Latin America Advisor

The Interactive Forum for the Region's Leaders Friday, June 27, 2003

Today's Top News

Advisor ANALYSIS

Q **A meeting of US and Central American trade officials last week was notable by the separate position taken by Guatemala, which has broken with its four regional partners -- Costa Rica, El Salvador, Honduras, and Nicaragua -- in proposing a more ambitious plan for tariff reductions. Will Guatemala return to the flock? Even if the five countries can maintain a unified front in talks with the US, how will they manage negotiations on trade-sensitive agricultural products?**

A **Guest Commentary: Manuel Orozco:** "Guatemala's decision to lower its barriers and negotiate apart from the other Central American countries was perhaps the major political error of the year in Central America. The country demonstrated an inability to work with the region by choosing to dramatically weaken the regional integration process (by reducing its barriers it chose to trade only with US goods and not to import 400 million in trade with El Salvador). The rippling effect also weakened the regional free trade negotiations because it left Central America with four partners with lesser bargaining power and a sore reputation. Unfortunately the Guatemalan decision reflects the internal chaos in the country where there is significant fragmentation in the political and social arena, including deep tensions between private sector producers and exporters. Lowering its trade barriers to sensitive comodities, including agricultural ones, represented a major setback to agricultural producers and workers who will be unable to compete with US-subsidized products. Once the United States accepted the Guatemalan proposal, Guatemala opted out of the regional trade negotiations because the region's countries won't be able to afford to lower their commidites the way Guatemala did."

> "... generally speaking they cannot 'return to the flock.'"
>
> -- Ricardo Cevallos

Guest Commentary: Francisco Villagrán de León: "Guatemala's proposal on market access is not likely to change. Instead, the other four Central American countries may move closer to Guatemala's position, since it is the most open. Up to now the five countries have adopted different negotiating strategies that respond to different interests. What Guatemala could do is to reconfigure its proposed package of more than 6,000 products. Clearly, all the Central Americans have work to do in order to develop a common position on the issue of market access. They have to keep in mind that a free trade area will in the end require a customs union. The ongoing negotiations provide the right incentive to achieve that objective, which after all is required for the free trade treaty to be really effective. On the issue of sensitive agricultural products, Guatemala's negotiator, Salomon Cohen, has indicated a

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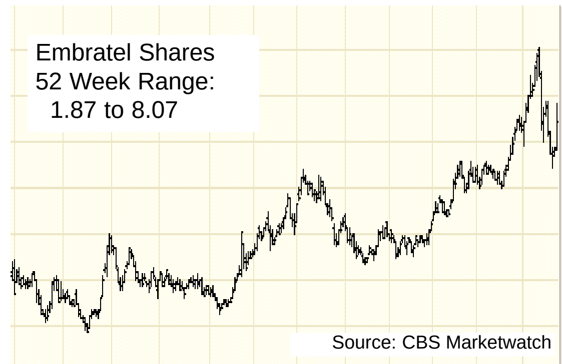
Company News

Circuit City Declines to Review Carlos Slim's Buyout Offer

Circuit City Stores Inc., the US' second largest electronics retailer, refused to accept a buyout proposal offered by the Mexican billionaire Carlos Slim, one of Latin America's richest men, Bloomberg News reported Thursday. Slim -- who with a 9 percent stake is the company's second-largest investor -- offered to pay $8 a share on June 16 for Circuit City, which he valued at about $1.66 billion, according to the Securities and Exchange Commission. But two days after the offer was made, Circuit City's Chief Executive Alan McCollough rejected it. He said the board wasn't interested in discussing the matter further. Circuit City spokeswoman Ann Collier said, "The board of directors reviewed the proposals and determined they were not in the best interest of our company and our shareholders." The offer came after Circuit City's stock dropped by more than half last year, because of slowed economic growth that hurt US sales. Three years ago Slim bought **CompUSA** for $800 million and his bid for Circuit City was taken as a sign by investors that the he is trying to consolidate his interests in the US electronics market. Slim was listed as the world's 17th richest man in 2002 with an estimated worth of $11.5 billion. He controls such companies as **Telefonos de Mexico** (Telmex), **America Movil** and is on the board of **SBC Communications Inc.** and the **Altria Group Inc.**, **Philip Morris**' holding company.

