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FEATURED Q&A

What Would an Investment Grade Rating Mean for Panama?

Q Panama's credit rating could be on the verge of investment grade. In November, S&P raised its debt rating outlook for Panama to positive, saying the expansion of the Panama Canal will aid the economy and that President Ricardo Martinelli's tax reforms will increase revenue, allowing the government to boost investment. Fitch Ratings also has positive outlook on the country and Moody's last week placed Panama on review for an upgrade. Will Panama make investment grade, and if so, when? What would that mean for the country's economy?

A Jaime Alemán, Panama's ambassador to the United States: "The achievement of investment grade would signify the culmination of a painstaking and lengthy process begun in the 1990's to establish a solid macroeconomic framework for the country. Although the specific timing of such a decision is beyond our control, the positive outlooks by rating agencies, banks and financial institutions speak highly of the confidence in our economic position and of the prospect for growth and stability in Panama in the long term. Improvements in our fiscal accounts coupled with strong economic growth in the last decade have allowed the country to maintain manageable levels of debt, which in turn have permitted us to responsibly meet our credit obligations, both domestically and internationally. By 2009, Panama had significantly

decreased its levels of debt to 43 percent of GDP and our sovereign bonds were already trading on par with countries like Brazil that held investment grade status. Panama today continues to have one of the better-performing economies in Latin America. The four major sectors of our economy—logistics and transportation, financial services, tourism and construction—continue to experience solid growth. Panama continues to be a major destination for foreign direct investment, attracting more FDI as a proportion of GDP than most countries in

Continued on page 2



Brazil Added Record Number of Jobs Last Month: Labor Ministry

Brazil's economy added a record number of new jobs in January, the government announced Thursday. Labor Minister Carlos Lupi said Brazil is on track for record job creation this year. See story on page 2.

File Photo: Agência Brasil.

Inside This Issue

| | |
|--|--|
| FEATURED Q&A: What Would an Investment Grade Rating Mean for Panama?.....1 | Wife of Contractor Jailed by Cuba Hopes for Resolution Today.....2 |
| Brazil's Economy Added Record Number of Jobs in January.....2 | Colóm Urges Obama to Move Ahead With Immigration Reform.....3 |
| European Union Expects to Conclude FTA Talks With Peru Next Week.....2 | Capitol Hill Watch: A Look at U.S. Congressional Activity on Latin America.....3 |

NEWS BRIEFS

Wife of Contractor Jailed by Cuba Hopes for Resolution Today

The wife of a U.S. government contractor jailed in Cuba on spying charges told Reuters Thursday that she hopes her husband's case will be resolved today when U.S. and Cuban officials meet today in Havana for migration talks. Alan Gross, who was arrested in December, is not a spy, said his wife, Judy. Working for Development Alternatives, Gross was distributing cell phones and laptop computers in Cuba under a USAID program.

Mexico Wireless Auction Attracts Big Players

Mobile phone giants **América Móvil** and **Telefónica** were joined by other major firms Thursday in registering for Mexico's auction of wireless airwaves to expand their high-speed Internet services, Bloomberg News reported. Broadcaster **Grupo Televisa** and **NII Holdings**, which manages the Nextel brand in Latin America, have registered to bid jointly in the May 25 auction, according to the report. [Editor's note: Look for related Q&A in an upcoming edition of the *Advisor*.]

Walmex Plans to Open 300 New Stores This Year in Mexico

Wal-Mart de Mexico, or Walmex, plans to open 300 new stores and invest 12.5 billion pesos (\$U.S. 971.6 million) in Mexico this year, chief executive Scot Rank told analysts in Mexico City, the Associated Press reported Thursday. Mexico's biggest retailer expects the new stores will create 7,000 jobs and indirectly employ 7,800 people during construction, according to the report. Earlier this week, Walmex finalized its purchase of 519 Wal-Mart Centromerica stores from its U.S. parent.

Economic News**Brazil's Economy Added Record Number of Jobs in January**

Brazil's economy added a record number of jobs last month, making it more likely that the country's central bank will begin raising its benchmark interest rate, Bloomberg News reported Thursday, citing a new report by the country's Labor

“Brazil is on track to reach an all-time high in job creation in 2010.”

— *Carlos Lupi*

Ministry. Brazil saw creation of 181,419 jobs in January, as compared to a loss of 101,748 jobs in January 2009, the Labor Ministry said. The manufacturing industry was responsible for the largest number of new jobs. "Brazil is on track to reach an

Featured Q&A

Continued from page 1

the hemisphere. The Panama Canal expansion project, which will double the canal's capacity by its completion in

“Panama today continues to have one of the better-performing economies in Latin America.”

