

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** Growth in the amount of money Mexican migrants in the United States send back home is likely to slow to as little as 5 percent this year from 15 percent last year, when remittances hit a record \$23 billion. What accounts for the slower growth and how will it affect Mexico's economy? Do you see a trend continuing beyond 2007?

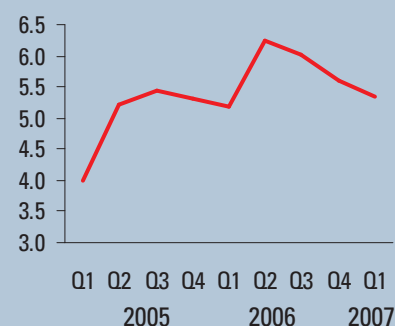
**A** **Guest Comment: Tricia Juhn:** "While Mexico's economic fortunes are tightly aligned to US markets, remittances are simply leveling off to normal levels, coming down from the highs generated by the US housing bubble. There is no cause for alarm, as long as we see a controlled, gradual deceleration of remittance transfers, rather than a sudden free-fall. We foresee a shallow dip for one-two quarters before they normalize in line with baseline expectations for the US economy overall. Although this is not an optimal scenario for money-transfer organizations who generate their revenues on transaction fees, it does not herald a prolonged downturn. Moreover, we think the dip is overweighted in the formal, recorded remittance sector, which makes up less than 50 percent of total transfers. The informal sector has been more resilient in the face of slowing growth. The slow-down in US housing starts has had a contained and incremental impact on the migrant labor market (given the prominence of Latin and particularly Mexican labor in the construction industry), but the

current buzz in the mainstream economic press is overstated. Remittance earners are an extremely fluid, agile, and skilled population, and the US labor market is still incredibly tight. All other things being equal, in the medium to long term, demand for migrant labor—skilled and unskilled—will outpace supply. We predict a lag time of two-three quarters at most while any displaced labor is redeployed, and subsequently, only a short-term impact on household and consumer spending."

**A** **Guest Comment: Tom Haider:** "Mexico growth rates have trended downward. We believe this has happened for a couple of reasons,  
*Continued on page 4*

### CHART OF THE DAY

**US Remittances to Mexico**  
Q1 2005-Q1 2007 (\$US Billions)



Source: Manuel Orozco.

### Inside This Issue

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## NEWS BRIEFS

**Brazilian Rancher Sentenced to 30 Years for Killing American Nun**

A judge on Tuesday sentenced a Brazilian rancher to 30 years in prison after he was convicted of ordering the February 2005 murder of Dorothy Stang, an American nun and environmental activist. The rancher received the maximum sentence for the crime, which at the time prompted President Luiz Inacio Lula da Silva to send the army into the Amazon state of Para, suspend logging permits, and order large tracts of rainforest to be protected from development. The trial was seen as an important test of justice in Para, where such killings frequently have gone unpunished.

**Peruvian Economic Growth Slowed to 5.9 Percent in March**

Slow growth in fishing and agricultural was one reason Peru's economy grew just 5.9 percent in March compared to the same month last year, Reuters reported, citing government statistics released Tuesday. It was the slowest growth since last April's 4.5 percent figure. But the growth figure for March 2006 was high at 12.2 percent, making this year's number seem comparatively weak.

**3M Acquires Chilean Maker of Healthcare Products**

US consumer products maker 3M announced Tuesday that it acquired the assets of **Articulos de Papel DMS Chile**, a Santiago, Chile-based manufacturer of disposable surgical packs, drapes, gowns, and kits. In a press release, the St. Paul, MN-based 3M said the acquisition "builds on 3M's core medical business and expands its full-line of disposable drapes for infection prevention in Latin America." Terms of the transaction were not disclosed.

## Political News

**Official: Recovering Fidel Castro's Return to Power is Certain**

Cuban leader Fidel Castro's health crisis is "definitely behind us" and the reassumption of his duties is no longer a question of "if," but "when," Cuban Foreign Minister Felipe Perez Roque said in an interview published Tuesday in Mexican daily *Reforma*, according to Bloomberg News. The 80 year-old Castro, who transferred power last July to his brother, Defense Minister Raul Castro, in order to undergo emergency intestinal surgery, is exercising daily and has regained the 40 pounds he lost since the surgery, Roque said. Since the surgery, Fidel Castro has not been seen in public, except in videos and images released through the state-controlled media. His ailment, still undisclosed, has

crimes in exchange for limited prison sentences, said that in exchange for the paramilitaries' help in fighting the Medellin drug trafficking cartel and its notorious leader Pablo Escobar, the 1990-1994 government of President Cesar Gaviria agreed



Mancuso.

