



# Inter-American Dialogue

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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at [rsimpson@thedialogue.org](mailto:rsimpson@thedialogue.org)

### Featured Q&A With Our Board of Advisors

**Q The Mercosur trade bloc on Sunday signed a free trade agreement with India. How significant of an agreement is this for Mercosur? Should trade negotiators from wealthy nations such as the US be concerned about efforts to boost trade ties among developing countries?**

**A Guest Comment: Javier Tizado:** “For the last ten years, the four members of the Mercosur trade bloc have shown little dynamism in the process of negotiating in order to access international markets. In particular, the evolution of negotiations with the aim of expanding the potential markets for primary products has shown few achievements. Simultaneously, after the Uruguay Round several bilateral negotiations began. Between 1989 and 2003, 127 new bilateral trade agreements were signed, contributing to a total amount of approximately 153 active agreements. Consequently, the Mercosur member countries have experienced a deterioration in their competitive position in markets in which the existence of free trade agreements enables the subscribing countries to operate without restrictions, such as the need to pay import duties or asymmetries in the definition of such duties. In order to come back from such a disadvantage, several trade agreements are being negotiated between the Mercosur countries and other regions. These include the European Union, South Africa, Peru, Mexico, and the FTAA, among

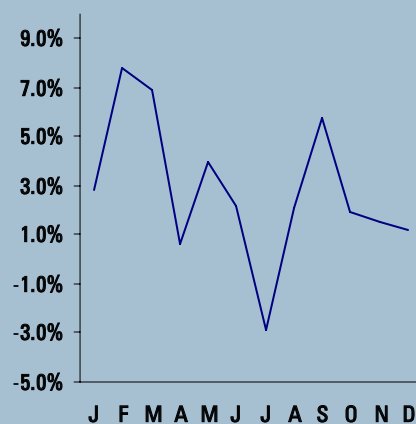
others. The temporarily devalued currencies of the Mercosur member countries acts as a clear advantage in the process of developing such international markets. In this context, the recently signed agreement with India constitutes an interesting opportunity for Mercosur to gain access to a key market for its exportable goods. Since such an agreement presents no threat to wealthy nations, there are no significant reasons for them to oppose its signing. As a matter of fact, increased trade between

*Continued on page 4*

### CHART OF THE DAY

#### Chile Industrial Production Jan-Dec 2003

YoY % change



Source: INEGI.

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## NEWS BRIEFS

**Ecuador Seeks Extension on IMF Loan Agreement**

Ecuador has asked the International Monetary Fund (IMF) to extend its loan agreement with the country through the end of the year. The 13-month loan program is set to expire in April, but Ecuador has only been able to withdraw the first tranche of \$42 million out of a total of \$205 million due to delays in its compliance with the terms of the program.

**Demand for Natural Gas in Brazil Could Quadruple by 2010**

An official at Brazil's Petrobras said the state-owned oil company expects demand for natural gas in Brazil to grow almost 400 percent over the next six years. Gas and Energy Director Ildo Sauer said the company's "optimistic, but possible" projection foresees natural gas growing from 27 million cubic meters per day (mcmd) in 2003 to 100 mcmd by 2010.

**Banco de Mexico: Economy Grew 1.2 Percent in 2003**

Mexico's economy grew an estimated 1.2 percent in 2003, according to the head of the country's central bank. "We expect growth in the fourth quarter of 1.9 percent, which would give us growth of 1.2 percent for the full year," Banco de Mexico Governor Guillermo Ortiz said.

**Chilean Copper Output Rises**

Copper output in Chile grew 6.3 percent in 2003 compared to the previous year, the National Statistics Institute reported. The country produced 4.91 million tons last year and expects output of 5.49 million tons in 2004.

Source: Reuters.

## Economic News

**IMF Approves Review of Argentina Loan Despite Debt Talk Concerns**

The International Monetary Fund's (IMF) executive board on Tuesday approved a first review of the IMF's \$13.3 billion loan to Argentina despite criticism that the country is dragging its feet in debt restructuring talks with creditors. In a statement, IMF Managing Director Horst Koehler praised Argentina's economic performance and fiscal discipline, but said an agreement with creditors holding some \$88 billion in defaulted debt is "the most critical task" going forward. "The authorities' intention is to launch a debt exchange offer that aims at attracting broad creditor support and, toward this end, they are

to the debt talks. **JP Morgan** and **Salomon Smith Barney** withdrew as candidates last year.

