Latin America Advisor

The Interactive Forum for the Region's Leaders — **Wednesday, July 25, 2001**

Today's Top News

Advisor ANALYSIS

Q **Trade relations between the United States and Brazil, Latin America's biggest economy, have often been strained over disagreements about tariffs on a variety of goods including orange juice, steel, and sugar. "Our relations with the U.S. are very tense today," Brazil's top trade negotiator, Jose Alfredo Graca Lima said last week after a meeting with Peter Allgeier, the top U.S. negotiator. How do you see trade relations between these countries today? Where do obstacles exist, and where are trouble areas likely to emerge?**

A **Board Commentary: Beatrice Rangel:** "I see trade relations among Brazil, Canada and the United States very strained today. Brazilian exports such as citrus and citrus pulp compete with powerful local producers that have a huge lobbying capacity in Washington. These interests are strategically located in electoral-heavy parts of the US geography. Thus, their lobbying efforts would seem to have ample room to prosper. The same situation applies to sugar. With respect to Canada, the success of Embraer is touching very sensitive political nerves. Thus it would seem that stress is a good word to define the future of trade relationships among these three economic powers, lest they engage soon in an integrative exercise that establishes guidelines for progressive opening of their respective markets. But alas, elections are always too close to promote such an outcome."

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>
> -- Jon E. Huenemann

Guest Commentary: Jon E. Huenemann: "It is important to first note that put in the context of the last 20 years, the U.S.-Brazil trade relationship is not at a low point. In fact, while there are difficult issues, the tenor of the trade dialogue is relatively fluid and informative--witness the recent utilization of the bilateral dialogue mechanism and Mercosur initiatives to reinvigorate the so-called U.S.-Mercosur trade and investment framework agreement. In the early to mid-1980s, the U.S.-Brazil trade relationship was far more limited and tense, and we were respectively primarily limited to reactions to each other's perceived affronts. That said, the U.S.-Brazil relationship today is in some respects still dealing with a number of the same issues, although in some cases the exact focus of the discussion has evolved as the trade and investment regimes have evolved along with the political backdrop in certain sectors. Orange juice, sugar, ethanol, anti-dumping and countervailing duties on such products as steel are among the long time issues for Brazil, and the U.S. continues with concerns in intellectual property, for example. That said, we have

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successfully resolved issues that in their time were deemed extremely contentious, such as the so-called informatics issue in the 1980s. There has always been a recognition among those deeply involved in the conduct of U.S.-Brazil trade relations that absent a major and comprehensive trade agreement that involves both Brazil and the U.S. (i.e., something like the FTAA, or a bilateral or U.S. - Mercosur FTA as opposed to another WTO round), a number of these particularly longstanding and difficult issues are unlikely to be fully, or even partially, resolved. Absent the political trade-offs that come with such major negotiations, the prospect of dealing with them individually is remote. As the U.S. proceeds in its efforts in the Americas, it will become clearer to more people that confronting some of these difficult issues in both Brazil and the U.S. means an FTAA, or possibly some other FTA that involves Brazil and the U.S., may prove to be one of the toughest negotiations the U.S. has ever faced, if not the toughest. The reason is that some of the thorniest traditional issues in agriculture and other areas will have to be substantively dealt with in a manner that goes beyond what has been done previously in both the U.S. and Brazil. The strategic value of an FTA involving the U.S. and Brazil is very attractive, but to get there will mean crossing some meaningful thresholds never before crossed."

Beatrice Rangel is a member of the *Advisor* board and Senior Advisor to the Chairman, Cisneros Group of Companies

Jon E. Huenemann is Vice President and Co-Leader of the Trade and Tax Group at FH/GPC

Economic News

Brazil's Alcides Tapias To Resign Top Ministry Post

Brazil's Minister of Development, Industry and Trade, Alcides Tapias, said Tuesday he will resign his post by August 31 for personal reasons, according to a Reuters report. For the past two years, Tapias has been one of Brazil's top trade officials and the leading figure in the Mercosur trade alliance. Tapias reportedly denied he was leaving because of any quarrels with other officials. He is the former head of the **Camargo Correa** construction group. Segio Amaral, a close aide of President Fernando Henrique Cardoso and Brazil's current ambassador to Britain, will replace Tapias, according to the report.

