



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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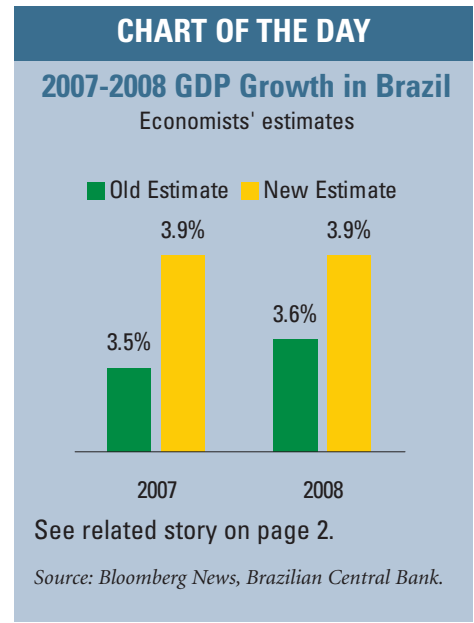
### Featured Q&A With Our Board of Advisors

**Q** Ecuadorian President Rafael Correa last week branded his country's adoption of the US dollar seven years ago "a complete failure," saying the move has hurt the Andean nation's exports, as a result limiting job creation, stunting economic growth, and only benefiting the financial and oil industries. Has adoption of the dollar hurt Ecuador more than it has helped? Do you see Ecuador abandoning the dollar?

**A** Guest Comment: **Roberto Baquerizo:** "President Correa's arguments against dollarization reflect his well-known academic position against it, which was publicized before the election, but also a convenient campaign message to blame dollarization as the evil cloak that holds 'neoliberal policies.' Although his attacks may strike a chord with some of the voters, and any statement, if repeated often enough, can become accepted as true, the reality is that Ecuador has never grown faster in the past 20 years than now with dollarization. Ecuador's growth rate from 1980 to the year 2000 was only 1.60 percent, one the region's lowest. According to an OECD study, Latin America's average growth in the past 25 years was only 2.8 percent. However, since dollarization in 2000, Ecuador has grown on average by 4.8 percent. During the same period (2000-2006), according to the IMF, the Western Hemisphere, which includes non-Latin

American countries, grew by 2.85 percent. Ergo, dollarization has helped the country almost double the region's growth average. Furthermore, according to the Ecuadorian census bureau, even poverty levels have been reduced from close to 48 percent in 2000 to 36 percent in 2005. In addition, household consumption growth rates have doubled in the past three years versus the prior two decades (1985-2005). Dollarization is not a perfect monetary system. It clearly has its limitations, but the reality is that with an imperfect system the Ecuadorian economy has survived well compared to the region while having eight presidents in ten years!"

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## NEWS BRIEFS

**Cemex Raises Bid to Acquire Rinker Group to \$14.2 Billion**

Mexico's **Cemex** on Monday raised its takeover bid for Australia's **Rinker Group Ltd.** by 22 percent to \$14.2 billion, Bloomberg News reported. Cemex, the world's third-largest cement maker, was expected to raise its bid to win support for the deal from Rinker's board. Rinker's biggest shareholders declined to comment on whether or not they would accept the offer. The acquisition would boost Cemex's sales by 32 percent to \$24 billion, according to Bloomberg News.

**Core Inflation in Mexico Slowed in March**

Mexico's annual core inflation dropped in March, while headline inflation remained broadly the same, giving way to speculation that the central bank won't raise interest rates later this month, Reuters reported on Monday. Annual core inflation decreased to 3.83 percent in March from 3.95 percent in February, while the 12-month headline inflation rate stayed at 4.21 percent, above the bank's 4 percent tolerance mark, according to Reuters.

**VT Group Awarded Contract to Build Boats for Trinidad & Tobago**

British shipbuilder **VT Group** announced early today it was awarded a 150 million-pound (\$US 296 million) contract to build and maintain three patrol boats for Trinidad & Tobago. In a press release, VT Group said the 90 meter-long ships will be used by the Caribbean nation's Coast Guard "for a range of Economic Exclusion Zone (EEZ) management, special operations, and maritime law enforcement tasks." Delivery of the ships will take place in 2009, the company said.

## Political News

**Correa Confident Ecuadoreans Will Vote in Favor of Assembly on Sunday**

Ecuadorean President Rafael Correa said Monday he was confident voters would approve the creation of a special assembly to rewrite the Constitution in a referendum on Sunday, the Associated Press reported. In comments to a local television network, Correa said "the possibility is very remote" that voters will reject the proposal, predicting that 85 percent would vote in favor of it. According to a survey last week taken by local polling firm **Cedatos**, 63 percent of respondents said they supported creating the assembly, the AP reported. The poll had a margin of error of 5 percentage points. Correa, who took office on January 15, has made approval of the assembly a priority of his

turn ordered the dismissal of 57 lawmakers—more than half of Congress. Last week, however, Correa appeared to soften his position, saying the assembly should not dissolve Congress but only limit its functions. If approved, the 130-member assembly would convene for 180 days beginning in November, the AP reported.

