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First a Man
now (may)

A clash of cultures takes toll on Alcatel

Top chiefs to quit
as losses persist after
purchase of Lucent

By David Jolly

PARIS: A trans-Atlantic cultural clash at Alcatel-Lucent, the French-American telecommunications equipment maker created in a merger two years ago, hit home Tuesday when the company's top two executives, who engineered the deal, said they would step down.

Patricia Russo, the American chief executive, and Serge Tchuruk, the French chairman, said they would leave by the end of the year, following months of pressure from shareholders upset over billions of dollars of losses.

Analysts, who were skeptical from the start about the acquisition of Lucent, based in Murray Hill, New Jersey, by Alcatel, based in Paris, saw the departures as a cautionary tale for executives contemplating blockbuster fusions between European and American companies.

The recent history of some of such deals is not encouraging: The combination of Vivendi, then a growing French media company, and Universal Studios in 2000 also became ensnared in cultural differences before unraveling.

"I think Alcatel-Lucent was a merger that sounded good in a PowerPoint presentation," said Mark Sue, an analyst at RBC Capital Markets in New York. "But there have been a lot of serious integration challenges, including cultural issues, that were underestimated and still linger."

At Alcatel-Lucent, the appointment as chief executive of Russo, the former Lucent chief executive, who does not speak French comfortably, struck many as a recipe for misunderstandings.

Roger Entner, a senior vice president and telecommunications analyst for Nielsen IAG, a market research firm, said Lucent executives had found it difficult to adapt to Alcatel's corporate culture. One barrier has been language. Another, he said, is the close interplay between French regulators and private-sector executives.

Meanwhile, Alcatel has failed to get the inroads in the U.S. market that it had sought in acquiring Lucent.

As the chief of Lucent, Russo had close ties to executives at Verizon Wireless, whose headquarters is nearby in New Jersey. But instead of aiding the newly combined company, Lucent's relationship with Verizon sputtered after Russo moved to Paris to run Alcatel-Lucent.

"Suddenly this very U.S.-centric company gets involved with a French company," Entner said. "The relationship with Verizon got weaker."

Though the combination of the two companies created the world's largest maker of telecommunications network gear, the synergy that Lucent and Al-



Parts of Rio de Janeiro are undergoing a renaissance, like the port area where the Kalesa Club, above, caters to the rising middle class in a space that used to house a brothel. Douglas Engle for The New York Times

Amid global gloom, Brazil brims with hope

By Alexei Barrionuevo

FORTALEZA, Brazil: Desperate to escape her hand-to-mouth existence in one of the poorest regions of Brazil, Maria Benedita Sousa used a small loan five years ago to buy two sewing machines and start her own business making women's underwear.

Today the mother of three, who started out working in a jeans factory for minimum wage, employs 25 people in a

modest two-room facility that produces 55,000 pairs of cotton panties a month. She bought and renovated a house for her family and is now thinking of buying a second car. Her daughter, who is studying nursing, would be the first family member to finish college.

"You can't imagine the happiness I am feeling," Sousa, 43, said from the floor of her business, "Big Mateus," which she named after a son. "I am someone who came from the coun-

tryside to the city. I battled and battled, and today my children are studying, with one in college and two others already in school. It's a gift from God."

Today her country is much like she is. Brazil, the largest South American economy, is finally poised to realize its long-anticipated potential as a global player, economists say, as it rides its biggest economic expansion in three decades.

Despite investor fears about the leftist bent of President Luiz Inácio Lula da Silva when he was elected in 2002, he has demonstrated a light touch when it comes to economic stewardship, avoiding the populist impulses of leaders in Venezuela and Bolivia.

Instead, he has fueled Brazilian growth through a deft combination of respect for financial markets and targeted social programs, which are lifting millions out of poverty, said David Fleischer, a political analyst and emeritus professor at University of Brasilia.

The country even assumed a major role in pushing for a deal in talks at the World Trade Organization, seeing greater access to global markets as an opportunity for its own exporters, rather than a threat.

The growing economic power of Brazil is being felt up and down the social spectrum, creating a new class of super-rich even as people like Sousa lift themselves into an expanding middle class.

The momentum of this expansion is expected to last. As the United States

and parts of Europe struggle with slowing economies and the fallout from housing crises, the Brazilian economy shows few of the vulnerabilities of other emerging powers.

It has greatly diversified its industrial base, has the potential to expand its booming agricultural sector into virgin fields, and holds a tremendous pool of untapped natural resources. New oil discoveries will thrust Brazil into the ranks of the global oil powers within the next decade.

