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## LATIN AMERICA ADVISOR

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### FEATURED Q&A

#### How Badly is Mexico's Crime Wave Hurting Tourism?

**Q** Mexico's bloody crime wave has contributed to a measurable decline in the country's multi-billion-dollar tourism industry this year, according to some reports. How badly is Mexico's economy being hurt by the crime wave? How long will it take for the country's tourism sector to recover from this sort of damage to the nation's reputation?

**A** **Guest Comment: Rogelio Ramírez de la O:** "The effect of Mexico's crime and violence on its tourist industry is only beginning to be felt, such that we should expect this effect to be higher than until now has been recorded and also to last for a long time, *i.e.* much longer than after the crime wave comes to an end. This could be years from now. Violence has a deleterious effect on tourism via an increased probability of danger for the individual, whether this is at an airport, while driving on car, or just while walking on the street in those cities where publicized street violence has taken place and been reported by the media. This is the case with Morelia, all of the northern border cities, and specifically Torreon, Monterrey, and the states of Tamaulipas, Oaxaca, Guerrero Tabasco, Veracruz and Aguascalientes. These are sites where drug cartels are fighting each other or where they have taken over substantial sectors of the municipal and state police forces. Tourists are not only warned by their embassies before traveling there, but they

are also exposed to the discouraging news in the written press or on TV about increasing kidnappings. Mexico City has been exposed as dangerous for kidnappings. Add to this the well-justified suspicion that some state governors have been protecting their own police forces when these are accused of killing US citizens, like in Oaxaca, and the picture tourists get is that of a lawless country. It is not far-fetched to predict a gradual transformation from freely flowing mass tourism, to a more selective visitor heading to niche,

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#### Some Latin Stock Indices Fall More than Dow in Pct. Terms

Brazilian Minister of Finance Guido Mantega told reporters Monday that "Brazil is prepared for any situation" that may come up. See story on page 2.

Source: Agencia Brasil.

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## NEWS BRIEFS

**Jamaica Tourism Rises 5 Percent Year to Date, Minister Says**

Jamaica's Minister of Tourism, Edmund Bartlett, announced the island's tourism sector recorded 5 percent growth since the start of the year, and has exceeded growth rate of all other destinations in the Caribbean and Latin America, Jamaica's state news agency said Monday. Jamaica received 1.2 million stop-over visitors since the start of the year through September 21, with earnings amounting to \$1.4 billion, according to the report.

**Skanska Wins \$50 Million Refinery Contract in Brazil**

Sweden's **Skanska** said Monday it had secured a \$50 million contract for work on the Capuava oil refinery in Sao Paulo, Brazil. The work involves building a sulfur recovery unit and a tail gas treatment unit. The customer is **RECAP**, an oil refinery owned by Brazilian national oil company **Petrobras**. The project, which begins next month and is scheduled for completion within two years, is part of a nationwide environmental program to reduce sulfur contaminants in petroleum by-products.

**BHP Billiton Petroleum Acquires Colombia Exploration Rights**

**BHP Billiton Petroleum** has acquired the exploration rights to 7.75 million acres in the Llanos Basin, Colombia for an undisclosed sum, the *Houston Chronicle* reported Monday. The exploratory work will take place over the next three years. BHP Billiton now holds a 71.4 percent interest in the block and is the operator. South Korea-based **SK Energy Co.** holds the rest of the interest.

## Economic News

**Latin Stock Indices Fall, Some Drop More than Dow in Percentage Terms**

Latin American stock indexes dropped sharply Monday, and trading on the Brazilian exchange halted at one point during the day as news spread that the Bush Administration's \$700 billion financial-sector bailout plan failed to pass in the US House of Representatives. While the **Dow Jones Industrial Average** of the NYSE fell 6.98 percent, its biggest one-day drop in about 20 years, some Latin indices fell even more in percentage terms. In Brazil, the **Bovespa** sank 10.2 percent to 45,662.61 before officials suspended trading activities. The Bovespa closed down 9.36 percent at the end of the day, and Brazil's real currency fell the most in nine years Monday, weakening past the 2 real-per-dollar mark. Argentina's **Merval** index fell 8.6 percent to 1,545.45. Mexico's **IPC** index was down 5.4 percent to 24,222.72, MarketWatch reported. Mexico's peso tumbled to a one-year low. Colombia's **IGBC** index, which declined the least

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*Brazil's real currency fell the most in nine years Monday.*

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among the big bourses in Latin America, fell 2.37 percent to 9,140. Latin American leaders continue to defend the fundamentals underpinning their economies. Yesterday, Brazilian Minister of Finance Guido Mantega told reporters that "Brazil is prepared for any situation" that may come up. [Editor's note: look for Q&A on the fallout of the crisis in Latin America in an upcoming issue of the *Advisor*.]

