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FEATURED Q&A

Is a Lack of Skilled Labor Hindering Growth in Latin America?

Q On May 15, the Getúlio Vargas Foundation released the most recent results of its Economic Climate Index for Latin America which rates the region's and individual countries' business climates. The study highlighted a lack of skilled labor as a major obstacle to growth in the region, and other recent reports have also mentioned strained educational systems as a possible impediment to economic growth. As economies in the region change, is a lack of skilled workers a major concern? How are labor market conditions in Latin America affecting businesses there and the decisions of foreign companies to invest? How do labor market conditions in the region compare to other regions of the world?

A Alberto Pfeifer, international advisor at the Business Council of Latin America (CEAL): "Labor conditions in Latin America have improved in the 2000s, but human capital is becoming a larger constraint to sustainable growth. A dramatic demographic change is reducing the number of young workers and raising the burden of governmental aid to the elderly. Kids are staying in school longer, but quality of education has yet to be reflected in productivity gains. Emílio Odebrecht of the Brazilian Odebrecht conglomerate stated at the National Forum in Rio de Janeiro on May 14 that labor productivity in his construction business has gone down by 30 percent in 30 years, even factoring in improvements in techniques and machinery. Demand-side factors have improved labor conditions in the region. Positive economic performances reduced unemployment levels to a historical low of 6.4 percent of the working force by 2012, according to the International Labor Organization. An inclusive social agenda drove the reduction of wage and gender inequalities. Informal work has declined, due in part to the expansion of large firms in the region, according to the World Bank. The com-

Continued on page 3

Biden Urges Brazil to Further Open Economy

In a visit Wednesday to Rio de Janeiro, U.S. Vice President Joe Biden lauded Brazil for its economic successes, but urged it to further open its economy. Brazil is the last stop on Biden's three-nation tour of the region this week. See story on page 2.

Photo: Reuters.

Inside This Issue

FEATURED Q&A: Is a Lack of Skilled Labor Hindering Growth in Latin America? 1

Biden Encourages Brazil to Further Open Economy 2

Brazil's Central Bank Surprises Analysts With Half-Point Rate Hike 2

Hurricane Barbara Makes Landfall in Mexico, Two Killed 2

Cuba to Expand Internet Access 2

Venezuela Blasts Santos for Meeting With Capriles.....3

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NEWS BRIEFS

Hurricane Barbara Makes Landfall in Mexico, Two Killed

Hurricane Barbara made landfall Wednesday on a sparsely populated part of Mexico's southern Pacific coast, reported the Associated Press. At least two people were killed by the storm, one of whom was identified as a U.S. surfer, and at least 14 fishermen in the area are missing. Meanwhile, officials in Oaxaca state rushed to make emergency preparations. The hurricane hit unusually early in the season and farther east than most hurricanes. By evening, Barbara had weakened to a tropical storm.

Cuba to Expand Internet Access

The Cuban government announced Tuesday that it will expand public access to the Internet by setting up 118 access points around the island starting in June, BBC News reported. The government will charge $4.50 to surf international sites, 60 cents to surf national sites and $1.50 to check e-mail. Currently, most Cubans can connect to the Internet only at work, school or in hotels and the government has said that it will continue to closely monitor Internet traffic.

Australian Mining Companies Could Invest $144 Bn in Region

Mining companies in Australia may invest as much as 150 billion Australian dollars ($144 billion) in Latin America over the next 10 years, *The Australian* reported, citing Foreign Affairs Minister Bob Carr. There are currently 80 Australian mining companies taking part in more than 200 projects in Central America and South America, the newspaper reported. That is compared to four years ago when only 20 Australian mining companies were operating in the region.