Yet while exports of commodities like oil and agricultural goods have driven much of its recent growth, Brazil is less and less dependent on them, economists say, having the advantage of a huge domestic market — 185 million people — that has grown wealthier with the success of people like Sousa.

In fact, with a stronger currency and inflation mostly in check, Brazilians are on a spending spree that has become a prime motor for the economy, which grew by 5.4 percent last year.

They are buying both Brazilian goods and a rising flood of imported products. Many businesses have relaxed credit terms to allow Brazilians to pay for refrigerators, cars and even plastic surgery over years instead of months, despite some of the highest interest rates in the world. By June, 100 million credit cards had been issued in Brazil, a 17 percent jump from the previous year.

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Maria Auxiliadora Sampaio giving a manicure in her living room in Fortaleza, Brazil. She used a microcredit loan of 300 reais to revitalize her home-based business. Anderson Schneider for The New York Times

Trade talks collapse in battle over farm aid

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Europe, a lobbying firm in Brussels. He was on the sidelines of the negotiations in Geneva until Tuesday evening.

The sticking point this time, Macrae said, was the stance of countries like China and India, which have become more aggressive in advancing their interests against those of the United States and Europe. "Maybe they're now thinking, 'we're big enough that we don't even need the process,'"

Like the United States and Europe, he said, China and India might find it more advantageous to negotiate bilateral agreements where they can apply more pressure on a single trading partner.

On Tuesday night ministers were still discussing whether any of the agreements reached in principle could be salvaged.

But there seemed little prospect for that anytime soon, in part because the coming presidential election in the United States makes it all-but-impossible for Washington to participate further until a new administration takes over next year.

Talks floundered on the right of India and other developing countries to protect sensitive agricultural products from competition in the event of a surge of imports.

The United States argued that such protection, which is not permitted at present, would involve moving backwards on existing world trade commitments.

Mari Pangestu, the Indonesian trade minister, said that the failure reflected the inability of the rich industrial powers to deal with the growing influence of China, India and Brazil in the global economy.

"It is the nature of the organization having so many members," Pangestu said. She complained that what she called "a reasonable request" had been blocked because "a key country is not going to show flexibility."

Asked if she meant the United States, Pangestu replied that it was "one of the countries" she was referring to, adding that she did not understand Washington's position on the issue on which the talks floundered.

Susan Schwab, the U.S. trade representative, said that success had been "so close" Friday, adding: "The U.S. commitments remain on the table, awaiting reciprocal responses."

Schwab challenged the claims of India and other developing countries that the United States was the chief obstacle to sewing up the deal.

"It is unconscionable that we could have come out with an outcome that rolled the global trading system back not by one year or five years but by 30 years," she said.

Schwab added that it would be possible to help developing nations address sharp increases in imports that could not "be used as a tool of blatant protectionism."

One official said that the relatively technical nature of the cause of the breakdown underlined the lack of



Fabrice Coffrini/Agence France-Presse

The U.S. trade representative, Susan Schwab, said Tuesday that success was "so close."

political will to reach an agreement that would allow a tough sell to voters in several important countries.

Throughout Monday night, and then Tuesday morning, talks were on the verge of collapse. One diplomat likened them to a patient whose life support mechanism had been switched off only to be turned on again.

"With the briefing and counterbriefing," said one European official speaking on condition of anonymity because of the sensitivity of the topic, "this was not people moving to the middle ground."

For the Indian trade minister, Kamal Nath, the European official added, "going back home with U.S. headlines proclaiming victory, saying they made the Indians back down, makes it impossible for him."

Nath, he said, comes from "an electoral region that is completely opposed to the idea of a deal."

Nath, during a briefing with reporters, said he was "very disappointed" but that developing countries were "deeply concerned about issues which affected poor and subsistence farmers."

But elsewhere, too, a Doha deal was difficult to sell to voters hit by a slow-

'The confidence shot in the arm that we needed badly will not now happen.'

ing economy and rising commodity prices.

Washington's negotiating team was under pressure from the powerful U.S. farm lobby.

The European Union was under pressure from its own farm lobby, with nine of the bloc's 27 nations forming a "group of the willing" and demanding improvements in the text on the table.

Louder Catrain, a trade partner at Hogan & Hartson law firm, said the real risk of the failure of this last-ditch effort to salvage the trade talks meant "that the seven years of hard negotiations will be lost and there will be no guarantees on the starting point of a future round."