**Argentina Negotiates with Banks over \$20 Billion Bond Holdouts**

The Argentine government on Monday negotiated with international banks to restructure \$20 billion of defaulted bonds that holders kept out of a 2005 settlement.



Cristina Fernandez meeting with bankers Monday in Buenos Aires.

*Photo: Argentine Government.*

Executives from **Citigroup**, **Barclays** and **Deutsche Bank** met Monday with Argentine President Cristina Fernandez to work out details of the plan. Cabinet Chief Sergio Massa disclosed few details on the plan to the press, but said the government will only offer one new bond in the swap and will require investors to put up fresh cash to participate, Bloomberg News reported. Massa said the proposed restructuring has been made "more interesting" by the international context brought on by the US credit crisis, and that the terms of the restructuring would be more favorable to the government than even the previous swap, where bondholders took a "haircut" of approximately two-thirds the value of the bonds. [Editor's note: see related Q&A in the September 29, 2008 [issue](#) of the *Advisor*.]

**Chile Finance Minister Proposes More Social Spending in 2009 Budget**

Chilean Finance Minister Andres Velasco today will officially deliver the administration's 2009 budget proposal to lawmakers. The budget asks Congress to approve 5.7 percent more spending than in 2008. Velasco said fiscal spending in the budget is higher largely because social sector spending increases at a faster pace than the average, while other sectors grow at a slower rate. The budget "balances on one hand the needs of stability and order of the economy and at the same time fulfilling the commitments we have with the people," Velasco said. The government has forecast the country's economy will

**Featured Q&A***Continued from page 1*

apparently secure places, though never with a 100 percent security ... Visitors traveling to these places will not have exposure to many of the local amenities. Hotel occupation levels in these cities are likely to fall significantly, quite independently of what happens to the economy."

**A Guest Comment: Alejandro Schtulmann:** "Although a number of other factors account for the noticeable decline in tourism nationwide (such as the deterioration of economic conditions in the US and Mexico), the country's high levels of violence have greatly contributed to this trend. Despite its privileged geography and natural resources, the high levels of violence were a key factor in determining Mexico's low ranking in the first World Economic Forum's Travel & Tourism Competitiveness Index in 2007. The escalation of violence throughout last year caused Mexico to fall behind six spots. The country's bad reputation has prompted other governments around the world to increase their warnings about the risks of traveling to destinations in Mexico. The descent in tourism has been particularly acute in Mexico City, but there are other states which have been affected by drug violence such as Yucatan, Baja California, Sinaloa, and Michoacan. The recent terrorist attack in Morelia—a key tourist destination—has already impacted the local tourism industry. Future terrorist attacks involving innocent bystanders in tourist locations will deliver a more substantial blow to the industry nationwide. How long until this security-related problem is solved

depends on Mexico's federal and local government's ability to reduce: 1) the rising crime wave (kidnappings, robberies, corruption), particularly in Mexico City, and 2) the growing intra-cartel violence around the country (the count of drug-related executions in 2008 has already passed 3,600—a 65 percent increase over last year). Yet, historically tourism takes a long time to recover from economic and short-term shocks. In 2006 the prolonged

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“Historically tourism takes a long time to recover from economic and short-term shocks.”

— Alejandro Schtulmann

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conflict between a local dissident group headed by local teachers and the state government in Oaxaca resulted in some significant economic losses, primarily from a drop of tourism and the associated loss of approximately 21,000 jobs (of which only 35 percent have been recovered). In 2008 hotel occupation rates are still 40 percent below the levels observed during 2005."

**A Guest Comment: Primitivo Sánchez:** "Crime has risen to levels never before seen with regard to public security, which is worrisome to say the least. This problem seriously affects the economy in the commerce, service, and tourism sectors, in addition to robbing Mexican society of

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expand by 4.0 percent in 2009. Velasco said that Chile has also increased its estimate of GDP growth for 2008 from 4.2 percent to 4.5 percent, largely because of more economic activity in the second half of this year. "Thanks to the rains we are generating more power with less water and diesel ... We have reason to expect a more dynamic performance from the mining sector," Velasco noted. Public and private investment in Chile will grow

almost 20 percent in 2008, Velasco noted.