Photo: [www.salvatoremancuso.com](http://www.salvatoremancuso.com)

to create legal vigilante defense groups to combat rebels, a witness of Mancuso's testimony told the AP. Mancuso also testified that the Colombian army helped the illegal militias with training and logistics. Government-paramilitary ties have come under increasing scrutiny in Colombia, especially since the explosion of the "para-politico" scandal in November, when several lawmakers—most of them supporters of current President Alvaro Uribe—were arrested on

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*Cuban Foreign Minister Felipe Perez Roque said Fidel Castro's health crisis is "definitely behind us" and the reassumption of his duties is no longer a question of "if," but "when."*

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prompted intense speculation about whether he would ever return to power. In December, then-US intelligence chief John Negroponte predicted that Castro's death was imminent and that the Cuban leader would only live for about another year. US intelligence officials have since backed off that assessment. [Editor's note: see related Q&A in the March 26, 2007 issue of the *Advisor*.]

**Colombian Warlord Testifies Government Created Paramilitaries**

The Colombian government created and used right-wing paramilitary groups, blamed for some of the worst atrocities in the Andean nation's decades-long civil war, to combat leftist rebels, a former paramilitary leader said in court testimony on Tuesday, according to witnesses cited by the Associated Press. Salvatore Mancuso, whose testimony fulfilled part of a peace deal that requires demobilized militia commanders to confess their

charges of having ties to the illegal groups. On Monday, judicial authorities ordered the arrest of 20 politicians and business leaders, including five congressmen, on criminal conspiracy charges for signing a deal with the paramilitary groups in 2001. The scandal has badly hurt Uribe's credibility and jeopardized continued massive aid from the United States. Opposition leaders claim Uribe himself let the militias gain strength when he was a provincial governor in the mid-1990s. [Editor's note: see related Q&A in the February 23 and March 28, 2007 issues of the *Advisor*.]

**Mexican Official Says US Must do More to Prevent Arms Smuggling**

The United States must do more to prevent weapons from being smuggled into the hands of drug traffickers, who are using them to kill Mexican soldiers and police, a top Mexican anti-drug official said Tuesday, according to the Associated Press. "The firepower we are seeing here

has to do with a lack of control on that [the US] side of the border," Assistant Secretary of Public Safety Patricio Patino was quoted as saying in an interview. "What we have asked the American government ... is that they put clear controls on the shipments of weapons." Patino's comments came amid stepped up, brazen attacks on Mexican soldiers and government officials. On Monday, gunmen shot and killed a high-ranking intelligence official in charge of investigating drug smuggling. The increased attacks come as President Felipe Calderon wages war against drug cartels, sending the military into the cartels' areas of operations to support police. However, Patino said there is no sign the cartels want a direct confrontation with the military in the way leftist rebels involved in drug trafficking confront the Colombian army, according to the AP.

## Economic News

### Lula Calls for More Imports, Less Dollar Purchases to Halt Real's Rally

With Brazil's strengthening currency, the real, hitting the two-per-US dollar mark for the first time in six years on Tuesday, President Luiz Inacio Lula da Silva said the country should increase imports rather than rely on dollar purchases to halt the currency rally, Bloomberg News reported. "We are buying too many dollars," Lula was quoted as saying during a news conference. "I think instead of buying so many dollars, we should increase imports and cut interest rates. We are working on that." Brazil's Central Bank has sought to stem the real's rally, caused by surge of dollars from commodity sales and investment in domestic financial markets, by buying up record amounts of US dollars, according to Bloomberg News. The strengthening real, which is up 7.3 percent so far this year against the dollar, threatens Brazil's strong export sector. The currency rose 1.3 percent to 1.9790 reais per dollar in trading Tuesday afternoon after the government reported higher-than-expected growth in March retail sales. Lula also said Tuesday there was "a clear bias" for the Bank to continue lowering interest

rates this year, although he said the Bank has "complete autonomy."

