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## FEATURED Q&A

### Would Falling Commodity Prices Sink the Region's Economies?

**Q** According to ECLAC, a decade of economic growth, on average, has helped lift 56 million Latin Americans into the middle class since 1999. However, some economists worry that a decline in demand for commodities, which have risen from 27 percent to 39 percent of exports over the past decade, could reverse those gains. What effect would a decrease in commodity prices have on the region? Will the newly emergent middle class slide back into poverty, or are the gains sustainable? Has deindustrialization become an urgent policy concern for some Latin American countries?

**A** Graciana del Castillo, managing partner of Macroeconomics Advisory Group: "I am not sure whether deindustrialization has become an urgent policy concern, but it should. The sharp rise in the percentage of commodity exports is indicative of an increasing dependency on commodity prices, which are often volatile. More worrisome, commodity-related jobs, in contrast to many in the manufacturing or services sectors, are largely unskilled and badly paid. As ECLAC has also shown, since the beginning of this century, the share of medium- and high-technology manufacturing exports of the region has fallen from 44 to 34 percent. My third concern with regard to the shift toward commodity exports relates to environmental sustainability and the loss of biodiversity in the

region. Having said that, commodity prices and demand for exports would collapse only if China, India and other commodity importers have a hard landing, which is not anticipated at the present time. These countries, however, will grow at lower rates in the near future. China's exports to Europe are about 20 percent, so it will obviously be affected by Europe's recession and the uncertainty with respect to the euro's future. I do not believe that the present situation has reached a point that could result in a sharp deterioration of many of

*Continued on page 3*



### Negromonte Becomes Eighth Brazilian Minister to Resign

Mario Negromonte, Brazil's minister of cities, resigned Thursday amid corruption allegations. Negromonte is the eighth cabinet minister to step down since President Dilma Rousseff took office in January 2011. See story on page 2.

*File Photo: Brazilian Government.*

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## NEWS BRIEFS

**At Least Six Killed in Latest Colombia Bomb Attack**

At least six people were killed Thursday after a bomb exploded outside a police station in the western Colombian town of Villa Rica, the Associated Press reported. The attack, which also left at least 20 injured, happened a day after nine people were killed when a bomb exploded outside a police station in the Pacific port town of Tumaco. The Tumaco attack has been blamed on FARC rebels, but Cauca state's police chief said it was too early to assign blame for Thursday's attack.

**Brazil May End Automotive Trade Agreement With Mexico**

Brazil's trade ministry is considering ending an automotive trade pact with Mexico, the Associated Press reported Thursday. The agreement, which began in 2002, saves Mexican exporters a 35 percent import tax and an "industrial production tax" of up to 41 percent, according to the report. Brazilian imports of Mexican vehicles rose 40 percent in 2011 from the previous year to more than \$2 billion, while it exported just \$372 million worth of cars to Mexico.

**Latin American Minerals Suspends Plant Inauguration**

Canadian gold miner **Latin American Minerals** said Thursday it needed to suspend its scheduled Paraguay plant inauguration ceremony to avoid "potentially violent confrontations with demonstrating illegal miners," the company said in a press release posted on its Web site. Technical and exploration teams at the Paso Yobai Gold Project have been withdrawn "for a cautionary stand-down period" that "will briefly interrupt drilling," the company said.

## Political News

**Brazil's Minister of Cities Becomes Eighth Cabinet Minister to Quit**

Brazil's Minister of Cities, Mario Negromonte, resigned Thursday amid corruption allegations, making him the eighth cabinet minister of President Dilma Rousseff's 13-month-old government to step down, Agência Brasil reported. President Dilma Rousseff accepted his resignation and named Aguinaldo Ribeiro, a legislator in the Chamber of Deputies and head of the Progressive Party, part of the governing coalition, to replace him. Ribeiro will be sworn in next Monday. Negromonte



Ribeiro

is accused of awarding public work contracts to companies that had financed his party, *The Washington Post* reported. He denies the accusations and said his resignation in no way indicated he was guilty. Despite the resignations from Rousseff's cabinet over the past year, the president's popularity does not appear to have suffered from the controversy. In a **Datafolha** poll last month, 59 percent of respondents rated Rousseff's performance in office as being "good/excellent," her highest approval rating to date and well ahead of poll results for the four presidents that preceded her in office over the past 20 years, according to *Brazil Focus*, a newsletter published by political scientist David Fleischer in Brasília.

