

# INTER-AMERICAN DIALOGUE'S

## LATIN AMERICA ADVISOR

### BOARD OF ADVISORS

- |  |  |
|--|--|
| <b>Diego Arria</b><br>Director,<br>Columbus Group  | <b>Donna Hrinak</b><br>Director for Corporate<br>and Govt. Affairs,<br>Kraft Foods Inc.  |
| <b>Genaro Arriagada</b><br>Board Member, Banco<br>del Estado de Chile  | <b>Jon Huenemann</b><br>Principal,<br>International<br>Department,<br>Miller & Chevalier |
| <b>Joyce Chang</b><br>Global Head of<br>Emerging Markets<br>Research, JPMorgan<br>Chase & Co.                      | <b>James R. Jones</b><br>Co-chair,<br>Manatt Jones<br>Global Strategies LLC              |
| <b>W. Bowman Cutter</b><br>Partner,<br>E.M. Warburg<br>Pincus  | <b>John Maisto</b><br>Director,<br>US Education Finance<br>Group                         |
| <b>Rui da Costa</b><br>Managing Director,<br>Latin America & the<br>Caribbean,<br>Hewlett-Packard Co.              | <b>Nicolás Mariscal</b><br>Chairman,<br>Grupo Marhnos                                    |
| <b>Alejandro Delgado</b><br>Economist for Latin<br>America, Africa, the<br>Middle East & Mexico,<br>General Motors | <b>Thomas F. McLarty III</b><br>President,<br>Kissinger McLarty<br>Associates            |
| <b>Dirk Donath</b><br>Managing Director,<br>Eton Park Capital<br>Management  | <b>Juan Felipe Muñoz</b><br>President,<br>The Otun Group                                 |
| <b>Jane Eddy</b><br>Managing Director,<br>Corporate & Govt.<br>Ratings Group,<br>Standard & Poor's                 | <b>Carlos Paz-Soldan</b><br>Partner,<br>Saul Ewing, LLP                                  |
| <b>Marlene Fernández</b><br>Executive Director for<br>Latin America,<br>The Gallup<br>Organization                 | <b>Beatrice Rangel</b><br>Managing Director,<br>AMLA Consulting LLC                      |
| <b>Wallace Gardner</b><br>Vice President,<br>Worldwide Sales,<br>Chubb & Son                                       | <b>José Antonio Ríos</b><br>Chairman,<br>Global Crossing<br>Latin America                |
| <b>Javier Garza</b><br>Chairman and CEO,<br>Grupo Domos<br>Internacional   | <b>Andrés Rozental</b><br>President,<br>Rozental & Asociados                             |
| <b>Peter Hakim</b><br>President,<br>Inter-American<br>Dialogue   | <b>Everett Santos</b><br>President,<br>DALEC LLC   |
|  | <b>Roger Scher</b><br>Head of Latin American<br>Sovereign Ratings,<br>Fitch Ratings      |

## Annual Predictions Survey 2008

*Editor's note: we are pleased to publish the first in this year's series of the Latin America Advisor's "Annual Predictions Survey" results. This annual feature captures the latest forecasts, data, and analysis from regional experts. Survey results will run in the Advisor through January 2.*

### Latin American Regional Growth Seen Moderating Next Year

By **Alfredo Coutino**

The Latin American expansion continued this year at a steady pace, with growth based more on the domestic engine and supported by external conditions. Prospects for next year remain positive, with some moderation of growth. Even though the scenario of a global deceleration remains as a concern, the region will be able to reduce the impact thanks to strong domestic markets. Thus, the main risks remain inflation and external balances.

This year, the region is expanding for the fourth consecutive time thanks to strong domestic demand and favorable conditions in commodities markets. Inflation has been affected by high international prices, but also by some demand pressures and supply factors. Monetary conditions have been tightening in most of the region, with Brazil keeping the relaxation in pause. The region's external surplus continued to increase but is moderating at present. In general, macro-economic discipline has been maintained, with fiscal accounts still reporting positive results.

Thanks to strong fundamentals and low exposure, the region has been able to weather the global financial storm originated by the US subprime mortgage problem.