Venezuela's Economy Grows 3.2% in Second Quarter

Venezuela's economy has grown an average 3.2 percent over the last 15 months and has possibly sustained this level of growth in the second quarter of 2001, Planning and Development Minister Jorge Giordani said Tuesday. The oil-dominated Venezuelan economy expanded by 3.5 percent in the first quarter of 2001 versus 1.0 percent in the same period a year earlier (see Q&A, *Latin America Advisor*, June 1, 2001). Venezuela's annualized inflation rate through June 2001 fell to 12.5 percent from 16.4 percent a year earlier, putting it just outside the government's full year 2001 target of 10 to 12 percent, Reuters reports. The government has set a 4.5 percent growth target for this year, but much will depend on oil prices. The economy grew 3.2 percent in 2000, following a sharp 6.1 percent contraction in 1999. In a related story, yesterday Venezuela's oil minister said OPEC will decide to cut production by between 1 million and 1.5 million barrels a day in an emergency meeting in August. Venezuelan President Hugo Chavez on Monday appointed Nelson Merentes as Finance Minister, replacing Jose Rojas (see *Latin America Advisor*, July 24, 2001).

Brazil's Energy Crisis Taking Toll on Industry, Study Says

Brazilian industrial demand and supply have fallen sharply due to the country's three month-old energy crisis, according to the Getulio Vargas Foundation's 140th industrial survey. Electricity rationing may extend to 2003, according to the study, and government officials yesterday in Rio de Janeiro said that rationing could easily extend beyond the initial December timeframe, depending on rainfall.

Advisor ANALYSIS

Q *Our dialogue on Argentina continues...* **Argentine President Fernando de la Rua's ruling Alliance coalition won a victory Saturday, as the lower house Chamber of Deputies approved a modified government austerity bill. Will this bill pass the senate, and when? Is it a good bill? Will it have the desired effect on the economy?**

A **Guest Commentary: Rogelio Ramirez de la O:** "I only look at this package as a last-resort, tilting at windmills. I see no prospects whatsoever to salvage the exchange rate regime with more austerity. People will bark at it before it begins to have any perceptible effect on the deficit. I would say the moment for Argentina to rescue its peso peg is gone."

Guest Commentary: Mauro Leos: "There is a sense of urgency regarding this legislation, and indications thus far suggest there is enough support to approve the measures in the senate this week. There is always the possibility that someone will object to an element of the legislation, but my impression is that the government has gotten the support it needs. This is a good indicator for the markets--in contrast to the impression created in recent weeks that nobody in Argentina was in charge and that there were no grounds for political agreement--and spreads are down (Monday morning) as a result. The cuts are a touchy subject, and the government will have to compromise. If it does not get all its cuts, then the government will likely need to increase taxes to make up the difference. It would be difficult to say if this legislation will get the economy moving, because there are too many other factors involved. Fiscal adjustments need to be made, and it appears the economy will remain weak in the second half of 2001. The markets are watching on two levels right now. First, the markets want agreement on austerity. On the second level, the numbers will need to add up. The real question now is, however, has the government stabilized the political, fiscal and economic situation. The important thing is that the parties now seem to be moving in the right direction."

Guest Commentary: Gustavo Casir: "Now that Argentina has probably run out of miracle solutions, with foreign markets frowning upon Argentine sovereign debt, the time-tested concept of spending only what you have seems painfully obvious. Within this scenario, and considering the fact that the underlying principles of the austerity bill (a bill in fact intended to allow the federal government to eliminate the fiscal deficit) are not being questioned, the bill is expected to be approved by the Argentine Senate shortly. There is no question that the bill is good; even beyond that, it is necessary. Nonetheless, only time (not much) will tell whether the Argentine government will be able to fully implement these austerity measures and earn back investor confidence that the country has sometimes taken for granted. It is unfortunate that the country has had to react with its 'back against the wall' rather than by establishing more long-term policies. One thing is certain: Argentina may bend some more under the weight of its debt, but is not expected to break."

Rogelio Ramirez de la O is President of Ecanal in Mexico City

Mauro Leos is the Lead Sovereign Analyst for Argentina at Moody's Investors Service

Gustavo Casir is an attorney at Muñoz de Toro & Muñoz de Toro in Buenos Aires

BBVA Profits Up on Latin America Unit, Cost Savings in Spain

Spanish banking giant **BBVA** said Tuesday that profit rose 24% to 1.28 billion euros in the first half of 2001. The company's Latin America units performed "very satisfactorily", BBVA said in a statement, with business income at BBVA America up 9.9% on the first quarter and 27.1% on the average of the previous three quarters. Excluding Mexico, business income was up 11.6% on the previous quarter. In related news, investment bank ABN AMRO said Monday it cut its rating for BBVA to "add" from "buy" because the bank had been "severely affected" by negative sentiment from Latin America.

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