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FEATURED Q&A

What Are the Prospects for Costa Rica-Nicaragua Relations?

Q Earlier this month, a dispute over the border demarcation along the San Juan River between Costa Rica and Nicaragua degenerated as each country made claims that its national sovereignty was being infringed upon. The border has been a source of controversy for more than a century but tensions flared anew after Nicaragua began a dredging project last month. Will the dispute significantly affect business interests in Costa Rica and Nicaragua? What are the prospects for future relations between the two countries? How does the conflict bode for larger integration efforts in Central America?

A Kevin Casas-Zamora, senior fellow in the Latin America Initiative at the Brookings Institution and former vice president of Costa Rica: "The economic impact of this episode will depend on how long the conflict persists. If a diplomatic solution is not reached soon, which from the Costa Rican standpoint requires that Nicaraguan soldiers leave the disputed area (as recommended by the OAS secretary general), political pressure in Costa Rica will grow to adopt harsher measures against Nicaragua, including trade-related ones. This could certainly affect the burgeoning economic ties between both countries ($420 million in both directions in 2009), which are overwhelmingly comprised of Costa Rican exports and investments. Until now, President Laura Chinchilla of Costa Rica has been reluctant to entertain any such option, mostly out of pressure from the private sector and her own misgivings about the potential effect on Costa Rica's relatively frail post-crisis recovery. But that may change if the conflict becomes a burning political issue in her country, as it is starting to happen. The effects of this episode on the broader bilateral relationship will linger for a long time, particularly if Nicaraguan President Daniel Ortega is re-elected in 2011. At a minimum, it will accelerate a dangerous trend towards

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Peru, South Korea Sign Free-Trade Agreement in Seoul

Presidents Alan García of Peru and Lee Myung-bak of South Korea celebrated Monday's signing of a free-trade agreement. Last week, South Korea and the United States failed to agree on details of their trade accord. See story on page 2.

Photo: Peruvian Government.

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NEWS BRIEFS

Health Officials Gather to Debate Tighter Tobacco Controls

Public health officials from countries around the world gathered Monday in Uruguay to debate tighter restrictions on the tobacco industry, Reuters reported. The meeting of the World Health Organization is occurring as the South American country and international tobacco company **Philip Morris International** battle over Uruguay's anti-smoking laws, which the company argues are unfairly harming its business. Officials at this week's meeting will discuss proposals to limit additives in cigarettes and to gradually reduce tobacco farming.

Chilean Supreme Court Rules Against $4.4 Billion Power Plant

Chile's Supreme Court ruled Monday to uphold an appellate court decision to block the construction of a proposed 2,300 megawatt coal-fired plant in the Atacama region by Brazil's MPX Energia, Reuters reported. The court upheld the ruling that a local health authority illegally changed the soil use qualification from "pollutant" to "bothersome." Analysts say the decision could delay or possibly even block the project, which had a planned investment of $4.4 billion over the next 15 years.

Argentina and China in Talks Over Corn Exports

Argentina is in talks with China on a protocol that would allow it to resume corn shipments to the Asian nation, Argentina's Ministry of Agriculture announced yesterday, Bloomberg News reported. Trade was halted because of Chinese restrictions on genetically modified imports.

Political News

Rioters Attack United Nations Peacekeepers in Haiti

Haitians in two cities in the impoverished Caribbean country rioted on Monday, throwing rocks at United Nations peacekeepers and blaming them for Haiti's cholera outbreak, Reuters reported. Protesters hurled rocks at Nepalese peacekeepers in the central city of Hinche and also burned a police station in the northern city of Cap-Haitien. "The whole city is blocked, businesses and schools have closed, cars have been burned," Georgesmain Prophete, a local businessman in Cap-Haitien, told Reuters. "It's chaos here." The United Nations mission in Haiti has repeatedly denied rumors that Nepalese U.N. troops brought cholera to Haiti. The epidemic has killed more than 900 people in Haiti since the outbreak started last month. The U.S. Centers for Disease Control and Prevention has said DNA tests have shown links between the Haitian cholera strain and a South Asian strain. However, no agency has linked the epidemic to Nepal. Cholera has been absent from Haiti for decades and while the country's poor sanitation and poverty are main factors in the disease's spread, it is difficult to trace the exact source, according to health experts. There are approximately 12,000 U.N. peacekeepers in Haiti to provide security during the country's presidential and legislative elections on Nov. 28.

