Among regions, Latin America ranks as the worst in terms of the difficulty of starting a business, the inflexibility of labor market laws, and the complexity of enforcing contracts, according to the World Bank. Why is this so? Do you see steps being taken to make it easier to operate a business in Latin America?

Board Comment: Adrian Cruz: "With all due respect to the World Bank, doing business in Latin America is not difficult, just different. The Europeans understand this and adapt; we Americans don’t understand it and therefore complain. For the three Anglo-American multinationals I represented in a 30-year span, Latin America consistently represented the largest, fastest-growing (yes, even faster than Asia), and most profitable region. This is true, in spite of the occasional maxi devaluations in Mexico, Brazil, and Argentina. How was that possible? What about the ‘inflexibility of labor market laws and the complexity of enforcing contracts?’ The answer is simple: manage Latin America from within, not from afar. It is critical to establish a local presence early with local experienced talent and minimal expatriate staff. We found that a lean regional office, located in one of the major markets (Mexico, Brazil, or Buenos Aires) staffed with rotating line talent to be the key to understanding the local nuances. How can you possibly be an effective ‘marketing vice president’ 3,000 miles away if you don’t understand nor respect the local culture enough to live there? Or for that matter, how can you truly understand hyperinflation finance and exchange management from afar? I found that cab drivers in Sao Paulo have a better understanding of currency exchange fluctuations and hedging than many expatriate ‘finance vice presidents’ I had the pleasure to replace. On the other hand, those of us that remember the old Mexico of just 10 years ago must admit that with NAFTA Mexico has gradually become an easier/friendlier place in which to do business. We are certain that the same will follow for the rest of the region as more free trade agreements come into place."

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Political News

Official: Ecuador Will Cooperate with UN Probe into Justices' Dismissals

The legal advisor to Ecuadorean President Lucio Gutierrez said the government will cooperate with United Nations investigators looking into the dismissal of Supreme Court justices by a pro-government congressional majority in December, Reuters reported Monday. "They do not need authorization to come to the country. This is a state of democracy and rule of law," Carlos Larrea was quoted as saying. On Friday, the UN's special rapporteur on the independence of judges and lawyers, Leandro Despouy, called on the Gutierrez government to allow him to visit the Andean nation this week. The government had proposed Despouy schedule his visit for May. The UN official said the dismissal by Congress of 27 out of 31 Supreme Court justices "appeared to constitute grave interference by the executive and legislative into the judicial sphere."

IMF's de Rato Sees Peru Headed Toward Investment-Grade Status

International Monetary Fund Managing Director Rodrigo de Rato on Saturday said Peru was moving toward an investment-grade credit rating, citing the Andean country's low inflation, high dollar reserves, and strong economic growth, Reuters reported. "Peru is clearly moving in the direction [of an investment-grade rating]," de Rato was quoted as saying during a one-day visit to Lima. "It is the next step for Peru," Peru, which is currently rated as one notch below investment grade by Standard & Poor's and Fitch Ratings, would benefit from the lower debt servicing costs resulting from an investment grade rating. "It would be very positive for Peru and one that would free up more resources for policies that benefit Peruvian citizens," de Rato stated. Mexico and Chile are the only two Latin American countries that enjoy investment-grade rating status. Peru's economy grew 5 percent in 2004, one of the highest growth rates in the region.

Economic News

Mexico Needs Money, Investors to Explore Deep Sea Oil Reserves

Mexico would need to invest some $200 billion over 20 years to explore potentially rich deep sea oil reserves that are crucial to its future output, a British Petroleum executive said Monday, according to Reuters. Chris Sladen, BP's vice president for exploration and production in Mexico, told an energy forum that the Mexican government would have to collaborate with industry players because of the cost and technical challenges involved in deep sea drilling. "The costs involved and the risks are so great that it becomes absolutely essential that everyone sits together to come up with an integrated answer," Sladen was quoted as saying. "We are moving into an area where no one has been before; it's like going to the moon." Mexico's state-owned oil monopoly, Pemex, is prohibited by law from entering into joint ventures with foreign partners, although it can offer service contracts. However, service contracts are less attractive to investors because they do not allow them to own a share in production. Sladen did not say whether BP would be interested in a service contract with Pemex. Pemex has said deep sea reserves could hold as much as 54 billion barrels of crude oil equivalent.

The UN's special rapporteur on the independence of judges and lawyers, Leandro Despouy, said the dismissal by Congress of 27 out of 31 Supreme Court justices "appeared to constitute grave interference by the executive and legislative into the judicial sphere."

Source: White House, Reuters.

Haitian Government Fires National Prison Director After Attack

The Haitian government said Monday that it fired the director of the national prison system after nearly 500 inmates escaped during an attack on the country's largest prison on Saturday. Among those who escaped during the attack was ex-Prime Minister Yvon Neptune, who government accuses of massacring civilians during a rebellion against exiled former President Jean-Bertrand Aristide last year Neptune was later recaptured.

