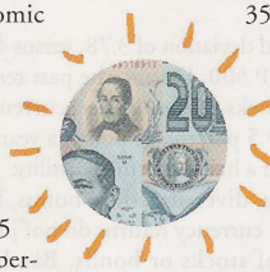
deeming themselves from original sin," observes Thomas Trebat, a former Citibank analyst who's now studying the region for Columbia University's Institute of Latin American Studies.

Still, many obstacles remain to foreign investors' becoming a stable, long-term source of local currency capital for Latin America. One big imponderable is the region's relationship with Asia. China and other Asian countries' ravenous hunger for raw materials has allowed resource-rich Latin American countries to pile up tidy trade surpluses. At the same time, this trade has left the region vulnerable to Asian economic volatility and a drop in demand for commodities.



How much would a Chinese slowdown hurt Latin American economies? "I don't foresee a catastrophe," says Columbia Business School's Calomiris, although he, like most economists, is no longer bullish on commodity exports. In any case, only about 10 percent of Brazil's exports, 15 percent to 20 percent of Chile's and less than 5 percent of Mexico's go to China, so the impact of slower Chinese growth would be muted, says Trebat. The bigger threat may be that China is positioning itself to build its own factories in Latin America and then use the region as a global export platform.

"China will continue to out-invest us, out-innovate and outsell us," says Trebat, referring to Latin America. "It's only a matter of time before the Chinese eat our lunch."

A more immediate threat to foreign investors in Latin American debt is a hardy perennial: political risk. Much of the region is entering a two-year cycle of congressional and presidential elections, meaning politics will soon overshadow economics as a worry for investors in Latin American securities. Country analysts, whose growth projections for the region are notably muted after 2005, fear that if more-leftist, freer-spending governments return to power — as many now forecast — an old pattern will reappear: policies unfriendly to investors, ballooning inflation and increased worries about defaults on foreign debt. "We're nearing the end of a patch of fairly quiet political times," Porzecanski warns.

One locus of anxiety is Mexico, currently regarded as one of the most attractive Latin American investment venues. After years of weakness, the economy is projected to grow by a respectable 3.9 percent this year; inflation is abating; and the consensus is that the country's strong domestic consumer market could even help offset rising U.S. interest rates and a stalled economy north of the border.

Nevertheless, investors are monitoring the charged run-up to the July 2006 presidential election. An early favorite, Mexico City Mayor Andrés Manuel López Obrador, is a far-left populist often compared to Venezuela's Hugo Chávez. The election of López Obrador could not only make Mexico a lot less inviting to foreign investors but also help tilt the whole region leftward. In Colombia, the left-wing coalition El Polo Democrático Independiente is gaining strength. In Peru, disgraced ex-president Alan García Pérez, who reneged on Lima's foreign debt, is testing the political waters for a comeback. Anticipating market jitters around election time, Mexico has advanced much of its 2006 financing program.

As for Venezuela, one big foreign institutional investor says he is "running for the hills." The country's oil-driven economy may be growing by 11 percent a year, but President Chávez seems to be dedicating Caracas's entire windfall to military expansion. "I am not too sanguine about high oil prices," says the flight-minded investor. "It is pretty clear that Chávez has been spending it all."

The populist's hold on power is strong, enabling him to indulge his socialist leanings and offer Cuba subsidized oil in exchange for health care for Venezuelans. He has ended a 35-year-old military cooperation agreement with the U.S. And Chávez's meddling in Petróleos de Venezuela, the state oil company and once one of Latin America's best-run corporations, has resulted in declining output. "He's basically nationalizing the entire economy bit by bit — and there's no organized force against it," says Alliance's Barrineau.

Other Latin American countries that investors find off-putting are Ecuador and Bolivia. In Ecuador three presidents have been run out of office since 1997, and the new Finance minister is promising that a far greater percentage of oil income will be spent on social programs. In impoverished Bolivia, protesters have demanded the nationalization of the natural gas industry, and the central bank retains a crawling dollar peg to keep the boliviano weak.

Argentina, meanwhile, both repels and attracts foreign investors. The country is reviled for forcing bondholders to take a severe haircut on the restructuring of its defaulted foreign debt. Yet its unabashedly Peronist president, Néstor Kirchner, who has a troubled relationship with the IMF, continues to service Argentina's peso-denominated *bodens*.

"Bodens are probably the most attractive bonds around," says an institutional investor who likes their 4 percent to 6 percent real yields. Although Kirchner is expected to perpetuate his grip on both houses of Congress in this October's midterm elections, investors aren't especially alarmed at the prospect because Argentina is expected to grow by a healthy 6.5 percent this year. Yet some analysts express concern that the peso, which trades under a managed float, will not stay in its current range if Argentina's trade surplus shrinks and the country requires dollars to service its restructured dollar debt.

In Brazil, leftist President Luiz Inácio Lula da Silva, who was once dreaded by foreign investors for his trade-unionist roots and market-hostile rhetoric, has long since won their hearts. But his prospects in next year's election look uncertain, amid declining popularity ratings at home and a political scandal that recently claimed his closest adviser.

As a borrower, Brazil is benefiting from a current-account surplus, a solid currency, inflation of only about 6 percent and a choice of structured and global bank-sponsored products that ease foreign investors' access to its markets. And the country is proud that it did not need to participate in a recent IMF borrowing program — although the absence of that stern fiscal disciplinarian in its affairs may give foreign investors pause.

Of course, uncertainty is the one constant in emerging-markets investing. But for the time being, foreign investors appear to be quite willing to put qualms about Latin America out of their minds in exchange for those double-digit returns. ii