Economic News

Peru, South Korea Sign Free Trade Agreement During García's Visit

Peruvian and South Korean officials signed a free-trade accord Monday in Seoul, just days after South Korea and the United States failed to reach an agreement on a trade pact, Agence France-Presse reported. The trade ministers of Peru and South Korea inked their deal in the presence of South Korean President Lee Myung-bak and his Peruvian counterpart, Alan García. "This is a highly comprehensive free trade pact ... it will offer great opportunities for companies in the auto industry," García told reporters before the signing ceremony. García added that the pact also would provide more opportunities to invest in Peru's natural gas and other energy industries. "This FTA will greatly boost the two countries' cooperation in petrochemical and refinery businesses as well," he said. "It is highly important for us that South Korean companies invest in our gas development projects." Peru is looking to foreign investors to help in the construction of more natural gas pipelines. The South American country started exporting gas earlier this year. The two countries finalized negotiations in August. South Korea already has a free-trade agreement with Chile. The South Korea-Peru deal will eliminate tariffs on

> "This is a highly comprehensive free trade pact."
>
> *— Alan García*

South Korean industrial products including electronics and cars and Peruvian products including coffee and squid. Under the pact, all tariffs currently in place between the two countries will be eliminated within the next decade. Trade between the two nations amounted to $1.56 billion last year. The legislatures of both countries are expected to approve the accord within the first half of next year. South Korea and the United States signed a free-trade accord in 2007, but the agreement has encountered problems as U.S. automakers and beef exporters have demanded greater access for their products. Despite an effort to reach an agreement on the U.S.-South Korea pact by the time of last week's G-20 summit in Seoul, Lee and U.S. President Barack Obama said negotiators had been unable to work out differences.

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Mexican Lawmakers Approve 2011 Budget With 8.2% Spending Increase

Mexican legislators on Monday approved the expenditures portion of the country's budget, sending the spending plan, which includes an 8.2 percent increase in spending, to President Felipe Calderón, Bloomberg News reported. The Chamber of Deputies approved the budget on a vote of 454-13. The budget contains 3.44 trillion pesos ($280 billion) of spending, which lawmakers modified from the 3.35 billion that Calderón proposed. Lawmakers last month approved the income part of the budget, which estimates oil prices at $65.40 per barrel and a deficit amounting to 0.5 percent of gross domestic product. The current year's budget has a deficit equal to 0.7 percent of GDP. The budget also does not include an increase in Mexico's value-added tax, which the Institutional Revolutionary Party wanted but Calderón opposed.

Calderón

File Photo: Mexican Government.

Company News

Nestlé Ecuador Expects 39 Percent Increase in Sales by 2015

The Ecuadorean operation of Switzerland's **Nestlé** expects sales to increase 39 percent by 2015 on rising demand for the company's products, the local unit's chief financial officer told Bloomberg News Monday. **Nestlé Ecuador** is expecting "double-digit growth" each year through 2015, Santiago Noboa told the news service. The unit's sales are expected to increase to $500 million in 2015 from this year's forecast level of $360 million, said Noboa. During that time, Nestlé planned to invest $415 million in Ecuador. "Because of the trust the market has in us, we have had quite strong growth over the last few years, above all in 2010, and we expect to have very strong growth through 2015," he added.

Featured Q&A

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politicizing the issue of Nicaraguan migration in Costa Rica. Despite the fact that close to 12 percent of the population in Costa Rica is comprised of Nicaraguan migrants, xenophobic discourses have remained largely outside the country's political mainstream. That will almost certainly change now, thereby preventing rational management of a plethora of mutually important issues, including the development of the border region, a poor and sparsely populated territory where neither of the two countries exerts effective control. This animosity will further complicate integration efforts in Central America that were only starting to recover after the tensions created by last year's political crisis in Honduras. The Costa Rican government will probably shy away from a robust Central American agenda, one of its avowed foreign policy priorities under the Chinchilla administration. Finally, the current conflict will prevent Costa Rica from playing any constructive role if Ortega's eventual re-election were to be contested by the opposition and gave way to another serious political crisis in the region. "

