

# INTER-AMERICAN DIALOGUE'S

## LATIN AMERICA ADVISOR

### BOARD OF ADVISORS

**Diego Arria**

Director,  
Columbus Group

**Genaro Arriagada**

Board Member, Banco  
del Estado de Chile

**Joyce Chang**

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

**W. Bowman Cutter**

Former Partner,  
E.M. Warburg  
Pincus

**Alejandro Delgado**

Senior Economist for  
Latin America, Africa,  
the Middle East  
& Asia Pacific,  
General Motors

**Dirk Donath**

Managing Director,  
Eton Park Capital  
Management

**Jane Eddy**

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

**Marlene Fernández**

Corporate Vice  
President for  
Government Relations,  
Arcos Dorados

**Jason Hafemeister**

Vice President,  
Allen F. Johnson &  
Associates

**Peter Hakim**

President Emeritus,  
Inter-American  
Dialogue

**Donna Hrinak**

Vice President,  
Global Public Policy &  
Gov't Affairs, PepsiCo

**Jon Huenemann**

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

**James R. Jones**

Co-chair,  
Manatt Jones  
Global Strategies LLC

**Craig Kelly**

Vice President,  
The Cohen Group

**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.

**Andrés Rozental**

President,  
Rozental & Asociados  
and Senior Fellow,  
Brookings Institution

**Everett Santos**

President,  
DALEC LLC

**Shelly Shetty**

Senior Director, Latin  
American Sovereign  
Ratings, Fitch Inc.

### FEATURED Q&A

#### Are Public Safety and Security Improving in Brazil?

**Q** The massive police actions on Nov. 28 deep into Rio de Janeiro's slums, long considered safe havens for criminals, have put the international spotlight on security concerns in Brazil, South America's largest economy. Is Rio's public safety and security situation improving? What about the situation elsewhere in Brazil? What are the primary security issues that international corporations operating in Brazil need to take into consideration, and how do these compare to other major emerging markets?

**A** Laurence Casagrande, director at Kroll São Paulo: "When considering the recent police action in Rio de Janeiro, one must realize that this is an isolated event and not an everyday reality in Brazil. The current operations being carried out in the city by both local and federal forces are designed to re-establish police control over certain low-income neighborhoods occupied by criminal groups. Despite the upheaval created in the short term, these actions are improving security for the medium to long term in Rio de Janeiro in advance of the 2014 World Cup and 2016 Olympics. In reality, the security situation in Brazil has improved greatly in recent years. This is reflected in national crime statistics, which show the number of intentional homicides peaked in 2003 with more than 50,000 murders and has since gradually and steadily declined. Rapid progress has been

seen in metropolises such as São Paulo—Brazil's economic center and home to the majority of multinationals operating in the country. In this city of 20 million, homicides per 100,000 residents fell from a high of 69 in 1999 to around 15 in only 10 years. Common sense precautions must still be taken in major Brazilian cities to lower the risk of robbery and assault. However, the recent period of sustained economic growth and improved income distribution, as well as higher government spending on education, social welfare and public securi-

*Continued on page 3*



#### ECLAC Forecasts 6 Percent Economic Growth for Region

Latin America and the Caribbean are likely to experience 6 percent economic growth this year, announced the U.N. Economic Commission for Latin America and the Caribbean, which is headed by executive secretary Alicia Barcena. See story on page 2.

*File Photo: ECLAC.*

### Inside This Issue

FEATURED Q&A: Are Public Safety and Security Improving in Brazil? .....	1	Leaked Cable Accuses Peruvian General of Drug Corruption .....	2
Region Likely to See 6 Percent Economic Growth This Year: ECLAC .....	2	General Electric Purchasing Britain's Wellstream Holdings for \$1.3 Billion .....	3
Argentine Dockworkers End Paraguay Blockade .....	2	MMX Mineração e Metálicos Investing \$2.9 Bn on Brazilian Mines .....	3

## NEWS BRIEFS

**Leaked Cable Accuses Peruvian General of Drug Corruption**

A cable released Sunday by WikiLeaks alleges that the head of Peru's military had ties to the cocaine trade, a charge that Gen. Paul da Silva vehemently denied Monday, the Associated Press reported. A March 2009 document from then-Ambassador Michael McKinley cited a meeting between the general and a fishing industry executive who was later arrested for trying to export 1,852 pounds of cocaine hidden in fish shipments. Da Silva asserts that the meeting was to discuss supplying the military with seafood and said he reserves the right to bring a criminal complaint against the ambassador.