**Argentine Teachers Hold One-Day Strike to Protest Pay, Teacher's Death**

Thousands of Argentine public school teachers staged a one-day strike across the country on Monday to demand higher pay and to protest the killing of a teacher during clashes with police last week, the Associated Press reported. An estimated 30,000 teachers, and labor and human rights activists marched through the capital of Buenos Aires. The strike paralyzed public schools, while unionized transport

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*Correa said "the possibility is very remote" that voters will reject the proposal, predicting that 85 percent would vote in favor of it.*

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government, saying that political reform is needed to lessen the influence of Ecuador's traditional parties, which he labels as corrupt and responsible for the Andean nation's chronic political instability. Correa said the choice in Sunday's referendum would be between a new Constitution and "the same thing as always," the AP reported. The powers to be held by the proposed assembly have been at the center of a stand-off



in recent weeks *Photo: Carondelet* between Correa and opposition lawmakers. Last month, Ecuador's top electoral court approved Correa's request that the assembly have unlimited powers, including the ability to fire legislators and the president himself. Congress, which in February approved the referendum on the condition that it not be able to dissolve the legislature, responded by voting to fire the president of the electoral court, which in

workers also briefly shut down several subway lines in solidarity, according to the AP. Teachers complained that pay increases have not kept pace with annual inflation, which has hovered near double digits for several months. The demonstrators also demanded justice in the killing of a high school teacher in battles with police during a demonstration in the southwestern province of Neuquen last week. Argentine President Nestor Kirchner expressed regret over the teacher's death, and called the teachers' demands for a pay raise "legitimate," according to the AP. "But everything has a limit," he said. "It's not necessary to tear down this process that has cost us so much effort to build."

## Economic News

**Economists Raise Their 2007-2008 Growth Estimates for Brazil**

Economists expect the Brazilian economy to expand at a faster rate this year and next

after the national statistics agency changed its methodology to calculate the country's gross domestic product, Bloomberg News reported on Monday. In a median estimate of about 100 economists in a Brazilian Central Bank survey taken April 5 and published Monday, GDP growth in Latin America's largest economy will reach 3.9 percent in 2007, up from 3.51 percent predicted in the previous survey. The economists said GDP in 2008 will rise 3.9 percent, revised from an earlier prediction of 3.6 percent. National statistics agency IBGE last month revised GDP growth for 2006 to 3.7 percent, up from a previous view of 2.9 percent. Earlier in March, IBGE had revised GDP growth rates for 1996 through 2005, with most revisions trending upward toward a faster pace of growth than under the previous methodology. The IBGE said in a statement that the new series of National Accounts includes data from the annual surveys of IBGE, official federal registrations of legal entities, the Consumer Expenditure Survey of 2003 and the Agricultural Census of 1996. Concepts and definitions in the series have been updated according to recommendations by the United Nations and other international organizations, the agency said. According to the April 5 survey, economists cut their 12-month inflation forecast for a third week to 3.66 percent from 3.70 percent and held their 2007 inflation forecast at 3.86 percent, the survey showed—well below the Central Bank's stated inflation target of 4.5 percent for the year. Analysts also trimmed their estimates of Brazil's net debt to GDP ratio based on the revised IBGE data, predicting net debt of 46.6 percent of GDP, compared with an earlier estimate of 48.4 percent, the survey showed. They expect net debt to fall to 44 percent of GDP in 2008, down from 45.4 percent predicted previously.

## Company News

### Aracruz Posts 22 Percent Quarterly Drop in First-Quarter Profit

Brazil's **Aracruz**, the world's leading producer of bleached eucalyptus pulp, on

### Featured Q&A

*Continued from page 1*

**A** **Guest Comment: Axel Gastambide:** "Ecuador adopted total dollarization after a tremendous financial crisis in 1998 and 1999. Total dollarization was the most extreme stabilization measure. The main contribution of dollarization is the low level of inflation (around 2 percent). But at the same time Ecuador put

“... Ecuador put itself in a monetary straight jacket ...”