## Company News

### Embraer Reports Fall in Q1 Profit on Lower Output, Higher Costs

Brazilian aircraft maker **Embraer** said late Monday that its first-quarter net earnings fell on lower production and higher costs. Net earnings dropped to 58.5 million reais (\$US 29 million) from 86.8 million reais in the same period last year, according to Reuters. The company delivered just 25 jets in the period, compared to 27 a year ago and 37 in the fourth quarter. Higher labor costs also affected earnings, as the company, the world's fourth-largest commercial jet manufacturer, has hired new

workers to step up production, Reuters reported. The strength of Brazil's currency, the real, has also diluted revenue from abroad. Net revenue increased slightly to 1.772 billion reais from 1.768 billion reais in the first quarter of 2006. Net EBITDA (earnings before interest, tax, depreciation, and amortization) fell to 91.4 million reais from 179 million reais. Embraer also builds executive and military planes.

### Correction

*A story in yesterday's Latin America Advisor incorrectly stated that Carolina Barco resigned as Colombia's foreign minister in February. In fact, it was Maria Consuelo Araujo who resigned as foreign minister after her senator brother was jailed as part of Colombia's "parapolitico" scandal.*

## Subscriber Notice

*Inter-American Dialogue Discussion on*

### Raul Castro's Cuba

*with*

**Brian Latell**

Author of *After Fidel*

**Frank Mora**

National Defense University

Monday, May 21, 2007

3:00 to 4:30 p.m.

Inter-American Dialogue

1211 Connecticut Avenue, NW Suite 510

Washington, DC

RSVP to [meetings@thedialogue.org](mailto:meetings@thedialogue.org).

*Please include your name and affiliation.*

**Featured Q&A***Continued from page 1*

primarily economic conditions on both sides of the border and concerns over immigration. There are fewer construction jobs in the US, and the Mexican economy has been strengthening. In the US, this translates into fewer jobs and paychecks, resulting in less money sent home less often. In addition, we have heard that people have returned to Mexico because of concerns over immigration, and they are staying home longer until that issue gets sorted out and the job situation improves."

**A Guest Comment: Manuel Orozco:** "There is no question that has been slower growth in remittances. But its causes are predominantly the result of an improvement in the accounting and reporting of money transfers. Over the past five years, money transfer companies have increasingly reported to Mexico's central bank, thus improving the statistical recording of these flows. The statistics now reflect 70 percent of the Mexican foreign labor force sending money to their country, which amounts to nearly seven million people. The slowing thus won't have an impact on the economy, but signals a step toward designing policies based on the more approximate volume entering the country. Moreover, in looking at the other main recipient countries in the region, we find that the flows continue to move in an upward trend. Additionally, some have argued that the slowdown in remittances growth is associated with an increase in unemployment among Latinos and particularly in the construction industry, reflected by the decline in real estate prices. The argument is made with the consideration that one-fifth of Mexican workers are in the construction industry. However, there is no linear nor statistically significant relationship suggesting that unemployment has led to a drop in remittances; most workers in construction are relatively mobile and seek to employ themselves in other sectors."

**A Guest Comment: German A. Zarate-Hoyos:** "Despite the hype about the stability of remittances, *The Wall Street Journal* and *The New York Times* point to a decline in the rate of growth of remittances in recent months. While the average real monthly amounts sent by migrants has steadily declined since the 1960s, the levels have continued to increase, albeit with swings in the growth rate in recent years from a low of about 5 percent to a high of over 36 percent. The prime suspect for these trends is tighter border enforcement that has most likely changed the composition of migration flows from a temporary to a more permanent one. The recent bust in the US real estate sector may be having an effect on the number of mostly undocumented migrants in the construction sector, with \$10 to \$15 dollar-an-hour jobs, and hence the decline. On the other hand, there are countervailing forces, such as the recent slowdown in the Mexican economy and the burgeoning Mexican population already in the US. Although it may be too early to tell which forces will prevail, these trends come at a crucial time for the Mexican economy, which already faces declining overseas development assistance and foreign direct investment flows. A World Bank study shows that the impact of remittances on economic growth is 'relatively small,' but the impact for many poor Mexican households may be quite significant."

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**Tricia Juhn** is Director of the Financial Services Practice at InfoAmericas.

**Tom Haider** is Vice President of Government Affairs and Chief Compliance Officer at Moneygram.

**Manuel Orozco** is Executive Director of the Remittances and Rural Development Project at the Inter-American Dialogue.

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