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FEATURED Q&A

What Accounts for the Rise of Latin America's Billionaires?

Q Latin America's billionaires increased their wealth by more than 10 percent last year on top of an incredible 47 percent in the year before, according to *Forbes* data collected by *Latin Business Chronicle*. At $367 billion, this group of some 60 people has a combined wealth that now exceeds the GDP of several nations in the region. What accounts for the dramatic rise of Latin America's billionaires? Is the growth of the region's billionaire pool a good thing? Or has too much wealth and power been concentrated in too few individuals, as some critics suggest? How has the advance of the 'multilatinas' affected the business climate in the region, and the involvement of outside companies investing and doing business there?

A Jack Devine, president of The Arkin Group and former director of operations at the Central Intelligence Agency, and Amanda Mattingly, director for Latin America at The Arkin Group: "The rise of Latin America's new billionaires is directly related to the rise of Latin America in general as a global economic power. With fiscally responsible and democratic governments, Latin Americans have benefited from a tremendous amount of growth and development in recent years. The region barely felt the financial crisis in the United States or the debt crisis in Europe. Instead, it has enjoyed positive growth rates and, increasingly, a real and burgeoning middle class which, according to OECD figures, now accounts for approximately 50-60 percent of the population in Brazil, Mexico and Chile. Still, the top 5-10 percent of the population continues to control the majority of the region's wealth. They have contributed to the recent growth by investing in regional industries, creating jobs and positioning their multinational companies for global competition and leadership. However, the concentration of their wealth reinforces the entrenched income inequality of the region. 'Multilatinas' are looking

Continued on page 3

Summit of the Americas Ends in Discord Over Cuba, Falklands

Brazil's Dilma Rousseff, the United States' Barack Obama and Colombia's Juan Manuel Santos were among the leaders at the Summit of the Americas, but the gathering ended Sunday in discord. See story on page 2.

Photo: Colombian Government.

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NEWS BRIEFS

Mexico's Vázquez Mota Gains Ground, Still Trails Peña Nieto

Mexico's ruling party presidential candidate, Josefina Vázquez Mota, gained ground in a new opinion poll ahead of July's election, Bloomberg News reported today. She remains about 19 percentage points behind the front-runner, PRI candidate Enrique Peña Nieto, however. The survey, taken by **Grupo Economistas Asociados-ISA**, said Vázquez Mota of the PAN had 22 percent support, compared with 18 percent backing in a poll by the same company released April 11. Peña Nieto's support rose to 41 percent support from 39 percent April 11. GEA-ISA's poll surveyed 1,148 people from April 13 to April 15.

Peruvian Rebels Free 36 Kidnapped Construction Workers

Peru's Shining Path rebels on Sunday freed 36 construction workers of a Swedish and a Peruvian firm, Agence France-Presse reported. The rebels had demanded a $10 million ransom for the workers of **Skanska** and **Construcciones Modulares**, but no ransom was paid, said President Ollanta Humala. The workers, who had been abducted on April 9, work for companies that provide services to the operator of Peru's Camisea gas fields.

Anheuser Nearing Deal for Dominican Republic's CND

Anheuser-Busch InBev is nearing an agreement to gain control of the Dominican Republic's **Cerveceria Nacional Dominicana** (CND), Bloomberg News reported Sunday. The move would bring the maker of the popular Presidente beer brand under control of the company's Brazil-based AmBev unit, according to the report. A transaction could be worth as much as $2.5 billion.

Political News

Summit of the Americas Ends in Discord Over Cuba, Falklands

The sixth Summit of the Americas, held over the weekend in Colombia, ended Sunday without a joint declaration because of divisive issues including Cuba's participation and the status of the Falkland Islands, which put the United States at odds with most of the countries in Latin America and the Caribbean, the Associated Press reported. "There is no declaration because there is no consensus," the summit's host, Colombian President Juan Manuel Santos told reporters at the closing news conference.