*Continued on page 4*

### Predictions: GDP Growth in 2008 Select Latin American Countries

	Bear Stearns	Morgan Stanley	Credit Suisse	JP Morgan	IdeaGLOBAL	WestLB	AVERAGE
<b>Argentina</b>	6.0	5.3	5.0	6.5	6.2	5.5	<b>5.8</b>
<b>Brazil</b>	4.1	4.3	4.5	4.7	4.7	4.6	<b>4.5</b>
<b>Chile</b>	5.5	4.8	5.0	4.0	5.1	5.2	<b>4.9</b>
<b>Colombia</b>	5.7	5.5	5.0	5.5	5.2	5.0	<b>5.3</b>
<b>Ecuador</b>	3.0	-	2.0	2.5	-	3.5	<b>2.8</b>
<b>Mexico</b>	3.5	2.6	2.5	3.2	3.5	3.4	<b>3.1</b>
<b>Peru</b>	6.8	6.0	6.0	7.0	6.5	-	<b>6.5</b>
<b>Uruguay</b>	4.2	-	4.5	-	-	5.2	<b>4.6</b>
<b>Venezuela</b>	5.5	6.0	4.8	6.0	6.0	5.6	<b>5.7</b>

## Inside This Issue

- Annual Predictions Survey:** Latin America's Growth Seen Moderating in 2008.....**1**
- EU Agrees on New Trade Deal** with Caribbean Countries .....**3**
- Pro-Government, Opposition** Groups Stage Rallies in Bolivia.....**2**
- Bolivia, Brazil, and Chile Agree** to Build "Bi-Oceanic Corridor" .....**3**
- Nicaragua's Ortega: Uribe is** Condemning Betancourt to Death.....**2**
- Human Capital:** Six Latin American Countries' Test Scores Near Bottom—Again.....**3**

## NEWS BRIEFS

**Argentina's Fernandez Appoints New Finance Secretary**

Argentina's new president, Cristina Fernandez de Kirchner, on Friday appointed Hugo Secondini to replace Sergio Chodos as the country's finance secretary, a key post as Argentina works to renegotiate some \$6.3 billion in defaulted Paris Club debt, Reuters reported. Fernandez, who took office last Monday, will keep Guillermo Moreno on as domestic commerce secretary, where Moreno holds a controversial role enforcing price freeze accords with companies.

**Cencosud Agrees to Acquire Peru's Grupo Wong for \$500 Mn**

In the latest in a series of acquisitions, Chilean retailer **Cencosud** said Sunday it agreed to acquire Peruvian retailer **Grupo Wong's** supermarket and shopping center operations in a deal worth \$500 million, Reuters reported. Last month, Cencosud bought **GBarbosa**, Brazil's fourth-largest retail chain, and is working with France's **Casino** to expand into Colombia in 2008.

**Suez Buying Brazilian Hydro Power Plant for \$329 Million**

**Suez Energy International** said Friday it has agreed to buy 100 percent of a hydroelectric power plant in Brazil for 228.6 million euros (\$US 329 million). In a press release, Suez said it bought the two year-old, 176 megawatt Ponte de Pedra plant from Italian engineering company **Impreglio** and Swedish construction company **Skanska**. The total output of the plant, which will be controlled by Suez's Brazilian unit, **Tractebel Energia**, is sold until 2025 under a share purchase agreement with Brazilian electricity distributor **Cemig**, according to Suez.

## Political News

**Pro-Government, Opposition Groups Stage Rallies in Bolivia**

Opponents and supporters of Bolivian President Evo Morales' plans to rewrite the South American country's Constitution staged competing rallies on Saturday, Reuters reported. In the capital of La Paz, thousands of Morales supporters celebrated the new draft Constitution after the president of the Assembly tasked with writing it submitted a copy to the government. "This is an historic day ... the people will never again be marginalized," Morales was quoted as telling crowds outside the presidential palace. Meanwhile, mass rallies in support of regional autonomy and against the new Constitution,

Bolivia," Morales said Saturday. The provinces oppose the new Constitution, which increases state control over the economy and allows presidents to serve two consecutive terms, saying it was passed illegally because of a boycott of the assembly by opposition delegates.

