday it obtained a \$440 million, 15-year loan to help finance construction of its Nuevas Ventanas generating project, Reuters reported. AES Gener said the loan was obtained from a consortium of international banks lead by **Fortis** and **Calyon**. Nuevas Ventanas will be a thermoelectric and coal-fired plant.

Economic News

Morales Says Andean Nations Should Lobby Together for US Trade Benefits

Bolivian President Evo Morales proposed Thursday that Andean leaders travel together to the United States to lobby for an extension of trade benefits. Hosting a summit of heads of state from the Andean Community of Nations (CAN) in the Bolivian city of Tarija, Morales said he and his counterparts from Ecuador, Colombia, Peru, and Chile should act as a single bloc in securing an expansion of trade benefits

extend the trade preferences because of its "co-responsibility" in the fight against drug trafficking, and criticized what he called Washington's approach to renewing benefits. "It is not possible they give us a drop by drop extension of ATPDEA—two months, six months, one year—if they really want effective support in the fight against narcotrafficking." Officials from the four Andean countries say failure by the US to extend the benefits could seriously harm their economies and cost hundreds of thousands of related jobs. Chile, an associate member of CAN, has a free trade agreement with the United States.

“It is not possible they give us a drop by drop extension of ATPDEA—two months, six months, one year—if they really want effective support in the fight against narcotrafficking.”

— *Evo Morales*

in return for their continued cooperation in fighting drug trafficking. "Maybe separately we cannot move forward quickly, but I am sure that together we can advance," Morales said, according to a CAN press release. US trade benefits granted to Bolivia, Colombia, Ecuador, and Peru under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) are set to expire at the end of this month, and the four countries have been lobbying intensely for their renewal. Morales said the US has an obligation to

Peru and Colombia have pending free trade deals with the US which are awaiting approval by the US Congress. The deal with Colombia faces an uphill battle due to concerns among US Democratic lawmakers about Colombia's poor record of protecting trade unionists from violence as well as alleged ties between the government of President Alvaro Uribe and illegal, right-wing paramilitary groups. In related news, Colombian lawmakers on Thursday approved the free trade deal with the US, according to Reuters.

USTR Schwab Expresses Hope for "Dramatic" Advance in Global Trade Talks

US Trade Representative Susan Schwab on Thursday expressed hope for a "dramatic" advance in global trade talks next week, Reuters reported.

"We're really hoping we can move the ball forward and ideally move it forward dramatically," Schwab was quoted as saying ahead of a meeting in Germany next week of top trade officials from the US, European Union, Brazil, and India to hammer out a basic agreement in the World Trade Organization's Doha round of talks.

"The United States is committed to doing our share and then some" to reach a final deal in the talks, she said.

According to Schwab, recent demands by developing countries to be spared from any real cuts in their manufacturing tariffs could "be the death knell of the [Doha] development round," according to Reuters.

Political News

Mexico's Attorney General Blasts US Gun Laws as "Absurd"

In an uncommonly strong statement, Mexico's attorney general on Thursday blasted United States law for failing to control the flow of illegal guns into Mexico, where a violent three-way turf battle is being waged between rival drug gangs and the Mexican army. "I think the American [gun] laws are absurd because they ... make it very easy for citizens to acquire guns," Eduardo Medina Mora told a meeting of academics and businessmen, according to Reuters. Mexico, which has criticized the US for not doing enough to curb domestic drug consumption, is especially critical that drug traffickers can buy high-powered firearms across the border in the US without adequate controls. "They [the US] are cynical regarding this [consumption] issue," Medina was quoted as saying by the Associated Press, citing a local newspaper. US Attorney General Alberto Gonzales last Friday pledged more support for Latin America in the Hemisphere's battle against the lucrative drug trade, Reuters reported. "People engage in drug transactions and gun transactions because there is money to be made," Gonzales was quoted as telling reporters in Mexico after a two-day meeting with attorneys general from Mexico, Colombia, and Central American countries. "If we could somehow disrupt the flow of funds, I think that will make us more successful." Last month, Mexico announced that it will create an intelligence network with US law enforcement agencies to stop gun trafficking.

Official: Venezuela Considering Buying Russian Submarines

Venezuela is looking into buying several Russian submarines in order to make its navy the strongest in the region and protect the country's coast and export routes, a top military advisor to President Hugo Chavez said Thursday, according to the Associated Press. The government of oil-rich Venezuela is "analyzing the possibilities" of buying five Project 636 Kilo-class

The Dialogue Continues

What is the Significance of Possible Changes in US Colombia Aid?

Q The foreign aid bill currently working its way through the US Congress includes a cut in funding for aid to Colombia—mostly through a reduction in spending on aerial drug crop fumigation—and a reallocation of funding away from mostly military aid to include more economic aid. What is the significance of the proposed changes in aid to Colombia? What effect would it have on the ground?

