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LATIN AMERICA ADVISOR

Featured Q&A *With Our Board of Advisors*

Q The Brazilian government announced last week it would allocate over $5 billion to stimulate industrial production in strategic sectors, such as software, pharmaceutical products, biotechnology, and others, as part of its overall industrial policy. Does Brazil have a sound industrial policy? To what degree is Brazil industry-friendly?

A Guest Comment: Jerry Haar: "One should remain skeptical of the alleged ability of government—any government—to choose 'winning' sectors, especially in the age of globalization. Clearly, Brazil is strongly competitive in agricultural, natural resources, specialized textiles, and technology-intensive manufacturing. Firms such as Marco Polo, Perdigao, Sadia, CVRD, Embraer, Duratex, WEG, and the foreign automobile companies have achieved world-class status, serving both local and export markets. However, whether Brazil has a 'sound industrial policy' depends upon one's definition. I would argue that a sound industrial policy is based primarily on the undergirding of the business environment: tax, regulatory, economic, energy, labor, education, and judicial policies. Here Brazil produces mixed results (liberalization of foreign investment rules but burdensome and complex taxation and legal procedures). Rather than targeting industrial sectors for its government largesse, Brazil would do better to tackle longstanding competitiveness-related issues, such as intellectual property right protection and the '*custo Brasil*' that stifle both foreign and domestic firms of all sizes and sectors."

A Board Comment: Beatrice Rangel: "Industrial policy is not news in Brazil. During the years of authoritarian rule, the government enacted a very innovative version of Argentine economist Raul Prebisch's industrialization through import substitution model. The policy entailed heavy protection and state subsidies for what were

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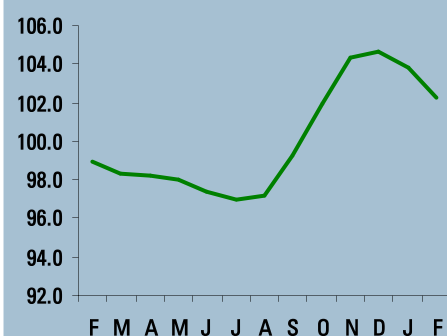
CHART OF THE DAY

Brazil Industrial Production
Feb 2003-Feb 2004 (1991=100)



Industrial output in Brazil fell for the third straight month in February. See related story on page 2.

Source: IBGE.

Inside This Issue

NEWS BRIEFS

Ecuadorean Economic Growth Slows to 2.7 Percent in 2003

Ecuador's economy grew 2.7 percent in 2003, according to the Central Bank. Although the figure was in line with the government's growth target of 2.5-3.0 percent for the year, it represented a slowdown from the three previous years. In 2002, the Andean country's economy grew 3.4 percent, following 5.1 percent the year before and 2.8 percent in 2000. Growth of 11.8 percent in Ecuador's oil sector last year was offset by growth of just 1.4 percent in the nonoil sector.

Source: Reuters.

TAM Plans Share Sale Amid Bullish Local Stock Market

Brazilian airline **TAM** plans to sell a 20 percent stake in Brazil and the United States through the sale of new, preferred shares in a bid to take advantage of a bullish local stock market. The airline, Brazil's second-largest, hopes to raise $150 million though the share issuance. TAM plans to sell the shares between September and March of next year.

Source: Bloomberg News.

Chile's CCU Reports 5.2 Percent Q1 Growth in Sales Volumes

Chilean brewer **CCU** posted a 5.2 percent increase in first-quarter sales volumes on stronger beer sales in Argentina. CCU, owned by Chile's **Quinenco** and the Netherlands brewer **Heineken NV**, said it sold 2.515 million hectoliters in the quarter. Beer sales volume in Argentina rose 16.7 percent, the brewer said. In Chile, beer sales volume rose just 0.2 percent, although growth in sales volume in the smaller nectar and wine sales product lines contributed to an overall 3.1 percent increase.

Source: company statement.

