

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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

**Q** Spain's Socialist prime minister, Jose Luis Rodriguez Zapatero, has been criticized in his country for not advocating forcefully enough on behalf of Spanish companies investing in the region, especially in countries such as Argentina and Bolivia. What is your assessment of Rodriguez Zapatero's foreign policy toward Latin America? Has he been effective in promoting Spanish interests?

**A** **Guest Comment: Mauro Guillen:** "Spain has become the second-largest direct investor in Latin America. Moreover, Spanish firms have invested primarily in politically sensitive and visible industries, such as banking, oil, gas, telecommunications, and electricity. In these industries, good relationships with the local government and the regulatory authorities are key. Recently, Spanish firms have faced difficulties in some Latin American countries, especially Argentina, Peru, and Bolivia. The Spanish government—whether the conservative one until 2004 or the social-democratic one since then—has always tried to help Spanish firms in the region. Critics point out, however, that Spanish diplomats and politicians frequently miss opportunities to help advance Spanish financial and economic interests in the region. I am among them. Spanish foreign policy has not yet adapted to the new situation in which the country has major investments abroad. But I would also allocate some of the blame to

the companies themselves for being at times too naive about the intentions and the bargaining power of Latin American governments. Much remains to be learned about how to operate successfully in a part of the world historically characterized by high volatility."

**A** **Guest Comment: Sebastián Royo:** "Spain's foreign policy toward Latin America has been marked by conflicting interests. On the one hand, domestic factors have played an important role. The rapprochement toward President Hugo Chavez was influenced by the desire of the Spanish government to sell him weapons produced by a Spanish public company facing serious financial problems that were generating industrial and political conflicts ... In this

*Continued on page 4*

### PHOTO OF THE DAY



World Bank President Paul Wolfowitz on Tuesday announced the merger of the Bank's infrastructure and environmental units. See related news brief on page 2.

*Photo: World Bank file photo.*

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## NEWS BRIEFS

**Authorities Shut Down California Port Amid Bomb Scare Message**

Authorities shut down a terminal at a major California port on Tuesday after a worker discovered an anti-Bush bomb threat message scrawled inside a Panama-registered refrigerated cargo ship arriving from Guatemala, Reuters reported. The terminal at Port Hueneme, about 60 miles north of Los Angeles, was shut down after a dock worker discovered the threat written on a metal pillar of the ship's hold, which read "nitro + glycerin, a gift for gw bush and his jewish gang." Officials are investigating.

**European Union Offering \$293 Million in Aid to Haiti**

The European Union said Tuesday it was preparing to send \$293 million in new aid to Haiti, and could send more depending on progress in pursuing reforms and promoting democracy, the Associated Press reported. Most of the announced aid will go toward education and infrastructure, as well as supporting the Haitian government's budget.

**Wolfowitz Announces World Bank Reorganization**

World Bank President Paul Wolfowitz announced Tuesday that the Bank's infrastructure and environmental units would be merged into a single department. In a press release, Wolfowitz said the purpose of the merger was "to mainstream environmental issues, improve synergies, better integrate core operations, and ensure that we strengthen our focus on sustainability as we increase our investment in infrastructure." He said he was "committed not only to sustaining, but strengthening the role of the Bank's environment team."

**Political News****Opponents of Ortega Are Future of Nicaragua—US Diplomat**

The United States' top diplomat for Latin America declared Tuesday the US would work with whoever wins Nicaragua's November 5 presidential election, but said opponents of Sandinista candidate and former President Daniel Ortega "represent the future of this country," Reuters reported. During a visit to the Central American country, US Assistant Secretary of State for the Western Hemisphere Thomas Shannon held private meetings with Eduardo Montealegre of the right-wing Nicaraguan Liberal Alliance, and Herty Lewites, candidate of a dissident Sandinista faction. Shannon did not meet with Ortega, whom the US has at times

Tuesday that it has revised its outlook for Costa Rica's debt rating from "negative" to "stable," citing the Central American nation's fiscal restraint and lower debt ratios. "One of the key factors behind the outlook change is Costa Rica's improved fiscal position, mostly driven by expenditure restraint that has allowed the central government's primary balance to reach its highest level in several years," Moody's analyst Alessandra Alecci was quoted as saying in a press release. "Strong economic growth and a stronger fiscal position helped lower Costa Rica's public debt ratios to levels that now compare favorably to similarly rated peers." The ratings firm said there was also less risk of default, and a balance of payments or banking crisis, from "financial dollarization." However, Alecci said Costa Rica suffers from "structural weaknesses," including a lack of fiscal flexibility, and is hurt by

