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FEATURED Q&A

Would Tech Clusters Help Promote Latin America's Growth?

Q A *New York Times* article published last month describes an effort to create an entrepreneurial hub in Guatemala City called **Campus Tecnológico**. The developers aim to build a five- or six-block campus that would function as tech industry cluster, creating a local, mini Silicon Valley. Are tech clusters and industry hubs a good move to promote economic growth in Latin America? How should the public and private sector work together to foster such development? What challenges does the start-up tech industry face in Guatemala—or elsewhere in the region—and how might these be overcome?

A **Wally Swain**, senior vice president for emerging markets at **The Yankee Group** in Bogotá: "Many governments are tempted to think of a high-tech cluster as similar to a 'Zona Franca' or duty-free manufacturing zone: set aside some real estate, create the right tax incentives and exporters—or in the cluster case, high-tech companies—will come. While tax incentives will help the development of a high-tech industry, real estate is probably the least important factor. Successful clusters need to be built around a top-tier university or, better, multiple top-tier universities. These serve three valuable functions: a source of new ideas, a place for companies to do outsourced R&D and a constant flow of well-trained young engineers and designers. India's great leap in the tech industry is attributed to a uni-

versity system that produces millions of English-speaking engineers every year. The only cluster I can think of that does not have this characteristic is telecom in Ottawa, and it benefited from having Canada's National Communications Research Center, which filled the same role. Guatemala's Campus Tecnológico is a private initiative which should spare it the ills of other clusters, which became grand political gestures rather than working incubators. But governments can still play an

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Lorenzino Tapped as New Argentine Economy Minister

Hernán Lorenzino will become Argentina's next finance minister, Bloomberg News reported Tuesday. Lorenzino, the country's current finance secretary, will replace Amado Boudou, who will become Argentina's vice president. See story on page 2.

File Photo: Mercopress.

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NEWS BRIEFS

Former Bogotá Mayor Charged With Corruption

Samuel Moreno, who previously served as mayor of Colombia's capital, was charged Tuesday with receiving kickbacks in connection in exchange for public works contracts, the Associated Press reported. Moreno and his brother, Iván Moreno, are accused of accepting \$7.8 million in kickbacks and also receiving campaign help from company officials seeking to do business with the city of Bogotá. They both deny wrongdoing.

Banco Santander Sells Stake in Colombia Unit for \$1.16 Billion

Banco Santander on Tuesday agreed to sell a 95 percent stake in its Colombian unit to **CorpBanca** for about \$1.16 billion, Bloomberg News reported. Chile-based CorpBanca will finance the purchase with its own resources and a \$450 million capital increase. Spain's Santander will make a capital gain of about \$827 million from the deal which it will use to shore up its balance sheet, according to the report. Banco Santander Colombia has a lending portfolio of about \$2.57 billion, representing 2.7 percent of the banking system's outstanding loans.

Caribbean Court Sides With U.S. Investors in \$45 Mn Resort Case

A Caribbean appeals court has sided with a group of U.S. investors in a long-standing battle with Antigua and Barbuda over a resort, the Associated Press reported Tuesday. Compensation to **H.M.B. Holdings** for the Half Moon Bay property was set at \$45.5 million, double a previous valuation. The government took control of the property in 2002 after renovations weren't completed seven years after the 100-room resort was hit by hurricanes.

Economic News

Lorenzino Tapped as Argentina's Next Economy Minister

Hernán Lorenzino, Argentina's finance secretary, will be the country's next economy minister, Bloomberg News reported Tuesday. Lorenzino, who helped oversee the restructuring of \$12.9 billion of the country's defaulted debt, will be key in determining whether Argentina returns to international debt markets since its default on \$95 billion worth of bonds in 2001. Lorenzino also will need to determine how to address the country's rate of inflation, which economists believe is approximately 25 percent. That would give Argentina the highest inflation rate among major global economies after Venezuela. Lorenzino will succeed Amado Boudou, who will become Argentina's vice president when President Cristina Fernández de Kirchner starts her second term in office on Saturday. Lorenzino's previous posts included Buenos Aires province's undersecretary of finance. Argentina's dollar bonds rallied as a result of Lorenzino's appointment. The yield on the country's 2015 bond fell 48 basis points to 10.43 percent at 3:24 p.m.