**Nicaragua's Ortega: Uribe is Condemning Betancourt to Death**

Nicaraguan President Daniel Ortega said Saturday that Colombian President Alvaro Uribe had essentially condemned to death a high-profile hostage held by Colombia's FARC guerrillas, Reuters reported. Ortega said Uribe's decision last month to end hostage release talks with the FARC, which Venezuelan President Hugo Chavez was mediating, endangered the life of former Colombian presidential candidate Ingrid

*The four provinces' declarations of greater independence from the central government have been branded as illegal and unconstitutional by Morales, setting the stage for possible violent confrontation.*

which still faces a national referendum, were held in the eastern lowland provinces of Santa Cruz, Tarija, Beni, and Pando, according to Reuters. The four provinces' declarations of greater independence from the central government have been branded as illegal and unconstitutional by Morales, setting the stage for possible violent confrontation. Morales has ruled out declaring martial law, but government officials have said he could use force if any attempt is made to divide the country. "We're not going to let anyone divide



Morales  
Photo: ABL

Betancourt, who was captured by the FARC more than five years ago. "He [Uribe] is condemning Ingrid Betancourt to death, that's what he is doing," Ortega was quoted as saying at a press conference. The spat between the two heads of state began Friday, when Ortega, a former Marxist guerrilla in Nicaragua, called FARC head Manuel Marulanda a "dear brother," prompting Colombia's government to issue a formal complaint. It was the latest row between Colombia and Nicaragua, which also have a standing dispute over the sovereignty of small islands in the Caribbean. There has been a growing international clamor for the FARC to release Betancourt, a French-Colombian citizen. French President Nicolas Sarkozy has lobbied for a deal to secure her release, while the presidents of several Latin American countries, including Argentina, Chile, and Ecuador, have called on the FARC to set her free. The FARC are also holding three US defense contractors and dozens of others, including many Colombian police and soldiers.

## Economic News

### EU Agrees on New Trade Deal with Caribbean Countries

The European Union and a group of Caribbean countries have agreed on a wide-ranging new trade deal, the European Commission said Sunday, according to Reuters. The agreement between the EU, Jamaica, the Dominican Republic, and a dozen smaller Caribbean states covers trade in goods and services, rules on trade-related issues, and development cooperation. The EU has pushed for the trade deals with the African, Caribbean, and Pacific (ACP) group of countries ahead of a December 31 expiration for a World Trade Organization waiver permitting the EU's longstanding preferential trade arrangements with the ACP countries. Without a deal, many of the ACP countries faced the prospect of immediately higher EU tariffs on their exports to the bloc, according to Reuters. Critics say the trade deals are unfair and will hurt ACP countries because they will open up their economies to imports from the EU. The EU, however, says ACP countries only have to cut their tariffs gradually and the new agreements will help make their economies attractive to investment.

### Bolivia, Brazil, and Chile Agree to Build "Bi-Oceanic Corridor"

The presidents of Bolivia, Brazil, and Chile on Sunday signed an agreement to build a highway connecting their countries. Bolivian President Evo Morales said after signing the agreement in the Bolivian capital of La Paz that the "Bi-oceanic Corridor," which will run from Brazil's Atlantic coast, through landlocked Bolivia, and on to Chile's Pacific ports, would help integrate the three countries, Bolivian state news service ABI reported. Chilean President Michelle Bachelet's trip to La Paz to sign the agreement was one of only a few by a Chilean head of state to Bolivia, which demands Chile return a swath of Pacific coastal territory it seized from Bolivia during a 19th century war. Brazilian President Luiz Inacio Lula da Silva said Bolivia was the heart of South America and all integration began with it.

## Human Capital

### A Monthly Look at Education in Latin America by the Dialogue's Jeffrey Puryear Six Latin American Countries' Test Scores Near Bottom—Again



WASHINGTON, DC—Once again Latin America has scored near the bottom in a major international test of student achievement. How should we interpret its poor showing?

The test—the Program in International Student Achievement (PISA)—is run by the Organization for Economic Cooperation and Development (OECD) and compares the reading, mathematics, and scientific skills of 400,000 15-year-olds in 57 countries making up nearly 90 percent of the world economy. Finland and South Korea generally scored at the top, followed closely by Canada, Hong Kong, Japan, and New Zealand. The six Latin American countries that participated (Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay) all had relatively low scores, ranking firmly in the bottom third.

Chile topped its neighbors in science and reading, and was second-highest in the region (behind Uruguay) in mathematics. Several of the Latin American countries showed progress compared to previous years (Chile in reading; Brazil, Mexico, and Uruguay in math). Argentina, on the other hand, scored lower than it had in earlier tests.

But the real story is Latin America's uniformly poor performance compared to the rest of the world. In science, only Chile and Uruguay had any students at all who reached the highest level (0.1 percent), compared with the OECD average of 1.3 percent. By contrast, well over a quarter of students from Argentina, Brazil, and Colombia, and nearly 20 percent from Mexico, scored at the lowest level in science (which the OECD characterizes as "not able to participate actively in life situations related to science and technology"). Scores in reading and math showed similarly disturbing results.