A Mario Arana, executive director of the Nicaraguan Foundation for Economic and Social Development: "Since the administration of Enrique Bolaños, Nicaragua had decided to dredge the San Juan River to recover navigation of the river at all times of the year. This would benefit both countries as they could navigate to the Atlantic Ocean. With proper care, this should not affect Costa Rica's Colorado River, which benefits from Nicaraguan waters. This is something that both sides should work on and discuss with balance and respect, as the countries should engage in a serious effort to define their borders, which Costa Rica has been reluctant to do so far. For now, there are no indications that commercial interests are being affected or should be affected because of the controversy, other than tourism (which mainly benefits Costa Rica) in the vicinity of the conflict. The status of Nicaraguans working in Costa Rica is probably the most important component of the relationship, where consequences may be more difficult to predict. Nevertheless, the integration of the region is suffering from political conflicts beyond the Costa Rica-Nicaragua issue. For example, new artificial barriers are being put in place affecting some sensitive trade of beef and dairy products by some Central American countries. Also, political differences about Honduras were already having an effect on working meetings of the region. Although there is not a sense of a commercial crisis yet, the region is suffering from a lack of commitment and leadership in terms of the regional agenda, which could represent a setback to the steady progress of regional integration. The cooperation and association agreement with the European Union, CAFTA and other regional trade deals, such as the one being negotiated with Canada, could be affected by political differences that seem to be growing in Central America. From a business point of view, an effort on the part of the presidents in favor of integration would be a welcome development."

A Patricio Grané, counsel at Arnold & Porter LLP in Washington and former counselor of the Permanent Mission of Costa Rica to the World Trade Organization: "The latest territorial dispute between Costa Rica and Nicaragua will not significantly affect business interests in the two countries. From 1995 to 2009, bilateral trade increased from approximately $105 million in 1995 to $484 million in 2008 despite the San Juan River dispute developing into rancorous disagreement, including through litigation decided largely in Costa Rica's favor at the International Court of Justice. Unless Nicaragua's president undertakes ill-advised trade measures (such as broadly

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Featured Q&A

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raising tariffs or imposing a ban on Costa Rican imports), there is no reason that this latest border dispute will alter that upward trend in positive economic relations. Moreover, the dispute has no meaningful impact on trading routes between the two countries or on trade in the region generally. The prospects for future relations between the two countries remain good and generally unaffected by the latest border dispute. In addition to trade in goods, there are other important socioeconomic ties between the two countries, including strong cultural and regional ties. Among other connections, Nicaraguans' remittances back home contribute to the income of an estimated 13.6 percent Nicaraguan households. The border conflict between Costa Rica and Nicaragua will not undermine the sustained integration efforts in Central America. Economic integration is an essential component of the regional integration effort of the Central American Integration System (SICA). The Central American countries have established a free-trade area covering 99 percent of all goods, and have adopted several treaties to facilitate and promote trade within the region (estimated at $5 billion in 2007). The five Central American countries are also negotiating the creation of a customs union in the region."

Mitchell Seligson, centennial professor of political science at Vanderbilt University: "Border conflicts between Costa Rica are nothing new, dating back more than 150 years and transcending regimes and political ideology. The initial conflict dates back to the 1850s, only three decades after the independence of the Central American region. U.S. adventurer William Walker, in an effort to gain control of transportation routes across the ithmus and with the ultimate goal of setting up a slave state in Central America, had taken control of Nicaragua by 1856. In reaction, Costa Rica declared war and initially defeated Walker's army in Rivas, Nicaragua, and did so again in December of that year in the area around the San Juan River. The river not only serves as a border between the two countries, it has been seen at least since the 1850s as a crucial link in a potential trans-ithmus canal route (connecting to Lake Nicaragua and from there to the Pacific coast) decades before the Panama Canal was built. Tensions flared again in 1898 and 1909 as a result of internal partisan conflicts in Nicaragua. In 1948 and again in 1955, Nicaragua invaded Costa Rica in the context of Costa Rica's civil war of 1948. During the Sandinista Revolution, guerrillas from Nicaragua based themselves in camps on the northern border of Costa Rica, motivating Somoza to threaten, but not carry out, an invasion. Venezuela sent elements of its air force to protect Costa Rica from the threat from Somoza. After the rebel victory, disenchanted Sandinista Edén Pastora, who is involved directly in the current dispute, led the ARDE Contra organization from the San Juan River region, creating further border tensions. Many other minor disputes have flared up over the years, but the hostilities have each been limited in magnitude and duration. It would not be unreasonable to predict that the current crisis will also die down without provoking a larger conflict."

> "It would not be unreasonable to predict that the current crisis will also die down without provoking a larger conflict."
>
> — ***Mitchell Seligson***

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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Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Rachel Sadon
Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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