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FEATURED Q&A

Amid the Global Crisis, Where is Brazil's Job Market Headed?

Q Last month, Brazilian Labor Minister Carlos Lupi said Brazil experienced a net loss of 102,000 jobs in January, the same day Brazilian aerospace company Embraer announced a plan to cut its workforce by 20 percent. Despite high net job loss, Lupi stressed that the near-record number of jobs created in January shows that the crisis is passing. Do you agree? How bad will things get for Brazil's labor market? Which sectors will see the most cuts and which will benefit from increased government spending?

A **Guest Comment: Paulo Levy:** "Brazil started to feel more intensely the impact of the crisis after October, with industrial output declining 20 percent up to December on a seasonally adjusted basis. Differently from their behavior in the past, labor markets reacted very quickly, and employment in the industrial sector fell by 2.5 percent over the same period. On a broader perspective, however, total occupation levels, which include informal activities in the six main metropolitan regions, have held up relatively better so far, with a decline of only 0.6 percent when compared to the peak recorded in October. Currently, in these regions, the unemployment rate stands at 8.8 percent seasonally adjusted, up 1.4 percentage points from August. One of the main aspects of the current crisis is that it is hitting the industrial sector harder, mainly due to shrinking export markets and a sudden credit contraction. It is reasonable to expect that employment in other sectors should follow, but not necessarily on a large scale. Given the sound macroeconomic framework built in the past ten years and a healthy financial sector, Brazil faces the current crisis on a much stronger position when compared either to itself in previous episodes or to other emerging countries. Additionally, a new element has emerged in recent months in the form of a bargaining process between industrial firms and workers lead-

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Venezuela's PDVSA Plans to Cut Costs By 40 Percent

Venezuela's state oil company, PDVSA, plans to slash its costs by 40 percent in response to falling crude prices, said the company's head, Rafael Ramirez, who is also the country's oil and energy minister. See story on page 3.

File Photo: Venezuelan Government.

Inside This Issue

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NEWS BRIEFS

Chairman of US Joint Chiefs Meets Military Leaders in Brazil

Adm. Mike Mullen, the chairman of the US Joint Chiefs of Staff, met Tuesday with military leaders in Brazil, the US Defense Department said Tuesday. Mullen, who is on his first trip to Brazil, met with Brazilian Defense Minister Nelson Jobim and other leaders to discuss cooperation between the militaries of the two countries. Brazilian officials said they hoped to show Mullen the challenges of defending the Amazon Basin.

Mexican Cabinet Official Resigns After Threat to Leak Tapes

Mexico's transportation and communication secretary, Luis Tellez, resigned Tuesday after receiving a letter threatening to reveal secret recordings of his conversations, reported the Associated Press. Two weeks ago, Mexican media reported the contents of a 2006 recording in which Tellez had accused former President Carlos Salinas of taking money from a secret government fund. Mexican President Felipe Calderon on Tuesday appointed Juan Molinar, the director of Mexico's Social Security Institute, to take over Tellez's post.

Guatemala's Colom Creates Group to Declassify War Files

Guatemalan President Alvaro Colom said Tuesday he was creating a new commission to assemble and declassify military documents related to Guatemala's 36-year civil war, reported the Associated Press. The commission, made up of four civilians and one member of the Defense Ministry, will also determine if any documents jeopardize national security before releasing them. Critics say Colom promised a similar initiative last year without results.

