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Friday, April 14, 2006

Inter-American Dialogue

Latin America Advisor

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Featured Q&A *With Our Board of Advisors*

Q Philip H. Coombs, a former John F. Kennedy Administration and UN official who in the 1960s helped pioneer the notion that increased investment in developing country higher education and research institutions were essential for economic growth, died in February at the age of 90. How far have Latin America's higher education systems come in contributing to the region's economic growth and competitiveness since the 1960s? Are they working well with businesses and governments in advancing their economies? What changes need to come about?

A Guest Comment: Juan Carlos Navarro: "Productivity has been stagnant for the best part of the preceding two decades for most Latin American economies. A major factor in such stagnation has been the weak contribution that human capital and technological development are making to overall productivity figures. Although all countries in the region have experienced substantial gains in universal access to primary education, and a more recent vigorous expansion of secondary education, the impact on labor force preparedness still remains limited. Higher education institutions in Latin America followed Mr. Coomb's pioneering advice. In the sixties and seventies, a large expansion of infrastructure and enrollments took place across the region. With it came the establishment of public research centers and graduate programs. Yet investment in knowledge remains limited in magnitude and weak in terms of productivity. R&D expenditure as a share of GDP remains below 1 percent, with the exception of Brazil, while the average for developed economies reaches 2.5 percent and 1.3 percent in China. Patents granted each year to researchers in all the countries in the region are measured in the hundreds, while those granted in the case of OECD countries are counted in thousands. In stark contrast with the typical OECD country, in Latin America the public sector remains the dominant player in terms of financing and performing R&D, with low linkages with the private sector, which hin-

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PHOTO OF THE DAY

President Bush on Thursday accused Senate Minority Leader Harry Reid of blocking a compromise immigration bill. See related story in Capitol Hill Watch on page 3.
Photo: Office of Sen. Harry Reid.

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NEWS BRIEFS

Group Acquires Brazilian Auto Part Operations

International Automotive Components Group Brazil, a joint venture between US billionaire investor Wilbur Ross and mutual fund operator **Franklin Mutual Advisers, LLC**, announced Thursday that it had acquired a controlling stake in the Brazilian operations of auto interior and exterior components supplier **Collins & Aikman**. The Group said the acquisition includes 100 percent of the equity interests in **Permali do Brazil Industria e Comercio Ltda.** and about $48.2 million of inter-company loans to **Plascar Industria de Componentes Plasticos Ltda**.

AmBev Pays $1.2 Billion to Raise its Stake in Quinsa

Belgium-based brewing giant **InBev** announced Thursday that its Brazil-based unit, **AmBev**, had agreed pay **Beverage Associates Corp.** (BAC) $1.2 billion to raise its stake in South American brewer **Quinsa**. Under the terms of the deal, AmBev will raise its stake in Quinsa from 56.72 percent to 91.18 percent, InBev said in a press release. Quinsa is the largest brewer in Argentina, Bolivia, Paraguay, and Uruguay, and also has a presence in Chile.

Comsat Hires Country Managers for Colombia, Peru

US satellite voice and data service provider **Comsat International** announced Thursday it had hired Raul Fandino and Erla Alvaro as country managers for Colombia and Peru, respectively. Fandino was previously the general manager at a Colombian livestock exchange, as well as industry positions at Infonet Enterprise, Elibom, Equant and Sprint. Alvaro worked in sales at **Equant**, **Global One**, and **CellStar**.

Economic News

Chilean Central Bank Hikes Interest Rate to Four-Year High

Chile's Central Bank on Thursday raised its benchmark interest rate 25 basis points to 5.0 percent, a four-year high, and said more hikes were likely in order to keep annual inflation close to 3 percent. In a statement posted on its Web site, the Bank said in the first quarter of this year internal demand had slowed down some and that economic activity was weaker than expected, but noted that employment, particularly salaried employment, had picked up. "In turn, internal financial conditions continue being expansive," the Bank said. Inflation, which stood at 4.0 percent for the 12 months through March, was at the high end of the target range, the Bank said. It said future interest rate hikes "will depend on the implications of news of [economic activity], [and] the exchange rate and prices, for the expected trajectory of inflation."

