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FEATURED Q&A

Will the Region's Strong Get Stronger and Weak Get Weaker?

Q The prospects for the strongest economies in Latin America and the Caribbean will continue to diverge from the region's weakest in the year ahead, Moody's Investors Service said in a recent research report. Do you agree that the region's "strong will get stronger and the weak get weaker" in the current global economic environment? For the countries in the region that are doing relatively well now, what should be the focus and priority for policymakers? For those economies under strain, what more should governments there be doing? What are the biggest risks facing the region's economies this year?

A Alberto M. Ramos, managing director and head of Latin America economics at Goldman Sachs in New York: "In our assessment, the already significant economic performance divide between the set of countries pursuing disciplined, orthodox, conventional policies and the set of countries trapped in populist-heterodox experiments is set to widen going forward. This will likely be the case not only because the external environment is likely to be less supportive than was the case in recent years (for example, during the major rally in commodity prices from 2003-08) but chiefly because the interventionist/heterodox policy mix of choice in several countries is generating larger macro imbalances and corroding the social and political fabric. For the countries whose performance has been strong, the authorities will be challenged to continue to pursue investment-friendly policies, to open further to trade, to increase the level of human and physical capital, and in general, to adopt far-reaching structural reforms to increase overall macro efficiency and productivity growth. This would contribute to elevate the growth potential and to create opportunities to enfranchise large segments of the population. For those economies under strain, the authorities

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Chile's Bachelet Announces Candidacy for Second Term

Michelle Bachelet, who served as Chile's president from 2006 to 2010, announced Wednesday that she will again seek the office. A recent poll showed that if the election were held today, Bachelet would easily win. See story on page 2.

File Photo: Chilean Government.

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NEWS BRIEFS

Trinidad's National Security Minister Subject of FBI Probe

Jack Warner, Trinidad's controversial minister of national security, is the subject of an investigation by the U.S. Federal Bureau of Investigation and the Internal Revenue Service into possible tax fraud and corruption, the *Trinidad Express* is reporting today. A former vice president of the International Federation of Football Association, or FIFA, Warner stepped down two years ago over a bribery scandal involving the election of FIFA's president. A report by Reuters names his son, Daryan Warner, as a key witness.

Costa Rica's GDP Growth Slows in Fourth Quarter of 2012

Costa Rica's economy slowed its pace of growth in the fourth quarter of 2012 but still grew at a healthy rate over the same period last year, Bloomberg News reported Wednesday. Gross domestic product, at $41 billion, expanded 3.5 percent from a year earlier, down from 3.8 percent and 5.7 in the two previous quarters. Cooler domestic demand and falling exports were behind the slower pace of growth, according to the central bank.

Remittances to Colombia Fall 2.3 Percent in 2012

Remittances from Colombians living abroad to relatives at home declined of 2.3 percent last year, or by about $94 million, *El Espectador* reported Wednesday. The economic downturn in the European Union, especially in Spain, where Colombia has a relatively big population of emigrants, was largely behind the decline, according to central bank data. Remittances from abroad totaled $4.07 billion in 2012, representing 1.1 percent of the Andean nation's gross domestic product.

Political News

Obama to Visit Mexico, Costa Rica in May

U.S. President Barack Obama will visit Mexico and Costa Rica in early May as his administration pushes immigration reform in the United States and continues its focus on the role of trade in the economy, the White House announced Wednesday. During the May 2-4 trip, Obama will meet with Mexican President Enrique Peña Nieto and Costa Rican President Laura Chinchilla. While in Costa Rica, Obama will also meet with the heads of state of other Central American countries and the Dominican Republic. "We've done a lot of work with the previous Mexican administration on security issues and on economic issues. But sometimes the relationship gets characterized just as being about borders or just as being about drug cartels," Obama told Spanish-language television network Telemundo in an interview Wednesday, *The Washington Post* reported. "There's so much more to the relationship—in terms of commerce, in terms of trade, in terms of energy. And so we want to highlight some of the close cooperation that's already been taking place and to continue to build on that, so that we're creating more jobs and more opportunity on both sides of the borders." During his visit to Costa Rica, Obama said he wants to forge closer economic relations between United States and countries of Central America and the Caribbean. "I'm looking forward to having a couple of days of important consultations and emphasizing, underscoring how important it is for us within this Western Hemisphere to be able to strengthen our economic ties," he said. Obama also told Telemundo that he expects that an immigration bill will be ready for debate early next month when Congress returns after its recess. "The trip will be an important chance to discuss our collective efforts to promote economic growth and development in Central America and our ongoing collaboration on citizen security," the White House added.