> "There is no declaration because there is no consensus."
>
> — *Juan Manuel Santos*

Latin American leaders demanded that Cuba be included in future summits, but the United States and Canada rejected the calls to place such a statement into the summit's final declaration. "All of the countries here in Latin America and the Caribbean want Cuba to be present, but the United States won't accept," Bolivian President Evo Morales told reporters Sunday night. "It's like a dictatorship." The foreign ministers of Venezuela, Uruguay and Argentina said their presidents would not agree to any joint declaration unless the United States and Canada agree to allow Cuba's participation in the future. Ecuadorean President Rafael Correa boycotted the summit over Cuba's exclusion and Nicaraguan President Daniel Ortega also skipped the summit, though Nicaraguan officials did not give a reason. Ailing Venezuelan President Hugo Chávez, who before the summit had been expected to attend, flew on Saturday night to Cuba where he has been undergoing radiation treatment for cancer. The United States has held that communist Cuba doesn't belong at the Summit of the Americas because it does not meet the summit's standards for democracy. U.S. President Barack Obama said Sunday that he was "hopeful" for a democratic transition in Cuba and mentioned changes that his administration has made in U.S. policy toward the island, such as allowing relatives in the United States to more freely travel and send money to Cuba. "I am not someone who brings to the table a lot of baggage from the past and I want to look at this problem in a new and different way," said Obama. The United States also resisted calls from Latin American leaders for a joint statement supporting Argentina's claim to the Falkland Islands. This 30th anniversary of the Falklands War has been marked by escalating rhetoric between Argentina and Britain over the islands. At the summit, some Latin American leaders also harangued Obama over U.S. drug policy and the country's demand for illegal drugs. Amid brutal drug-related violence in countries including Mexico, where tens of thousands have been killed in the past five years, several Latin American presidents have called for a debate on decriminalization, a move the United States has staunchly opposed. Despite the discord at the summit, Santos said the next Summit of the Americas would be held in 2015 in Panama. On a rare high note for Obama during the summit, he and Santos announced that the long-stalled free-trade agreement between the two countries would take effect May 15. The pact will boost Colombian exports to the United States and also support "thousands of U.S. jobs." Labor leaders in the United States have opposed the accord, saying Colombia fails to adequately protect union members from violence. For Obama, the summit was under a cloud before it even began. The U.S. Secret Service, which protects the president, sent 11 agents back home before the summit started because of allegations they were involved with prostitutes in Colombia. Five members of the U.S. military were also confined to their quarters in connection with the investigation.

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Economic News

Panamanian Firms Competing for Workers Amid Growth: Martinelli

Companies in Panama are stealing workers from each other as the country is seeing economic growth of 10 percent for a second consecutive year, President Ricardo Martinelli told Bloomberg News Saturday during the Summit of the Americas. "You can't hire a lot of workers in a lot of positions because there simply aren't the workers," Martinelli told the news service on the sidelines of the summit in Cartagena, Colombia. "Wages have risen, firms are stealing workers from each other." Panama's unemployment rate stands at about 4.4 percent and may fall more as the country's economy continues to grow, said Martinelli, adding that a free-trade agreement with the United States is likely to be in place by October. Panama's $33 billion economy was Latin America's fastest-growing last year. A tight labor market and rapid growth are leading to a "high degree of uncertainty" with regard to consumer prices, the International Monetary Fund said in a report on April 10.

Martinelli

File Photo: Panamanian Gov't.

Company News

BMW's First-Quarter Sales Drop in Brazil Due to Tax Hike

First-quarter sales for German luxury automaker **BMW** fell 30 percent in Brazil due to the country's tax hike for imported vehicles, the company's country head told Bloomberg News Friday. The government imposed an increase of 30 percentage points in its industrial products tax on imported vehicles having less than 65 percent of their parts manufactured domestically. The raise in the tax, known as IPI, took effect in January and is in addition to the 35 percent import duty Brazil charges for imported vehicles. "We've partly compensated it by raising prices 15.9 percent in average, with BMW and dealerships absorbing the rest," said BMW's country head, Henning Dornbusch, adding that the tax hike has led BMW to put its plans to build a new factory in Brazil on hold. "Our interest in Brazil is really big, but it all depends on the business case," he said. Brazilian Finance Minister Guido Mantega has said the tax will force automakers to build more key parts in Brazil.