> "... Internal financial conditions continue being expansive."
>
> *– Chile's Central Bank*

Cuba Inviting Direct Foreign Investment in Sugar Industry

The Cuban government is inviting direct foreign investment in the country's sugar industry for the first time since the industry was nationalized in the wake of the country's 1959 revolution, Reuters reported on Thursday, citing unnamed Cuban and foreign sources. At least three companies have made proposals to invest in and administer sugar mills and adjoining plantations, according to the report, as the government moves to reinvigorate its once-dominant sugar sector and take advantage of high global sugar prices. Sugar prices have more than tripled since 2003 amid increased interest in sugar-based ethanol as an alternative fuel amid high oil prices. The director of **Zerus**, a Cuban state company created by the sugar ministry to promote joint ventures in the sector, recently said the government was interested in forming ventures to produce sugar, syrup, ethanol, alcohol, energy and other derivatives, according to Reuters. Sugar was once one of the top foreign exchange earners for the Cuban economy, but has steadily declined since the 1990 collapse of the Soviet Union, which bought much of Cuba's sugar at preferential prices, and sugar exports currently account for less than 5 percent of the country's foreign exchange earnings. Since 2003, the government has shut down more than two-thirds of its sugar mills. President Fidel Castro held an emergency meeting to discuss the island's sugar industry in mid-February. One major obstacle to foreign investment in Cuba's sugar industry is the US' Helms-Burton Law, which penalizes investment in US expropriated properties. The Law also contains a chapter, yet to be implemented, which allows Cuban-Americans to sue investors who "traffic" in their expropriated properties. Most of the 85 sugar mills in Cuba still in existence and the country's sugar plantations were expropriated by the Castro government after the 1959 revolution.

New Jamaican Government Proposes 3.5 Percent Budget Increase

The government of new Jamaican Prime Minister Portia Simpson Miller on Thursday proposed a 3.5 percent increase in the Caribbean nation's fiscal budget, Reuters reported. The $55 billion draft budget for the fiscal year starting April 1 includes increases to support security, the tourism industry, agriculture, education and health. Twenty-two billion dollars will go toward servicing the country's debt. An opposition spokesman criticized the budget as "unreal" and an "election budg-

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et," accusing Simpson Miller of raising spending on education and social services to boost support for her People's National Party ahead of a general election widely expected to be called in the next three months. Simpson Miller took office last month, replacing P.J. Patterson, who stepped down as prime minister after 14 years in office. Simpson Miller, Jamaica's first ever female prime minister, has said she will focus on education while in office.

Simpson Miller
Photo: JIS.

Company News

Ford Announces Changes to South American Operations

Ford Motor Co. said Thursday it was eliminating the position of president of its South American operations after Antonio Maciel Neto resigned from the post, and said it was appointing Dominic DiMarco executive director of South America and Canada, a new position for the company, Bloomberg News reported. DiMarco, who had been Ford's executive director of operations support, finance, and strategy for Canada, Mexico and South America, will report to Mark Fields, who became chief of the Americas for Ford in October. The change gives DiMarco "day-to-day" responsibility for South America, while Fields will focus mainly on North America, Bloomberg News reported, citing a company spokesman. Ford also said it named Barry Engle president of **Ford Mercosul** as well as of **Ford Brazil**. Engle will report to DiMarco and to William Osborne, head of **Ford of Canada**. Louise Goeser, president of **Ford of Mexico**, will also report to Fields. While Ford's North American operations suffered a pretax loss last year of $1.6 billion, its operations in South America posted a 56 percent increase in pretax profits to $389 million, boosted by a strengthening of Brazil's currency, the real, according to Bloomberg News. Under Fields, Ford has been cutting jobs and closing plants in North America amid a general decline in the US auto industry.

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Bush Accuses Senate Minority Leader Reid of Blocking Immigration Bill

President George W. Bush on Thursday accused Senate Democratic leader Harry Reid of Nevada of blocking a compromise immigration reform bill. In a speech to a conference of small business owners in Washington, Bush said he was encouraged by a bipartisan compromise on immigration reached last week. "Unfortunately, the compromise was blocked by the Senate Democratic Minority Leader," Bush said, according to a transcript of his speech posted on the White House Web site. "He refused to allow senators to move forward and vote for amendments to the bill. It was a procedural gimmick that meant he was single-handedly thwarting the will of the American people and impeding bipartisan efforts to secure this border, and make this immigration system of ours more humane and rational." Reid shot back at the president soon afterward, accusing Bush and Senate Majority Leader Bill Frist of Tennessee of holding up the legislation. "President Bush has as much credibility on immigration as he does on Iraq and national security. If he were actually committed to comprehensive immigration reform he would have stopped his own party from filibustering it twice last week," Reid said in a statement. "If the president is serious about moving forward, then he should join me in calling on Senator Frist to bring immigration reform back to the Senate Floor when we return. Hopefully by then, President Bush and his Majority Leader will have found the backbone to stop the extreme elements of the Republican Party from blocking improvements to America's security." Reid said amendments by Republican Senators would have undermined the bill, which seeks to legalize the status of some of the estimated 12 million undocumented workers in the US while boosting border security and enforcement.

