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FEATURED Q&A

What Would Be the Impact of a Global Financial Transactions Tax?

Q Canada's government last month expressed opposition to a global bank tax, blunting efforts by British Prime Minister Gordon Brown to build support among G-20 nations for the tax on transactions and services. Brown has pushed the global tax as a way to pay for any future bank bailouts. Would such a tax have support in Latin America and the Caribbean? What would be its impact on financial services companies operating in the region? Do you support Brown's proposal—why or why not?

Additionally, the 'light touch' bank supervision and regulation that led to failures in the banking systems in these countries must be re-examined. The crisis also pointed to the impact of political interference in the supervision of banks, as it is now clear that politicians were not eager to impose any new policies that would have affected the economic boom which preceded the crisis. Conversely, the Caribbean region adopted a stronger regulatory regime that, some argued, limited financial innovation. However, the strategy seemed to have

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A Earl Jarrett, general manager of the Jamaica National Building Society: "The idea of a globally coordinated tax on banks would not be welcomed in the Caribbean as such a move would not be considered justified. Caribbean banks have performed well during the global crisis as their risk-management systems demonstrated the conservative nature of the region's financial sector. The issues experienced by the United Kingdom and the United States had more to do with the effectiveness of supervision provided by financial regulators and the values that supported the governance and direction of banks and other financial institutions. The narrow definition of many banks that shareholder value is simply the performance of the share price and the application of compensation systems that promote greater risk-taking need reassessment, and changes must be made.



Lula Announces \$885 Billion Public Investment Plan

Brazilian President Luiz Inácio Lula da Silva on Monday announced an \$885 million public investment plan that would be carried out by his handpicked successor if she is elected later this year. See story on page 2.

Photo: Brazilian Government.

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NEWS BRIEFS

Catholic Leader Accuses Chávez of Punishing Foes

The head of Venezuela's Catholic Church on Monday accused President Hugo Chávez's government of cracking down on critics simply for expressing their opinions, the Associated Press reported. Cardinal Jorge Urosa said Chávez is using prosecutors and judges to level charges against the president's adversaries. Chávez has denied the accusations, saying he has no influence over the justice system.

Man Sentenced to Two Years in Killing of Guatemalan Lawyer

A judge in Guatemala on Monday sentenced a man to two years in prison for his role in the killing of a prominent lawyer who accused the country's president of his murder in a video made before his death, the Associated Press reported. Carlos Arago Cardona was convicted of "illicit association." Seven other people are on trial in the slaying of lawyer Rodrigo Rosenberg last May. A United Nations investigation found that Rosenberg—perhaps motivated by personal problems—arranged his own slaying by contracting the hitmen who killed him.

Brazil's Batista Ready to Take EBX Group Public

Brazilian billionaire Eike Batista said he is ready to take holding company **EBX Group** public and plans, separately, to attract \$1 billion from the offer of Colombian gold mining shares, Bloomberg News reported. Batista said the gold company IPO is planned in a year and the initial public offering of EBX Group will take place as soon as equity capital markets improve, according to the report. Markets are currently a "little dry of funds," Batista told Bloomberg News.

Political News

Mexican Authorities Arrest Suspect in Consulate Killings

Mexican soldiers have arrested a suspect in connection with the recent killings of three people with ties to the U.S. Consulate in Ciudad Juárez, authorities announced Monday, the Associated Press reported. Enrique Torres, a spokesman for Chihuahua state police alleged the man arrested Friday was a member of the Barrio Azteca gang, which works for Mexico's Juárez drug cartel. A Chihuahua state investigator who spoke on condition of anonymity told the AP that the suspect arrested Friday is Ricardo Valles de la Rosa, 45. On March 13, consulate employ-

At least 21 people were killed Sunday in drug-related violence in Mexico.

