

# The Economist

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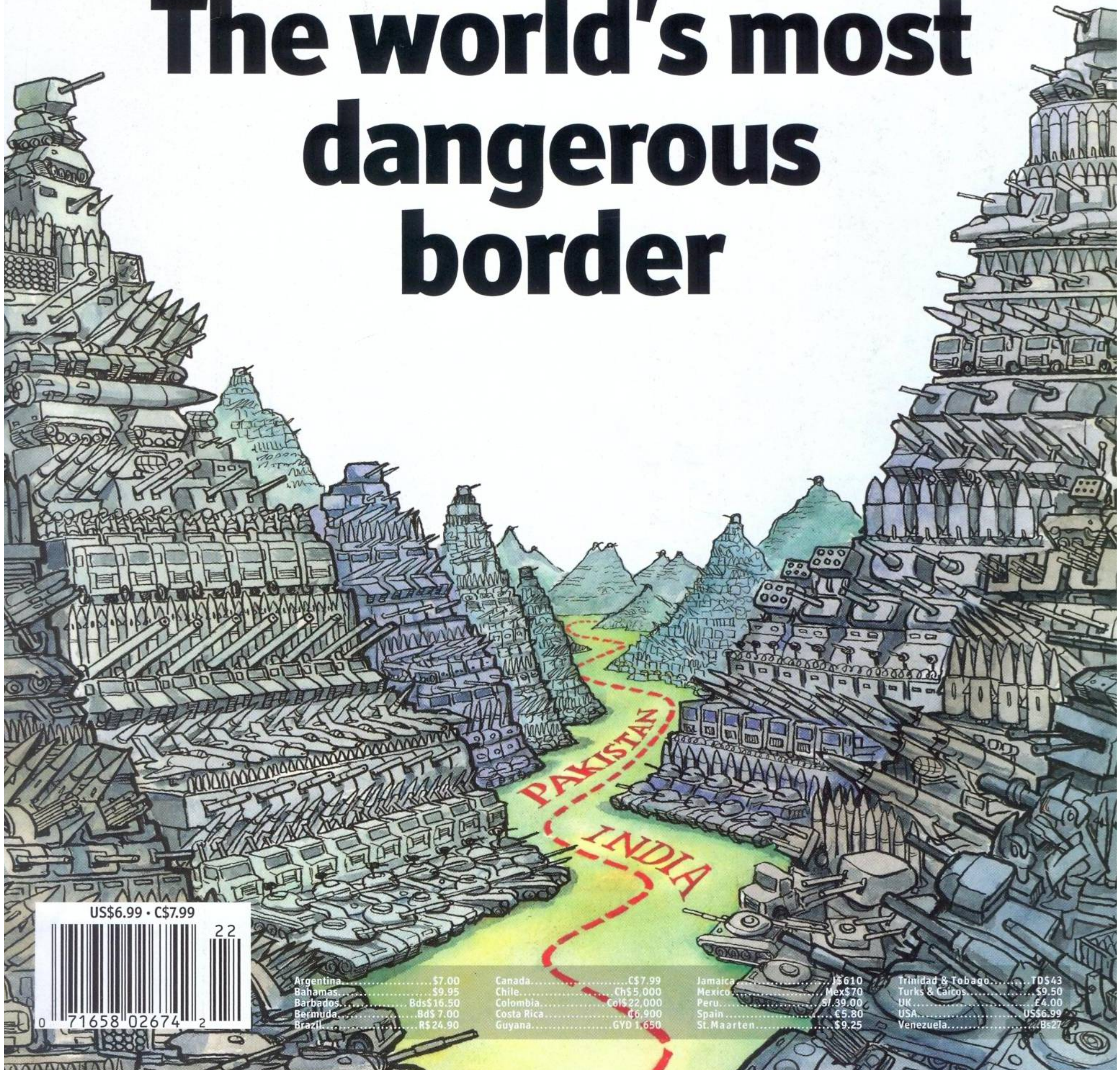
