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LATIN AMERICA ADVISOR

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Featured Q&A With Our Board of Advisors

Q In his 2005 book, *The World is Flat*, Thomas Friedman argues that the convergence in recent years of global political and economic changes, and advances in information technology and business processes are "flattening" the world's competitive playing field. How is this supposed trend playing out in Latin America? Is Latin America benefiting? Is it falling behind?

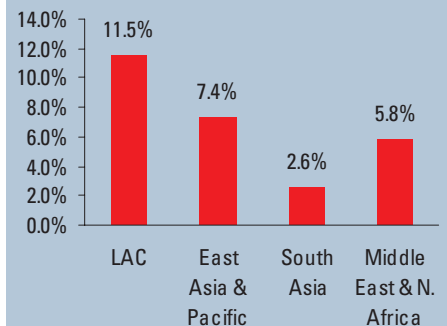
A **Guest Comment: Joseph Stiglitz:** "First of all, I think some of the same forces he describes as flattening the world are actually making the world less flat. He's right that it's changing the global landscape, but it's much more variegated than he would suggest. Part of success in this new technology area requires access to the technology and education, which the poorest typically don't have. That has particular relevance for Latin America, because Latin America is the region in the world that has the greatest inequality, the most people at the bottom who do not have access to the technology and education that they need to participate effectively in this new globalized world. So as a result of that, there's a sense in which they're becoming more disadvantaged rather than less disadvantaged. The second point I'd make is that it's not just technology that's relevant for the shape in which globalization is evolving, but also the rules of the game—trade rules, global financial markets. And again, the way that those have been evolving recently, particu-

larly since the Bush administration, have resulted in a less level playing field, so that some of the countries of Latin America are again being put in a more disadvantageous position. And that's particularly the context of the free trade agreements that America has been pushing on some of the Latin American countries. The advantages of those agreements go disproportionately to the United States. And in some cases arguably these countries will get few advantages. In some cases and in some ways they will be worse off."

A **Board Comment: José Antonio Ríos:** "This is absolutely true: thanks to the technological infrastructure in place today, a global
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CHART OF THE DAY

Internet Penetration in Latin America & the Caribbean, Versus Other Regions



Source: World Bank

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NEWS BRIEFS

Correa Extends Lead Ahead of Ecuador's Presidential Election

Ecuador's leftist presidential candidate, Rafael Correa, gained further ground on rival candidates in the race to the Andean nation's October 15 election, according to a **Cedatos Gallup** poll published Saturday, according to Reuters. Correa's lead increased four points to 26 percent of intended voters, while support for the center-left Leon Roldos fell one point to 18 percent. More than half of Ecuadorians are still undecided, according to the poll. The poll had a margin of error of plus or minus 3 percentage points.

Merck to Provide Nicaraguan Infants with Free Vaccine

US drug company **Merck & Co.** announced Friday it would partner with the Nicaraguan ministry of health to provide all infants born in Nicaragua during a three-year period with free doses of a Merck vaccine to prevent rotavirus gastroenteritis. In a press release, Merck said that at the end of the project, which will cost \$75 million, it would sell the vaccine to the Nicaraguan government "at prices dramatically lower than those in the developed world."

SABMiller Seeks to Buy Rest of Shares in Colombia's Bavaria

SABMiller PLC, the world's second-largest brewer, offered to purchase the remaining shares it doesn't already own in Colombian brewer **Grupo Empresarial Bavaria SA**, Dow Jones reported Friday, citing a regulatory filing. The London-based brewer, which upped its stake in Bavaria to 97.64 percent after two deals totaling about \$9 billion last year, will hold a public tender offer for the remaining shares on October 12.

Political News

Venezuelan Foreign Minister Says Mistreated at New York Airport

Venezuelan Foreign Minister Nicolas Maduro said he was illegally detained Saturday by abusive officials at New York's John F. Kennedy International Airport, the Associated Press reported. Maduro, who was trying to catch a flight back to Venezuela, accused the US of violating international law and his diplomatic immunity, and said he would seek a legal challenge against the US government through the United Nations. The foreign minister said he and other officials refused to submit to being frisked, and that he refused an order



Maduro

Photo: MRE

Maduro said he and other officials refused to submit to being frisked, and that he refused an order by one official to go to another room to be strip-searched.