Embratel's Stock Up for Week on Rumors of Telmex Purchase

Shares in Brazil's **Embratel Participacoes** got a boost this week from the publication of a newspaper report that suggested the company would be bought out by Mexican telephone giant **Telefonos de Mexico** (Telmex), Reuters reported. Embratel's preferred stock jumped 8 percent on Wednesday, to 6.06 reais, and ordinary shares went up 13.10 percent to 6.65 reais in afternoon trading. The spike came after Mexican daily *El Economista* reported that Telmex, Latin America's largest telecommunications company, was considering buying the Braizlian long distance company. However, the excitement on the **Sao Paulo Stock Exchange** might have been due to rumors, as a spokeswoman for Telmex's **America Movil** unit told reporters she did not know of plans to purchase Embratel. Patricia Ramirez did



not rule out the possibility of potential acquisitions in the region, however. "Our core business in Brazil is in the wireless sector and we intend to consolidate those operations. Embratel is long distance," Ramirez said. "We're open to new opportunities, but for now I don't have any information (about a possible takeover of Embratel)," she continued. Embratel's affiliation with scandal-ridden **WorldCom Inc.** has been cited as one reason for Telmex's potential interest. Embratel has seen its stock rise more than 60 percent so far this year. On Tuesday, the company announced it won a concession to provide long-distance services in Chile.

Political News

Andean Heads of State Meet Today

A two-day Andean summit begins today in Quirama, Colombia. The meeting will be attended by member states Colombia, Bolivia, Ecuador, Peru and Venezuela. Brazilian president Luiz Inacio "Lula" da Silva is scheduled to attend the summit as a guest of honor. President Toledo of Peru canceled a trip yesterday to Colombia, where he was due to participate in the Summit, citing the need to make appointments to his new cabinet. Analysts anticipate the cabinet decisions to be made over the weekend. The countries are scheduled to discuss trade and a range of issues relating to integration with their neighbors. However, individual leaders of the Andean countries have concerns much closer to home. In

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willingness to include some of those products. There are industries in the region that could obtain raw materials at lower costs (e.g., cotton). In addition, consumers in Central America could also benefit from getting some grains at lower prices (i.e., corn and wheat). A flexible position on this matter could in turn facilitate access for some Central American products."

Guest Commentary: Ricardo Cevallos: "No one seems to know why Guatemala took such a position in the negotiations. Guatemala is El Salvador's second export destination after the US, and Costa Rica has also significant exports to Guatemala, so the position taken by their government has seriously affected the exporting sectors of the rest of Central America. The US has expressed that it will not reconsider a new 'less favourable' position by Guatemala, so they have to stick to their proposal, therefore generally speaking they cannot 'return to the flock.' The rest of the countries hope that Guatemala will 'continue' to share positions in other sensitive matters such as labor, environment, textiles, etc., but I am sure they are not counting on it 100 percent. Why is Guatemala doing this? There are rumors that it fears not being 'certified' by the US in their anti-drug efforts and being blacklisted, which would harm the assistance the government receives from Washington. Additionally, the current Guatemalan government is close to finalizing its term and their party will most certainly not be reelected due to the high levels of corruption evidenced in their government, so since they are 'on their way out,' they are not considering the harm that might be generated with the private and public sectors of their neighbors by being on the 'good side' of the US. The five countries will have to mantain a unified front in agricultural products. Our countries are heavily agriculture-oriented, coffee prices are depressed and their is lack of employment in the countryside; not keeping a unified front in agriculture would be an act of complete disregard for the realities of our countries and borderline inhumane."

Board Commentary: Tony Smith: "The separate position taken by Guatemala in the CAFTA negotiations has not been positive, but is probably inevitable considering the rift between the Guatemalan private sector and the government, which is unlikely to be bridged this year. Despite the government's position, the critical factor is that the private sector is working well with its regional counterparts. Irrespective of what USTR may say publicly, the Bush Administration understands the political dynamics in Guatemala. Thus, it is more likely that the ultimate CAFTA agreement will need a mechanism to allow Guatemala to join the rest of the region, if it wants to, at the end of the Portillo government's term in the beginning of 2004. On the agricultural front, Guatemala's private sector is effectively leading the way and resolving some difficult political issues. Unfortunately, given this, the rift may lead the government to take an opposing position. Recent Portillo Administration statements contend that the Guatemalan private sector is responsible for numerous problems, including the country's decertification in the effort against narcotics trafficking. This makes coordinated negotiations more difficult, as in all the other countries the private sector and government are working together. I don't believe it will undermine an agreement to the regional free trade agreement by December 2003.