Harry Reid.
Photo: Office of Sen. Harry Reid.

Democrats Says Labor Improvements Needed to Boost Support of Peru FTA

Congressional Democrats are asking that the Peruvian government improve labor standards before they will agree to approve a free trade pact that the US and Peruvian administrations signed on Wednesday. Peru's president Alejandro Toledo indicated last year that Peru could accept such provisions, but USTR Rob Portman has argued that Peru's current labor provisions are consistent with the guidelines Congress set down for the accord in 2002, *The Miami Herald* reported on Thursday. Rep. Charles Rangel, D-NY, the ranking member on the House Ways and Means Committee, said in a Web site statement on Wednesday that "it is not too late to change this pact for the better," adding that "If President Bush wants broad congressional support for this FTA, USTR will accept President Toledo's offer to include basic labor standards in the text of the agreement." Rep. Sander Levin, D-MI, was even more critical in the statement, saying "This agreement is a seriously missed opportunity to shape expanded trade and make globalization work so the benefits are widely shared by citizens of both our nations." He added, "the Bush Administration is once again seriously missing an opportunity to rebuild a broad bipartisan coalition in our nation so vital to tackle important issues of international trade." Five senators and 11 representatives wrote last week to the USTR about their concerns.

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Featured Q&A

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ders the dynamics of innovation. In today's knowledge-intensive economy, decisive action is needed in order to boost R&D investment in the region, as well as to take effective steps aimed at strengthening national systems of innovation in which the mutually reinforcing efforts of business, government, and universities produce the kind of domestic research and technological capacity indispensable to reverse the long-standing lull in productivity in Latin American economies."

A Guest Comment: Claudio de Moura Castro: "We need to be more specific. Higher education and research are not the same thing and, therefore, we cannot offer a single answer. All countries benefit from higher education, since this is the source of cadres and leaders in all spheres of life, from managers to political leaders. By and large, Latin American countries are producing a significant quantity of graduates of higher education, which is a good thing. But the quality tends to be mediocre or disastrous—with a few exceptions. Therefore, no country can go wrong in developing a few excellent universities. In theory, investing in research is a good idea. However, the costs and time lags before research brings tangible results tend to by quite significant. The more advanced countries in the region are already beginning to reap practical results, after many years—in the case of Brazil, half a century of continued investments. In the poorer countries, unless the efforts are very focused they will not bring benefits in a reasonable time horizon. A very limited number of priority areas must be chosen and critical mass around them must be built. For instance, agriculture seems to be a good choice. Astrophysics is not."

A Guest Comment: Jerry Haar: "No doubt universities have contributed to the region's growth and competitiveness, but their contributions have been selective and sparse—-confined for the most part to elite (mainly private) schools in business, engineering, and the sciences. The region's higher education system, in general, remains archaic, mediocre, inefficient, inflexible, poorly organized, and out of touch with the competitive demands of a 21st century globalized economy. India's higher education system produces an overwhelming number of engineers and scientists, while Latin America's produces massive surpluses of lawyers, psychologists, and graduates in flaky fields such as 'social communication.' The region produces too few Ph.D.s, spends too little on R&D, and enrolls far fewer students per GDP expenditure on higher education than Asian nations. Not surprisingly, the last decade has witnessed a 50 percent jump in higher education enrollment in the US by Latin American high school graduates who want neither the experience of gargantuan public universities, like Mexico's UNAM, with its run-down facilities and itinerant, part-time instructors, nor the watered-down curricula of fly-by-night, privately owned and operated post-secondary diploma mills. Unless public universities significantly improve quality, efficiency, human resources (most professors are part-timers), and dramatically raise tuition—considered heresy throughout the region—Latin America will continue to fall behind in economic growth and competitiveness, and experience a brain drain of some of its most talented young people."

Juan Carlos Navarro *is Chief of the Education Unit at the Inter-American Development Bank.*

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Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2006

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Latin America Advisor is published every business day by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

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