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Pedro Solbes, Vice President & Minister of Finance of Spain, speaking at The Conference Board's Trustees' and Members' Dinner.



The Conference Board Trustees with Distinguished Dinner Guest Pedro Solbes, Vice President & Minister of Finance of Spain, hosted by Francisco González at BBVA's Palacio del Marqués de Salamanca in Madrid.



Douglas Conant, Chairman, Board of Trustees, The Conference Board, and President and CEO, Campbell Soup Company.

BRIC House: Latin America's Economic Miracle

As growth slows to a crawl in the U.S. and Europe, Latin America is enjoying an economic renaissance. What are they doing right?

By Marc Stegeman

Not so long ago, Latin America was the poor relation of the global economy, with soaring inflation, collapsing currencies, rampant poverty and social unrest. Today, Latin America is on a roll. Brazil, one of the rapidly emerging markets, is the 10th largest economy in the world, followed by Mexico at No. 11. Chile is enjoying boom times, as are traditional slow performers such as Colombia, Peru and Ecuador. As the U.S. and Europe enter what is expected to be a protracted period of slow growth, what lessons can be drawn from this economic rebirth?



César Alierta Izuel, Global Counsellor, The Conference Board, and Chairman and CEO, Telefónica, and Carlos Más Ivars, Global Counsellor, The Conference Board, and Executive Chairman, PricewaterhouseCoopers.

Rising commodity prices, notably for oil, are part of the story. Latin America is rich in natural resources, including minerals and one other commodity of vital importance for the future: water. But it is also rich in human resources. Efforts in recent years to improve education, both public and private, are helping to raise skill levels and shift more of the labor market into jobs that generate higher productivity growth (see article on page 3).

Latin America's economic revival was the central theme of The Conference Board's Global Advisory Council (GAC) meeting, which was held on 29 May in Madrid. The meeting also focused on a range of topics relating to cyclical and structural issues on both sides of the Atlantic, the securitization of commodities, the low dollar, the role of central banks, and the need to improve the quality of education and shift the labor force towards jobs with higher potential for long-term productivity gains.

(> 2)

Latin America has grown at 4 to 5 percent annual rates since 2004 and is expected to continue growing at these relatively rapid rates in 2008 and 2009. Inflation, at around 6.5% for the region as a whole, is even somewhat below that of several emerging economies in Asia, notably China and India.

Brazil is leading the Latin American miracle. Brazil's unemployment rate is at its lowest in almost two decades, dropping to 8.5% in April from 10.1% a year earlier, as a 4.3% increase in job creation outpaced a 2.5% growth in the labor force. These trends are in turn boosting retail sales and consumption.

As one of the four fastest-growing emerging economies, collectively referred to as BRIC (Brazil, Russia, India, China), Brazil is positioning itself for a leading role in the global economy of the future.

"By 2030, the five largest economies in the world will be the four BRICs and the U.S.," said Luiz Fernando Furlan, former trade minister for Brazil and keynote speaker for the GAC meeting.

Mr. Furlan expressed optimism for Latin America in general, noting that the region as a whole is poised for its fifth consecutive year of strong economic growth in 2008. He cautioned, however, not to view Latin America as a single entity but rather as a complex mix of very different economic, political and social environments. This sentiment was echoed by others at the meeting, including Jaime Cáceres, Chairman of the Confederation of Private Business Associations (CONFIEP) in Peru. "We must separate two types of countries in Latin America," Mr. Cáceres said. "Mexico, Chile, Colombia, Brazil and Peru are going in the right direction. Others are going back to the past."

The view from Europe

Given this performance, many in Latin America continue to express disappointment at the lack of a clear commitment from the West. The exception, of course, is the Iberian countries. Spanish businesses have had long-term relationships with Latin America in banking, communications and energy, among other sectors. This privileged position is helping the growth prospects of Spanish companies even as their domestic economy slows.

"Penetration of mobile telephony is higher in Argentina and Chile than in the U.S.,"



said César Alierta Izuel, Global Counsellor of The Conference Board and Chairman and Chief Executive Officer of Telefónica, the Spanish telecommunications company, which was one of the first private investors in the region over 20 years ago. "Connectivity is growing 8% in Latin America, faster even than Asia."

While Latin America as a whole is doing well in comparison with its own history, it has a way to go before it can catch up with Europe or China, notably in terms of capitalizing on technology and innovation to improve and sustain productivity growth.

Another big challenge is developing the consumer sector. This will require moving away from the traditional dependence on low-wage and low-productivity jobs, which diminishes the capacity of these countries to generate a dynamic consumer market. Another issue is access to capital markets, which was dealt a blow when Argentina defaulted on its debt. This situation

1 Gail Fosler, President of The Conference Board; Antonio Garrido-Lestache, Regional Representative for Spain, The Conference Board; and Douglas Conant, Chairman, The Conference Board.

2 Chairman Douglas Conant with Spanish Global Counsellor Carlos Más and Jonathan Spector, CEO of The Conference Board.

3 Luiz Fernando Furlan, former Trade Minister of Brazil.

4 The Hon. Paul Volcker, Chairman of The Conference Board Global Advisory Council with César Alierta Izuel, Global Counsellor of The Conference Board and Chairman and CEO of Telefónica.

5 Jaime Cáceres, Chairman of the Confederation of Private Business Associations (CONFIEP), Peru; with José Codner Chijner, CEO of Farmacias Ahumadas, Chile.

could change, as witnessed by Standard & Poor's recent decision to upgrade Brazilian debt to investment grade.

