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International Advisory Group

Latin America Advisor

The Interactive Forum for the Region's Leaders — Monday, February 12, 2001

Today's Top NEWS

Advisor ANALYSIS

Q **Venezuela's stock exchange may soon start trading short-term debt in a bid to strengthen investor demand and create a secondary market for such securities. Do you think this move will have any effect on the precarious economic situation?**

A **"No" Vote, Board Commentary: Geoffrey Milton:** "Notwithstanding any merits in expanding stock exchange activities, this will have very little impact on the Venezuela economy. Take away high oil prices, and what do we have? Poor economic management, a populist administration and weak fundamentals."

> "There is a lot of posturing by Chavez and his creaky cronies, but the business class is sitting on its hands."
>
> -Robert Helander

"No" Vote, Board Commentary: Robert C. Helander: "No. We need to be very alert to what seems to be a deteriorating and polarizing political situation in Venezuela. There is a lot of posturing by Chavez and his creaky cronies, but the business class is sitting on its hands."

"Other" Vote, Board Commentary Roger Scher: "What is most critical for Venezuela is for the government to follow policies which would gradually wean the economy and public finances away from dependence on oil. Such policies might include increasing the proportion of non-oil taxation in total government revenues, aligning the exchange rate with international price competitiveness so that non-traditional exporters and import competitors can compete, and establishing rules for the macroeconomic stabilization fund that are more insulated from politics (e.g. including an automatic oil pricing mechanism)."

"Yes" Vote Guest Commentary: Benito Berber: [1] "I believe the trading of short-term debt is a certainly a positive move, since it allows investors to diversify their portfolios. But investor confidence is really a function of President Chavez actions. Mr. Chavez has made the necessary changes to increase the vulnerability of the economy to oil price changes. In this environment investment will hardly flourish."

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The Dialogue Continues

Two guests continue the dialogue from two previous AdvisorANALYSIS'.

Advisor ANALYSIS Q

The U.S. State Department announced that it will continue certifying nations that are cooperating with the war on illegal drugs, as it has been doing since the law's enactment in 1986. Critics have chastised the program, which exempted Colombia and Mexico last year, saying that they were cooperating with the U.S. Mexican Foreign Minister Jorge Castaneda condemned the system last week as "counterproductive, unilateral, and an irritant." Do you think that the evaluations are a helpful measure in any way? If so, why? If not, what do you think might be a better system?

A

Guest Commentary: Bruce Bagley: * "Yes, there will certainly be humanitarian implications to Plan Columbia. There have been 1.9 million Colombians displaced over the past 15 years with 250-300,000 per year in recent years as a result of guerrilla violence and also because of aerial spraying. There will be more displaced as Plan Columbia sends a batallion into the Puto Mayo, which will have massive implications for the cocoa growing population and workers involved with harvesting this crop. Where are they going to go? The agricultural frontier will extend toward the Amazon Basin. It will not cease production. Colombia's cities are another option, but they already have unemployment rates of over 20 percent. Displaced Colombians are likely to end up as prostitutes or beggars or part of the pandillas (gangs). Some might immigrate to Ecuador where they will receive a hostile greeting. Ecuador is already preparing camps for this situation. Venezuela and Peru are also bracing themselves. What will most likely happen is the refugees will join the paramilitary and guerrilla groups. These rebels are already recruiting the young children of these displaced families. Plan Colombia will end up being a recruitment campaign for the rebels."

* Bruce Bagley, Professor of International Studies, School of International Studies, University of Miami

Advisor ANALYSIS Q

After a potentially embarrassing IMF bailout, investors have piled back into Argentina's stock and bond markets over the past month and President Fernando de la Ruas popularity is rebounding. Do you think the worst is over for Argentina and that the economy (and de la Rua) will make a comeback? If not, what do you predict for the economic and political future of the country?

A

Guest Commentary: Gustavo A. Casir: * "During the past few weeks, Argentina has received clear signs that the "2000 financial crisis" is alleviating and that the risk of default appears to be remote, at least, for the next two years. The government's ability to pay lower interest rates in newly-issued debt and the decreases in the fall of the political "country risk" factor are signs that the "worst" is either over, or unlikely to happen in the next few years. Notwithstanding the foregoing, for the country's economy to grow and make "its comeback" it is necessary to increase the levels of domestic consumption and production. Unfortunately, it is usually difficult to predict when domestic consumption and production will start to increase on a regular an consistent basis since the latter depends significantly, especially in a developing country such as Argentina, on consumer confidence and "mood." This is where the most significant challenge for president De la Rua lies. The government, and especially the president, needs to deliver strong and constant signs that the efforts made by the people in Argentina in recent years are to be rewarded (and that the reward will come, or begin to come, rather soon). Such reward should be in the form of clear market rules, simplification of taxation and government investments in infrastructure and public services. To accomplish such a goal, the government will be required to show maturity, unity, and a strong command --- unfortunately not the prominent assets of recent Argentine governments. The failure of the government in achieving these goals during the next two years would lead the country to, at the very least, an uncertain future."