### House Votes to Extend Trade Benefits to Andean Countries

The US House of Representatives voted unanimously on Monday to extend for another year trade benefits for Colombia, Peru, Ecuador and Bolivia, Reuters reported. "It is now up to the US Senate to act immediately so that these benefits remain

in place," said House Ways and Means Committee Chairman Charles Rangel (D-NY). The House was rushing through measures before a scheduled recess at the end of the day, and during a historic vote on the proposed Wall Street bailout. Last Friday, President George W. Bush sent a memorandum to US Trade Representative Susan Schwab calling for the suspension of trade preferences for Bolivia because of what the US said was poor cooperation on the war on drugs. That suspension will enter into effect after a public hearing on the issue, which has yet to be scheduled. The House bill would not stop the suspension process, but would allow Bolivia requalify for trade preferences if cooperation improves, Reuters reported. Ecuador's government said in a Web site statement that the vote yesterday is "a recognition of the great work Andean countries have done, particularly Ecuador, in fighting drug trafficking." Meanwhile, the Bush Administration urged the Senate to affirm trade benefits for Colombia and Peru to bridge the gap until Free Trade Agreements with those countries can come into effect, according to Reuters.

## Company News

### Eight Groups Bid for \$330 Million Tunnel Construction Project

Some 100 potential bidders on a contract to build an 8.8-kilometer tunnel across the Colombian Andes were yesterday whittled down to eight groups, Dow Jones reported. The winner of the Colombian Central Andean Cordillera project, estimated to cost 719 billion Colombian pesos (\$US 330 million), will be named November 10, the Colombian road authority said Monday. The work would start in December and end in 2012. The tunnel will be built in the area known as La Linea, crossing the Andes near the Los Nevados National Park. Cars and trucks could save up to two hours on the road between the country's capital Bogota and its main port Buenaventura, 700 kilometers west of the capital. Companies from Korea, China, Italy, Brazil and other countries are among the eight bidders on the project, according to the report.

**Featured Q&A***Continued from page 3*

peace of mind. Although we had hoped for economic growth of 4.0 percent for this year, we have unfortunately had to reduce our expectations to 3.6 percent, while in the service and tourism sectors, expectations fell from 4.2 percent to 4.0 percent. Likewise, 50,000 people have lost their jobs in restaurants, hotels, transportation, and a wide array of businesses that are closing due to a lack of security. The border states, as well as Ixtapa, Oaxaca, and Morelia, are the most affected areas. The image of the country has been affected by the climate of reduced security. However, we need to regain the image of a peaceful Mexico without crime. To achieve that, the government, private sector, and society

“During the first seven months of the year tourist spending increased 6.3 percent compared to the same period in 2007.”

— *Daniel Anderson*

should work together. Although we have a long way to go, with a united front we can rescue the country. Thus the 252 chambers of commerce, services, and tourism represented by Concanaco (the National Federation of Chambers of Commerce, Services, and Tourism), appeal now more than ever for unity, coordination, and commitment of all political forces to combat with a firm hand the curse of terrorism and the criminal organizations operating in our country.”

**A** **Guest Comment: Daniel Anderson:** "Despite the crime wave, according to official reports of the Ministry of Tourism of Mexico and the Bank of Mexico, during the first seven months of the year tourist spending increased 6.3 percent compared to the same period in 2007, representing \$8.47 billion. In terms of visitor arrivals between January and July 2008, there was a 5.2 percent

increase, compared to the same period in 2007, representing 13.62 million tourists. The average tourist expenditure, which includes those tourists who traveled further than the border—those who have the longest stays and greater spending—was \$788 dollars per trip, which represents an increase of 3.8 percent from 2007. The airline industry transported 26.509 million passengers between January and July 2008, 6.1 percent more than in 2007. In terms of jobs, the Mexican Social Security Institute registered 2.234 million workers in the tourism industry in July 2008, which represents 2.3 percent more workers than in July of 2007. There are many factors affecting travel these days that are not related to crime, including the increase in the price of gas, the cost of the Euro, and the economic crisis. Some have affected travel to Mexico in a positive way and others in a negative way, so it is difficult to pinpoint one factor for those places that have seen a decrease in business. But overall the numbers increased compared to 2007. Tourism is the third source of foreign revenue for the country, and as such is a top priority for President Felipe Calderon. Tourism safety is on top of the government agenda and a key aspect for its development is public safety. That is why, for example, the government has recently decided to contribute 4 percent of the Mexico Tourism Board overall budget towards public safety programs. Mexico remains a strong tourism destination.”

**Rogelio Ramírez de la O** is *General Director of Ecanal in Mexico.*

**Alejandro Schtulmann** is *Head of Research at Emerging Markets Political Risk Analysis in Mexico.*

**Primitivo Sánchez** is *Tourism Consultant at Mexico's National Federation of Chambers of Commerce, Services, and Tourism (Concanaco Servytur).*

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