**Auto Production Rises 17.5% in Mexico Year-on-Year**

Auto production in Mexico rose 17.5 percent in November from the year prior and exports jumped by 24.7 percent, according to the national auto manufacturer association, Reuters reported. Automakers from the United States, Europe, and Asia have shifted investment into Mexico and the industry has been a key driver of Mexico's economic recovery. However, there is concern that U.S. demand may lag next year.

**Banco do Brasil to Purchase Banks in U.S., Chile: Report**

Banco do Brasil will announce the purchase of a bank in Florida by the beginning of next year, Brazilian daily newspaper *O Globo* reported Monday, citing the bank's vice president of international business, Allan Simões Toledo. In addition, the government-controlled Brazilian bank will buy another bank in Chile by the end of 2011 and is considering the purchase of banks in Peru and Colombia, said the report.

## Economic News

**Region Likely to See 6 Percent Economic Growth This Year: ECLAC**

Latin America and the Caribbean are likely to experience gross domestic product growth of 6 percent this year, the United Nations Economic Commission for Latin America and the Caribbean announced Monday, Dow Jones reported. The commission, known as ECLAC, also said economic growth in the region next year is likely to be 4.2 percent. Both figures are increased estimates. In July, ECLAC said GDP growth would be 5.2 percent this year and 3.8 percent next year. The region saw an overall contraction of 1.9 percent

*The region experienced an overall economic contraction of 1.9 percent last year.*

in 2009. Countercyclical measures and expansive monetary policy have helped consolidate the region's recovery after the global economic crisis, the commission said. "The fast-paced growth in 2010 can be attributed to several factors, including robust private consumption, which is due to a gradual improvement in employment, increasing credit conditions, and with the exception of Venezuela, an increase in real wages," ECLAC's executive secretary, Alicia Bárcena, told reporters. In addition, investments increased throughout the region, with companies holding more machinery and other equipment and with private consumption increasing along with an improved labor market and greater access to credit, said Bárcena. Next year, growth will slow in part because of decreasing levels of public spending. A gain of 6 percent this year would be the region's fastest growth since 2004. It comes despite several natural disasters, including the earthquakes in Haiti and Chile. "The region suffered 98 natural disasters, which killed

223,000 people, affected 14 million people and caused damages of some \$49.4 billion," said Bárcena. "Despite these vicissitudes, the region posted strong growth this year." Paraguay is expected to post the region's fastest growth this year, with GDP growth of 9.7 percent. Uruguay is forecast to experience 9 percent growth, followed by Peru with 8.6 percent growth. Brazil, the region's largest economy, is forecast to see 7.7 percent growth in 2010, while the economies of Mexico and Chile are each likely to grow 5.3 percent this year, according to ECLAC. Meantime, Venezuela's economy is expected to contract 1.6 percent this year while Haiti's is forecast to shrink 7 percent. Inflation is expected to be 6.2 percent in 2010, as compared to 4.7 percent last year. The region's rate of unemployment is expected to decrease to 7.6 percent this year from 8.2 percent in 2009, said ECLAC.

**Argentine Dockworkers End Paraguay Blockade**

An Argentine dockworkers' union on Monday ended its blockade of river-bound shipments to and from Paraguay, which had held up thousands of shipping containers and threatened to increase tension between the two countries, EFE reported. The SOMU union had blocked the shipments in solidarity with colleagues in Paraguay to secure a collective-bargaining deal with shipping companies. The blockade ended after union leaders met Monday with Argentine President Cristina Fernández de Kirchner during a five-day truce that had been called to help advance talks aimed at ending the dispute, according to Argentina's Labor Ministry. Argentina's government worked to end the dispute at the "express request" of the neighboring landlocked country.