File Photo: Progressive Party.

## Economic News

**Venezuela's Oil Exports to U.S. at Lowest Level Since 2003**

Oil exports from Venezuela to the United States have fallen to a low not seen in almost nine years, according to U.S. government statistics, the Associated Press reported Thursday. The latest figures show a long-term decline of oil exports to

the United States from Venezuela, where President Hugo Chávez has sought to diversify his country's exports by sending more oil to China and Latin American allies. In November, the latest month with available figures, the United States imported 764,000 barrels per day of crude and refined products from Venezuela, according to the U.S. Energy Information Administration. The last time U.S. imports of Venezuelan oil products was lower was in February 2003, when the United States imported 613,000 barrels per day at the end of a strike that hit the South American nation's oil industry. Still, the United States remains the largest market for Venezuelan oil. Last year, U.S. oil imports from Venezuela averaged 952,000 barrels per day, a decline from an average 988,000 barrels per day in 2010. When Chávez took office in 1999, the United States was importing almost 1.5 million barrels per day from Venezuela. Not only has Venezuela been selling more oil to China, but state oil company **PDVSA** has also suffered lower output due to maintenance problems, Alberto Quiros, a Venezuelan oil expert and for-

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“We have long-term contracts and we comply with them strictly.”

— *Rafael Ramírez*

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mer executive at **Shell**, told the AP. "I think the problem PDVSA has is that it lacks supply," said Quiros. "Shipments to the United States have decreased, and the number of purchases from third parties has increased to be able to comply with commitments." Venezuelan government officials did not release an immediate comment on the latest U.S. government figures, but the country's oil minister, Rafael Ramírez, said last year that the country intends to continue shipping oil to the United States. "We have long-term contracts and we comply with them strictly," he said.

## Company News

### Hackers Step Up Attacks Against Brazilian Bank Web Sites

Computer hackers stepped up their attacks Thursday against the Internet sites of Brazilian banks, apparently affecting units of Britain's **HSBC**, *The Wall Street Journal* reported. Thursday's attacks were the fourth in as many days by the group "Anonymous Brasil." The group has said that its attacks are an effort at social activism as the group demands greater equality in Brazil. Earlier in the week, the Web sites of **Banco do Brasil**, **Itaú Unibanco Holding** and **Banco Bradesco** suffered attacks. Representatives of HSBC's Brazilian unit said its site was getting "a volume of requests above what's expected." The bank's Brazilian Web site was working intermittently throughout the day Thursday. Some sites of HSBC's other units around the world were not

*There were no reports that customer accounts at HSBC were compromised.*

working Thursday morning, but were functioning again later in the day. HSBC's Brazil unit advised customers to use other ways to access their accounts, such as by phone and at ATMs. An HSBC spokesman in New York told *The Wall Street Journal* that some of its sites had "technical difficulties," but added that the problems had been resolved. There were no reports that customer accounts were compromised. The denial-of-service attacks attempt to overwhelm Web sites by pummeling them with numerous, sometimes millions, of access requests at a time.

### Televisa Shares Drop After Rejection by Antitrust Agency

Shares of Mexican broadcaster **Televisa** fell Thursday for the 10th time in the past 11 days after Mexico's antitrust agency blocked the company's plans to enter the

### Featured Q&A

*Continued from page 1*

the gains made against poverty in Latin America. But we need to be vigilant, given that the region still has a large percentage of the population just above the poverty line and that youth unemployment is extremely high."

**A** **Alfredo Coutiño, director for Latin America at Moody's Economy.com:** "Commodities have certainly played an important role in Latin America's expansion in the last decade. However, the increasing demand for commodities only explains the region's growth above its potential rate, since the main factors propelling growth have been the increase in investment combined with some gains in productivity. Latin America has made important progress in correcting chronic economic imbalances, reinforcing macroeconomic discipline and implementing structural changes, which are the main factors explaining the strong fundamentals. In this sense, commodities have been only an addition to the region's stellar performance of the last decade. Therefore, the region's economic expansion, mostly based on the strength of its domestic market, combined with more public policies with social content, are the reasons behind the emerging Latin American middle class. Undoubtedly, a fall in commodity prices will have an impact on the region's performance, since it will restrain the availability of foreign resources. However, it will not derail Latin America's economy since its expansion is well grounded in healthier macroeconomic fundamentals. The only way people can go back into