Eastern Time. The spread fell 61 basis points. Lorenzino is "someone who has plenty of experience dealing with the markets," Carola Sandy, an economist at **Credit Suisse** in New York, told Bloomberg News.

"This is welcome news." Mercedes Marco del Pont, who has been Argentina's central bank chief since February 2010, will remain in that position, said presi-



Boudou

File Photo: Argentine government.

dential spokesman Alfredo Scoccimarro. The president's new cabinet chief will be Manuel Abal Medina, replacing Aníbal Fernández, who was elected to the Senate representing Buenos Aires province.

Mexico's Stock Exchange to Join Mercado Integrado

Mexico's stock exchange, the Bolsa Mexicana de Valores, has agreed to join the stock exchanges of Chile, Peru and Colombia in the combined Mercado Integrado Latino Americano, the *Financial Times* reported Tuesday. The development gives the integrated stock

Featured Q&A

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important role. The great challenge for employment growth and better wealth distribution in Latin America is the lack of skills in the midst of a vast, well-motivated workforce. Investment in public education at all levels will pay dividends, but investment in public higher education will enable these high-tech clusters and sustain higher value-added exports."

A **Gate Ambrose, president and executive director of the Latin American Venture Capital Association:** "There are two different ideas here. A 'mini Silicon Valley' connotes the idea of technological innovation and the creation of new tech businesses; there are few markets

globally that have achieved this (Israel stands out), and it seems an unlikely proposition for Guatemala. A tech cluster or industry hub would be akin to what Costa Rica has achieved since Intel decided to locate a \$300 million semiconductor plant there in 1996. The Costa Rican government worked to strengthen the investment environment and subsequently attracted other global technology companies, including HP and IBM (albeit with an emphasis on business process outsourcing rather than manufacturing). Increased FDI flows were one positive effect of the government's efforts, at the same time that policies improved the country's educational standards, knowledge base and

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market a boost in trading and also in initial public offerings. Mexico's exchange is the region's second largest after Brazil's and has a market capitalization of more than \$450 billion. With Mexico's joining, the combined market capitalization of the Mercado Integrado will surpass \$1 trillion. When the integrated market was launched in May 2010, it had a total market capitalization of \$691 billion. Mexico's joining the exchange, known as MILA, could considerably deepen trading in the region. In a statement, the Bolsa said its joining would "integrate BMV Group to MILA with the goal of increasing listings and bringing further technological and operational benefits to participants in the region," the *Financial Times* reported.

Company News

Grupo Mexico Sees Rising Output at Buenavista del Cobre Mine

Grupo Mexico is expecting production at its Buenavista del Cobre mine to increase to 475,000 metric tons by 2015, Reuters reported Tuesday, citing the mining company's chief operating officer, Xavier García de Quevedo. "The mine has come back in great form," García de Quevedo told reporters in Mexico City. Currently, the mine's output is approximately

The mine reopened last year after a three-year strike.

188,000 metric tons annually. In April, Grupo Mexico said it expected that production to increase to 450,000 metric tons per year. In addition to operating copper mines in Mexico, Peru and the Southwestern United States, the company also runs cargo train lines in Mexico. The Buenavista mine, previously known as Cananea, reopened last year after a three-year strike by the country's miners' union ended with a court order. The strike, which started in July 2007, cost Grupo Mexico approximately 530,000 metric

The Dialogue Continues

Is Brazil the New Dominant Power in South America?

Q With a booming economy and financing from its giant state development bank, Brazil has been implementing infrastructure and other projects across South America. However, the country is also beginning to face pushbacks from its neighbors, which worry that Brazil's interests may come at a high domestic cost. Bolivian President Evo Morales recently canceled a high-profile road that was financed by Brazil after major protests. Other projects in Guyana, Ecuador, Peru and elsewhere have also stalled, *The New York Times* reported. How do you see Brazil's influence in South America? Is it slowly replacing the United States as the new dominant power in the region, as some have suggested? Is Brazil promoting its own economic development at the expense of its neighbors?