Economic News

Geithner: Obama Will Move Forward With Colombia, Panama FTAs

US President Barack Obama will work with members of Congress to advance free-trade agreements with Colombia, Panama and South Korea, US Treasury Secretary Timothy Geithner told a congressional committee Tuesday, according to Reuters. "What you can expect is the president and the administration will work carefully with the Congress to find a way to move forward on those important agreements," Geithner told the House Ways and Means Committee. During his campaign, Obama had opposed the trade accords with Colombia and South Korea. However, he has warmed to them since taking office. On Monday, the US Trade Representative office's annual trade report said the Obama administration is seeking relatively quick congressional approval of the agreement with Panama and also hoped to move forward with establishing "benchmarks" for the long-stalled pacts with Colombia and South Korea. "It's so important to our country that we sustain a commitment not just to keep our markets open, but that we can find new trade agreements that can benefit American businesses and the American worker," Geithner told House members. During his campaign, Obama said he was looking to Colombia to fight violence against trade union members. Former US President George W. Bush's administration wanted Congress to consider the more-controversial Colombian agreement before the Panamanian one because they were concluded in that order. However, Sen. Charles Grassley (R-IA), the highest-ranking Republican on the Senate Finance Committee, said he would consider looking at the agreement with Panama before the others "as long as we turn to our pending agreements with Colombia and South Korea right afterward." In a letter Tuesday to members of Congress, Lori Wallach, the director of Public Citizen's Global Trade Watch division, said approval of the accord with Panama would hinder congressional efforts to halt abuse of foreign tax havens. "Panama has long been a key target of the Organization for Economic Co-operation and Development and other tax transparency entities for its resistance to international norms in combating tax evasion and money laundering," she said. In a letter last week, 53 Democrats and one Republican in the House of Representatives told Obama they stood opposed to all three pacts.

Geithner

File Photo: US Treasury Department

Political News

Trial Begins for US Gun Dealer Accused of Supplying Cartels' Buyers

Trial began Tuesday in the United States in the case of a gun dealer accused of knowingly selling weapons to straw purchasers for Mexican drug cartels, Reuters reported. George Iknadosian, 47, sold weapons including AK-47 assault rifles to individuals buying guns for traffickers, prosecutors allege. Iknadosian, who stands accused of selling the third-party buyers hundreds of weapons, is on trial in Phoenix. Iknadosian has pleaded not guilty. If convicted, he faces up to 250 years in prison. Nine out of ten guns recovered from the scenes of crimes in Mexico were sold in the United States, according to investigators. The statistic has led authorities in Mexico to demand

Investigators say nine of 10 guns recovered at crime scenes in Mexico were sold in the US.

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that US officials clamp down on gun dealers. An 11-month investigation by the US Bureau of Alcohol, Tobacco, Firearms and Explosives and Mexican authorities led to Iknadosian's arrest. In the Iknadosian case, smugglers working for drug cartels paid the third-party purchasers $100 per weapon, the ATF alleges. The straw purchasers then bought the guns at Iknadosian's **X-Caliber Guns** shop in Phoenix, authorities allege, adding the guns were then taken to traffickers in Mexico's Sinaloa and Sonora states. Some weapons recovered from crime scenes in Mexico have been traced back to Iknadosian's store. One weapon traced to X-Caliber was a pistol recovered in January 2008 when police in Mexico arrested Alfredo Beltran Leyva, a reputed leader of the Sinaloa drug cartel, headed by fugitive Joaquin "Shorty" Guzman. Drug violence has spiraled in Mexico in the past year. So far in 2009, more than 1,000 people across the country have been killed.

Company News

PDVSA Seeking to Cut Costs by Renegotiating Service Contracts

Venezuela's state-run oil company, **Petroleos de Venezuela** (PDVSA) said Tuesday that the company plans to cut its costs by 40 percent, the Associated Press reported. Rafael Ramirez, who is also Venezuela's oil and energy minister, said the company will no longer pay the "high prices" that it negotiated with service companies last year when oil prices peaked at $147 a barrel. PDVSA's finances have been hurt by the plunge in the price of crude, which is trading at around $40 a barrel in New York. Ramirez says PDVSA will renegotiate contracts with nearly 250 service providers. Ramirez added Venezuela will call on other OPEC member countries to cut production in order to force prices up to $70 a barrel, the Voice of America and wire services reported. Members of the oil cartel will meet later this month in Austria.

Ramirez said PDVSA will renegotiate contracts with nearly 250 service providers.

Colombia's State Oil Company Plans $8.1 Billion Bond Offering

Ecopetrol, Colombia's state-run oil company, is planning an $8.1 billion bond offering to finance its investment plan, reported Bloomberg News. The company's shareholders will consider the bond sale during a March 26 meeting, the company said Tuesday. The bonds would be sold in Colombia and other countries and would fund Ecopetrol's investments through 2011. The company's president Javier Gutierrez, is moving forward with plans to spend $60 billion through 2015 despite the falling price of crude. Oil closed up $1.50 to $41.65 Wednesday in New York. By next year, Ecopetrol plans to increase its investments by 35 percent to $6.22 billion, which includes refineries and oil fields. The company wants to produce 1 million barrels a day, which would nearly double its production.