by one official to go to another room to be strip-searched. "We responded with the dignity of Venezuelan revolutionaries ... with strength," Maduro was quoted as telling reporters at Venezuela's mission to the UN. He called the US government "Nazi" and "racist." The Department of Homeland Security denied that Maduro was mistreated, according to the AP. However, US State Department spokesman Tom Casey said it was a "regrettable incident" for which "the US government has apologized." It was the latest diplomatic incident between the two countries and took place just days after Venezuelan President Hugo Chavez, in a speech at the UN's General Assembly on Wednesday, blasted US President George W. Bush, calling him "the devil." Last month, the US protested Venezuelan authorities' search of several US diplomatic bags at Caracas' main international airport, which it said was a violation of the Vienna Convention. Venezuela fired back that it was the US that violated interna-

tional law by not informing authorities of the contents of the bags and accused the US of attempting to skirt customs procedures.

Lula and Alckmin Step Up Attacks as They Enter Final Week of Campaign

Entering the final week of campaigning before Brazil's October 1 presidential election, President Luiz Inacio Lula da Silva and his main opponent, former Sao Paulo state Governor Geraldo Alckmin, traded attacks over the weekend, Reuters reported. Seeking to capitalize on a last-minute scandal in which officials in Lula's Workers Party and re-election campaign are accused of orchestrating a smear campaign against Alckmin and other political opponents, television campaign ads by Alckmin called it "one of the biggest scandals in the history of the country." Alckmin, who trails far behind Lula in

polls, said he was gaining ground because of the scandal. "What concerns me is what's happening in the country," Alckmin was quoted as telling supporters. At a rally on Sunday, Lula, who last week denied any role in the smear campaign, dismissed the scandal. "People can make whatever accusations they want ... we will win with the clean face that we have," he told supporters. Lula said he was confident he would achieve the minimum 50 percent of votes needed to win the election outright in the first round. The scandal has had little effect on polls, with the latest surveys showing Lula's lead over Alckmin ranging from 19 to 24 percentage points. However, analysts have said the scandal could hurt the prospects for economic reforms. Lula and his finance minister, Guido Mantega, said Friday that recent volatility in Brazil's markets was not due to the scandal, but to events in foreign countries, such as the coup in Thailand. In his television campaign ads, Lula attacked Alckmin over crime, blaming him for a

series of gang attacks in Sao Paulo this year that left scores dead.

Company News

Western Union to Seek Delay of Seizure of Remittances to Mexico

Western Union said Friday it would seek a delay of the state of Arizona's efforts to seize certain fund transfers to Mexico stemming from the state's investigation of illegal immigration and drug smuggling, Reuters reported. The US money transfer firm said it intended to seek a stay of a seizure warrant—obtained from a state court by the Arizona state government on Thursday—which requires Western Union to transfer funds to a designated detention account rather than to intended recipients in Mexico. The warrant, which was to go into effect on Friday and continue through October 6, affects person-to-person money transfers from Arizona and 28 other states. The warrant applies to money transfers exceeding a certain dollar threshold, which is higher than the average amount transferred to Mexico, Western Union said, according to Reuters. Earlier this month, the company said that the continuing debate in the US over immigration policy would slow earnings growth through next year to single digits. It said Friday the warrant would hurt money transfer volumes, but would have no "material" impact on the company. Western Union's parent company, **First Data**, said in July that the unit made fewer-than-expected remittance transactions to Mexico because a highly publicized crackdown on illegal immigration had made migrants fearful of sending money. However, some analysts say that industry-wide remittances have in fact increased and that the decline in money transfers to Mexico by Western Union are due to competition [Editor's note: see related Q&A in the August 4, 2006 issue of the *Advisor*]. Analysts say Western Union's dimmer outlook raises questions about First Data's plan to spin the company off this Friday, according to Reuters. Western Union had been expected to do very well as an independent company, Reuters reported.

Countdown to Brazil's Election

Cardoso's "Letter to the People" and the Dossier Scandal

David Fleischer's Bi-Weekly Comment on Brazilian Politics Ahead of the Country's October 1 Elections



Brasilia, Brazil—During the past two weeks of the presidential campaign, two events appeared that had some impact on the political scene.

First, on September 8 former President Fernando Henrique Cardoso published an open letter to PSDB militants on the party web page that became a "letter to the Brazilian people" because it received wide dissemination via TV news programs, newspaper stories, and op-ed analyses.

Most politicians were quite surprised by Cardoso's long, critical discourse. Not content to play the sedate role of elder statesman—visiting scholar at Brown University, the lecture circuit in Europe, supervising the installation of the Cardoso Memorial Institute in Sao Paulo, etc.—Cardoso again plunged into the election campaign fracas with very strong statements that have further split his own PSDB party even worse than it already was in the twilight of the 2006 campaign.