Most worrisome is that other countries at similar income levels are doing better than the best performers in Latin America. Poland and Estonia, which have per capita incomes comparable to the Latin American participants, scored at or above the OECD mean in all three subjects, whereas Latin America consistently scored well below the OECD mean. Poland, in fact, not only scored well, but improved more overall than any other participating country since the PISA exam of 2000.

Why doesn't Latin America do better? There is no single answer, and most Latin American countries clearly can't expect to do as well as wealthy countries such as Finland any time soon. Still, it is telling that Latin America has failed to put into place a number of components that are common in the world's high-performing school systems. These include: world-class standards (especially in reading and math); incentives to get and keep first-rate teachers; mechanisms to make teachers effective instructors; special attention to students who fall behind; and universal pre-school.

Latin America's poor performance in the PISA exam signals clearly that its schools are not providing children with an internationally competitive education, and are unlikely to contribute much to reducing poverty or inequality. Until leaders decide to invest the political and financial resources necessary to adopt and implement policies that have shown success elsewhere, the region's performance in international student achievement tests like PISA is unlikely to improve.

*Jeffrey Puryear is Vice President for Social Policy at the Inter-American Dialogue.*

**Annual Predictions Survey***Continued from page 1*

Thus, even though Latin America has not escaped the global turbulence, the turmoil has only affected financial markets and not the real economy. Three factors explain the region's ability to reduce the negative impacts from the external shock: sound macroeconomics, minimal exposure to risky assets, and strong domestic markets.

After expanding at a rate of around 5.2 percent this year, Latin America will report a moderation in growth next year with a rate of around 4.8 percent. The region's economy will mildly decelerate, mainly due to tighter monetary conditions and less favorable external demand. The moderation of growth, however, will be healthy since the region has been growing at a speed above its natural capacity—thus developing concerns about excess demand that could result in persistent inflation and deterioration of the external balance.

Growth across the region will be characterized by two groups of nations, one with economies that were growing at accelerated rates, and the other group with more stable expansion. Within the first group are countries like Argentina, Colombia, Peru, and Venezuela, whose expansions are expected to report more remarkable moderation and

---

*A deeper deceleration of the global economy, or a recession in the US, would certainly impose restraints on the region's economic performance.*

---

the presence of incipient internal or external imbalances. In the second group are Brazil, Chile, and Mexico, countries that come from a deceleration and show a steady recovery.

Thus, Latin American performance next year will be more consistent with its potential capacity in order to preserve macroeconomic stability. The expansion will be mostly based on internal sources, particularly domestic absorption: private consumption and investment. Monetary and fiscal discipline are expected to be maintained, which will also contribute to reinforcing investor confidence.

However, even though prospects remain positive and growth will moderate to converge to more sustainable rates, the development of a few risk factors could accelerate during the year. On the domestic front, the persistence of stubborn inflation will require more aggressive monetary actions, with consequences for economic growth. A deterioration of the current account could accelerate during the year, given the adjustment in commodity prices and the boom in imports caused by excess demand and currency revaluation. A deeper deceleration of the global economy, or a recession in the US, would certainly impose restraints on the region's economic performance. However, Latin America is better prepared to weather the storm, since the domestic engine is now working and fundamentals are stronger.

**Alfredo Coutino** is Senior Economist for Latin America at Moody's Economy.com.

*... In tomorrow's Advisor: Annual Predictions Survey Results, Part II: analysts' forecasts for US policy toward Latin America in 2008.*

**Latin America Advisor**

*is published every business day by the Inter-American Dialogue, Copyright © 2007*

**Erik Brand,**

General Manager, Publishing

**Robert Simpson,**

Editor

**Elisabeth Burgess,**

Reporter

**Danielle Jetton,**

Computer Services Coordinator

**Inter-American Dialogue:****Peter Hakim,**

President

**Michael Shifter,**

Vice President, Policy

**Joan Caivano,**

Director, Special Projects

**Dan Erikson,**

Senior Associate, US Policy

**Claudio Loser,**

Senior Fellow

**Manuel Orozco,**

Executive Director, Remittances and Rural Development Project

**Tamara Ortega Goodspeed,**

Senior Associate, Education

**Marifeli Pérez-Stable,**

Vice President, Democratic Governance

**Jeffrey M. Puryear,**

Vice President, Social Policy

**Viron Vaky,**

Senior Fellow

**Subscription Inquiries** are welcomed at [fretrial@thedialogue.org](mailto:fretrial@thedialogue.org)

**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

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.