FEATURED Q&A

How Will Chávez’s Latest Nationalizations Affect Venezuela?

Venezuelan President Hugo Chávez on Oct. 31 announced the nationalization of Sidetur, which was among the latest in a series of nationalizations by the socialist president. In recent weeks, Chávez has also announced nationalizations of the local operations of six Venezuelan construction companies, a U.S. bottle manufacturer, a fertilizer plant, a farm supplies company and a motor lubricants maker. How will the latest nationalizations affect Venezuela’s economy and Chávez’s grip on power? To what extent are foreign companies shying away from investing in Venezuela and how big a threat does that pose to the country’s economy?

Q

A

Juan Pablo Fuentes, economist at Moody’s Analytics: “Since suffering a setback in September’s congressional election, President Chávez has radicalized his socialist agenda with a new wave of nationalizations. The government’s objective is clear: to take control of the country’s key productive sectors. The government has targeted building materials and construction, food (including distribution), retail and financial sectors. The government already controls energy, media, and telecommunications. No group or industry seems safe from government expropriation. As a result, foreign investors will continue to shy away despite excellent opportunities in Venezuela’s energy sector. Private investment will continue to decline, hurting job creation and growth potential. Private investment made up only about 35 percent of total investment in the first half of 2010, sharply down from 70 percent in the early 2000s. Most nationalized companies have seen efficiency decline shortly after being taken over. This has been the case since the nationalization of the Orinoco heavy oil projects and the country’s major utilities. The result has been negative for the economy; Venezuela’s oil production continues to fall despite record high prices and blackouts have become the norm in the country, to

Continued on page 2

Inside This Issue

FEATURED Q&A: How Will Chávez’s Latest Nationalizations Affect Venezuela? ........1
Costa Rica Prepared to Take Border Dispute to U.N.: Chinchilla .........2
Mexico’s Exports Growing Faster Than Domestic Demand: Cordero ..............3
General Electric Investing $500 Mn to Expand Brazil Operations .............3
In Focus: Brazil Unlikely to Tackle Needed Reforms Under Rousseff: Experts .......3
**NEWS BRIEFS**

**Mexico Eyes New Round of Retaliatory Tariffs Against U.S.**

Mexico will impose a new set of tariffs on goods from the United States unless the government makes progress on a contentious cross-border trucking dispute, Mexican Economy Minister Bruno Ferrari told Reuters today in an interview. "The clock is ticking," he said.

Mexico imposed tariffs on several U.S. products in August in the hopes of pressuring Washington to allow Mexican trucks to have full access to highways, a deal agreed to under the American Free Trade Agreement (NAFTA). U.S. officials have cited safety concerns in delaying implementation of the agreement.

**Aid Groups Rush to Establish Cholera Centers in Port-au-Prince**

Aid groups and physicians are scrambling to set up centers in Port-au-Prince to treat people with cholera as the number of cases of the deadly disease multiplies in the beleaguered Haitian capital, the Associated Press reported Wednesday. Doctors Without Borders has reported seeing more than 200 people in the capital with cholera symptoms. More than 500 people in Haiti have died of cholera during the outbreak. [Editor’s note: See related Q&A in the Nov. 4 issue of the Advisor.]

**Chile's Molymet Raises $266 Million in Share Sale**

In Chile's largest equity issuance this year, Molibdenos y Metales, or Molymet, raised approximately $266 million in a share sale Wednesday representing 10 percent of the company, Bloomberg News reported. Molymet is the world’s largest processor of molybdenum.

---

**Political News**

**Costa Rica Prepared to Take Border Dispute to U.N.: Chinchilla**

Costa Rica is prepared to take its claim that Nicaraguan troops are stationed on its territory to the United Nations and its International Court of Justice if the two countries cannot agree to a resolution, Costa Rican President Laura Chinchilla said Wednesday, CNN reported. Chinchilla's statement came a day after Costa Rica gave Nicaragua 48 hours to remove its troops from the disputed area, a piece of land known as Calero Island on the Atlantic coastline. "Costa Rica is not afraid to go before any international body," Chinchilla told CNN en Español.

Nicaragua denies that the disputed parcel of land, along the border San Juan River, is Costa Rican territory. Nicaraguan President Daniel Ortega said last week that Costa Rica has "expansionist inten-

---

**Featured Q&A**

*Continued from page 1*

Danial Hellinger, professor of political science at Webster University in St. Louis: "The recent nationalizations in Venezuela represent a significant shift away from the strategy of economic development through ‘endogenous development’ (a phrase one does not hear often any more) toward an emphasis upon state ownership and mobilization of the organized working class and rural workers. Chávez also hopes to speed up land reform and encourage formation of workers councils as new forms of participatory democracy. Strategic political considerations are at work, too. External observers may dismiss the problem of coping with hoarding and economic sabotage, but these are cards that the business sectors have played before, even in the era before Chávez. Some of the nationalizations have followed occupations of factories and land. Some, such as the nationalization of a distributor of refrigerated products, are aimed at prosperous enterprises that have raised prices significantly. Others are aimed at factories that are already closed, such as the heavily indebted Silka textile plants. Obviously, this is a major political gamble on the
ident added that before bilateral talks can happen, Nicaragua must remove its troops. "It is not legitimate to go to a binational dialogue while our territory is under occupation by their military," said Chinchilla.