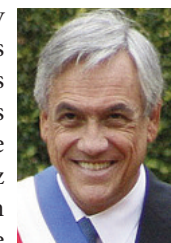
ee Lesley A. Enriquez, 35, and her husband, Arthur H. Redelfs, 34, were shot and killed as they drove through the streets of the violent border city. Their 7-month-old daughter was in the back seat at the time and was uninjured. The two Americans were killed after leaving the same birthday party as the third victim, Jorge Alberto Salcido, the Mexican husband of another consulate employee, who was also gunned down as he drove from the party. The arrest happened on the eve of another violent weekend in Mexico. Across the country, at least 21 people were killed Sunday in drug-related violence. In Durango state, 10 youths in a pickup truck were killed after refusing to stop at a roadblock that had been set up illegally, according to state investigators. The victims, ranging in age from eight to 21, were attacked with guns and grenades as they

headed to the town of Los Naranjos to collect government financial aid. Drug-related violence has left nearly 20,000 people dead in Mexico since President Felipe Calderón sent the military to battle drug traffickers in December 2006. [Editor's note: See related Q&A in the March 25 [issue](#) of the *Advisor*.]

Economic News

Chile to Spend More Than \$2.5 Bn to Rebuild Homes After Earthquake

The Chilean government will spend more than \$2.5 billion to reconstruct hundreds of thousands of homes that were destroyed or damaged during last month's 8.8-magnitude earthquake, President Sebastián Piñera announced Monday, Reuters reported. The government program will provide subsidies for rebuilding homes affected by the quake and resulting tsunami, Piñera added. "These extraordinary reconstruction and repair subsidies will be given out over the next 24 months," said Piñera, who took office 12 days after the Feb. 27 earthquake. The quake, which killed hundreds of people, is believed to have caused some \$30 billion in damage. Piñera said Saturday that the government would pay for approximately \$12 billion of reconstruction. The earthquake may reduce Chile's gross domestic product by as much as 1.5 percent this year, Deputy Finance Minister Rodrigo Álvarez said last week. Chilean Finance Minister Felipe Larraín has forecast the South American country's economy will expand less than 5 percent this year in the quake's aftermath. He is maintaining his forecast that GDP will grow 6 percent on average during Piñera's term. To pay for rebuilding efforts, Chile will use financing sources including the issuance of debt, tapping savings from copper exports and possibly hiking corporate taxes, government officials have said. [Editor's note: See related Q&A in the March 4 [issue](#) of the *Advisor*.]



Piñera
File Photo: Chilean Government.

Brazil's Lula Announces \$886 Billion Investment Plan

Brazilian President Luiz Inácio Lula da Silva on Monday announced an \$886 billion public investment plan that his favored successor would put into action if she is elected president later this year, Bloomberg News reported. The plan is the second phase of the Lula administration's Growth Acceleration Program, which Finance Minister Guido Mantega said would help Brazil's economy, the largest in Latin America, grow by 5.5 percent annually through 2014. Critics argue



Rousseff

File Photo: Brazilian Government.

the plan is a political move aimed at winning votes for Lula's handpicked successor, cabinet chief Dilma Rousseff. However, Rousseff said Monday that the plan's goals are economic and social development. The plan includes funding for urban development programs, construction of low-income housing, and transportation infrastructure such as new ports and roads. Also, the plan would fund studies for high-speed train lines connecting São Paulo, Belo Horizonte and Curitiba. The country's next president would not be required to carry out the plan, which has not received congressional approval.

Homex Partnering With Indian Company on Public Housing

Mexican homebuilder **Homex** said Monday that it plans to work with India's

“This relationship represents an important growth opportunity for Homex in India.”

— Gerardo de Nicolas

Puravankara to build new public housing in India, Reuters reported. In a stock exchange filing, Homex said it has struck

Featured Q&A

Continued from page 1

spared the region from a systemic banking sector collapse. The idea of a global tax is, therefore, not appropriate for the

“The issue of taxation should be the responsibility and decision of sovereign states and should not be imposed by the G-20 nations.”

— Earl Jarrett

Caribbean. The issue of taxation should be the responsibility and decision of sovereign states and should not be imposed by the G-20 nations. The G-20 should concentrate its efforts on improving the supervision of banks that operate globally, and on requiring greater levels of capital and reporting where those banks transact in complex financial instruments.”