Economic News

Biden Encourages Brazil to Further Open Economy

In a visit to Brazil, U.S. Vice President Joe Biden on Wednesday urged Latin America's largest economy to make more strides to open its economy, Reuters reported. The strength of Brazil-U.S. ties will largely depend on whether Brazil, which still has relatively high barriers and tariffs, can make trade easier, Biden told business authorities and local political leaders in a speech near Rio de Janeiro's port. "It's up to Brazil to decide whether to pursue this path and seize the opportunities," said Biden, adding that the United States has worked to boost trade and investments with countries on Latin America's Pacific coast as well as China and Europe. Biden's visit to Brazil comes ahead of a state visit to Washington by Brazilian President Dilma Rousseff, planned for October. Earlier this week, Biden visited Colombia and Trinidad and Tobago. Rousseff and U.S. President Barack Obama have sought closer diplomatic ties as part of the countries' efforts to strengthen economic relations. However, Rousseff has criticized the United States' loose monetary policy, which she has said hurts Brazilian exporters by making their products more expensive to buyers. Biden also lauded Brazil for its economic growth and social programs, which have helped some 40 million Brazilians escape poverty over the past decade. Brazil's success is a model for developing nations, he said. "You have demonstrated there is no need to choose between a market-based economy and smart social policies," said Biden. The U.S. vice president also referred to Brazil's historical resistance to criticizing authoritarian regimes and said it should speak up more in defense of democracy. Brazil's economy has experienced success, but "what goes with that is the worldwide responsibility to speak," he said. On Wednesday, Biden toured a research facility of Brazil's state-run oil company, Petrobras. Today, he is scheduled to visit a Rio slum before heading to Brasília for meetings tomorrow with Rousseff and Brazilian Vice President Michel Temer.

> "You have demonstrated there is no need to choose between a market-based economy and smart social policies."
>
> — *Joe Biden*

Brazil's Central Bank Surprises Analysts With Half-Point Rate Hike

Brazil's central bank on Wednesday increased the country's benchmark interest rate by a more-than-expected half point, Bloomberg News reported. The board of the central bank, led by Alexandre Tombini, voted unanimously to hike the Selic rate to 8 percent. In a recent Bloomberg survey of 57 economists, 38 had expected a rate hike of a quarter point, while 19 expected a half-point hike. The bank's decision comes as inflation is at the top of policymakers' target. "The inflation problem required a more robust monetary policy cycle, even with weak economic growth," Carlos Kawall, chief economist at **Banco J. Safra** told Bloomberg News. "It was important that the decision was unanimous so as not to give the idea of a divided central bank, which would weaken the decision." Brazil's annual rate of inflation has quickened for nine consecutive months through March to 6.59 percent. The central bank targets inflation at 2.5 percent to 6.5 percent. In April, inflation slowed slightly to 6.49 percent. "The central bank's decision was a positive move," Flavio Serrano, senior economist at **Banco Espirito Santo de Investimento** in São Paulo, told Bloomberg News in a phone interview. In a statement released along with the rate decision, the central bank said the move

Tombini

File Photo: Brazilian Government

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"will contribute to put inflation on a decline and assure that this trend will persist next year." According to the most recent central bank survey of about 100 economists, Brazil is likely to see inflation end the year at 5.81 percent. Brazil is the only country in the G-20 that is boosting its benchmark interest rate. Over the past month, the European Union, Australia, India and Israel have all reduced interest rates. Brazil's economy grew 0.55 percent in this year's first quarter, according to the national statistics agency. That was slower than the 0.64 percent expansion in the fourth quarter of 2012.

Political News

Venezuela Blasts Santos for Meeting With Capriles

The government of Venezuelan President Nicolás Maduro on Wednesday lashed out at Colombian President Juan Manuel Santos for meeting with Henrique Capriles, the Venezuelan opposition leader whom Maduro narrowly defeated in last month's presidential election, Reuters reported. Capriles, the governor of Venezuela's Miranda state, met with Santos in Bogotá at the beginning of a tour of several Latin American countries in which he is pressing his case that last month's election was fraudulent and that Maduro's government is illegitimate. According to Venezuela's official election results, Maduro defeated Capriles by just 1.5 percentage points. The government of Maduro, late President Hugo Chávez's handpicked successor, has labeled Capriles a "fascist" who is trying to destabilize the government. Diosdado Cabello, the head of Venezuela's Congress, was the first to voice complaints about Santos' meeting with Capriles. "Colombia must clarify if the government is with Capriles' coup intentions, or with the people of Venezuela and with the legitimate, sovereign and constitutional government of comrade Nicolás Maduro," Cabello told state media in Venezuela. "President Santos is putting a bomb in the good relations that President Chávez urged so much ... He is receiving a murderer, a fascist right there in his palace." Venezuela's foreign minister, Elías Jaua, also blasted Santos over the meeting. "I deeply regret that President Santos has taken a step that is going to lead, in a painful way, to the derailing of the good relations that we had," Jaua told reporters. Jaua added that Venezuela would recall Roy Chaderton, the government's envoy to Colombia's peace talks with the FARC rebels. Maduro has not specifically criticized Santos over the meeting, but he did say that "right-wing" Venezuelans were traveling around Latin America in an effort to plot economic sabotage in Venezuela and assassinations against Venezuelan officials.

