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Featured Q&A With Our Board of Advisors

Q The Brazilian government is reportedly stepping up efforts to crack down on insider trading in the country's stock market. How extensive a problem is insider trading in Brazil, and what impact is it having on the country's markets and economy? How can Brazilian securities regulators best combat the phenomenon?

A Guest Comment: Roberto Teixeira da Costa: "Insider trading is a problem for every stock market all over the world. I remember very well that during the few months after the creation of our Securities Commission (CVM), which was organized in 1977 by a board that I chaired, one of our deepest concerns was how to control insider trading. As a matter of fact, one of the first inquiries by the CVM, which we investigated, involved Petrobras after the disclosure of offshore oil discoveries in Campos, in Rio de Janeiro. As the market grows, in every aspect, with daily transactions on the Sao Paulo Stock Exchange exceeding \$2 billion and IPOs projected to be more than \$20 billion in 2007, an increasing preoccupation with insider trading is natural. If corporate governance is being defended as one of the most important pillars of the Novo Mercado (New Market, created by the Sao Paulo Stock Exchange in 2001 and now concentrating particularly on all the new issues), let's not forget that many newcomers to the

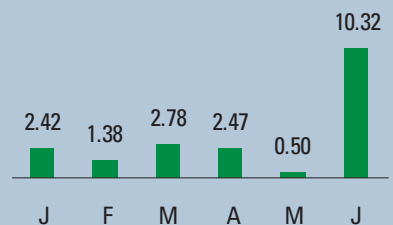
market are not yet fully conscious of the implication of being a public corporation with listed shares. Thus, some lead time has to be given to analyze the full dimension of this new reality. Abrasca (Brazilian association of publicly held corporations) recently edited a very comprehensive document alerting their associates to the need for full disclosure and avoiding practices that go against best-market development. The CVM, on the other hand, is fully aware of the need to prevent and punish insider trading. Processes are being put in motion, and speedier and final results are being publicized closer to the event that generated the process. Nevertheless, it is very clear to me that no regulatory agency can

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CHART OF THE DAY

FDI in Brazil

Jan-June 2007, (\$US billions)



Foreign direct investment in Brazil soared to a record \$10.32 billion in June. See related [story](#) on page 2.

Source: Brazilian Central Bank.

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NEWS BRIEFS

Chinese-Mexican Businessman Arrested in US on Drug Charges

US federal agents on Monday arrested Chinese-Mexican businessman Zenli Ye Gon, wanted in connection with one of the Hemisphere's largest trafficking rings for pseudo-ephedrine, the main ingredient in methamphetamine, the Associated Press reported. In March, Mexican officials discovered \$207 million in cash and 19 tons of pseudo-ephedrine in Ye Gon's Mexico City mansion. Ye Gon has alleged that Mexico's governing PAN party forced him to store \$150 million in campaign cash, allegations President Felipe Calderon has called "pure fiction."

Hydro, CVRD to Agree to Develop Alumina Refinery in Brazil

Norway's **Hydro** and Brazilian mining giant **CVRD** have signed an agreement to develop a new alumina refinery in northern Brazil, Hydro announced Monday. The refinery, to be located in the state of Para, will be developed in four stages, with a final output of 7.4 million tons of alumina per year, Hydro said. The companies will invest \$1.5 billion in the project's first stage.

Mexico's Maxcom Seeks to Raise \$175 Million in IPO

Maxcom Telecommunications, a provider of voice and data services to residential and small- and medium-sized businesses in four metropolitan markets in Mexico, said Monday it was planning an initial public offering of as much as \$175 million in American Depositary Shares. In a filing with the US Securities and Exchange Commission, the 11 year-old Maxcom said it planned to use the proceeds from the IPO for capital expenditures.

Economic News

Brazilian Real Reaches Seven-Year High on Higher Growth Forecast

Brazil's currency, the real, rose to a seven-year high Monday after economists polled in a weekly survey by the Central Bank raised their growth forecasts for the country, Bloomberg News reported. The real rose to as much as 1.8415 to the US dollar in trading, the highest since September 2000 and part of a 16 percent appreciation of the currency since the beginning of the year. The real's gains followed the news that the median 2007 growth forecast of about 100 economists surveyed July 20 by Brazil's Central Bank rose to 4.5 percent from 4.4 percent the previous week. The strengthening of the real has been driven in part by strong exports. However, the Bank said Monday that Brazil's trade surplus narrowed slightly in June as the stronger real encouraged more imports. The trade surplus fell to \$3.82 billion in June from \$3.87 billion in May and \$4.10 billion in June 2006, the Bank said, according to Reuters. But the country's current account surplus widened to \$696 million last month from \$117 million in May and \$632 million in June 2006, as overseas interest payments fell. In addition, foreign direct investment (FDI) soared to a record \$10.32 billion in June, with steelmaker **Arcelor Mittal's** buyout of minority shareholders in its Brazil unit accounting for more than half the figure, according to Reuters. For the first six months of the year, FDI totaled \$20.86 billion compared to \$7.39 billion for the same period last year and \$18.78 billion for all of 2006.