A Melvyn Levitsky, professor of international policy and practice at the University of Michigan's Gerald R. Ford School of Public Policy and former U.S. ambassador to Brazil: "There is little doubt that Brazil has made tremendous progress in the past 20 years in both its domestic economy and in its foreign policy. During my period as U.S. ambassador, President Cardoso and his team turned the economy around and began to act more vigorously and responsibly in the world arena. Presidents Lula da Silva and Rousseff have taken the domestic economy a step further, evening up somewhat the gap between rich and poor, keeping inflation down and despite some misguided alliances with radical leaders in the hemisphere and beyond, burnished Brazil's reputa-

tion as a serious country to be reckoned with internationally. However, before we assign Brazil a dominant role in the hemisphere, consider its domestic politics. I do not believe that a country with the level of corruption that pervades Brazilian politics and society can serve

“Before we assign Brazil a dominant role in the hemisphere, consider its domestic politics.”

— Melvyn Levitsky

as a model to be emulated and prized by other countries in South America or elsewhere. Witness the regular forced march of politicians out of the executive and legislative branches on grounds of corruption just in the past year. Brazil's leaders have tried for years to accomplish 'political reform,' particularly of the party system in which politicians jump from one party to another or form new parties in order to gain government favors and positions. Witness the continuing high—and perverse—'Brazil cost' of doing business in the country, which has limited foreign direct investment and promoted bribes and graft. Brazil is a great country with boundless natural and human resources. If it can bring reform to bear on its political system, the sky's the limit."

Editor's note: The above is a continuation of a Q&A published in the Nov. 30 issue of the Advisor.

tons of production, amounting to about \$3.5 billion in lost revenue. Previously, the company said damages originating from the work stoppage would cost more

than \$100 million to repair. The mine, which is located near the U.S. border, is believed to have enough copper to keep producing for 70 years.

Featured Q&A*Continued from page 2*

business culture. In the LAVCA Scorecard, which measures the investment environment in 12 Latin American countries, Costa Rica posts strong scores for intellectual property rights, strength of the judicial system, perceived corruption and registration requirements on inward investment. Today, Guatemala faces significant security challenges. If a 'Campus Tecnológico' project creates an incentive for the government to improve the investment environment, including areas related to security and corruption, this could certainly have a positive impact on economic development."

A Carlos Lara, president of Lara & Associates LLC and chair of Houston Technology Center Americas: "The technology industry has become one of the drivers of economy. This industry attracts talent that, on most occasions, thinks outside the box, and what many economies need in the world today may be precisely that: creative thinking to develop new markets, new opportunities and therefore new businesses. So if the technology clusters are not solving countries' economic challenges, I am sure they are contributing in creating a new spirit. Building a partnership between public and private sectors is key in developing a technology park/cluster, especially if the private sector shares the 'needs' and 'resources' available at their industries and if the government facilitates growth and attracts resources from other areas. Most success stories in the technology area were driven by the ambition and creativity of the private sector, but in many occasions, the first developments came from public sector efforts. So, the important question is how committed the private sector is to take the ball and run with it. On the other hand, the

flip side of investing large amounts of money in these parks/clusters and unfocused strategies is to lose track of the real needs and opportunities. An actual building could serve as a catalyst for an effort, but a large building could become a real-estate investment to lease offices rather than developing companies. At HTC Americas, we are partnering with an array of entrepreneurs and technologies from Latin America to leverage the

“The flip side of investing large amounts of money in these parks/clusters and unfocused strategies is to lose track of the real needs and opportunities.”

— Carlos Lara

resources from Houston, and we have welcomed both the public and the private sector cooperation. We have not focused our efforts in building concrete infrastructure only, but rather on offering an open environment of teamwork infrastructure with piers, with money sources and potential contracts or allies. If Guatemala shares that vision while building the park, it should attract and help develop successful entrepreneurs that will add to the regional economy but also could find the new talents that are needed for the global economy."

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

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