* Gustavo Casir, International Associate, Simpson Thacher & Bartlett

Please join us in welcoming the newest subscribing members of the Latin America Advisor.

Claus Schaale, General Manager, CommWorks Corp.
Germaine Aprill, Associate Director, International Business, Fujisawa Health Care Inc.
Luis Prado, Government Relations Advisor, Shell International Exploration and Production
Chuck Harrington, President, Parsons Communications Group Inc.

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"No" Vote, Guest Commentary: Peter Goldmark: [2] "I do not think it will have an effect on the economic situation as this is more a factor of economic policies including promoting foreign investment, monetary and fiscal reforms as well as a stable political and legal scenario that gives confidence to the business community. However, trading short term debt on the exchange should benefit the exchange itself and provide a ready and more liquid market for debt. This should increase investor's appetites for such debt, as investors, particularly fund managers will have an open window to monitor prices, volumes, etc. and have a ready market to trade these instruments."

1) Benito Berber, Economist for Latin America, Idea Global
2) Peter Goldmark, Director, Inter-Nation Capital Management

Company News

Brazil Bumps Wireless Sale Up One Week to February 13

Brazil's telecommunications regulator said that it will sell three new wireless licenses Tuesday for at least 2.19 billion *reais* ($1.09 billion), moving up by a week the second round of auctions aimed at heightening competition in Brazil's cellular market. **Anatel's** decision comes a week after the government postponed the first of three auctions because no companies qualified to make bids. The auction of the so-called D-band license was originally set to be held February 20. **Tele Norte Leste Partcipacoes SA** and **Brasil Telecom Participacoes SA,** Brazil's No. 1 and No. 3 fixed-line phone operators, and **Telecom Italia Mobile SpA** are the only companies qualified to buy the licenses. The three bidders are looking to expand in a cellular phone market that expects to see 63 percent growth to 27.5 million users in 2003, up from 23.2 million at the end of last year, according to Anatel estimates.

Brazil To License AIDS Drugs If Companies Don't Cut Prices

Brazil will create its own license of AIDS drugs from **Merck and Co.** and **Roche Holdings AG** if the companies do not cut the price in half by this June. Last week, the World Trade Organization (WTO) created a dispute settlement panel on request from the U.S. investigating patents in Brazil. Brazil, which distributes free medicine to over 100,000 patients with the HIV virus, said its program to battle the AIDS epidemic could be affected if it had to change its patent law. More than half the programs $300 million annual budget is spent on four imported drugs. Brazil said it is overriding the drug patents based on WTO law allowing authorities to act if the drugs are not produced in the country within three years of being patented. Brazil's main concern comes from companies charging outrageous prices. Brazil cited similar laws in France and Italy. U.S. officials said the WTO law regards where the patented product is made, not for addressing a health crisis.

Economic News

Venezuela Says Coffee Output Rises 5 Percent, Cocoa Falls 21 Percent

Venezuela said its 2000 coffee output rose 5 percent, after expecting a decline, as government subsidized loans helped farmers make much needed investments. Coffee output rose to 66,364 metric tons from a total of 63,130 tons in 1999. The output increases resulted in a coffee surplus that was later purchased by the government. Venezuelan cocoa production fell 20.6 percent, more than expected to 14,278 metric tons, as plantations in three states were damaged from last year's floods. Venezuela has been trying to revive its coffee and cocoa industries through subsidies to farmers, education and the introduction of high yield strains. Production of coffee is expected to remain steady this year while cocoa output is expected to increase s farmers recover lost land, and the government distributes $10 million in multilateral loans to maintain farms and control pests.

Citibank Rejects Argentine Central Bank Accusations

Citibank NA rejected statements by Argentina's central bank president Pedro Pou that the bank may have broken the law by withholding information about a client suspected of money laundering. The central bank is preparing a criminal accusation against Citibank officials in Buenos Aires. The charges would be based on conflicting reports from the bank about its knowledge of Bahamas-based Federal Bank, a Citibank account holder under investigation for money laundering. "Citibank laments the statements attributed to the central bank president and emphatically rejects the interpretations of the facts," Citibank said in a statement. Pou made the statement against Citibank after the U.S. Senate released a report earlier this month that claimed U.S. banks, including Citibank, don't take sufficient steps to prevent money laundering by foreign clients. The central banks statements may expose Citibank president in Argentina, Carlos Fedrigotti, to criminal charges.

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