*Shannon held private meetings with Eduardo Montealegre and Herty Lewites. He did not meet with Ortega.*

openly opposed. Earlier this month, Ortega, who is making his fourth bid to return to the presidency since his 1990 defeat, accused the US and current Nicaraguan President Enrique Bolanos of conspiring to derail his candidacy and of trying to unite Montealegre, Lewites, and a third rival, Jose Rizo, against him. Officials in the Bolanos government, in turn, accuse Ortega of receiving support from Venezuelan President Hugo Chavez, who has agreed to supply cheap oil to 51 towns run by Sandinista mayors. Some recent polls have given Ortega a slight lead with five months to go before the election, but analysts say Ortega would likely lose in a second round run-off vote. [Editor's note: see related Q&A in the June 14, 2006 issue of the *Advisor*.]

delays in approving tax reforms and a free trade deal with the United States.

**Company News****Petrobras to Pay 10 Percent More for Bolivian Gas**

Brazilian state-owned energy company **Petrobras** will pay Bolivia 10 percent more for the natural gas it imports, an expected rate adjustment that reflects price increases in a basket of fuels, but not the nearly 50 percent increase that Bolivia wants to charge its neighbors, Reuters reported. Petrobras, in turn, will raise prices on its distributors by 6 percent. The 10 percent increase, allowed under an existing contract between Petrobras and Bolivian state-owned YPF in which market-based price adjustments can be made every three months, goes into effect July 1. Bolivia nationalized its hydrocarbons sector on May 1, and is seeking to raise the price of natural gas exports to Brazil and Argentina beyond what is allowed under

**Economic News****Moody's Raises Outlook for Costa Rica to "Stable"**

**Moody's Investors Service** announced

the contracts with the two countries. Bolivia and Brazil, however, have not had formal talks on such an increase. Petrobras currently pays YPF between \$3.43 and \$4.21 per British thermal units for the approximately 32 million cubic meters of gas it buys per day, according to Reuters. Roughly one-half Brazil's natural gas comes from Bolivia.

### Banco do Brasil Raises 1.97 Billion Reais in Secondary Share Offering

In Brazil's largest stock sale this year, state-owned **Banco do Brasil** raised 1.97 billion reais (\$US 881 million) in a secondary share offering on Tuesday, Reuters reported. Banco do Brasil, Brazil's state-owned National Social and Economic Development Bank (BNDES), and Previ, the Banco do Brasil's employee pension fund, together sold 45.44 million common shares to domestic and foreign investors at 43.50 reais per share, representing 5.6 percent of outstanding stock, according to a prospectus given to Brazil's securities regulator. The offer stipulates that BNDES and Previ may sell an addition 6.81 million shares within the next 30 days. The secondary share offering follows recent changes in Brazilian legislation, where foreign investors can own up to 12.5 percent of a company's total capital, up from 5.6 percent previously allowed. In an anticipated move, Banco do Brasil requested to be listed on **Sao Paulo Stock Exchange's** Novo Mercado, an index of companies that adhere to stricter corporate governance standards, according to the prospectus on the bank's Web site. Listing on the Novo Mercado makes companies more attractive to foreign investors.

### Nortel to Create 800 Jobs in Mexico, Turkey, and Elsewhere

Canadian telecommunications equipment supplier **Nortel** announced Tuesday it would create 800 new jobs in Mexico, Turkey, and elsewhere as part of a restructuring of its workforce. In a press release, the Brampton, Ontario-based company said it would establish "Operations Centers of Excellence" in Mexico and Turkey. It said it chose those two countries "for a number of reasons including

## The Dialogue Continues

### A continuation of the June 27, 2006 Q&A

**Q** **World Trade Organization chief Pascal Lamy on Saturday urged movement in global trade talks on a "key triangle of issues:" US farm subsidies, EU farm tariffs, and developing world industrial tariffs. Do you foresee any progress at an upcoming meeting of trade ministers in Geneva slated to start on Thursday? What role might Brazil play in moving talks forward?**

**A** **Guest Comment: Stephen Lande:** "Although far from assured, I expect the upcoming ministerial to make just enough progress for the participants to claim success. Rumors in Washington are that the US will indicate movement on blue box subsidies—agreeing to lower the *de minimis* allowance. The EU has indicated that they have some leeway on market access. This means that Brazil and India will be pressured to provide more non-agricultural market access concessions. India has already indicated that they will provide more access at the appropriate time. I do not know about Brazil. I suspect they will as well. One wild card is that Brazil, by winning WTO decisions in August cases against the US (cotton) and the EU (sugar), has demonstrated that all developed country farm programs are in jeopardy. I do not know how much they will pay for agricultural reform if this legitimizes current devel-

