INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Aimara Capital LLC

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig A. Kelly
Director, Americas International Gov't Relations,
Exxon Mobil

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

What Is the State of Poverty and Inequality in Latin America?

Q Despite economic progress in the past 15 years, Latin American countries have failed to adequately address the plight of people living right on the poverty line, leaving millions at risk of falling back into poverty, according to a paper released Dec. 23 by four World Bank economists. The authors add that Latin America remains one of the world's most unequal regions. Where in Latin America have efforts to bring people more firmly out of poverty succeeded, and where have they failed? Which successful initiatives can be replicated elsewhere? Why has inequality continued to persist in the Americas?

A Nora Lustig, Samuel Z. Stone professor of Latin American economics at Tulane University and nonresident fellow at the Center for Global Development and the Inter-American Dialogue: "It is not really accurate to say that inequality in Latin America has 'continued to persist.' On the contrary, the big news is that during the 2000s, inequality declined almost everywhere. Thus, inequality in Brazil and Mexico, for instance, is at its lowest level ever since data started to be reported in the 1960s. Declining inequality accounted for a third to a half of poverty reduction since 2000. True, the region continues to be the most unequal in the world. However, if current trends continue, this may no longer be true: as inequality fell in Latin America, it rose elsewhere including China, India, South Africa and the United States. Lower wage inequality explains more than 40 percent of the decline in overall inequality in Latin America. Part of the reduction in the wage gap of the skilled and low-skilled workers is due to market forces. Following the surge in educational investments by governments during the 1990s and 2000s, the supply of skilled workers grew considerably, while the supply of unskilled labor declined due to rising educational attainment, falling birth rates, and increasing emigration. The wage gap also declined because of rising mini-

Continued on page 3

Colombian Official Ratifies Bogotá Mayor's Ouster

Colombia's inspector general on Monday ratified his Dec. 9 decision to remove Bogotá Mayor Gustavo Petro from office over his alleged mismanagement of the capital's trash collection system. Petro contends that his sacking was politically motivated. See story on page 2.

File Photo: City of Bogotá.

Inside This Issue

FEATURED Q&A: What Is the State of Poverty and Inequality in Latin America? 1

Federal Forces to Take Over Security in Parts of Michoacán 2

Colombian Inspector General Ratifies Bogotá Mayor's Ouster 2

Police in Brazil Probe String of Shootings That Left 12 Dead 2

Venezuela Reopens Embassy in Paraguayan Capital 2

Eurnekian Buying Batista's Stake in Semiconductor Venture 2

Copyright © 2014, Inter-American Dialogue

NEWS BRIEFS

Police in Brazil Probe String of Shootings That Left 12 Dead

A police investigation has begun into a wave of shootings that killed at least 12 young men between Sunday night and Monday morning on the outskirts of Campinas, 100 kilometers (60 miles) northwest of São Paulo, the *Miami Herald* reported. The attacks in Campinas began after an off-duty policeman was shot and killed during a robbery. Police said they are looking into the possibility that the killings were carried out by a group of officers as revenge or were due to a conflict between criminals.

Venezuela Reopens Embassy in Paraguayan Capital

Venezuela reopened its embassy in the Paraguayan capital of Asunción on Monday, 18 months after closing it to protest the ouster of Paraguayan President Fernando Lugo, who had been a supporter of late Venezuelan President Hugo Chávez, the Associated Press reported. Venezuela's ambassador to Paraguay, Alfredo Murga, said that the two countries' economies can supplement each other, with Paraguay's agricultural exports to Venezuela being important to that nation.

Peru's GDP Expected to Expand 6 Percent This Quarter

Peru's gross domestic product is expected to grow 6 percent in the first quarter of 2014, state news agency Andina reported Saturday, citing the central bank. An improved international environment, a higher level of exports and new mining projects are expected to drive growth, the bank said. The central bank has estimated that the South American country's economy grew 5.1 percent last year.

Political News

Federal Forces to Take Over Security in Parts of Michoacán

Federal forces will take over the security of a large part of Mexico's Michoacán state where vigilantes have entered towns and clashed with drug gangs, the country's interior minister, Miguel Ángel Osorio Chong announced Monday, the Associated Press reported. Michoacán's state police will help the federal forces in their patrols of an area known as "Tierra Caliente." Osorio Chong did not provide details of which government agencies would be involved, but added that the federal government would quell the violence in the western state. "Be certain, we will contain the violence in Michoacán," said Osorio Chong. The interior minister announced the planned deployment after meeting with Michoacán's governor, Fausto Vallejo. Clashes have erupted in the past several days as vigilante groups have taken over towns in the state. On Sunday, hundreds of vigilantes entered the town of Nueva Italia and disarmed the town's police officers. Some opponents of the vigilantes contend they are backed by the New Generation drug cartel, which is believed to be fighting the Knights Templar cartel for control in Michoacán. However, vigilantes have denied this, saying they are trying to free communities from the grip of the Knights Templar. In a radio interview following Osorio Chong's announcement, a leader of one of the so-called "self-defense" groups, Hipólito Mora, said his group would "continue in our struggle," adding that the groups would refuse to disarm, the *Los Angeles Times* reported. "It's really sad that [the government is] against us," he said. "From my point of view, I'd want to be against the Knights Templar first. And after finishing with them, after finishing off that organization, the government wouldn't need to run after us."