Lacognata

*File Photo: Paraguayan Government.*

Last week, Paraguayan Foreign Minister Hector Lacognata said that Paraguay's attendance at the upcoming Mercosur summit in Brazil would be contingent on Argentina's ability to end the blockade.

The protest had involved approximately 3,000 dockworkers in Buenos Aires and at ports on the Paraná River and also affected 38 Paraguayan shipping companies.

## Company News

### General Electric Purchasing Britain's Wellstream Holdings for \$1.3 Billion

**General Electric** announced Monday that it agreed to purchase U.K.-based **Wellstream Holdings**, a company that specializes in subsea oil and gas transportation products with a focus on Brazil, for \$1.3 billion. According to a statement from GE, the board of Wellstream is expected to unanimously recommend the sale, which is projected to be completed in the first quarter of 2011. Wellstream



Santiago

*File Photo: GE Oil & Gas.*

operates two manufacturing facilities, one in Britain and one in Niterói, Brazil, where it produces flexible pipeline products used in underwater oilfield operations. According to data compiled by Bloomberg News, Brazil accounted for more than half of Wellstream's revenue in 2009. "Brazil is a key region for GE and the proposed acquisition of Wellstream, along with the expansion of our Jandira, São Paulo oil and gas plant and the planned 2012 opening of a new \$100 million investment GE Global Research Center in Rio de Janeiro, demonstrates our long-term commitment to this fast-growing region," said Claudi Santiago, the president and CEO of GE Oil & Gas.

### MMX Mineração e Metálicos Investing \$2.9 Bn on Brazilian Mines

Brazil's **MMX Mineração e Metálicos**, which is controlled by billionaire Eike Batista, will invest 5 billion reais (\$2.9 billion) to expand mine production in the South American country as Asia demands an increasing amount of raw materials, Bloomberg News reported Monday. The company's board approved

### Featured Q&A

*Continued from page 1*

ty have already proven effective in reducing the rate of violent crime in Brazil. If we also consider the consolidation of democracy, economic stability and improved legal recourse that has taken place in Brazil over the last 20 years, coupled with the strong performance during the recent economic crisis, the country is indeed a prime interest for investors among emerging markets."

**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:** "It appears that Rio's public safety and security situation is indeed improving, as the recent military-backed police take-over of the most dangerous Rio favela known as the Alemão made clear. Coordination among law enforcement and military services in Brazil and good intelligence were obviously crucial in pulling off this operation. Continued coordination, increased intelligence on organized crime and gang activity and a greater number of so-called Police Pacification Units (UPPs) in the city will help to ensure that these recent advances are not reversed. Of course, Rio is strategic given its position within the humming Brazilian economy and chosen status for the 2014 World Cup and 2016 Olympics.

Its improving security situation is not necessarily representative of improving security nationwide. Remember that Brazil still has a higher homicide rate than Mexico despite rising insecurity and drug violence in Mexico. In terms of doing business in Brazil, multinational firms are not easily scared off when there

“ [Rio's] improving security situation is not necessarily representative of improving security nationwide. ”

— Jack Devine & Amanda Mattingly

is money to be made. However, in our experience, whether you are in Brazil or Mexico or any other market facing security challenges, the firms that succeed over the longer term are those that do the proper due diligence in advance of an investment, conduct specific and periodic security assessments for the areas of operation and set up a risk management system within the company. These protocols should be standard, particularly in a hotspot like Brazil, and can help a firm protect their investments and maximize their returns."