A **Guest Comment: Jerry Weller:** "Colombia is a close partner with the United States. President Uribe's administration works tirelessly for the Colombian people's security by fighting terrorist narcotraffickers. The Congress should continue to strongly support these efforts. Aid to Colombia is mutually important, since 90 percent of cocaine and 50 percent of heroin comes into the United States from Colombia. These Colombian drugs take more innocent lives every year than lost on 9/11. Currently, 76 percent of US funding goes to military programs, but the proposed cut to 55 percent military, 45 percent 'soft' will weaken new and fragile security gains. Alternative development is important, but it requires security or it won't work. Plan Colombia brought national government presence to every village in Colombia. Should police presence be diminished because of cuts, some regions could see a resurgence of

FARC terrorists, increasing violence and terror and forcing illicit crops. Air power is needed to maintain security in Colombia's mountains and jungles. For example, moving \$26 million to 'soft side' from Colombian National Police aviation support—a cut—means less hours flying remote regions, security

“Alternative development is important, but it requires security or it won't work.”

— Jerry Weller

will be diminished, and alternative development programs won't work without security. Ground will be lost where it has been gained. By forcing deep cuts in military spending, we risk undercutting our own stated goal of greater alternative development. While we all support alternative development, this is a risky proposition at a critical time for Colombia."

Jerry Weller is a Republican member of the US House of Representatives from Illinois.

Editor's note: the above is a continuation of a Q&A published in the June 13, 2007 issue of the Advisor.

diesel submarines, but has not set money aside yet, Gen. Alberto Muller was quoted as saying in response to a Russian newspaper report. Russian business daily *Kommersant* said that Chavez would sign a deal for the submarines when he travels to Moscow later this month, and that Venezuela would possibly buy four more subs later, the AP reported. "Venezuela is interested in examining within a strategic context the possibility that these sub-

marines fit our defense plans," Muller was quoted as saying. The country will prioritize strengthening its navy, which "is not of sufficient magnitude to defend Venezuela's coast and to ensure [the safety] of routes by which its exports leave," he added. He said Venezuela's navy would be the strongest in the region with the new underwater vessels. Venezuela has already spent \$3 billion on Russian arms purchases, according to the AP.

Featured Q&A*Continued from page 1*

A Guest Comment: Alberto Bernal: "It is unfortunate, but my sense is that investors have little recourse to defend themselves against the actions that were taken by public officials in Ecuador. What happened in Ecuador a few months ago would likely present enough ground to declare imprisonment in the United States. That said, Ecuador is different from the United States, and the alleged manipulation of market prices via the actions taken by some members of the administration will most likely just fade away with time. In my view, the real losers from the possible manipulation of the market are the kids in Ecuador. The uncertainty generated has increased risk premiums in this country (higher premiums are the 'defense' of the markets against uncertainty). Ecuador's risk premium, at around plus-600 basis points, remains significantly wide to the one present in countries that are either in the middle of a social conflict (such as Iraq), or wide to countries that carry debt/GDP ratios north of 120 percent, such as Jamaica. Keep in mind that Ecuador's net debt ratio now stands below 30 percent of GDP, a very low rate compared to peer Latin American credits. The inefficiency here lies in the fact that the higher the risk premium of a given country, the higher the domestic level of local interest rates, and the lower the capacity of the country to generate good and lasting employment, since productive investment will remain scarce. A no employment scenario is consistent with kids not being able to have good expectations regarding their future. Such a scenario does not help anyone."

A Guest Comment: Benito Berber: "To some extent there is always a danger of manipulation. What happens is that the market sort of self-regulates itself and also, through the EMTA [Emerging

Markets Traders Association], they keep an eye on that sort of thing ... But in general, there's a sense of where and what kind of manipulation is going on, and I think that investors get away from that pretty quickly. Other than that, it's very hard for an institution or anybody to really protect investors. Manipulation usually happens when a government, in collusion with a market player, starts doing something that is illegal. But to the extent that other markets, especially traders, know very well where the flows are coming from, they know in a sense, or at least they can raise a red flag, and inform their customers that something fishy is going on in certain circumstances. To my knowledge, nothing more than that can be done in a consistent way. And honestly I don't think that any government or government institution should get involved. This is a very flexible market, and part of that flexibility is because there isn't this type of regulation. It's a risk that investors are running constantly but, at the same time, they are enjoying higher yields and the market evolves toward different instruments very quickly, from external debt, to CDs, to instruments that allow investors to protect themselves, and then to local markets. And within local markets now they're buying a lot of corporate bonds. So all of that kind of flexibility can only be done in a market that is to some extent not heavily regulated."

Alvaro Clarke de la Cerda is President of *International Credit Rating* and a former *Superintendent of Securities and Insurance in Chile*.

Alberto Bernal is Assistant Director for *Emerging Markets at Bear Stearns & Co.*

Benito Berber is Vice President and *Latin America Economist at HSBC*.

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