— *Jaime Alemán*

2014, will in time increase canal contributions to the National Treasury four-fold. Moreover, the government of President Martinelli has recently committed \$12 billion for a five-year investment plan to improve the competitive-

all-time high in job creation in 2010," Labor Minister Carlos Lupi told reporters in Rio de Janeiro, Bloomberg News reported. "If there is an interest rate increase this year, it will be very small." Gross domestic product in Brazil, Latin America's largest economy, will grow 5.8 percent this year after 0.2 percent growth last year, according to forecasts by the central bank. The bank's benchmark interest rate has been at a record low 8.75 percent since September 2008. However, 100 economists in a central bank survey released Wednesday produced a median forecast that bank policymakers will hike the interest rate in April in response to Brazil's stronger domestic demand, which has accelerated economic growth.

European Union Expects to Conclude FTA Talks With Peru Next Week

European Union representatives are hoping to conclude free trade agreement negotiations with Peru next week in Brussels, Peru's state-run Andina news agency reported Thursday. The five-day round of negotiations, which is set to begin Monday is likely to be the final one,

ness of our economy, of which \$4 billion has been set aside for national infrastructure projects. The investment grade would be a milestone for our county and an acknowledgement of the country's sound economic standing, but more importantly, in practice it would allow us to lessen the burden of our debt obligations by gaining access to cheaper financing."

A **Roldan Trujillo, general manager of the Corporación Interamericana para el Financiamiento de Infraestructura in Arlington, Va.:** "Attaining an investment grade will gain Panama entrance into an exclusive Latin American club. With an investment grade rating, Panama will improve on its recognized reputation as a financial and logistical center for Latin America and the Caribbean. By improving the country's sovereign rating, issuers of interna-

Continued on page 4

said Hans Allden, who heads to E.U. delegation to Peru. "We seek to conclude negotiations during this round, so that negotiators will be pleased to return home at the end," Allden told the news agency. A free trade agreement will encourage foreign investment in Peru, said Allden, adding that European countries want to increase their investments in the South American country. The closing document for the FTA could be signed in Madrid this May during the Summit of Heads of State and Government of Latin America, Caribbean and the European Union.

Political News

Colóm Urges Obama to Move Ahead With Immigration Reform

Guatemalan President Álvaro Colóm said Thursday that he sent a letter to U.S. President Barack Obama urging him to move forward with immigration reform and treat it as a multilateral issue. The letter provides nine suggestions for Obama on immigration reform that came out of internal conversations with Guatemalans and also with other presidents in the region, Colóm told reporters at the National Press Club in Washington. He



Colóm on Thursday in Washington.

Photo: Latin America Advisor.

added that Central American leaders, who will gather Monday during the Rio Group summit in Mexico, want to meet soon with Obama, but are willing to wait until after relations with Honduras are normalized. "We want Honduras to be present," Colóm was quoted as saying by Agence-France Presse. Colóm met Thursday with U.S. Secretary of State Hillary Clinton, with whom he discussed anti-drug efforts, social programs and

Capitol Hill Watch

A Look at U.S. Congressional Activity on Latin America

Congressional Delegation Meets With Préval, Bellerive During Visit to Haiti

House Speaker Nancy Pelosi (D-Calif.) last Friday led a delegation of U.S. lawmakers to Haiti to meet with Haitian leaders and U.S. aid workers assisting in recovery from the country's Jan. 12 earthquake. During the one-day visit, Pelosi and 10 other legislators from the House and Senate met with President René Préval and Prime Minister Jean-Max Bellerive to discuss the needs of the Haitian government ahead of an anticipated supplemental appropriations request in Congress. "Our delegation went to Haiti to demonstrate the ongoing support of the American people and to reaffirm President Obama's pledge that the people of Haiti will not be forgotten or forsaken," Pelosi said in a statement. The lawmakers also toured a USAID and NGO-supported AIDS clinic, which now includes a medical facility and informal settlement of 7,000 people, and also met with U.S. military personnel. The delegation was billed as bipartisan but included just one republican, Sen. George LeMieux of Florida. On Tuesday, LeMieux traveled to Honduras to meet with newly inaugurated President Porfirio Lobo. In a statement, LeMieux said he was "encouraged" by Lobo's plans to get the country back on track after last year's coup that deposed Manuel Zelaya, and urged the Obama administration to restore full diplomatic arrangements with Honduras. LeMieux also invited Lobo to Miami to meet with business leaders and discuss investments in Honduras, and said President Obama should meet with Lobo at the White House.