The Dialogue Continues

Is More Hydropower the Right Move for Central America?

Q The announcement earlier this year by Honduras that it granted a $600 million contract to Brazilian construction firm Odebrecht for two new hydroelectric projects comes as several other Central American nations, including Costa Rica, El Salvador and Nicaragua, have unveiled plans to expand hydropower capacity. Is hydropower the right choice for reducing Central America's dependence on fossil fuels? Is funding for these projects in jeopardy due to current lending constraints? Will greater production capacity lead to further integration among power grids in the region?

A Guest Comment: Carlos Imendia: "Hydroelectric power investments in Central America are essential for increased economic efficiency, but they are only a necessary condition to build a more balanced mix of power sources. It is also important to build energy networks and to improve efficiency in the transportation and consumption of output. Dams definitely reduce production costs, compared to fossil sources, but demand higher amounts of investment spending to build them. Hence, to reap their benefits on the long run, two policy issues challenge our societies: to adopt more rational consumption patterns and to bring energy to backward regions and the poor. The expenditures in hydroelectric power are at the expense of social spending, with hopes of savings in the future. Governments must assure its advantages are enjoyed by the whole population, not only companies and urban prosperous areas, given the high social cost of investing in dams. A regional scope would help to create a coordinated effort among states and to further a Central American energy market. So far, the new investment orientation is basically local, reducing its potential welfare and integration effects. It is good news, though, but in order to take advantage of the effort, there is much more to do at the regional level and stricter environmental criteria should be in place."

Carlos Imendia *is an economist and independent consultant based in Honduras.*

Editor's note: the above is a continuation of a Q&A published in the Feb. 26, 2009 issue of the Advisor.

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Featured Q&A
Continued from page 1

ing to more flexible working arrangements that preserve jobs, albeit at a short run cost in terms of lower pay. So, even if things get worse—and they probably will—and unemployment increases, it is difficult to see it returning to levels of 13 percent seen in 2003."

A Guest Comment: Carlos Alberto Ramos: "The formal employment sector had an exceptional performance up until the third quarter of 2008. The annual growth rate of the number of workers in the formal segment was around 7 percent in a macroeconomic context in which the GNP grew at 6 percent. Rather than a reduction of the unemployment rate or an increase in total employment, the formalization of the Brazilian labor force was the major characteristic of the Brazilian labor market just before the crises. That trend is due to several branches of the industrial sector (like mechanical industry, automotive industry, *etc.*), which demanded rates of work force growth higher than 10 percent (annual rate). A similar situation could be seen in the civil construction, which saw an increase of its sectoral labor force of 15 percent (annual rate). Here, once again, credit availability was a crucial variable of that performance. The crisis has affected the two factors that explain the unprecedented growth of the formal labor market: the growth rate of the GNP and the availability of credit. The impact in the labor indicators was immediate. The Labor Ministry's October statistics already showed a huge break of the trend particularly in the industrial sectors that had been boosting the formal labor market. With an estimated GNP growth rate of around 2 percent and the credit circuits partially broken, there is no way an increase in the formal employment sector can reproduce the performance of the last years. We don't envision a decrease in the formal labor force, but rather a modest rate of growth and an increase in the informal labor market and in the rate of unemployment. Anyway, the impact of the crisis in the formal labor market will depend on its flexibility and this flexibility depends not only on the legal institutions (very inflexible) that regulate capital/labor relations but, moreover, on the negotiations, in progress, between trade unions and employers over wages and work hours."

> "The impact of the crisis in the formal labor market will depend on its flexibility."
>
> *— Carlos Alberto Ramos*

Paulo Levy *is an economist at Brazil's Institute of Applied Economic Research (IPEA).*

Carlos Alberto Ramos *is Professor of Economics at the University of Brasilia.*

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