—Axel Gastambide

itself in a monetary straight jacket, since it does not have monetary policymaking ability and exchange autonomy, and that could be a big problem in the event of negative shocks. Luckily, so far the country has benefited from a favorable context, with high oil prices and remittances from Ecuadoreans who live outside of the country. That is why economic

Monday reported a first-quarter profit of \$99 million, down 22 percent from the previous quarter due to seasonal sales factors and a decline in gains from financial transactions. In an earnings release, Aracruz said first-quarter supply constraints, including a wood shortage in the Northern Hemisphere caused by climate conditions and the effects of mill closures during 2006, limited strong world demand for market pulp. The drop in profits was also due in part to smaller gains from financial transactions aimed at hedging against exchange rate fluctuations. Aracruz said expected growth in supplies, mainly of hardwood pulp from Latin America, "should bring some relief from the present supply constraints." It added that the outlook for the global pulp market in 2007 indicates a balanced supply and demand scenario. Compared to the first quarter of 2006, net income rose

growth is at about 4 percent. But, in essence, dollarization creates a form of unbalanced development that weakens the internal market. This implies an economy with weak productive structures, scantily coordinated and highly dependent on just one exportable good (oil). Today, ending dollarization does not appear possible because the general context is favorable and the population is very much tied to the stability of prices. But if negative shocks occur, ending dollarization ... is always possible, above all since President Correa is fundamentally against the system. The problem would be creating sufficient confidence in the new currency."

**A** **Guest Comment: Pablo Samaniego:** "I don't think Ecuador will give up the dollar. If that happened, the government would have a very big economic and political problem. The question is what to do so that people accept another currency ... that is an absolutely complex problem. It seems to me that, in the extreme, Ecuador could abandon dollar-

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26 percent, Aracruz said. Pulp sales totaled 676,000 metric tons in the first quarter of this year, down 9 percent from a year earlier and 16 percent from the previous quarter. Pulp production rose 2 percent year-on-year in the first quarter to 784,000 metric tons, but was down 1 percent from the previous quarter. Aracruz aims for production this year of 3.15 million metric tons. Total net operating revenue was \$395.4 million in the first quarter, up \$6 million from a year ago and \$62 million lower than in the fourth quarter of 2006. EBITDA (earnings before interest, taxes, depreciation, and amortization), a key measure of cash flow, rose 4 percent from a year ago to \$200 million. Aracruz also noted in the earnings release that during the first quarter **Moody's Investors Service** placed its "Baa3 Global Local Currency Issuer Rating" for the company under review for a possible upgrade.

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

ization only if there were a deep economic crisis because this would make people look for another option or another foreign exchange model. The current economic situation is relatively good, with sustained growth for several years, although it is in good part bolstered by oil resources and the remittances sent by emigrants. There are two main problems in the economy. One is the public fuel subsidy, which is a significant amount and moreover is an unequal subsidy that benefits the rich much more than the poor. The other problem is capital flows from Ecuador. Some export sectors leave their resources outside the country, which is ironic because they defend dollarization but do not keep their resources here. I don't think dollarization is the best option for a small and open economy like Ecuador's. However, once the measure was taken, it's difficult to get out of the model. With dollarization, there should have been a much more dynamic restructuring of the productive apparatus, because without productivity gains, everything can fail. However, Ecuador continues to have rent-seeking businessmen who earn more from the favors of the state than from their own production. Dollarization should have imposed these changes, but this has not been the case. In recent years, we've had an oil boom with the construction of the OCP [oil pipeline], and that meant more resources for the state and the economy. But it also meant that we returned to the point of departure before dollarization, that is, to dependence on oil resources. Except in a few cases, there hasn't been the business transformation, as was hoped."

**A** **Guest Comment: Orazio J. Bellettini:** "Dollarization, like any other monetary and exchange system, is nothing but an instrument that can contribute (or not) to a country's stability, growth, and development, depending on whether the system is applied adequately to the right situation. In spite of the negative effects and risks that have come with it (e.g., greater vulnerability to

volatility in capital flows, difficulty competing with non-dollarized, neighboring economies, etc.), dollarization in Ecuador has contributed to an increase in real salaries as well as to household consumption and the reduction of 'economic populism,' which allowed politicians to devalue the currency to benefit certain interest groups. With its costs and benefits, there is nothing to gain from Ecuador starting a debate about the convenience of maintaining dollarization. This would not only hurt our already weakened international image, but also distract us from the discussion of deep reforms without which our country will not be able to reach the threshold of development, independent of the economic model we have. It distracts us, for example, from agreeing to concrete steps to improve the system of education and professional training, which figure among the worst in Latin America; from establishing systems of technological innovation that allow us to export products with greater value added; from implementing a fiscal pact that allows us to use public resources with the greatest transparency and efficiency, among others. The problem is not dollarization, but in our ability to know how to lower its risks and take advantage of its potential so that it contributes to Ecuador's development."

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**Latin America Advisor**

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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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