Source: The Miami Herald, Reuters.
Banco do Brasil Posts 771 Million Real Fourth-Quarter Net Profit

Banco do Brasil, Brazil's largest bank, on Monday reported a fourth-quarter net profit of 771 million reais (US$ 299 million), up 21 percent from the same period of 2003, according to Reuters. Lending by the state-owned bank rose 14.1 percent year-on-year in the fourth quarter to 88.6 billion reais, led by a 30.3 percent increase in loans to small and mid-sized companies to 17.2 billion reais. Consumer loans rose 21.7 percent to 16 billion reais, while agribusiness credits grew 12.2 percent to 30 billion reais. Strong economic growth in 2004 and interest rate reductions during the first nine months of the year helped drive an increase in credit demand. In a recent research report, Moody's Investors Service said it expected lending in Brazil to continue to grow, "assuming that the resumption of economic growth proves to be sustainable." Moody's also cited Brazil's improved "financial architecture" and regulatory framework, including the recent approval of the new bankruptcy law, as factors working in the banking sector's favor.

Brazil’s Telesp Celular Bigger-Than-Expected Fourth Quarter Net Loss

Brazilian mobile operator Telesp Celular Participacoes on Friday reported a fourth-quarter net loss of 235 million reais (US$ 92 million) amid increased competition and the cost of acquiring new subscribers, according to Reuters. The worse-than-expected result represented a wider loss from 178 million reais for the fourth quarter of 2003, and from 153 million reais for the third quarter of 2004. Telesp Celular, a joint venture between Portugal Telecom and Spain’s Telefonica which operates under the Vivo brand, said selling costs rose 52 percent year-on-year due to an increase in commercial activity during the period. The cost of acquisition per customer grew 48 percent year-on-year in the fourth quarter to 141 reais. The company’s EBITDA (earnings before interest, tax, depreciation, and amortization) fell 1.6 percent year-on-year to 612 million reais. Although Telesp Celular ended 2004 with 17.6 million subscribers, up 32.6 percent from the end of 2003, it saw its market share fall from 56.6 percent to 51.4 percent. With consolidation of Brazil’s mobile sector in recent years, Telesp Celular faces tougher competition from the likes of America Movil and Telecom Italia. "Working in the sector is becoming very tactical," Telesp Celular Vice President Francisco Padinha was quoted as saying. "You have to keep your eyes on the meters ahead of you, not a kilometer ahead."

The Dialogue Continues

A US State Department spokesman said this month that Venezuela’s plans to purchase weapons from Russia is “extremely troubling” and suggested that Venezuela could give the weapons to rebels in neighboring Colombia and elsewhere. Is the arms sale really a cause for concern? In what other ways might the US react?

A Guest Comment: Gabriel Marcella: "Were it not for the support that the Chavez government gives to the FARC in Colombia and his expansive ‘Bolivarian’ aspirations elsewhere in South America, the proposed purchase of MiG-29s, 40 helicopters, and a reputed 100,000 AK-47s would be less alarming. The package is far beyond what Venezuela needs for legitimate defense. It is also a waste of money. The MiGs are of no value because Venezuela faces no conventional external threat. Their purpose is probably political: to delink the air force, which flies American F-16As, from the military assistance relationship with the United States. The helicopters are useful in transporting equipment and troops for counterinsurgency, for border control, and for crowd control. But the number of AK-47s (also used by the FARC) for Venezuela’s small military of 83,000, of whom a fourth to a third may actually be combat troops, is excessive. Moreover, what will happen to the guns in the current inventory? The cozy relationship that Chavez has with the FARC strongly suggests that these will be available to them. The United States has tried holding his government accountable in those areas of common interest. This has not worked with respect to Colombia because he considers the terrorists freedom fighters. Washington must be more definitive in drawing the line in the sand regarding Venezuelan support for illegal armed groups, while at the same time not elevating Chavez to hero status.”

Gabriel Marcella is Director of Third World Studies at the US Army War College.
The good news is that countries—particularly at the state and municipal levels—are making progress to improve efficiency, transparency, fairness, and enforceability of contracts.”

- Jerry Haar

Guest Comment: Tapen Sinha: "Latin American countries have inherited (in most cases) the Spanish legal system. Economic research on institutions over the past decade has shown that the countries with the Anglo-legal inheritance have fared better over the long run than the Spanish ones. Thus, history has dealt a bad starting gamble for Latin America. Spain had a per capita income approximately the same as Mexico in 1950. It has managed to pull away since then. Spain (along with Ireland) has become a success story of the European Union. This shows that the legal system per se cannot explain the entire story. It is also true that geography matters. Spain, being an integral part of the European Union, has benefited from it. Latin America, with the probable exception of Mexico, does not have that geographical advantage. Chile has shown that it is possible to pull a country out of poverty and propel into the doorstep of the developed world by the bootstraps. So, it might be tempting to point to Chile and ask others to follow it. Chile made many positive economic changes during a dictatorial regime. Other dictators in other countries in the region did not. At present, there is at least an awareness of the problem due to the work by Hernando de Soto and others. Tentative steps are being taken in many countries. It will take at least a decade to know whether such actions make a difference or not.”

Adrian Cruz is a member of the Advisor board and Senior Partner at ACPZ Venture Capital, LLC.

Jerry Haar is a Professor of Management and a Senior Fellow in the Knight Ridder Center for Excellence in Management at Florida International University.

Tapen Sinha is ING Comercial America Chair and Professor of Risk Management at Instituto Tecnologico Autonomo de Mexico.