Economic News

Mexico’s Exports Growing Faster Than Domestic Demand: Cordero

Mexico is experiencing a solid economic recovery with the growth of exports outpacing domestic demand, Finance Minister Ernesto Cordero said Wednesday at an event hosted by Bloomberg, the news service reported. "Our exports are showing a much more vigorous recovery than the domestic sector," he said. The wage gap between Mexico and China is shrinking and Mexico is experiencing a rebound in consumer demand and bank lending, Cordero added. However, he said the U.S. Federal Reserve’s move to inject $600 billion into the economy could mean a flood of capital into emerging markets.

Company News

General Electric Investing $500 Mn to Expand Brazil Operations

General Electric announced Wednesday that it is investing $500 million to expand its operations in Brazil and to advance technology partnerships with Brazilian companies in several industries. The Fairfield, Conn.-based conglomerate said it will spend $400 million over the next three years on developing wind turbines and expanding capacity for its oil and gas, health care, transportation and lighting businesses. Also, GE will invest $100 million on a new research center in Rio de Janeiro, which will employ 200 researchers and engineers and will focus on "advanced technologies for the oil and gas, renewable energy, mining, rail and aviation industries," the company said.

In Focus

Brazil Unlikely to Tackle Needed Reforms Under Rousseff: Experts

By Rachel Sadon

WASHINGTON—Successfully capitalizing on Brazil’s vibrant economy and popular support for outgoing President Luiz Inácio Lula da Silva, President-elect Dilma Rousseff is poised to take the helm of South America’s largest economy at a time of unprecedented opportunity. However, experts said Wednesday that although Brazil is likely to maintain a positive trajectory of growth, the country is also unlikely to tackle some important policy reforms.

"I think we are likely to see a lot of disappointment in the Dilma administration," said Paulo Vieira da Cunha, a former deputy governor of the Brazilian Central Bank, at a discussion hosted by the Inter-American Dialogue. "A number of things that could be done won’t be done and some of the things that will be done, while they will appear good at the short end of the stick, are really very bad if you look at it from a long-term policy perspective," he said.

Vieira da Cunha pointed specifically to the challenges of tax, social security and labor reforms, arguing that the while the government may make some modifications, the administration is unlikely to make needed changes to dramatically simplify the tax regime, improve the social security system and reform labor law. In the short term, the economy is dangerously overheated, monetary policy is overburdened and fiscal policy needs to be adjusted, Vieira da Cunha said. He added that Rousseff is likely to make some adjustments during the first six months of her administration but is unlikely to significantly reign in the country’s enormous state spending.

Despite the hurdles that the South American nation faces, the director of the World Bank’s Independent Evaluation Unit, Vinod Thomas, said he expects that the country’s economic fortunes will not reverse, in part due to advances made in reducing poverty and income inequality.

"While there is a way to go, this is much a better starting point for this administration," said Thomas, who cited the high rate of government expenditure, low investment in infrastructure and climate change as critical areas that may constrain Brazil’s growth.

Looking to the long term, both Vieira da Cunha and Thomas were confident that Brazil’s star will continue to rise. In fact, Thomas predicted that, while China will continue to dominate in the short term, Brazil will have the edge in the long run.
part of Chávez, now two years away from a presidential election and facing an energized opposition. The state has yet to show the administrative capacity to run ministries efficiently, and the government does not envision a radical leap to worker democracy either. The worker councils have limited managerial authority. Most of the workforce is not employed on farms or fields; the strategy of endogenous development was to incorporate them into a new economic model. Chávez has to show that this new course is more promising than the earlier economic experiments."

Alejandro Grisanti, director of Latin America research at Barclays Capital: "In recent days, we have seen a new wave of nationalization announcements in Venezuela that, contrary to what would have been rational after the adverse results the government received in the September legislative election, show that giving signs of moderation do not seem so easy for President Chávez. He does not seem to want to make any move that could be interpreted as being in a weak position. However, this nationalization policy is expected to increase the difficulty for the government to deliver economic and social results. Therefore, it could end up working against Chávez’s own aspirations of being re-elected in 2012. In economic terms, despite our expectation of a modest recovery for 2011 with a GDP growth of 2 percent, we consider that Venezuela has entered into a period of difficult economic growth, while polls suggest that voters are tending to prioritize economic problems over the political debate. The expropriations will cause a further decline of private investment, while all the countries in the region are registering a significant growth. This lack of private investment will limit the capacity to increase production and respond to any fiscal stimulus, transforming it into import growth and higher inflation. On the social front, despite Chávez’s assertions that he is advancing with this policy to improve the living conditions of the poorest of the country, we unfortunately expect an important increase in the poverty rate, considering a real GDP per capita contraction of 4.4 percent this year and growth of less than 0.5 percent in 2011.”

"Mr. Chávez’s nationalizations seemed to be aimed at controlling key portions of the economy and to slowly increase the government’s grip on those few private-sector players that remain operational and are not already burdened with extreme red tape and reduced raw material supply. More tragically, Chávez does not seem to pay attention or even care about the talent required to manage those enterprises—largely nonexistent in Venezuela’s public sector or already living abroad—or the technical knowledge to run highly complex industrial enterprises. There is no doubt that owning—however illegitimate that ownership may be—an increasingly larger portion of Venezuela’s productive sector increases Chávez’ grip on power but will, without a doubt, decrease the country’s total output and its chances of recovering from its current economic morass. Foreign companies have long decided to indefinitely postpone any investment or reinvestment projects in Venezuela. A combination of reduced demand; personal, legal and asset-ownership security have been cited as main reasons for those decisions. More important, and perhaps more costly for the country’s economy and viability, is the fact that many companies, both locally and foreign owned, are joining the large numbers of Venezuelans who are leaving the country for greener, safer and certainly more profitable pastures."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.