A **Sumeet H. Chugani, associate attorney at Diaz, Reus & Targ, LLP in Miami:** “A global bank tax will encourage banks to take fewer risks, repay taxpayers injured by bailouts and serve as a de facto insurance scheme for future bank failures. However, British Prime Minister Gordon Brown has repeatedly stated that full international cooperation is necessary.

a deal with the Indian construction company for a “future, nonexclusive strategic alliance to begin operations in the public housing segment.” In a statement, Ravi Puravankara, the chairman and managing director of Puravankara, said “with the expertise and business model of Homex and Puravankara's track record and experience in Indian housing, we feel confident that we can become industry leaders in the affordable housing segment,” India's *Deccan Herald* reported. The first joint project will be in the city of

Latin America will certainly play a critical role in the adoption of a global bank tax. As a region, Latin America's banking industry has held its own during the economic crisis. The bank tax would play a key role in protecting consumers in the case of a future meltdown. This insurance scheme would also boost consumer confidence in the region. Of course, a tax promulgated by the world's top economies may not benefit Latin American nations with effective domestic controls or whose financial institutions remained stable during the crisis. Forcing Latin American nations to hold onto tax proceeds as insurance against a future bubble may actually impede progress in other aspects of society. If Brown's plan raises the needed funds for socially beneficial projects, the tax would be helpful to Latin American nations. Implementing the tax on foreign banks in the region may also provide a fresh source of revenue and further protection during a future recession. Latin American nations may not ultimately have a choice in the matter. Those countries and financial institutions that reject the tax could face a backlash from nations and institutions that ultimately pay. As a result, new import or export financial transaction taxes may be implemented to level the playing field and close the floodgates to tax avoidance and the sudden increase of offshore transactions. Given the worldwide fear of another financial meltdown, a global bank tax will surely be implemented in some form. Latin America's adoption of such a tax will certainly follow.”

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Chennai in southern India, said Homex. “This relationship represents an important growth opportunity for Homex in India,” said Homex CEO Gerardo de Nicolas, the newspaper reported. Homex focuses on mass production of homes that are each sold for less than \$40,000. The company has been examining possible expansion abroad. Indian developers are experiencing falling demand for premium homes. Puravankara wants to raise revenues through production of lower-cost homes.

Featured Q&A*Continued from page 3*

A Paulo Vieira da Cunha, partner and head of research for emerging markets at Tandem Global Partners in New York:

"If the tax on transactions is small enough not to distort trading, then it is nothing more than an instrument for generating fiscal revenue, and we know that taxes that discriminate against a specific product or sector are especially inefficient. Moreover, creating an international pool of resources without solving the basic problems of international governance seems stupid. Likewise, outlawing proprietary trading without first breaking up the interconnected banks would not address the problems, including inadequate risk management, that are at the heart of the abuses of financial power. In sizing foreign exchange trades, some traders can leverage their considerable capital many times over; for example, the trading desks of the now infamous large interconnected and too-big-to-fail international banks, acting on their own or on behalf of their clients. Presently, they can fund themselves at near-zero rates and deploy vast amounts of capital on a bet against a particular outcome. The asymmetry between this situation and the realities of the 'real' economy—and, even more so, with the policy process—bothers many people. Policymakers may identify emerging macroeconomic imbalances and even act to correct them. However, the implementation of policy could well lag the speed of adjustment demanded by the market. For this reason, respected economists and policymakers have argued for ways to 'throw sand in the wheels of finance,' convinced that in doing so they would improve real outcomes without hampering the functioning of markets. The global bank tax is, however, a bad idea. It may be an easy way to raise fiscal revenue but it does not solve the key problems it tries to address: to manage the global commons, while effectively regulating institutions with access to implicit and/or explicit public guarantees."

A Luiz Spínola, chief executive officer of Cullen Development in the British Virgin Islands:

"Probably it will not have support from both the region's banks and banking authorities, due to the fact that the region's banking systems are much more domestic than international. If such a tax were adopted, its impact would not be relevant, since the regional banking system is much more focused on local transactions within each component country rather than on international cross-border financial activities. Still, I do support Brown's proposal, due to the fact that the large financial conglomerates nowadays operate in a large number of

“Such a tax ... would represent the beginning of some sort of international financial regulation and surveillance, a quite necessary move by the G-20.”

— Luiz Spínola

different countries, with enormous amounts, on a very short-term basis, without any global regulation and surveillance. Such a tax, which would be similar to the tax on financial transactions proposed many years ago by the distinguished U.S. economist James Tobin, would add a few basis points to international transactions and would represent the beginning of some sort of international financial regulation and surveillance, a quite necessary move by the G-20."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Matthew Schewel

Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Peter Hakim, President

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Subscription Inquiries are welcomed at fretrial@thedialogue.org

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