Obama

File Photo: White House.

Featured Q&A

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will be instead challenged to change course by adopting disciplined macro policies, build an investment friendly environment and reduce high levels of social and political polarization. The biggest risk for the set of strong performing economies is complacency; the onus is on the authorities to adopt policies to increase spending efficiency and foster a business friendly environment in order to build resilient endogenous sources of growth. That is, so that real GDP growth is less and less dependent on favorable external factors. For the set of economies whose performance has been subpar the risk is that a dogmatic policy approach precludes the needed macro adjustments. This would entrench and deepen further the already large imbalances, which would increase the risk of a major macro-financial crisis."

Alfredo Coutiño, director for Latin America at Moody's Analytics: "Latin America's performance has been and will continue to be led by Southern Cone economies, followed by Mexico and Central America. In South America, the leaders will continue to be Peru and Chile, while Brazil will join later with a more defined recovery. Panama is still the exception in Central America, with steady and strong growth. Mexico is also expected to recover at higher rates in the medium term, given the probability of new reforms. A few countries will require some moderation in order to reduce the risk of overheating, as in the case of Chile. Some others will come from low to higher growth as in the case of Brazil and Mexico. The low-performance economies such as Central America and

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Chile's Michelle Bachelet Announces Presidential Run

Former Chilean President Michelle Bachelet announced Wednesday that she will again run for the South American country's presidency, saying she would use another term to fight income inequality, the Associated Press reported. Bachelet, 62, returned to Chile after two years heading the United Nations' women's advocacy agency in New York. She is also a co-chair of the Inter-American Dialogue, which publishes the *Advisor*. "I have taken the decision to be a candidate," Bachelet told supporters Wednesday in the town of El Bosque. Chile "is a country tired of abuse of power and Chileans are tired of not being taken into account," Bachelet told the crowd. "The enormous inequality in Chile is the center of this rage." Bachelet was in office from 2006 to 2010 before handing power to current President Sebastián Piñera. She is seen as the only hope of the center-left opposition of winning the election on Nov. 17. Bachelet left office with approval ratings of almost 80 percent. A recent survey by CEP Estudios Públicos showed that if the election were held today, she would handily win with 54 percent support.

> "Chileans are tired of not being taken into account."
>
> *— Michelle Bachelet*

Company News

YPF, Dow Argentina Form Joint Venture to Explore for Shale Gas

State-run Argentine oil company **YPF** and **Dow Argentina**, a unit of U.S.-based **Dow Chemical**, have signed an agreement to create a joint venture to explore for shale gas, Dow Jones reported late Tuesday. The companies plan to work together to find gas in Neuquén province's Orejano block. "The agreement between both companies is fundamental for the development of shale gas in the country," YPF said in a statement. Neither company disclosed the amount of money they plan to invest in the venture. Argentina has the world's third-highest quantity of potentially recoverable reserves of shale gas after China and the United States. YPF and Dow Argentina also agreed to cooperate on finding ways to develop Argentina's petrochemicals industry.

Comings & Goings

Halliburton Names Brazilian Ethanol Executive to Board

Houston-based oil services firm **Halliburton** on Wednesday announced that José Grubisich has been named to the company's board of directors. Since 2012, Grubisich has been CEO of **Eldorado Brasil Celulose**. Previously, he was CEO of **ETH Bioenergia,** a producer of ethanol and electricity from biomass. "José brings significant executive leadership experience in Latin America and internationally," said Dave Lesar, Halliburton's CEO.