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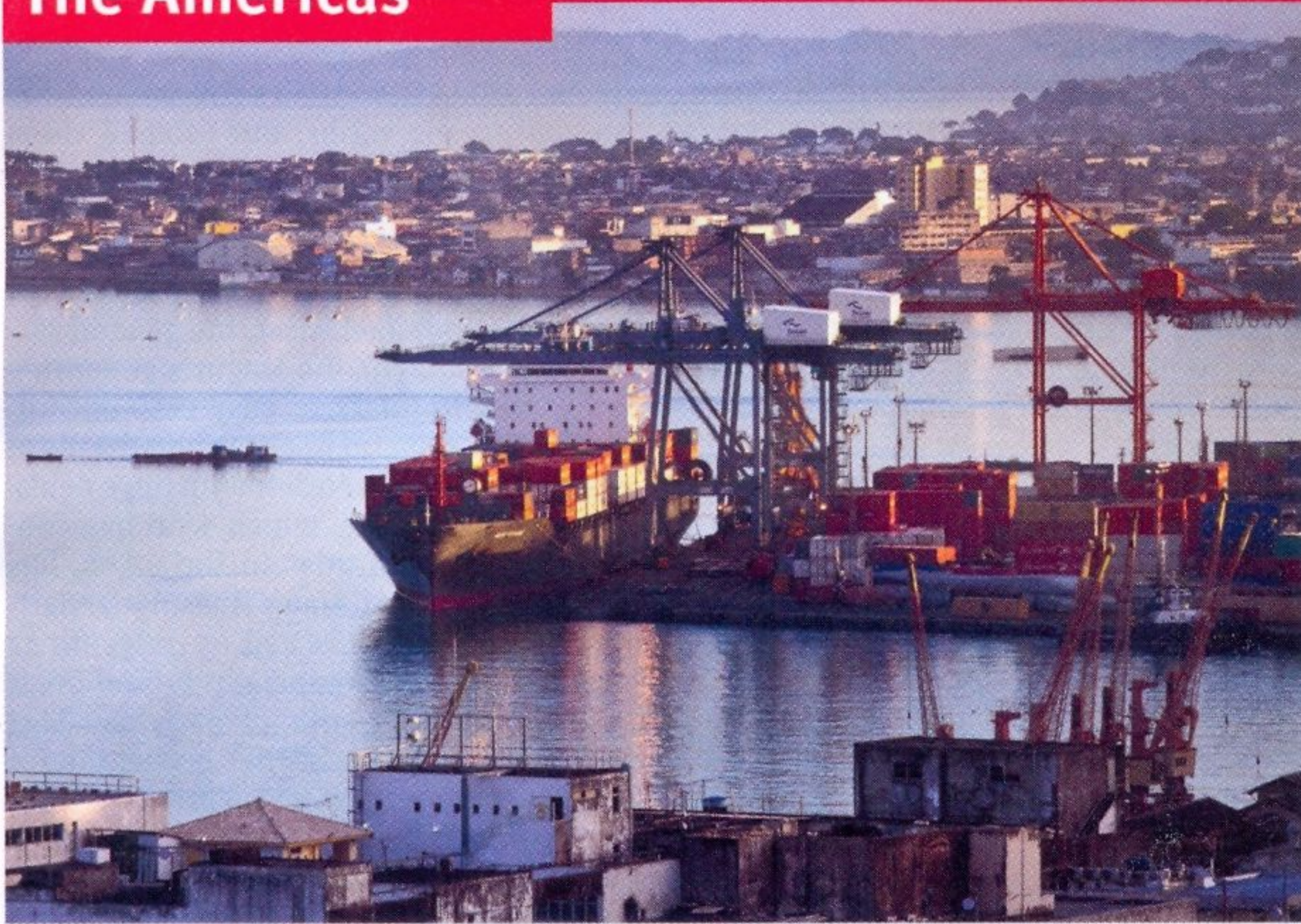