Cardoso resurrected the refrain of a totally corrupt Lula government and preached his impeachment, complained about a lack of ethics by now PSDB Senator Eduardo Azeredo (Minas Gerais) *vis-a-vis* accusations of *caixa dois* campaign finance in his re-election bid (for governor of MG) in 1998, and even admitted "problems" regarding the large privatizations conducted by his government.

Senator Azeredo complained bitterly about being singled out, but he was not the only MG politician addressed in the letter. The main target appears to be incumbent Governor Aécio Neves (PSDB-MG), who should receive an all-time record vote on October 1—over 70 percent of the valid vote—and who has his political sights set on 2010, as does Jose Serra.

Also, Cardoso's missive was aimed at *tucanos* (members of the PSDB party) who have apparently called the Alckmin candidacy as a non-starter, no-win situation and who threw in the towel early in the campaign, especially Neves and Senator Tasso Jereissati (CE)—the current PSDB national president. Many observers now feel that Cardoso is trying to garner votes from true-blue (and yellow) *tucanos* to get himself elected as the new PSDB national president in 2007.

The second episode exploded on September 16-17 when the Federal Police discovered an alleged attempt by PT militants to buy for \$1.7 million reais a dossier regarding the bloodsucker ambulance scandal that incriminated former Health Minister Jose Serra back in 1999-2001.

The Federal Police quickly identified several PT militants allegedly involved with this caper, including one who worked in Lula's presidential office. PSDB leaders quickly cried foul and asked the TSE to cancel Lula's candidacy, but did not refute the alleged content of the dossier. However, a new Datafolha poll was released on September 20 that showed that Lula remained steady in voter preferences.

David Fleischer is Emeritus Professor at the University of Brasilia, Director of the School of Social and Political Science at the Federal District University Center (UniDF), and Editor of the weekly newsletter Brazil Focus.

Featured Q&A*Continued from page 1*

arena of competition is now accessible to small and large players alike, anywhere on earth. This is clearly benefiting Latin America in several ways—not only by making more markets available to the region's businesses, but also through the explosion of near-shoring opportunities, contact centers and other new niche industries developing in the region. We are also seeing that multinational companies are now more likely to invest in increasing their human resources in Latin America, having a larger part of their resources and even headquarters located in-region versus Miami or New York, for example, which had been clearly favored in the past. Nevertheless, these opportunities should be viewed by the region's leaders as a catalyst for more profound development. While the Internet and greatly improved telecommunications infrastructure have created tremendous opportunities in the region, Latin America still lags behind other emerging markets, such as Asian countries, which have focused on training their people, especially their youth, in the latest technology trends. For Latin America to stay competitive, the region's leaders and governments need to concentrate on continuing to expand and improve Internet penetration and universal access as both a fundamental business and learning tool; create policies that encourage foreign investment, research, and development, and that attract multinational businesses; and take immediate measures to improve educational systems across the region in order to ensure a skilled workforce ready to compete in the global business field, now open to everyone."

A **Guest Comment: Jerry Haar:** "Production systems, such as computer assembly, may be 'flat,' but the world isn't—it's lumpy and bumpy. In Latin America, market liberalization, sound macroeconomic policies, and trade opening have

forced domestic companies to revamp their production methods, marketing, finances, and hiring practices to survive in an increasingly competitive marketplace. At the same time, it has brought tremendous opportunity to medium and large domestic firms, transforming many into *multilatinas* (e.g., Techint, Sadia, Odebrecht). However, while production lines may have become flattened and cross-border services expanded, Latin America as a region continues to lose its competitiveness. Asia and Central Europe have diverted foreign investment from Latin America, R&D expenditures as a percentage of GDP are among the lowest in the world, and human capital and productivity are way below those of Poland, Taiwan, and South Korea. High commodity prices are but a temporary phenomenon. Sure, individual firms have benefited from the developments Friedman identifies; and the biggest winners of all have been lower-income consumers for whom 'low everyday prices,' quality, and choice are available to them at last. However, unless Latin America as a region implements sweeping structural and institutional reforms—social as well as economic—it will continue to fall further behind."

Joseph Stiglitz is Executive Director and Co-Founder of the Initiative for Policy Dialogue at Columbia University and was awarded the Nobel Prize in Economics in 2001.

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