oped country programs. The complexity of trade negotiations means that most other officials tune out the details. Decisions are left to trade negotiators. All trade negotiators have a stake in a successful round. I am betting on just enough success at Doha to allow the negotiators to claim success and allow the negotiations to continue in the fall. Remember, the negotiators are the ones who announce that the talks were successful. There are two uncertainties. First is whether the weakened French government will prevent a successful outcome. Second is whether middle-level developing countries and LDCs will allow the negotiations to end with a meaningful aid-for-trade package. So far, this issue has been ignored. Memories are short. However, do not forget that sub-Saharan Africans contributed to the failure of Seattle and almost single-handedly torpedoed Cancun. Their major benefits will be derived from aid-for-trade, with its promise of assistance to build supply-side capacity and trade-related infrastructure. Without such assistance, they do not have the ability to export. Market access harms them since it reduces trade preferences."

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**Stephen Lande** is President of *Manchester Trade*.

Nortel's established operations in these countries, a strong labor pool, cost competitiveness, and proximity to major customers based in these regions." A company spokeswoman contacted by the *Advisor* could not say how many of the new jobs would be in Mexico. Nortel also announced Tuesday it was eliminating 1,900 jobs—or about 3.2 percent of its global workforce—and cutting pension costs, moves which it said would help it

meet its goal of increasing its operating margin by more than \$1.5 billion in 2008. Nortel has been struggling to be profitable in recent years, and posted a \$2.58 billion loss in 2008, Reuters reported. Over the past six years, it has reduced its workforce from 90,000 employees to 35,000, according to Reuters. In Latin America and the Caribbean, it has regional offices in Argentina, Brazil, Chile, Colombia, Mexico, and Puerto Rico.

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

case, a domestic consideration trumped geopolitical ones and created tensions with other Latin American countries, notably Colombia, while antagonizing the United States ... A second intervening set of factors has been electoral and ideological considerations. The Spanish government's decision, following its electoral commitment, to pull its troops out of Iraq and the way it was carried out strained the relationship with the US. This left the government in a somewhat isolated position in Latin America (Aznar's government had worked hand in hand with the US in the region) and it sought to redress this situation by looking for new allies and approaching leftists governments like those of Castro, Chavez, or Kirchner, instead of concentrating on other progressive governments like Chile, Brazil, or Uruguay that are also promoting policies with a strong social component while protecting the market and transmitting messages of normative and judicial stability to investors. Finally, at the beginning the Spanish government held a somewhat ambivalent position *vis-a-vis* Spanish companies in the region. Some of these companies had been privatized by the previous conservative government, had been tainted by corruption scandals in some of the countries, and were still led by people appointed by the previous conservative government. The scandals and the policy decisions of some of the companies had affected the image of Spain in these Latin American countries, and the government felt that it had to keep a safe distance. These conflictive interests coupled with the lack of clear objectives have rendered Spain's foreign policy in Latin America somewhat ineffective and unpredictable. There is the perception that the Spanish government is not sending clear and unambiguous signals in support of Spanish companies in the region. In the end, there is the growing realization that the PR campaign to woo populist leaders is not paying off ... This is a very delicate time, in which not only normative and institutional stability is at stake, but also property rights."

**A** **Board Comment: Beatrice Rangel:** "The Rodriguez Zapatero Latin America agenda has failed to find a focus.

Given the high priority the administration assigned to the domestic policy agenda, Latin America has almost been an afterthought ... Add to this the efforts made to pass the referendum on the European Constitution and to halt cooperation with the US in Iraq, and it is obvious that Latin America's relative weight in the political agenda skydived. The region took center stage only when it served the purpose of debilitating the government's internal foes ... More recently, however, the Rodriguez Zapatero administration seems to be upgrading Latin America's position on its foreign policy agenda. Spain was a key supporter of the decision to pardon debt to least-developed countries and has taken steps to turn the Ibero-American Secretariat into an effective cooperation tool. Enrique Iglesias, a highly regarded expert in development problems was enlisted to head the organization. Under Iglesias' leadership, it is expected that Spain will relaunch its foreign policy toward Latin America, increasing its development cooperation in the region ... And while time will tell what the commitment of the administration is to these policies, it is clear to me that long gone are the days when the government of Spain focused its foreign policy efforts on advancing the investment agenda of its companies. The administration will certainly support investments in Latin America, but will stop short of watching over the fate of such investments."

**Mauro Guillen** is a Professor of *International Management at the University of Pennsylvania's Wharton School.*

**Sebastián Royo** is an Associate Professor of *Government at Suffolk University and Co-chair of the Iberian Study Group at the Minda de Gunzburg Center for European Studies at Harvard University.*

**Beatrice Rangel** is a member of the *Advisor board, and President and CEO of AMLA Consulting.*

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