Grassley Vows Fight to Maintain U.S. Tariff on Brazilian Ethanol

Sen. Charles Grassley (R-Iowa) on Tuesday acknowledged a growing effort on Capitol Hill to repeal the U.S. tariff on Brazilian ethanol, but said he would fight hard to keep the import duty in place. "Obviously, I'm going to be fighting to maintain it," Grassley said in a conference call with reporters, according to his Web site. The 54-cent U.S. tariff on imported ethanol has long irked Brazil's biofuels industry, and the Brazilian government has pushed hard for its repeal. The debate has taken on a new urgency now that new renewable fuel standards in the United States mandate higher domestic consumption of biofuels and rate sugar cane ethanol as cleaner than corn ethanol produced domestically. Grassley said he suspected that the Grocery Manufacturers Association of America, which has blamed corn ethanol for higher food costs, and oil companies might join the Brazilians in lobbying for letting the ethanol tariff expire at the end of the year.



Grassley

File Photo: U.S. Senate.

Guatemala's judicial system in addition to immigration reform, AFP reported. Last year, former Guatemalan vice president Eduardo Stein told a U.S. House subcommittee that Guatemala was at "immediate risk" of being overtaken by drug cartels, and analysts have cited the country as one

of the most unstable in the region. At an Inter-American Dialogue event in October, U.S. Ambassador to Guatemala Stephen McFarland said judicial reform and combating impunity are the "lynchpin" to improving the security situation in Guatemala.

Featured Q&A*Continued from page 2*

tional debt instruments stand to gain by avoiding the need to pierce the sovereign rating in order to achieve their own investment grade rating. In addition to attaining a rate increase, the Martinelli administration should move quickly to implement the tax standards necessary to remove Panama from the OECD's 'gray list.' Coupled with an investment grade rating, this will serve to attract more international players to its shores who seek an efficient and effective location to serve the region."

A **Ambler H. Moss, Jr., professor of international studies at the University of Miami, of counsel to Greenberg Traurig in Miami and former U.S. ambassador to Panama:**

"It should be no surprise that Moody's and other rating companies have placed Panama's credit rating on the edge of investment grade. With a solid growth rate even in difficult times, all of the country's political and economic signs are favorable. Panama now has 20 years of unbroken electoral democracy. President Ricardo Martinelli is U.S.-educated and comes from a highly respected business background. The Panama Canal, entirely in Panamanian hands since 2000, has been hugely successful. Since the turnover, it has experienced increased revenues, added to daily ship transits and maintained a low accident rate. For that reason, Panama was able to raise \$5.25 billion on the private capital market to expand the canal, while offering no government guarantees. This is impressive for a country of 3.4 million people. The expanded canal works will be finished well before the 100th anniversary of the canal's opening in 1914. Panama has been experiencing an investment boom in construction and tourism, and the new canal works will add significantly to the economy. Panama has signed and fully approved a free trade agreement with the United States, which is now awaiting approval by the U.S. Congress. President Martinelli has emphasized the country's need for a metropolitan transport system and other infrastructure, better education

and health facilities, low-cost housing, and police protection. During the past few years, the country has reduced overall poverty from 37 percent to 29 percent and extreme poverty from 19 percent to 12 percent, though it still has the second-most unequal income distribution in Latin America. An investment grade rating, perhaps soon to come, will help the country meet its challenges."

A **Joaquín Jácome Díez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama:**

"This promises to be an important year for Panama in several aspects. In trade matters, the U.S. Congress will most likely ratify the stalled free-trade agreement with Panama once Panama fulfills some requirements that already are being taken care of. Several major projects will bring record amounts of foreign direct investment into the country, contributing greatly with a tight employment market. Becoming one of the Latin American countries with an investment grade is one of Panama's long-held aspirations. That could be a reality before the end of this year or early next year, after President Martinelli's administration enforces ambitious tax reforms that will be submitted to the National Assembly later this month. Panama's GDP last year grew 2.9 percent and was among the economies in the region that best coped with the global financial crisis. For this year, the forecast is for 4.5 percent growth and there is great optimism with the expansion of the Panama Canal entering in full force this year. Securing investment grade presents a possibility that major projects in the works can obtain financing at favorable conditions, thereby strengthening our country's position as one of the Western Hemisphere's most attractive destinations for foreign direct investment."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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