Manuel Orozco is project director of Central America for the Inter-American Dialogue.

Francisco Villagrán de León is Guatemala's former Ambassador to the OAS, the UN, Canada, Norway and Germany.

Ricardo Cevallos is Managing Partner at Delgado & Cevallos.

Tony Smith is a member of the Advisor board and partner at Schmeltzer Aptaker & Shepard.

Venezuela, President Hugo Chavez faces a serious bid to unseat him in this summer's anticipated referendum. In Ecuador, poverty reduction and growth are concerning Lucio Gutierrez's administration. Finance minister Pozo is scheduled to travel to Washington this weekend to meet with IMF officials and secure a reported $1.05 billion loan package for Ecuador to be disbursed over the next four years, according to a report by JP Morgan, all dependent upon certain GDP and poverty reduction goals. In Peru, as cited above, President Toledo has his hands full with an empty cabinet and public approval ratings barely in the double digits. And in Colombia, which finds itself in a relatively stable position despite no end in sight for its decades-old civil war, newspapers have been filled with news of the murder this week of industrialist Helmut Bickenbach, 68, and Doris Gil, 65, his wife by FARC rebels. Despite these local problems, foreign and trade ministers from the Andean nations in advance of the Summit this week approved 16 legal provisions that will "give maximum priority to the social dimension of Andean integration over the next few years," according to a statement. "This will contribute to the creation of the Andean Common Market and help to bring about better governance and enhanced democracy within the Andean Community by implementing concerted strategies in the struggle against poverty and social exclusion," the ministers said.

Brazil's Lula Asks for Delay in Planned Phone Rate Hike

Brazilian President Luiz Inacio "Lula" da Silva intervened in a dispute about telephone rate hikes on Thursday, according to Reuters, asking the sector regulator to postpone its proposed increases in tariffs. Anatel, the regulatory agency, has been negotiating to hold back annual rate increases included in existing concession contracts with service providers in order to nip inflation. Companies were planning to increase residential rates by 24.5 percent, according to one report.

The Dialogue Continues

Q **At a meeting in Paraguay last week, South American leaders (heads of the four core Mercosur countries plus associates Bolivia and Chile and guest Venezuela) discussed ambitious plans for Mercosur, pledging to strengthen the trade bloc and perhaps expand it to include Colombia, Ecuador, Peru, and Venezuela. Do you think the leaders are serious about reviving Mercosur? Can Mercosur be rebuilt into a counterweight to the US in hemispheric trade talks?**

A **Guest Commentary: Steve H. Hanke:** "Mercosur has always been first and foremost a political project with the aim of providing a counterweight to the United States. The recent summit meeting in Asuncion made this perfectly clear once again. As a political project, it represents a massive waste of time. That politicos in the countries involved can justify wasting time and effort on such a project when they have so many pressing domestic problems to address is truly amazing. Chile's unilateral approach to free trade and Mexico's entry into NAFTA have proven to be the correct approaches to freer trade, not Mercosur. Indeed, in the 1990s, Mercosur only proved effective in increasing the cost of imported capital goods. This acted as a drag on productivity in the Mercosur countries. These distortions will no doubt continue in the future. The idea of a Mercosur common currency will also prove to be counterproductive. Instead of a number of half-baked domestic currencies, the Mercosur countries dream of a common half-baked currency. Why not just use the US dollar? After all, the dollar is the world's international currency. Why isn't that good enough for Mercosur? The unfortunate revival of interest in Mercosur is little more than a political reaction to the Bush administration's rather incoherent international economic policies. The big losers in this great political game will be the citizens in the Mercosur countries."

Steve H. Hanke is Professor of Applied Economics at The Johns Hopkins University.

Editor's note: The above is a continuation of a Q&A that appeared in the June 26, 2003 issue of the Latin America Advisor.

Comings and Goings ...

Jeffrey Davidow, former Assistant Secretary of State for Inter-American Affairs and US Ambassador to Mexico, Venezuela and Zambia, has joined **Kissinger McLarty Associates**' Board of Counselors.

Cresencio Arcos has been named the director of international affairs at the US **Department of Homeland Security**. He was most recently the regional vice president and managing director for international public affairs at **AT&T Corporation**.

John A. de Armas has been named president of Caribbean operations of **Centennial Communications Corp**.

META Group, Inc. has made **Michael Pedersen** the managing director of Americas Consulting, covering Latin America, Canada and the US.

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