Economic News

Brazil Industrial Output Falls in February for Third Straight Month

Industrial output in Brazil declined in February for the third straight month, the government's economic statistics agency, IBGE, said Thursday, according to Reuters. Production, which has experienced zero growth for the 12 months through February, fell 1.8 percent from January, the IBGE said. The IBGE also revised its industrial production figure for 2003, saying output fell 0.1 percent during the year rather than the 0.3 percent increase previously reported. IBGE economist Silvio Sales said data from the last few months revealed a downward trend. "Starting from the last few months of 2003, trimestral moving average indexes have been showing a reduction in production levels, which is determined by capital goods and durable consumer goods," Sales stated. Production of durable goods fell 5.4 percent from January, reversing an upward trend recorded during the second half of last year. Some analysts expect the fall in the production of durable goods to put pressure on Brazil's Central Bank to lower its benchmark Selic interest rate to stimulate consumer demand. Durable consumer goods, which include items such as domestic appliances, are dependent on the availability of consumer credit, which in turn is tied to interest rates. The Bank's monetary policy committee is expected to approve a small quarter point reduction in the Selic to 16 percent during its regular monthly meeting next week, following a quarter point cut last month, amid signs resurgent inflation is abating. The Bank has lowered the Selic by over 10 percentage points since last June, but critics in industry say a more aggressive monetary policy is needed to spur economic growth following a sluggish 0.2 percent expansion in 2003. Latin America's largest economy is expected to grow 2.5 percent this year. Despite the negative monthly industrial production data for February, the IBGE noted that on a year-on-year basis, output rose 1.8 percent from February 2003 and 2.7 percent for the first two months of the year compared to the same period a year ago. Last week, the government announced it would allocate over $5 billion to stimulate industrial production in strategic sectors, such as software, pharmaceutical products, biotechnology, and others, as part of its overall industrial policy [Editor's note: see related Q&A on page 1].

IMF Wary of Looser Loan Conditions for More Infrastructure Spending

The International Monetary Fund (IMF) on Thursday expressed wariness of demands by Latin American countries that the IMF loosen conditions for public spending by loan recipients in order to allow infrastructure investments, Reuters reported."It's not a simple decision to be made," IMF spokesman Thomas Dawson told reporters during a regular press briefing. "There's a lot of work that needs to be done in terms of how one tries to get a better understanding of what the problems are; and one can accommodate higher levels of public investment, but there are still tradeoffs, resources are still scarce." Dawson's comments follow calls made by Latin American countries at the Inter-American Development Bank's annual meeting last week in Lima, Peru that the IMF relax accounting rules to allow greater infrastructure investment. Mexico, Chile, Venezuela, Colombia, Peru, Bolivia, Uruguay, Paraguay, and Ecuador joined Argentina and Brazil in seeking to make it easier for countries to meet IMF loan conditions, such as fiscal targets, without sacrificing growth or curbing spending on roads, ports, and bridges. The countries proposed removing infrastructure spending from IMF budget deficit calculations. But Dawson suggested that loosening IMF lending conditions to allow more infrastructure investments could endanger the success of IMF lending programs in a region "where debt levels still raise questions of sustainability." The IMF spokesman said the Fund's executive board had not decided on a timeframe for issuing a decision on making accounting rules more flexible, but said it did hold an "informal seminar" to discuss a staff paper on fiscal accounting.

Political News

Land Invasions by Brazilian Peasants Pick Up, Creating Problem for Lula

Brazilian peasants' drive for agrarian reforms accelerated Thursday as they occupied four more ranches, which puts 18,000 peasant families onto 58 properties since early March, Reuters reported. The Landless Workers Movement (MST) said the biggest wave of land occupations in five years intends to push the government to redistribute farmland faster. "If they stay in their camps, the government will do nothing," said MST organizer Dirce Ostroski, who works with families in the northeastern state of Pernambuco. President Luiz Inacio "Lula" da Silva, already suffering in popularity due to the economy and an administration scandal, is caught between campaign promises to diminish wealth inequalities and protecting Brazilian farmers' property rights. The Brazilian Constitution charges the government with redistributing unused farmland. Despite Lula's promises of land for 115,000 families, the government has only settled 9,000 families thus far this year. The MST, an ally of Lula's Workers' Party, has responded with the present land grab, with 2,000 families occupying a working wood plantation in Bahia. Miguel Risotto, the agrarian reform minister who backs MST's right to invade unused land, condemned the actions as "unacceptable." "They do nothing for the progress of agrarian reform," Risotto said in a statement. The media reports that MST had agreed to leave the wood plantation for other land promised by the government.

Haiti Worries Amnesty International

Amnesty International said Wednesday it was "deeply concerned" about security in Haiti just over a month after the government of exiled former President Jean-Bertrand Aristide came to an end amid an armed revolt. Amnesty International said at-large armed groups had both Aristide's supporters and opponents frightened about their safety. A nationwide disarmament of all armed groups was key to restoring security in Haiti, it said.

