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FEATURED Q&A

What Does 2011 Hold for Latin American Economies?

Q The United Nations Economic Commission for Latin America and the Caribbean, or ECLAC, announced Dec. 13 that it expects Latin America and the Caribbean will have experienced 6 percent economic growth in 2010 and will see growth of 4.2 percent in 2011. Which countries will grow most in the year ahead and which will lag behind? Which sectors in the region will see significant growth in 2011 and which will struggle. Why?

A Luis Oganés, managing director and head of Latin America Research at J.P. Morgan Chase & Co. in New York: "Latin America displayed remarkable resilience in activity indicators during 2010, prompting upward revisions to growth forecasts throughout the year despite the global growth deceleration since this year's second quarter. Real GDP growth in Latin America is now expected to reach 5.9 percent year-over-year in 2010, well above the 4 percent originally penciled in for the region at the beginning of the year. Latin America's ability to maintain positive growth momentum despite the global slowdown was likely related to the fact that growth in most countries in the region has been driven by a strong recovery in domestic demand, while the growth contribution from net trade is negative given the surge in imports. That said, Latin American exports certainly benefited once again this year from the commodities rebound post-crisis and the

strong growth displayed by China, and will continue doing so next year. Indeed, with the exception of Mexico, commodities represent more than half of total exports from all major Latin American countries, with Chile, Ecuador, Peru and Venezuela even exceeding 70 percent. For 2011, the 4.1 percent year-over-year growth forecast for Latin America as a whole suggests that the regional pace of growth will remain above potential next year, helping to absorb any remaining economic slack. To be sure, the output gap that resulted from the short-

Continued on page 3



Venezuela's National Assembly Approves Internet Regulation

Venezuelan lawmakers have approved controversial new laws to regulate Internet communications. Critics of the measures say they are an effort by President Hugo Chávez to stifle opposing views. See story on page 2.

Photo: Venezuelan National Assembly.

Inside This Issue

FEATURED Q&A: What Does 2011 Hold for Latin American Economies?	1
Venezuelan Lawmakers Approve Law Regulating Internet.....	2
Guatemala Seizes Weapons, Cash From Suspected Traffickers	2
Six Feared Dead in Puerto Rico National Guard Helicopter Crash	2
Bogotá Mayor Vows to Remain in Office Despite Corruption Probe.....	2
State Grid Corp. Paying \$1 Billion for Brazilian Power Distributors.	3

NEWS BRIEFS

Six Feared Dead in Puerto Rico National Guard Helicopter Crash

Six people are feared dead after the crash of a Puerto Rico National Guard helicopter, officials in the U.S. territory said Tuesday, the Associated Press reported. The crew onboard the helicopter was heading to a drug raid on the island of Vieques when it vanished late Monday north of the coastal city of Rio Grande. The body of one of the crew members has been recovered and the other five are feared to have been killed.

Bogotá Mayor Vows to Remain in Office Despite Corruption Probe

The mayor of Bogotá, Samuel Moreno, said he will not resign amid a move by the Colombian controller general's office to freeze some of his assets in conjunction with a corruption investigation over a transit system construction project, EFE reported Tuesday. Both Moreno and his predecessor are being investigated in connection with the awarding of a transit route contract to a company that went bankrupt, costing taxpayers as much as \$104 million.

Grupo Mexico Seeks Return of Environmental Fines

Mexican mining company **Grupo Mexico** announced Tuesday that it is seeking to prove its subsidiary, **Asarco**, overpaid environmental fines by \$210 million for contamination damages in the United States, Reuters reported. Asarco filed for bankruptcy in 2005 and, according to the company, paid \$1.6 billion to settle its environmental claims. Grupo Mexico seeks to prove that Asarco was not responsible for damages in Omaha and that U.S. Environmental Protection Agency officials destroyed potentially valuable information.

Political News**Venezuelan Lawmakers Approve Law Regulating Internet**

Venezuela's National Assembly late Monday approved controversial new Internet and telecommunication laws, which critics say will allow President Hugo Chávez to stifle opposition voices. The Internet measure prohibits television, radio or Internet messages that "incite, promote or justify crime, the equivalent of war propaganda, fomenting anxiety among the citizenry or that alter the public order," Bloomberg News reported, citing a statement from the National Assembly, which is dominated by Chávez

“Our goal is for every person to be responsible for the opinions they air on a radio or television program.”