Osorio Chong

File Photo: Mexican Government.

Colombian Inspector General Ratifies Bogotá Mayor's Ouster

Colombia's inspector general on Monday ratified a ruling he made last month to remove Bogotá Mayor Gustavo Petro from office, the *Miami Herald* reported. In the ruling, Inspector General Alejandro Ordóñez also barred Petro from holding office for 15 years. It is unclear when the ruling becomes effective, and Petro has said that he will not leave until President Juan Manuel Santos approves it. "From Bogotá, we call on all the democratic forces of the country and all the citizens to mobilize against this coup," Petro wrote in a posting on Twitter shortly after Ordóñez's announcement. The inspector general has said that he decided to remove Petro because he mismanaged changes to the city's trash collection system in 2012. However, Petro has said his sacking was politically motivated. The Inter-American Human Rights Commission is examining the case. [Editor's note: See related Q&A in the Dec. 24 issue of the *Advisor*.]

> "From Bogotá, we call on all the democratic forces of the country and all the citizens to mobilize against this coup."
>
> — ***Gustavo Petro***

Company News

Eurnekian Buying Batista's Stake in Semiconductor Venture

Argentine billionaire Eduardo Eurnekian has agreed to buy Brazilian businessman Eike Batista's 33.2 percent stake in semiconductor startup **SIX Semiconductores**, Bloomberg News reported Monday. Financial details were not released. Batista is shedding assets amid mounting debts and missed production and reserve targets at his oil company, **OGX**, which in October declared Latin America's largest-ever bankruptcy filing.

Copyright © 2014, Inter-American Dialogue

Featured Q&A

Continued from page 1

mum wages. However, the wage gap also narrowed because as coverage expanded, subpar colleges flourished and the quality of tertiary education fell. The latter is not good news. Larger and more progressive government transfers were the second most important driver of declining inequality: on average, government transfers accounted for between 13 to 20 percent of the decline in overall inequality. Although in most countries this is good news, in Argentina and Venezuela, for example, the large expansion of transfers has fueled inflation and conspired against sustainable economic growth."

Jacqueline Pitanguy, executive director of Citizenship, Study, Research, Information and Action (CEPIA) in Brazil: "Latin American countries today have marked differences in terms of their political and economic directions. However, they share one common trend: Latin America remains an unequal continent where reduction of poverty and reduction of social inequality do not necessarily walk hand-in-hand. In recent decades, Chile has scored one of the highest Human Development Indexes in the region and yet this is also one of the countries with the highest rate of social inequality. Brazil has made enormous progress in reducing poverty through direct income transfer social programs such as Bolsa Família and Brasil Sem Miséria. The country has met and even overcome the 2015 Millennium Development Goal to reduce poverty by half. In 2002, 41 million Brazilians were living in poverty. This number dropped to 15.7 million in 2013. These programs are success stories that are being replicated in other countries. However, the richest 5 percent of the country also increased their income between 2011 and 2012, according to the Instituto de Pesquisa Econômica Aplicada (IPEA). Inequality remains high. Its reduction requires other economic and political measures, such as higher taxes on larger fortunes. Finally, it is important to remember that poverty is a complex, multidimensional phenomenon and requires coordinated investments not only in income distribution, but also in access to good education, health, sanitation and transportation, as recent social mobilizations in Brazil have shown. Unequal distribution of the access to such services is also an indicator of social inequality."

Maria Velez de Berliner, president of Latin Intelligence Corporation: "Unequal or non-existent university education lies at the core of inequality in the Americas. It is also a critical security threat because the criminal gangs that proliferate in the region are the employers of last resort of the uneducated. Latin America's pre-university education is based on rote learning. Poorly qualified teachers discourage innovative thinking, instead teaching to tests that measure memorization. Graduates lack the critical thinking, analytical, math and science skills necessary to compete in the knowledge-dominated global economy. Only about 1 percent of Latin America's students pass international examinations in science and math. Access to legal, in-country opportunities is mostly available only to those with high-quality, advanced education. Half of high school graduates in Brazil, Colombia, Mexico and Peru can neither do arithmetic nor solve elemental algebraic equations. About 115 million youth who live on less than $2 a day are excluded from the education they need to overcome their poverty. Add 25 million 'ni-nis' (who neither study nor work) and Latin America has about 140 million youth whose potential, most viable employment is to join the criminal gangs. Income transfers that require poor parents to send their kids to school have had extraordinary success. However, these programs go only so far if poverty prevents youths from advancing to university-level education and the jobs that require it. The yearly cost of one of the few world-class universities in the region is equal to or exceeds the total income of an average family. To remediate inequality and eliminate criminal gangs, Latin America must build educational systems that meet the requirements of the knowledge economy."

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2014

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Tamara Ortega Goodspeed, Senior Associate, Education
Jeffrey Puryear, Senior Fellow

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.