Patino: Ecuador Could Restructure Foreign Debt at Any Time

Ecuadorean Economy Minister Ricardo Patino said Monday that his government could restructure its "illegitimate" foreign debt at any time, Reuters reported. "The government at any moment could decide on a proposal on debt," Patino said, just minutes before appointing a 13-member commission to determine the legitimacy of the country's \$16.4 billion in national

debt. "But only the government will decide on the right time," he added. The commission, composed of debt critics and leftist advocates, has one year to present its findings but could extend that deadline. Since taking office in January, President Rafael Correa has repeatedly threatened to restructure the nation's foreign debt and not pay debt deemed to have been illegitimately contracted by past governments. Patino has said that the country, which currently spends 37 percent of its budget on debt payments, wants to reduce that

**Patino**

Photo: Carondelet file photo.

amount to 12 percent by 2010, according to the Associated Press. Earlier this month, Patino was censured by Ecuador's Congress amid an investigation to determine whether he deliberately manipulated the country's bond markets in February. A secret video showed him meeting with a group of investors and voices were heard talking about spooking the market. Media reports speculate that he may resign soon and take up a new ministry post in charge of regional affairs, according to Reuters. When questioned whether he would resign, Patino replied, "I would feel comfortable in any public post."

S&P Raises Outlook on Peruvian Debt to Positive

Standard & Poor's said Monday that it raised its outlook on Peru's debt due to the Andean nation's strong economic growth prospects and good debt management. In a press release, S&P said it upped the outlook on Peru's "BB+" long-term foreign and "BBB-" long-term local currency sovereign credit ratings from "stable" to "positive." S&P expects the country to register strong growth averaging 6.3 percent between 2007 and 2010, making it "less vulnerable to both terms-of-trade shocks and political instability." The ratings agency also noted Peru's "adept debt management," citing its issuance of local currency-denominated debt this month to help repay \$1.75 billion to bilateral creditors. But S&P analyst Sebastian Briozzo cautioned that the country's weak political

environment and social indicators "continue to weigh significantly on the sovereign ratings," and warned that structural factors had given rise to the populist Ollanta Humala, who finished second in Peru's presidential election last year. "While social conflict is expected to continue, there is increasing awareness among Peru's political and economic leadership of the urgency of promoting effective social spending, and Peru's high growth will help the government meet these needs without significant deficit spending," Briozzo said. S&P also affirmed its "B" short-term foreign and "A-3" short-term local currency sovereign credit ratings for Peru.

Company News

Televisa Reports 5.4 Percent Drop in Second-Quarter Profit

Grupo Televisa, Mexico's biggest broadcaster, on Monday reported a 5.4 percent decline in its second-quarter profit amid a drop in sales revenue. In an earnings release, Televisa said its consolidated net income for the three months through June 30 totaled 2.25 billion pesos (\$US 209 million), down from 2.38 billion pesos for the same period a year ago. Sales fell 3.7 percent year-on-year in the second quarter to 9.81 billion pesos, due to a 15.5 percent decline in sales in Televisa's broadcasting segment to 4.94 billion pesos, the company said. "This decrease was driven by 1) the unfavorable comparison resulting from last year's political campaigns and soccer World Cup advertising and 2) an unexpected slowdown in consumer spending in Mexico, which led to a decline in advertising revenues during the quarter," said Televisa, the world's biggest Spanish-language broadcaster. Revenue from Televisa's second-biggest revenue earner, its **Sky Mexico** satellite television unit, rose 7.5 percent year-on-year to 2.03 billion pesos. Sales revenue from Televisa's "other businesses," which include gaming, feature film distribution, and SMS messaging, rose 37.6 percent year-on-year to 592.7 million pesos, while revenue from its pay television business increased 28 percent to 436.9 million pesos.

By the Numbers

A Monthly Look at Latin American Data by the Dialogue's Claudio Loser Region's Finance Ministers Less Corrupt Than Other Ministers



WASHINGTON—Last month's column dealt with the impediments to a good business climate in the region. Among the problems mentioned in passing was the issue of corruption, a problem that affects many of the countries in Latin America. In reaction to the recent 'restroom-gate' accusations made against former Argentine Economy Minister Felisa Miceli, I was asked by my friend and *Advisor* Editor Robert Simpson whether finance ministers in Latin America had a track record of corruption higher than the average for the members of their governments. This ended up being a more challenging question than I expected, and my views are more qualitative than usual.