— *Manuel Villalba*

supporters. Online media organizations that violate the law will face fines of as much as 13,000 bolivars (\$3,023) and service providers that do not respond to inquiries from the government will be fined as much as 4 percent of annual income. The legislation declares digital networks as well as television and radio broadcasts a "public service." One of the most controversial sections of the telecommunications law, which would have created a government-controlled hub for Internet traffic, was stripped out of the legislation, CNN reported. Critics argued that the government could have used a central hub to filter Internet messages. Manuel Villalba, a pro-Chávez lawmaker in the National Assembly who heads the commission on science, technology and the media, said the laws' passage shows that the government is committed to freedom of expression. "Our goal is for every person to be responsible for the opinions they air on a radio or tel-

evision program," he told Agence France-Presse. However, Gloria Cuenca, a communications expert at the Universidad Central de Venezuela, said the legislation will lead independent media "to self-censor themselves out of fear, and threatens the right of users to freely use the Internet," she told AFP, adding that there is fear "that we are heading to a situation of Internet content blocking like in China or Cuba." The National Assembly, which last week granted Chávez power to pass laws by decree for 18 months, approved the telecommunications measures just weeks before a new National Assembly, which includes more members opposed to Chávez's government, is to be seated Jan. 5.

Guatemala Seizes Weapons, Cash From Suspected Traffickers

Authorities in Guatemala seized the equivalent of tens of thousands of dollars, several weapons and a small airplane Tuesday in the province of Alta Verapaz, where the government declared a state of siege over the weekend in order to fight drug traffickers, EFE reported. Police discovered 300,000 quetzales (\$37,735) in cash inside an aircraft that was impounded in the city of Cobán and 200,000 quetzales (\$25,157) in cash during the search of a private home, said police spokesman David González. In addition, authorities confiscated 150 AK-47 assault rifles. Police also have arrested 10 alleged members of Mexico's Los Zetas drug cartel since the state of siege took effect Saturday, González added. President



Colom

File Photo:
Guatemalan Gov't.

Álvaro Colom declared the 30-day state of siege in the northern province in order to retake control of cities that are overrun by traffickers affiliated with Los Zetas, officials said. Authorities are working "to restore governability, attack and dismantle the organized crime structures established in Alta Verapaz," Guatemalan Interior Minister Carlos Menocal said Tuesday. In addition, the

Guatemalan army may place a permanent antinarcotics detachment in Alta Verapaz, said defense Minister Abraham Valenzuela. In addition to the cash and weapons, authorities seized nine vehicles, including four that are armor-plated, while they were detaining the 10 suspected drug gang members Monday. The state of siege allows the government to suspend constitutional guarantees and the Colom administration said that "anyone suspected of conspiring against the state" may be arrested without a warrant. In addition, authorities can "repel or repress any individual or collective action" undertaken by groups opposed to re-establishment of government control in the province, said a government statement. Colom said Tuesday that Guatemala does not currently have enough soldiers and police to extend the state of siege elsewhere in the country where Los Zetas has a presence. However, the government intends to add 4,000 troops to the army so that its size is approximately 21,000.

Company News

State Grid Corp. Paying \$1 Billion for Brazilian Power Distributors

China's **State Grid Corp.** has agreed to pay almost \$1 billion for seven power distributors in Brazil, *The Wall Street Journal* reported Tuesday. The government-owned company also secured a concession to operate power lines, substations and other electricity infrastructure in the densely populated southern part of Brazil for 30 years. The agreement would allow authorities in Brazil to renew the license for an additional 20 years, according to China's State-Owned Assets Supervision and Administration Commission of the State Council. State Grid, the world's largest utility company, was founded in 2002 and is investing billions of dollars to build new power infrastructure in China, including ultrahigh-voltage power lines. However, the company has limited opportunity for new markets in China as it has a monopoly on power distribution in all but five provinces of China. State Grid has said the agreements in Brazil will

produce more than \$110 million in earnings annually. The acquisition of the power distributors involves subsidiaries of Spain-based companies **Grupo Cobra** and **Elecnor**, as well as Brazil's **Grupo Isolux Corsán**. Thus far, China's largest energy agreements in South America have been in oil and gas. Earlier this month, **China Petrochemical Corp.** agreed to

buy the Argentine unit of **Occidental Petroleum Corp.** for \$2.45 billion. Two weeks prior to that deal, a Cnooc joint venture in Argentina agreed to pay \$7.06 billion for full control of **Pan American Energy** from **BP**. In October, Spain's **Repsol YPF** said it was selling 40 percent of its assets in Brazil for \$7.1 billion to **China Petrochemical**.