"Buy Brazilian bonds," Mr. Furlan said, adding with a smile: "It's a flight to quality."



Role of Central Banks Is Changing

The recent financial turmoil in the U.S. and Europe is raising questions about the future role of central banks. With the Bank of England's bailout of Northern Rock, and the U.S. Federal Reserve's moves to shore up Bear Sterns, central banks are moving into unprecedented areas of responsibility. But does this mean they will have greater control, or greater ability to prevent such problems in the future?

Not according to former Federal Reserve Chairman Paul Volcker. He blames the speed of today's technology for allowing domestic and international markets to slip beyond the control of regulators, who now find themselves being asked to rush in after the fact to fix massive problems originating well beyond the limits of the banking system itself. "We used to have a bank-centered system, now we have a market-centered system," Mr. Volcker said. "The central banks are facing very difficult situations, and they are making forceful moves. But what is the implication for the future?"

Mr. Volcker made his comments at the May meeting of The Conference Board's Global Advisory Council, which he chairs.

The former U.S. Fed Chairman sees central bank intervention in non-bank firms such as Bear Sterns as raising thorny issues for regulators. "If non-banks are to be protected by

the Federal Reserve, then shouldn't they be regulated or supervised by the central bank? And if you protect one sector, why not protect the others? Where do you stop?"

In his view, the fundamental problem in the U.S. is "too much spending relative to production, and too much borrowing." Most of this over-spending has been in consumption, Mr. Volcker said, adding that this imbalance has been "running heavily over what could be sustained" for too long.

There is some hope on the horizon, however. "Real exports are rising faster than expected," Mr. Volcker said, helped by the low dollar, which is also damping U.S. consumers' appetite for spending.

Mr. Volcker shied away from making forecasts for the future but did predict an extended period of slow growth. "It will be a prolonged adjustment, but an adjustment that is necessary."



*The Hon. Paul Volcker,
Chairman of The Conference Board's
Global Advisory Council*

Education Key to Economic Prosperity

By Katherine Davies



From left: Juan Mulder, President, Consejo Empresario de América Latina (CEAL), Peru; Luiz Fernando Furlan, former Trade Minister of Brazil; and Manuel Montori, CEO, Compañía Minera Atacocha, Peru.

Latin America is undergoing an educational reformation and Brazil is leading the way. With the implementation of grade school acceleration programs and over 300,000 students receiving scholarships to private universities, Brazil, like other Latin American countries, has made education a top priority. In fact, more and more government and business leaders in Latin America are realizing the importance of education as a key to productivity and sustainable economic growth.

Improving education, however, takes time. "Education is not something that gives results this semester or this year on the balance sheet," says Juan Mulder, President of Consejo Empresario de América Latina. Speaking at the GAC meeting in Madrid, he said that business leaders, not just governments, have the responsibility to become involved in this long-term investment.

"This is the right moment for Latin America to invest in the future," agreed Luiz Fernando Furlan, the former Minister of Trade of Brazil, adding that public and private initiatives are beginning to show good results. Acelera Brazil, an educational program founded by Viviane Senna, sister of the late Brazilian race car driver Ayrton Senna, works to correct matriculation rates in public elementary education (grades 1 through 4), providing students with the knowledge and skills necessary to attend the right grade for their age and to develop as an individual, citizen and future professional. Having proven its success in 2400 classrooms, this program has been adopted as public policy by some state governments, such as in the State of Goiás.

Another successful initiative in education has occurred in private universities in Brazil. Several universities had a large tax debt with the government. To offset this, the universities agreed to provide scholarships. Over 300,000 scholarships have been created and sponsored by the government to allow low-income students to attend university.

Other programmes include subsidies for families with young schoolchildren to buy food. Such initiatives have dramatically improved scholastic results and are widely considered a relatively low-cost investment with a very high potential return.

The benefits of these moves are already being felt beyond the region. César Alierta Izuel, Global Counsellor of The Conference Board and head of Telefónica, noted that the high skill levels of Latin American university graduates are making them highly sought after in Spain.

The Conference Board in Madrid



- 1 Francisco González, Trustee of The Conference Board.
- 2 Gail Fosler interviewing for Spanish television (Intereconomía).
- 3 César Alierta Izuel, Global Counsellor of The Conference Board.
- 4 Sam DiPiazza, Trustee and former Chairman of The Conference Board.
- 5 Antonio Garrido-Lestache with Barbara Reno, VP and MD of The Conference Board for Europe, Middle East & India; and Antonio de la Rosa of the Club Financiero.
- 6 Anton van Rossum and Mayo Schmidt, Trustees of The Conference Board.
- 7 Luis Orvañanos, Chairman and CEO, Corporación GEO, Mexico, with Hisham Al-Razzuqi, Global Counsellor of The Conference Board, and CEO, Gulf Investment Corporation, Kuwait.
- 8 Doug Conant with Carlos Más, Gail Fosler and Paul Volcker.
- 9 Francisco González with Pedro Solbes.
- 10 The Conference Board Global Advisory Council at Telefónica in Madrid.
- 11 Francisco González with Conference Board CEO Jon Spector.
- 12 Raul Rosales (left) and Roman Escolano (right) of BBVA with Jorge Rodríguez, President of Grupo Gloria, Peru.
- 13 César Alierta and Francisco Blanco of Telefónica with Jordi Gual of La Caixa and Jon Spector.
- 14 Nandan Nilekani, Vice Chairman of The Conference Board, and Co-Chairman of Infosys Technologies Limited, India.
- 15 Doug Conant, Francisco González, Pedro Solbes, Gail Fosler and Jon Spector.



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