*Continued on page 4*

a 3.5 billion-real investment at the Serra Azul project, which includes a facility to

*Both projects are located in Minas Gerais state.*

produce as much as 24 million metric tons of iron ore annually, said the Rio de

Janeiro-based company. "They need to invest in Serra Azul to expand production and meet supply contracts with Chinese and South Korean partners," Pedro Galdi, an analyst at **SLW Corretora de Valores** in São Paulo told Bloomberg News. MMX added it plans to invest 1.5 billion reais at its Bom Sucesso project, which produces 10 million tons of iron ore a year. The projects are both located in Minas Gerais state. The increase in iron ore production will "significantly" bring down the costs per ton at the Serra Azul project, MMX's chief executive officer Roger Downey told analysts Monday on a conference call.

**Featured Q&A***Continued from page 3*

**A** **Maria Velez de Berliner, president of Latin Intelligence Corporation:** "About 1.3 million people live in more than 750 favelas in Rio; Rocinha and Mare each has more than 150,000 residents. Complexo do Alemão incorporates 15 favelas with about 120,000 residents. About 1,500 traffickers controlled the economic, social and political life of favelas, such as Vila Cruzeiro, until the army, navy and Rio's police moved in. Current and future attacks against traffickers in Rocinha, Vidigal and other favelas will continue to improve security for local residents. But will it be sustainable? Trafficking has been central to the favelas' economy for years, accounting for about \$400 million of Rio's economy every year. Unskilled youth make about \$1,000 a month doing surveillance work for the traffickers, and middle managers earn about \$5,000 a month. Therefore, more than trafficking and criminality, Rio is fighting against a crime- and corruption-based economy. It is not clear how the government will spend the \$1 billion allocated to eliminating informality and creating development in the favelas. The 'razing' of Vila Cruzeiro will displace an estimated 1,300

families. This situation will be repeated as criminals are cleared from other strongholds. But there are no plans for the relocation of these families. Meanwhile, traffickers are making use of the intricate network of tunnels and personal connections to reorganize and rearm. Laudable as the successes of the Police Pacification Units (UPP), the Special Police Operations Battalion (BOPE) and Rio's police are, Rio and Brazil are still threatened by the corruption that underpins the resilience of the transnational trafficking industry, to which Rio's favelas belong. There are reports of rogue police officers and units engaging in criminal activities, including collection of 'war taxes' to protect illegal and criminal activities and harassment of small business owners, as well as drug and arms trafficking. Sustainable economic development will be the only weapon that can replace the trafficking culture of the favelas. Whether Rio and Brazil have the financial, political and social will to do this over time remains to be seen."

---

*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

**Latin America Advisor**

*is published every business day by the Inter-American Dialogue, Copyright © 2010*

**Erik Brand**

General Manager, Publishing  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Rachel Sadon**

Reporter, Assistant Editor  
[rsadon@thedialogue.org](mailto:rsadon@thedialogue.org)

**Inter-American Dialogue**

Michael Shifter, President

Peter Hakim, President Emeritus

Katherine Anderson, V.P., Finance & Administration

Genaro Arriagada, Senior Fellow

Joan Caivano, Director, Special Projects

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Senior Fellow

Manuel Orozco, Director, Remittances and Development Program

Tamara Ortega Goodspeed, Senior Associate, Education

Marifeli Pérez-Stable, Senior Fellow

Jeffrey Puryear, Vice President, Social Policy

Viron Vaky, 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, Suite 510  
Washington, DC 20036  
Phone: 202-822-9002 Fax: 202-822-9553  
[www.thedialogue.org](http://www.thedialogue.org)

**Subscription Inquiries** are welcomed at [freetrial@thedialogue.org](mailto: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 Advisor 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.

## Financial Services

Upgrade your subscription with the  
**Inter-American Dialogue's biweekly  
Financial Services Advisor.**

INTER-AMERICAN DIALOGUE'S  
LATIN AMERICA ADVISOR ► FINANCIAL SERVICES

The answers to questions that  
informed executives are asking.

Send an email to [freetrial@thedialogue.org](mailto:freetrial@thedialogue.org) today.