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## Brazil's north-east

## Catching up in a hurry

PECÉM, PONTA DA MADEIRA, SALGUEIRO AND SUAPE

## The country's poorest region is narrowing the gap with the prosperous south

IN 1983 *Jornal do Brasil*, a newspaper in Rio de Janeiro, sent a reporter to Brazil's north-east to cover a drought. He found starving residents eating rats and lizards. Since then, the country has made strides. Yet the north-east remains Brazil's poorest region: it has 28% of the country's people but just 14% of its GDP. A fifth of the area's adults are illiterate, twice the national rate. And it holds more than half the 16m Brazilians who live on less than 70 reais (\$43) a month. For decades it has exported workers to the kitchens and construction sites of the rich cities in the south-east.

Recently, however, the north-east has become Brazil's star economic performer. In the past decade the region's GDP rose by 4.2% a year, compared with 3.6% for the country as a whole. Last year Pernambuco state's economy grew by a China-like 9.3%.

Bolsa Família, Luiz Inácio Lula da Silva's much-lauded anti-poverty scheme, has been important, says Marcelo Neri of the Fundação Getulio Vargas, a research institute. But other government policies have helped more. Three-quarters of the growth in incomes since 2003, when Lula became president, came from earnings, not hand-outs. In real terms the minimum wage has risen by around 60% over the same period, with the greatest benefits felt in the north-east. The institute reckons that Crediamigo, the state-owned Banco do Nordeste's micro-credit programme, has lifted more than 1m north-easterners out of poverty.

The region's new-found buying power is attracting firms. Earlier this month Kraft Foods opened its first factory in the area, making chocolate and powdered drinks. Sudene, a government regional-development agency, has helped to finance 52 malls in the north-east since 2006. And migrants from the north-east are coming back home to work. Pão de Açúcar, a supermarket chain, is expanding in the region, and offering north-eastern natives working in its other stores the chance to transfer.

"Right now, the north-east is one big building site," says Fernando Bezerra Coelho, the federal integration minister. The government is investing heavily in public

works, including widening the Atlantic coastal highway. But the main source of growth is the port and industrial complex of Suape, which is being expanded to handle bigger ships. A petrochemical plant, the southern hemisphere's biggest shipyard and a refinery owned by Petrobras, the state-controlled oil company, are under construction. Over 100 firms have moved in, lured by tax incentives and what should be excellent transport links. Fiat is spending 3 billion reais on a car factory nearby.

By 2013, if all runs to plan, a new railway will link Suape to the north-eastern interior (see map). The federal government began building it in 1990, but it stalled for lack of money and only restarted in 2006. A second branch will travel north to the port of Pecém, which is also being expanded. There, the Ceará state government is setting up an institute to train 12,000 workers a year, and Petrobras is building another refinery. Paulo Roberto Costa, its downstream director, envisages trains taking soybeans, corn and iron ore from the interior to the ports and returning with oil. Journey times to Europe and America will be three or four days less than from south-eastern ports. The 1,728-km line will one day carry 30m tonnes of cargo a year.

Odebrecht, the Brazilian firm building the railway, recently flew your correspondent to Salgueiro, where its two coast-bound branches meet. The line's 3m concrete sleepers are being cast there, and the ballast on which they will lie is quarried nearby. Paulo Falcão, the project director, is preoccupied with a novel problem for the north-east: a labour shortage. Even though word of the grand projects dotted around the north-east is attracting workers from all over the country, the demand is such that Odebrecht is training everyone from carpenters and bricklayers to truck drivers and forklift operators itself. Some have no



previous construction experience. A fifth of the employees at Salgueiro are women.

"China is now the Japan of the 1960s," says Eduardo Bartolomeo, the director of logistics for Vale, a mining firm. In that era Japan's appetite for metals funded Vale's big investments in rail and sea transport. Today China's hunger for iron ore pays for its infrastructure projects. By 2015 Ponta da Madeira, Vale's private port, will be Brazil's largest by tonnage, exporting 230m tonnes of iron ore a year. The railway from the Carajás mine in Pará state to the dockside is being upgraded to carry 330-car trains, each 3km long, at a cost of 4.5 billion reais.

The benefits, says Mr Bartolomeo, will extend beyond mining. He points to the Norte-Sul railway as evidence. Since 2007, when Vale started to operate the line, soybean production in the surrounding region has risen by 8.5% a year, and the price of land has more than doubled in places.