For the record, Latin America is certainly perceived as a region plagued by corruption. According to the most recent numbers produced by Transparency International, the perception of corruption in Latin America is significant. As the table below shows, of 21 Latin American countries included among the 163 countries on the list, 12 are below the median, and only two, Chile and Uruguay (not surprisingly), are in the first quartile, sharing 20th place with the United States. The larger countries in the region, Brazil and Mexico, are somewhat above the median, while the "new left-populist" regimes are generally placed low.

This information is very interesting, but does not answer the question about finance ministers and their relationship with corruption. There have been a number of ministers that have been accused of some type of corruption or abuse of power—Palocci in Brazil, Patino in Ecuador, Cavallo in Argentina, Camet in Peru—and several have ongoing legal actions against them. However, the accusations or the alleged crimes have tended to be less frequent than in other areas of government, including the presidency, ministries of internal or security affairs, ministries of public works, health, etc. All of these areas are much more prone to corruption due to the likely access to the procurement of goods and services, areas in which graft is easy. By contrast, finance ministries deal with budgetary processes, subject to significant administrative controls and supervision, and have no direct access to acquisitions.

It is true that finance ministers may be able to exercise considerable power in the financial sector, and some rescue operations, like those witnessed in the Dominican Republic a few years ago, raise significant suspicions about the connections between the financial sector and the government. Even so, the evidence points to a limited degree of favoritism. A more important cause for attacks relates to actions taken by

Perception of Corruption in Latin America

Ranking	Country
1	Finland, Iceland, New Zealand
20	Chile, USA, Uruguay
55	Costa Rica, El Salvador
59	Colombia, Cuba
70	Brazil, Mexico, Peru
84	Panama
90	Suriname
93	Argentina
99	Dominican Republic
105	Bolivia
111	Guatemala, Nicaragua, Paraguay
121	Honduras
138	Ecuador, Venezuela
163	Haiti

Source: 2006 Transparency International Corruption Perceptions Index.

Total number of Latin American countries: 21.

Countries in the first quartile: 2. Countries below median: 12. Excludes English-speaking Caribbean countries.

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Featured Q&A*Continued from page 1*

replace market players and the benefit of practicing self-regulation for market growth and maintaining investor confidence."

A Guest Comment: Thiago Giantomassi: "Illegal insider trading takes place in any country's capital markets, including Brazil, and punishment essentially depends on the respective securities and exchange commission (SEC) having a strong system and a highly technical staff to effectively avoid such practices. Brazil is evolving, especially by virtue of the CVM's (Brazilian SEC) efforts—despite its reduced staff ... For example, the CVM halted the clearance of some suspicious trades on the stock exchange in a recent transaction involving publicly held companies. However, as a result of the increasing number of companies going public, more Brazilian citizens are investing in securities markets (mainly shares), highlighting the stock market's importance in the

Brazilian economy as an investment option for public savings and requiring an active enforcement program by the CVM. At the same time, in such initial public offerings, around 70 percent of the investments are from foreign qualified institutional investors, which will also play an important role in bringing international regulatory standards into Brazil and enhancing Brazilian securities markets. In particular, the CVM will need to establish the inspection, detection, and prosecution of illegal insider trading as one of its main policies. Such a policy will succeed in maintaining fairness and integrity as the main assets of the securities markets."

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Thiago Giantomassi is an Associate at Demarest e Almeida Advogados in Sao Paulo.

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finance ministers in the exercise of their function as ministers, like bank interventions, devaluations, tax and expenditure adjustments, etc. These will clearly have an adverse effect on some sectors of society that may seek judicial action, supported by usury laws, or legislation on maximum prices, and interest rates. The legislation sometimes makes little economic sense, but is on the books reflecting a legalistic and non-economic interpretation of financial transactions. In any event, the population may well hate finance ministers as messengers of bad tidings, rather than as corrupt officials.

In fact, finance ministers tend to have respectable careers, and in several instances finance or economy ministers became presidents of their countries, like Fernando Henrique Cardoso of Brazil, Rafael Correa of Ecuador, and Ernesto Zedillo (minister of the budget) of Mexico, among other strong figures. In my experience, most finance ministers in the region have been honest, but hated for their "unpopular" measures. In the end, some may have gained the respect of the population as tough and sometimes stingy administrators who may have been proven right over time, even if inflicting pain. This explanation may be questionable, but I believe plausible. As to Ms. Micelli, the jury is still out.

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

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