Featured Q&A

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for ways to re-invest in their countries by working with governments and non-governmental organizations on the education and security challenges facing their nations. At the same time, they can help level the playing field through tax compliance and eschewing anti-competitive practices within their industries. An increased commitment in these areas will help to enhance the region's business climate and competitive advantage and, ultimately, it will help sustain Latin America's growth and development into the future."

Paul Gootenberg, professor of history and sociology at Stony Brook University: "The triumphs of Latin America's billionaires are nothing to celebrate. They are the latest symptoms of the continent's vast inequalities. Contrary to lingering perceptions, most countries of Latin America are neither poor nor even now particularly 'underdeveloped.' They have modern economies. What they suffer from is social inequality—the world's worst rates of measurable inequality of income, wealth and other resources and life chances. And they have led the world in inequality for as long as statistics can tell. Furthermore, Latin America's inequalities are mainly about the historical privileges and protection of enormously wealthy elites and oligarchies. Latin America actually does not currently have deeper poverty nor more poor people than other parts of the world. But it does have relatively well-off elites who hoard and monopolize material goods and political favors. Without those bloated elites, as shown by those raving radicals at the World Bank, Latin American income distributions would look relatively decent. The big paradox is that the latest transformation of Latin American elites—there have been many before—has happened during a period of stable and fairly real democratic regimes. Social democratic Brazil, ironically, is home to many new billionaires. Globalization and national economic booms have something to do with it, as does the usual plundering of public resources and market monopolies (from which originated the fortune of Mexico's Carlos Slim, reputably the world's richest man). Few of these billionaires are heroic business or technological innovators. Some observers have recently suggested that Latin America was starting to turn the corner on inequality—a complex argument having to do with changing wage structures and anti-poverty targeting since the 1990s. However, the meteoric rise of Latin America's new billionaires, who enjoyed low taxation, now dwarfs any modest gains. It is an obscene injustice, one that endangers the democratization that has occurred. We in the United States have nothing to gloat about. With our regressive taxes and retrograde social policies since 1980, we're now about as unequal a society as Brazil or Mexico."

> "The triumphs of Latin America's billionaires are nothing to celebrate."
>
> — *Paul Gootenberg*

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Featured Q&A

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Markus Jaeger, director at Deutsche Bank Research in New York: "The rise in the number of billionaires has been underpinned by the improvement in economic conditions and, above all, by the rise in asset prices across the region. The rise in asset prices, in turn, is related to the improved medium-term economic outlook. First and foremost, however, it seems to be driven by ample global liquidity, rising capital inflows and very high commodity prices. Given the region's continued reliance on commodity exports, it remains to be seen if current trends will persist. It is important to see this trend in the context of rising incomes, more generally. This has helped reduce poverty and, in many cases, has helped alleviate inequality. It has also arguably created a more stable source of domestic demand, which, combined with improved fundamentals, will result in more stable, less volatile medium-term economic growth. Whether the increase in the number of billionaires across the region is a good or bad thing largely depends on local circumstances. Competitive economies and political systems that limit the exercise of disproportionate influence of special interest groups will help curtail the potentially economically pernicious influence of groups set on protecting their interests at the expense of the general welfare. Here again, the rise of an economically weightier and politically more influential middle class should help counterbalance the influence of special interests, whether these represent rent-seeking billionaires or rent-seeking labor unions."

> "Given the region's continued reliance on commodity exports, it remains to be seen if current trends will persist."
>
> — ***Markus Jaeger***

Hiram Maisonnave, CEO for wealth management at BNP Paribas in Brazil: "For Brazilians born between the 1940s and 1970s, Brazil was always 'the country of the future' and it took a long time to reach that future. However, it seems that in the last five years, the old prophecy began to come true and Brazil, a sleeping giant, seems to have woken up and decided to be not only a large nation in territory, but also a great nation and a leader in international affairs. In recent years, the country has experienced a significant strengthening and enhancement of national companies that benefitted Brazilians' wealth generation. The growing volume of initial public offerings as well as mergers and acquisitions contribute to this important process. The results are amazing and now, according to *Forbes* magazine, the country produces 19 new millionaires per day and boasts 30 billionaires, including one in the world's top 10—Eike Batista, whose fortune was estimated at $30 billion. The future looks promising for Brazil, where nearly 200 million people are beginning to have a higher consumption level, which keeps boosting the economy."

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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