Featured Q&A

Continued from page 1

lived recession in early 2009 has already been eliminated in Brazil by mid-year, and will close in Peru by end-2010 and in Chile, Colombia and Mexico during 2011. This will force policymakers to rein in monetary and fiscal stimuli in order to reduce inflation pressures."

A Roger Scher, professor of international relations and international political economy at Seton Hall University and former managing director of Latin American sovereign ratings at Fitch Ratings: "A slowdown will be driven by tighter macro policies, weaker commodity prices and slower growth in the advanced economies and China. A modest slowdown in Latin America and the Caribbean will be a good thing overall, reducing risks of inflation and an asset price bubble and ensuring that the region's secular economic rise will continue in a sustainable manner. In general, Latin American countries oriented toward Asia, specifically China and India, will grow more rapidly than those oriented toward the United States and Europe. Capital inflows to most countries in the region accelerated this year. As a result, cautious Latin American governments have implemented measures to slow these inflows, including raising bank reserve requirements, which should continue to bite in 2011. Nevertheless, it will be difficult to manage policy priorities, as the concern over losing competitiveness due to appreciating currencies is causing Latin American governments to accumulate foreign exchange reserves. Also worried about economic overheating, China is implementing a host of

measures to bring GDP growth down, thereby moderating demand for Latin American exports and especially affecting commodity exporters such as Venezuela, Argentina, Brazil, Chile and Peru. While certainly not making up for China's slowdown, India's economy

“Latin American countries oriented toward Asia, specifically China and India, will grow more rapidly than those oriented toward the United States and Europe.”

— Roger Scher

should grow a buoyant 8.5 percent next year, contributing to demand for Latin American exports. The euro area will remain in the doldrums, while U.S. growth will slow modestly as the Obama fiscal stimulus peters out. Brazil's economy should slow markedly to below 5 percent growth in 2011, due to slowing Chinese and European demand coupled with domestic measures to slow capital inflows. Mexico's growth will remain paltry compared to other emerging markets at under 4 percent. Peru's gangbusters economy should continue to grow smartly at above 6 percent (from above 7 percent this year) and Chile will see a similar story. Venezuela's distorted

Continued on page 4

Featured Q&A*Continued from page 3*

economy will go the way of oil prices, as always, with growth being flat to slightly lower. Colombia will be buffeted by sluggish demand from Venezuela and the United States, while Argentina will see a slowdown amid weaker commodity prices."

A **Santiago Maggi, chief investment officer at Bulltick Capital Markets in Miami:** "I think we will see slower growth in 2011 than we've seen in 2010; mainly because China will have to deal with its overheating economy and this will have a direct impact on Latin American economies. In general, I see 2011 as very similar to what we've seen in 2010. I think the two main stories for 2011 will again be Mexico and Argentina. Mexico will benefit from a stronger than expected U.S. economy and Argentina will benefit from being Brazil's neighbor, although Argentina's main challenge will be to control the real inflation. The main risk for Latin America in 2011 is external and not domestic. The first and most dangerous risk is Europe. If for some reason Europe collapses (our view is that we will see a lot of volatility but the euro will not disappear), this will

have consequences very similar to Lehman Brothers. The second and most probable external risk is China trying to

“Mexico will benefit from a stronger than expected U.S. economy and Argentina will benefit from being Brazil's neighbor.”

— *Santiago Maggi*

control its overheating economy. A slowdown in China will have a direct impact in the region. There is no doubt that Latin America needs to invest heavily in infrastructure (airports, ports, railroads, roads, etc.) and I hope they start doing it in 2011."

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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