Special *Advisor* Report

Nationalism Drives Brazilian Stance on Nuclear Inspections

By Chris Heaney

WASHINGTON - The current flap over Brazil's reluctance to allow thorough international inspections of a uranium-enrichment plant without prior warning from inspectors bears no regional security threat, but may be a product of nationalistic attitudes about sovereignty, according to experts contacted by the *Latin America Advisor*.

"It's not much of a security issue in that I don't think there's anybody that's making strong accusations the Brazilians are doing anything particularly wrong," William Perry, an analyst at the Center for Strategic and International Studies, told the Advisor.

"There's what appears to be a little collision between Brazilian nationalism and the international inspection regime. Hopefully, some way can be found around it that [satisfies] the kind of regime that is necessary for countries when they are doing something wrong," Perry said."

At issue is Brazil's refusal to sign an additional protocol to the Nuclear Nonproliferation of Nuclear Weapons Treaty (NPT) that would allow inspectors from the United Nations' International Atomic Energy Agency (IAEA) to conduct full, surprise inspections of a new uranium-enrichment plant under construction in Resende, near Rio de Janeiro.

No one has accused Brazil of attempting to secretly develop nuclear weapons, and the government of President Luiz Inacio "Lula" da Silva claims its nuclear program has only peaceful ends, noting that its Constitution bans atomic weapons of any sort. The government has justified its refusal to sign the NPT protocol on its need to protect proprietary technology, an explanation that some analysts doubt.

However, in testimony before Brazilian lawmakers on Tuesday, Foreign Minister Celso Amorim said Brazil was willing to negotiate the signing the additional protocol, but he noted that such a step would be a "sovereign" decision.

Fueling concerns about Brazil's nuclear intentions are past statements made by top Brazilian officials, including Lula. During his 2002 presidential campaign, Lula said the NPT was unfair by allowing some countries to retain nuclear weapons while banning their development by others. He later said Brazil had no intention of developing nuclear weapons.

Former US Ambassador to Brazil Melvyn Levitsky, who was involved in efforts to persuade Brazil to adhere to the NPT in the mid 1990s, said claims of unfairness are outdated.

"It doesn't seem to be there's any room for that kind of ideological stance anymore. It's not like the 'haves' and the 'have nots,'" Levitsky said, speculating that Brazil's position might be meant more for domestic consumption.

"This may be a way of buying off the left, who are dissatisfied with the Lula administration's domestic programs, [which] haven't been socially progressive enough," Levitsky told the *Advisor*.

The Brazilian Embassy did not return phone calls yesterday requesting comment.

Featured Q&A
Continued from page 1

considered at the time industrial activities with powerful multiplier effects upon development. Capital goods, aircraft production, auto parts, and energy were among those privileged activities. Protection was gradually reduced as these activities gained competitiveness. And truth be told, some successful ventures emerged from these policies, notably Embraer, but also others less known such as Frenos Varga and a myriad of companies producing gasohol—a mix of gasoline with ethanol. But one must be aware of the fact that in those days globalization was yet to explode into full gear as technological advances where trapped in the military establishment due to the Cold War. For these policies to succeed in today's world, they need to be linked to demand in the US market. Should Brazil manage to produce medicines at better cost structures than those of US firms it could, for instance, contribute to the solution of the healthcare crisis in the US. To do that it would need to produce drugs under similar quality control standards. Another strategic direction would be to produce for the domestic market, and then for that to work income distribution needs to be addressed. As to whether Brazil is industry friendly, I think it is in so far as industries setting up shop in that country comply with the vision of strengthening the domestic market and enhancing export receipts."

A **Guest Comment: John Mein:** "The Brazilian government is not a monolithic organization. It would like to have industry develop, and its industrial policy is focused on very specific sectors, sectors which it has identified as ones on which there is already a base to build. The government's industrial policy in general focuses on building on those particular industries. There are signs from the government that are not as friendly as that. One of them is how the government looks at the regulatory environment and the institutions to manage the regulatory environment."

Jerry Haar *is a Professor of Management & International Business at Florida International University.*

Beatrice Rangel *is a member of the* Advisor *board and senior Advisor to the Chairman at the Cisneros Group of Companies.*

John Mein *is President and CEO of the American Chamber of Commerce-Brazil.*

Q&A Index

A review of the featured Q&A in the Latin America Advisor *for the week ending April 9, 2004.*

Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting Editor Robert Simpson at rsimpson@thedialogue.org.

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