> "President Santos is putting a bomb in the good relations that President Chávez urged so much."
>
> — *Diosdado Cabello*

Featured Q&A

Continued from page 1

modity boom has increased demand for low-skill workers, thereby reducing returns to education. Inflation controls lead to downward wage rigidities, with no fluctuations in employment levels, which may mean increased efficiency in labor markets—though this is yet to be tested during slowdowns. In fact, comparative measures such as the Global Competitiveness Report 2012-2013 of the World Economic Forum place Latin American countries at relatively low performances in terms of labor productivity —combining educational skills and hiring flexibility—compared to other factors of national competitiveness."

A Brian Finnegan, Global Worker Rights Coordinator in the International Department of the AFL-CIO: "Lack of skilled workers is always a concern, but it is also a common refrain of those who argue in favor of austerity and against investing in widely accessible and affordable high-quality public education at all levels. Such arguments have been particularly common in Latin America since the 1980s, and working families and young people have had no choice but to go heavily into debt to pursue quality education that prepares them for the labor market. Fortunately, there are signs of change in two Latin American countries where leaders are proposing increased investment in broader and better public education. In both Brazil and Chile, riches gained from non-renewable natural resources may soon be earmarked to develop each country's most renewable resource, its people. Brazilian President Dilma Rousseff insisted recently that future earnings from petroleum reserves must go to education to continue addressing both Brazil's historic inequality and to develop a more modern workforce. Chilean ex-president and current presidential candidate Michele Bachelet has promised to increase access to free public education and indicated an increased willingness to use revenues from Chile's copper reserves to address inequality by providing more affordable or free education. Brazil and Chile have made progress in lowering extreme poverty, but they continue to have high levels of inequality and working poor. In neither

> "Brazil and Chile have made progress in lowering extreme poverty, but they continue to have high levels of inequality and working poor."
>
> — *Brian Finnegan*

Continued on page 4

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Featured Q&A

Continued from page 3

case will these changes be easy to achieve politically, but they demonstrate an understanding that resources like copper and oil are only 'harvested' once, and that the revenues they bring in must be part of a long-term view to develop human capacities and high-quality employment opportunities for their people."

Jorge Sanguinetty, President and CEO of DevTech Systems and President of Development Research Center: "Insufficient supply of skilled labor is a major concern, but there is also insufficient demand to stimulate the supply. There is a vicious circle between them; there is low supply because of insufficient demand, and vice versa. Enter the rigidities and distortions of labor markets and we can see how the interdependence of demand and supply of skilled labor cannot evolve toward contributing to economic growth. Contrary to what happens in more dynamic countries, Latin American labor legislation, which is inspired by the protection of the worker, ends up artificially increasing the price of labor and discouraging domestic and foreign investment, the drivers of demand for skilled labor. Thus, the purported protection of the worker only benefits, if at all, those who hold jobs, but not the unemployed. Investors look for the most advantageous conditions, among them cost-effective and productive labor. When unemployment is chronic and widespread, the youth become skeptical about their ability to obtain employment through further education which closes another loop in the vicious circle of stagnation. The solution requires a strategy focusing on three fronts simultaneously: a) reducing distortions in labor markets—such as excessively high minimum wages and severance benefits—to bring labor costs to equitable and internationally competitive levels in order to stimulate labor demand; b) facilitating the foundation and development of new businesses that will increase the demand for skilled workers capable of enhancing growth prospects; and c) investing in high-quality technical education in coordination with the business sector."

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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