**Colombia to Buy Dollars on Futures Market in Bid to Hold Down Peso**

Colombian Finance Minister Alberto Carrasquilla said Wednesday the government will buy dollars on the futures market to secure cheap money to pay liabilities and restrain the strengthening peso, Reuters reported. In auctions this year, Colombia could purchase up to \$2.2 billion—equivalent to the country's debt servicing costs in 2004—from three to 12 months in advance on futures markets, Carrasquilla stated. The minister said he

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*“Argentina is facing growing pressure from other countries, including the United States, to be more flexible in debt talks.”*

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expected to deepen their dialogue with private creditors in order to reach a collaborative, comprehensive, and sustainable sovereign debt restructuring," Koehler stated. Creditors have angrily rejected the government's offer to pay only 25 percent of the face value of defaulted bonds. Argentina is facing growing pressure from other countries, including the United States, to be more flexible in debt talks. In a rare show of displeasure with Argentina's slow progress on debt talks and treatment of foreign investors, eight board members—mostly from European countries—abstained from yesterday's board vote, according to Reuters. "There are question marks over the good faith, not just in debt negotiations, but in fulfilling the sort of program we thought we had signed up to," an unnamed source told Reuters. In related news, major international banks **Goldman Sachs** and **Morgan Stanley** have withdrawn as candidates to advise Argentina on its negotiations with creditors, according to local daily *La Nacion*. The banks reportedly pulled out of the running due to differences over commissions and the government's approach

hoped banks would amass dollars from the spot market to sell to the government when its futures mature. Trade Minister Jorge Humberto Ramos had said earlier yesterday that Colombia would announce measures to cushion exporters from the strengthening peso, but would not automatically compensate them for foreign exchange fluctuations. The government fears the strong peso could hurt the competitiveness of the country's exports and last week floated a proposal—now dropped—that would have compensated exporters when the peso rose past set levels against the US dollar. Colombia's key exports of oil and coffee are priced in dollars and are thus unaffected by exchange rate fluctuations. The peso has risen 3 percent against the dollar since December 9. [Editor's note: look for a Q&A on strengthening currencies in the region in next Monday's *Latin America Advisor*.]

**Electricity Reform Clears Hurdle in Brazil's Congress**

Brazil's lower house of Congress on Wednesday overcame opposition attempts

to delay a vote and passed a measure that would change how generators sell electric power to distributors, Reuters reported. Under the proposed measure, which aims to keep prices down yet be investor-friendly, generators would sell power through a pool system to a government-run sales chamber at the cheapest price possible via public auctions. Distributors would be required to contract electricity from the pool and pay a single average price. Electric power had previously been traded through long-term contracts between generators and distributors.

## Political News

### One Person Killed in Haiti As Political Crisis Drags On

At least one person was killed Wednesday in Haiti amid continuing pro- and anti-government demonstrations in the Caribbean nation's capital of Port-Au-Prince, according to wire reports. A Haitian university student demonstrating in favor of embattled President Jean-Bertrand Aristide died from internal injuries suffered from a blow by a tear gas canister shot by police shortly after authorities had dispersed an anti-Aristide march by some 20,000 protesters. Some 10 protesters were hit by rocks, and several were arrested. Aristide opponents vowed yesterday to defy a police order that future protests be confined to a downtown park. Aristide and his Lavalas Family party have been locked in an often violent dispute with Haiti's opposition, which accuses the president and his party of rigging parliamentary and presidential elections in 2000. More than 50 people have died in violent street clashes between the country's police, Aristide's opponents, and his supporters.

### Dominicans Launch Two-Day Strike to Protest Economic Crisis

A 48-hour strike in the Dominican Republic began Wednesday, shutting down more than half the nation's major businesses to protest the country's worst economic crisis in decades, the Associated

## Subscriber Notice

With today's issue, we are delighted to announce a new design for the Inter-American Dialogue's *Latin America Advisor* and expanded features that we think you will find useful.

Two new formats for the *Advisor* are now available for subscribers to choose from: 1) this print-ready, PDF version (which includes the same concise analysis and news coverage that subscribers have relied upon for years, redesigned for more efficient reading), and 2) a new text-based, HTML version, which can be posted on corporate subscriber Intranets for better access, archiving and keyword searching by employees worldwide. Contact [rsimpson@thediologue.org](mailto:rsimpson@thediologue.org) for access.

The *Latin America Advisor* will also expand editorial coverage with periodic features, including ...

*Chart of the Day* – a daily graphic highlighting new data on business, economic or political trends.

*Capitol Hill Watch* – a weekly round-up of US congressional action on Latin America.