poverty is if the economy persistently performs below potential and governments fail in promoting social development through the use of public policies. Hence, the emergence of the new middle class is mostly the result of a solid expansion based on fundamentals, not on commodities. Indeed, the region needs to pay more attention to its national industry in order to avoid the risk of a deindustrialization generated not only by the commodity euphoria but also by currency misalignments. The free-market model has worked for the region, but it needs to be reinforced with more social content."

**A** **Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and member of the Inter-American Dialogue:** "The recent re-commoditization of Latin American exports brings many benefits. Following buoyant demand from Asia after the turn of the century, commodity prices increased sharply, which boosted regional commodity sales and raised the share of these products in total exports from 28 percent in 2000-01 to 42 percent in 2010. The price hike improved the region's terms of trade and national income, which helped to reduce poverty together with targeted public income transfers. Dynamic commodity exports to China also facilitated the region's recovery from the recent crisis. But the export re-commoditization also poses significant challenges. Besides increasing vulnerability to commodity price shocks,

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mobile-phone market by acquiring a 50 percent stake in **Grupo Iusacell**, Bloomberg News reported. Mexico City-traded shares of Televisa fell 3.9 percent to 50.86 pesos, marking their biggest one-day loss since Sept. 5. Televisa's shares have dropped 6.1 percent since *El Universal* reported Jan. 25 that the antitrust agency, known as Cofeco, had scuttled the acquisition plan. By compar-

ison, Mexico's benchmark IPC index has gained 1.3 percent during that period. The antitrust panel's decision blocks Televisa from converting debt it holds in Iusacell to shares that would give it a 50-percent stake in the mobile-phone company. The broadcaster said the agency's rejection will hinder efforts to bring down prices for consumers and added it is taking steps to appeal the decision.

**Featured Q&A***Continued from page 3*

due both to real and speculative factors, hurting the economy and impacting the vulnerable social sectors the most, the economies' growth potential could be reduced, as productivity gains in commodity sectors may be smaller than in manufacturing. The economies' deindustrialization, linked partly to export re-commodification, is a concern for governments in the region. Productive convergence requires efforts to strengthen a proactive industrial policy with a sectoral focus and a price structure that redirects the predominant investment patterns, and promote public investment to foster production linkages with new, more knowledge-intensive sectors. The challenge is to add value to all types of exports, including commodities. This requires active national policies, embedded in strong regional cooperation and integration schemes, to promote innovation, linkages between the export sector and rest of the economy, upgrading of small- and medium-sized firms and insertion in global value chains."

**A** **Alberto Pfeifer, president of the Fletcher Cub in Brazil and member of the Group of International Analysis at the University of São Paulo:** "A sudden impoverishment of the nouveau Latin American middle class is a remote possibility. Commodities prices have risen steadily in the past 20 years. Taking aside the speculative drive upwards from the first half of 2008, current figures fit very well in a stable growth path. In aggregate, according to calculations from the IMF, commodities prices doubled from 2005 to 2011. A decrease in coming months may signify an adjustment that, on average, won't significantly deteriorate the income of producers and related beneficiaries. It is hard to see a

negative demand shock, since consumption of most raw materials does not seem to show signs of retreating in emerging economies and demand for these goods is basically inelastic in developed countries. The only real fear on the horizon would be a speculative run against commodities—a bet that would be counter-factual and short-lived, but could harm uninsured producers. The two other sources of maladies for agricultural producers in

“The recent income wave has given birth to new businesses and jobs that a temporary reduction in money influges won't reverse.”

— *Alberto Pfeifer*

Latin America are natural disasters and a supply bubble, like the one that took a toll on coffee growers in the early 2000s. But regardless if commodities prices go down by 20 or 30 percent, Latin America is more resilient to deal with bearish markets for three main reasons. First, families have fewer people to take care of—demographic growth has fallen dramatically in the past 10 years. Second, families who entered middle class now know how and where look for support, either governmental or through private credit. Third, the recent income wave has given birth to new businesses and jobs that a temporary reduction in money influges won't reverse."

*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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