The region's rapid pace of development, combined with workers' new-found muscle-flexing, has led to some industrial unrest. The strain is also evident in traffic jams and soaring housing prices. In Ceará Adail Fontenele, the state secretary of infrastructure, says that the municipalities around Pecém are preoccupied with finding homes for the city's new workers. If decent lodging is not built fast enough, slums may spring up instead.

The biggest risk is that the region fails to tackle its other longstanding weakness: poor education. "We have seen infrastructure booms in the north-east before, and

they have helped us to catch up," says Alexandre Rands of Datamétrica, a consultancy. "But the past 60 years have shown that infrastructure is not enough." The big firms are training the workers they need. But the north-east spends less on schools than the national average, and has weaker teachers. If its next generation is to benefit fully from what today's is building, the region's schools must get an upgrade, too. ■

## Colombian football

### Red card

BOGOTÁ

**A better country off the pitch is worse on it**

THE worst of times for Colombia's security were the best of times for its professional footballers. In the 1980s and early 1990s the *capos* of Colombia's drug gangs engaged freely in politics and legitimate business. Sport was no exception. Pablo Escobar owned Atlético Nacional; Millionarios belonged to José Gonzalo Rodríguez Gacha, a rival drug trafficker; and the Rodríguez Orejuela brothers of the Cali "cartel" held shares in América de Cali. Offering astronomical salaries, their teams lured foreign stars like Argentina's Julio César Falcioni and Ricardo Gareca. In 1991 Colombia's top league averaged a healthy

15,423 fans per game.

Since then Colombia's government has broken up the mobs. But football clubs have had trouble adapting. Per-game attendance has fallen: last year it was just 8,099. Colombia's national team have not qualified for the finals of a World Cup since 1998. According to Rafael Arias, the general secretary of Dimayor, the league's governing body, the old influx of easy cash encouraged clubs to spend freely. When the money dried up, they were left with huge debts.

América de Cali, which won five consecutive national titles in the 1980s, has been on the United States Treasury Department's list of groups tied to drugs for 12 years, crippling it financially. It now owes its players ten months of back pay. Last month Coldeportes, the government's sport regulatory agency, barred it from playing until it pays its wages. Deportes Quindío, whose players refused to travel to Bogotá last month over withheld pay, and the Once Caldas club were also penalised.

Moreover, the clubs' ties to crime have been hard to shake off. Mr Arias says their financial woes are "proof that drug money in football is a thing of the past." But last year prosecutors alleged that the Norte del Valle mob, one of Colombia's biggest remaining drug gangs, was using the Santa Fe team to launder money. In October police seized \$161m in cash that prosecutors say was destined to be channelled through the club's coffers. They are now questioning Ignacio Álvarez Meyendorff, an alleged kingpin who was arrested in Argentina in April, about the team's role in the scheme, which may have involved up to \$1.5 billion.

Juan Manuel Santos, the president and a Santa Fe fan, has tried to clean up the sport. On May 12th he signed a law creating incentives for clubs to become limited companies and attract new investors, and requiring them to report to the finance ministry's money-laundering unit. Shareholders now must show the origin of the money they invest in teams, and clubs cannot play if their payrolls are more than 60 days in arrears. Moreover, *barras bravas* (hooligans), whose penchant for vandalism and violence has discouraged law-abiding fans from attending matches, can be jailed for up to ten years for using explosives. "Either we change football or it will be over for us," Mr Santos said last December, as Congress considered the bill.

But the benefit of these reforms is unlikely to be felt by July 29th, when Colombia sees the kick-off of the FIFA under-20 World Cup—the biggest international sporting event ever held in the country, for which over 250,000 tickets have already been sold. Clubs must comply with the new financial restrictions by August 20th, and are asking the government for subsidised loans to tide them over. It will take a while, as Mr Arias says, to "clear the scoreboard" of Colombian football. ■



## Bribery in Mexico

On May 10th Transparency International, an anti-corruption outfit, published a survey of 15,000 Mexican homes on bribery. It found wide regional variations. Palm-greasing was far more common in and around Mexico City than in Baja California Sur, suggesting more-populated areas have more unmet demand for public services. Overall, Transparency reckons Mexicans paid 32 billion pesos (\$2.5 billion) of bribes in 2010.