*Profiles* – periodic profiles of key regional leaders.

*Q&A Index* – weekly and monthly indices of topics covered by the *Advisor's* featured daily Q&As.

We look forward with interest to your reaction to these changes.

– The Editors

Press reported. "We are sending a clear message that the government needs to get rid of its arrogant attitude," said strike leader Ramon Perez Figuero. President Hipolito Mejia, who faces criticism for his re-election bid and the country's deteriorating economy, pleaded with workers to prevent the strike. In the last year, the country has seen inflation top 42 percent, the peso lose more than half its value against the dollar, and an unemployment rate of over 16 percent. The crisis has fueled an exodus of Dominican boat people to the United States. Some 1,000 Dominicans have been intercepted at sea in January alone, compared to 190 a year ago. Many Dominicans blame the government for unchecked inflation, which has almost doubled prices for gasoline and staple foods. "They are asking for magic, but we can't produce that," said Mejia's spokesman, Rafael Peralta. Under Mejia, who took office in 2000, the Caribbean country's external debt has more than doubled—from \$3.6 billion to \$7.6 billion.

### Colombian Army Kills 20 Members of Paramilitary Group

The Colombian army said Wednesday that soldiers had killed at least 20 members of a right-wing paramilitary group during an offensive in Casanare province, some 170 miles northeast of Bogota, Reuters reported. Gen. Justo Eliseo Pena said no government troops were killed or injured during the operations, the largest such offensive against Colombia's paramilitaries. The government has been criticized for not taking action against paramilitary groups, which have backed the government's campaign against leftist rebels but which are also blamed for some of the country's worst human rights abuses. Eliseo Pena said the paramilitaries killed during yesterday's offensive belonged to the Autodefensas Campesinas del Casanare, a group that is engaged in disarmament talks with the government. President Alvaro Uribe launched negotiations with the country's paramilitary groups last year.

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

developing countries also contributes to the general growth of its economies, setting favorable conditions for trade between such nations and developed economies such as the US."

**A Guest Comment: Jon Huenemann:**

"The trade between this South American trading group and India is of little overall importance to the Indian or Mercosur economies, but the strategic significance cannot be discounted. South-south trade has long been a calling among developing countries, but few real efforts at truly comprehensive trade liberalization have occurred over these same many years. The Mercosur-

*"... Some of the biggest obstacles to trade are between developing countries ..."*

— *Jon Huenemann*

India initiative, although I am not familiar with its details, has the potential to generate some trade, but only if it is truly comprehensive and true to the liberalization agenda where so many other developing country to developing country initiatives have failed. India, for example, has been loathe to open its agricultural sector in the context of the WTO Doha development agenda, so if it is opening its full agricultural sector to Mercosur trade that would be a major breakthrough. Similarly, Mercosur has been conservative in its approach to opening its industrial and services sectors to global competition in the Doha development agenda, so if Mercosur is opening its textile, apparel, and services sectors to India that would be a major breakthrough. I suspect there may be serious limits to the liberalization within this arrangement. The only real concern that US and developed country trade negotiators have historically been concerned about in South-South trade agreements is whether they are consistent with the requirements for such agreements within the GATT/WTO (*i.e.*, they

do not create new barriers to commerce with developed countries) and whether their purpose is to create political and strategic obstacles to successful global/regional trade liberalization efforts. In fact, the US and other developed countries have long pointed out that some of the biggest obstacles to trade are between developing countries, and this is an obstacle to development. So I hope the India-Mercosur arrangement does forward the economic development interests of the two trading partners and at the same time serves as a supporter of global liberalization.

**A Guest Comment: Marcel Vaillant:**

"The more developed economies will not necessarily be hurt by this process to the extent that it implies a strengthening of the conditions for sustainable growth of the developing economies involved. On the other hand, it is natural and logical for the economies of the South to look for alternatives to slowed trade negotiations that have few results in sight, particularly in those markets where they register the greatest comparative advantages and where coincidentally the developed countries have concentrated their most protectionist resistance. In this case, the more dynamic developing countries could create an important source of demand for intensive natural resource goods that constitute one of the pillars of the export model of the Mercosur countries."

**Javier Tizado** is Associate Director of STRAT Consulting and former Argentine Secretary of State for Industry, Trade, and Investment.

**Jon Huenemann** is a member of the ADVISOR board, Senior Vice President and Group Leader at Fleishman-Hillard Government Relations, and a former Assistant US Trade Representative with responsibilities in the Americas.

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