Fonseca Leaves Fox Latin America for Scripps Networks

Márcio Fonseca has been named managing director of Latin America for **Scripps Networks Interactive**, the Tennessee-based company said last week. Most recently, Fonseca was vice president of sales strategy and business development at **Fox Latin American Channels**, where he oversaw the launch of Fox Sports Brazil. Scripps Network, which is new to Latin America, owns television and Internet brands such as Food Network, HGTV, Travel Channel, DIY Network and the Cooking Channel.

SolarMax Names Fernando Sánchez as Head of New Chile Office

Switzerland-based **Sputnik Engineering**, the manufacturer of the **SolarMax** brand of photovoltaic inverters, said Tuesday it is opening a new office in Chile, its first in Latin America. Fernando Sánchez, who has been general manager of the company's office in Spain, will run the new office. Chile's government has set a target for 10 percent renewable energies by 2024. A total of 167 megawatts of capacity generated out of renewable sources was installed there last year.

Exponential Interactive Hires Ricardo Novaes to Manage Brazil Operations

California-based advertising firm **Exponential Interactive** on Monday named Ricardo Novaes as its country manager for Brazil. Novaes has worked in the online media market for more than a decade, most recently with **Microsoft**, where he managed online advertising sales to strategic agencies. A native of São Paulo, he will also work to develop business in other Latin American countries, according to a press release.

CGG Names Luis Braga as Director of Latin America

France-based geoscience firm **CGG** on Monday said it appointed a Luiz Braga to be its new vice president and regional director for Latin America, Rigzone reported. He will replace Patrick Postal, who is moving back to France after four years in the post as part of a global reorganization following its recent acquisition of **Fugro**, according to the report. Based in Rio de Janeiro, Braga will focus on Brazil business, especially the company's work for **Petrobras**. With $3.4 billion in annual revenue last year, CGG provides geological, geophysical and reservoir services to customers in the oil and gas industry.

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Featured Q&A

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the Caribbean will improve as long as the U.S. economy will advance to a more solid recovery. For those countries doing well, the main challenge for policymakers will be to avoid the risk of overstimulation, which implies the return of economic policy to a more neutral stance. This will allow the economy to advance to a more balanced growth path consistent with its own production capacity. Another challenge will be to resist the temptation of overusing policy instruments to try to overprotect their economies from the 'apparent external ogre.' This is already seen in countries trying to use the interest rate to fight against excessive liquidity or defend the economy from prolonged external weakness. They complain about global expansionary policies, but they do the same cutting to their domestic rates and create conditions for higher inflation. In weaker-growth countries, policymakers should continue to make progress in deepening structural changes, since it is the only way to strengthen the fundamental sources of permanent growth."

> "In South America, the leaders will continue to be Peru and Chile, while Brazil will join later with a more defined recovery."
>
> *— Alfredo Coutiño*

Bret Rosen, senior Latin America strategist at Standard Chartered Bank: "Within Latin America, we see a relatively clear divide between countries that are following responsible monetary and fiscal policies and those that have chosen alternative paths. Clearly, countries such as Peru, Colombia, Chile and Mexico have managed their macroeconomics in a generally disciplined fashion. As a result, capital has flowed into these countries, both in the form of foreign direct investment and portfolio inflows. Indeed, these countries have succeeded in creating a favorable investment environment, which has buoyed economic growth, strengthened currencies and generated growing levels of business confidence. While GDP figures can vary based on exogenous factors or one-off effects, going forward we look for these countries to generate decent to impressive economic growth, accompanied by low inflation, and reasonable public sector debt levels. In contrast, Argentina and Venezuela are experiencing more stressful macroeconomic situations. Inflation in each country is high, the currency regimes create uncertainty for private capital and the fiscal situations are deteriorating. Consequently, we see less investment capital flowing into the countries. For the countries that are performing well, we still need to see efficiency-enhancing reforms that can raise potential GDP growth; the prospects for Mexico making advances in this regard look increasingly promising. Public investment must be more efficient, especially to improve infrastructure. Meanwhile, for the countries whose outlook appears less promising in the near-term, macroeconomic adjustments are needed, namely fiscal and monetary tightenings. However, political considerations make it unlikely we will see any major changes in the months ahead to the policy backdrop."

> "For the countries that are performing well, we still need to see efficiency-enhancing reforms that can raise potential GDP growth."
>
> *— Bret Rosen*

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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