The proliferation of bilateral deals and the continuing expansion of exports from both developing and de-

veloped countries has raised doubts among some Doha skeptics about the necessity of a global agreement. But experts said it was important, particularly to hold back a rising tide of protectionism.

"There are people who argue that no Doha outcome is better than a weak Doha outcome, but I don't agree," said Katinka Barysch, the chief economist at the Center for European Reform in London.

"With the world economy slowing, you have growing protectionist pres-

'This was not people moving to the middle ground.'

ures in many countries," she said. "You want to bind the hands of governments to what they have already agreed to."

Deep skepticism about the advantages of open trade with China and other rising economic powers, on vivid display during the Democratic primaries in the United States, is a growing threat in Europe as well, particularly as France, Italy and other countries have fallen into an American-style economic swoon.

A trade deal, economists said, would have been a valuable tonic.

"It's important to move forward when the world is in a slowdown, and is tempted to think of protectionism rather than opening up," said Norbert Walter, the chief economist of Deutsche Bank.

Soaring food prices provided another rare opportunity for deal, he said. European and American farmers are prospering, even without state subsidies. It may never be easier to reduce those subsidies, which is always one of the most sensitive issues in trade talks.

Celso Amorim, the Brazilian foreign minister, said, "It is unbelievable, unbelievable, that we have failed on one issue when many other issues that seemed much more intractable were overcome."

"An outside observer, someone from another planet, would not believe," he said, "that, after the progress made, we could not conclude."

Mark Landler reported from Frankfurt.

Good economic news, for a change, in Brazil

BRAZIL, From Page 1

At Casas Bahia, a modestly priced Brazilian furniture chain, the number of customers buying items on installment nearly tripled to 29.3 million from 2002 to 2007, said Sonia Mitaini, a company spokeswoman.

Tatiana Welikson, an actress in Rio de Janeiro, thought she had had all the plastic surgery she could afford after getting liposuction treatments for her belly, back and legs, and fat injections in her buttocks.

But when the Piu Bella Clinic in Barra da Tijuca offered to let her finance breast implants over 24 installments, she agreed. "My sisters, all of them, have big breasts," said Welikson, 31. "I wanted them, too. I still have six payments to go, but it was worth it."

Other signs of new wealth abound. In Macae, an oil boom town near Rio de Janeiro, contractors are racing to finish new shopping malls and luxury housing to keep up with demand from burgeoning oil-service firms.

At a port in Angra dos Reis, a town known for its spectacular islands, an estimated 25,000 workers have found jobs building new Brazilian oil platforms.

Some economists say that a slowdown in the rest of the world's economy, especially in Asia, which is buying much of Brazil's exported soybeans and iron ore, could slow growth. "But that probability is small," said Alfredo Coutinho, the senior economist at Latin America for Moody's Investor Service.

In fact, because Brazil's economy has become so diversified in recent years, the country is less susceptible to a hangover from the struggling U.S. economy, unlike many other countries in Latin America.

"What makes Brazil more resilient is that the rest of the world matters less," said Don Hanna, the head of emerging market economics at Citibank.

The rest of the world certainly has helped. Soaring global prices for minerals and other commodities have created a new class of super-rich. The number of Brazilians with liquid fortunes exceeding \$1 million grew by 19 percent last year, third behind China and India, according to a survey by Merrill Lynch and CapGemini.

Eike Batista and João Carlos Cavalcanti, who made their fortunes from mineral mining, are among the new captains of industry. Batista, a college dropout and former champion powerboat racer, was ranked No. 142 on Forbes' list of billionaires, with an estimated net worth of \$6.6 billion.

Cavalcanti, a geologist whose father was a railroad laborer, says he has 39 cars and 14 homes, and is worth \$1.2 billion. He is bullish on the future of Brazil, although he worries that its currency could be overvalued and will make the country's exports too expensive. "If the dollar continues like it is, within two years the country will go bankrupt," he said.

So far, however, neither foreign investors nor the president, da Silva, seem concerned. Earlier this year, da Silva declared that Brazil had finally become a "serious" country after it was awarded investment-grade status from credit rating agency Standard & Poor's, a designation that accelerated a flood of foreign investment.

At the same time, he has deepened many of the social programs begun 10 years ago under then-president

Fernando Henrique Cardoso, who ushered in many of the structural reforms that laid the foundations of Brazil's stable growth today.

In Sousa's case, for instance, she owes much of the success of her underwear business to the loans she has received from the Bank of the Northeast here, a government-funded bank that has quietly awarded "microcredit" to 330,000 people to develop businesses in this fast-growing region.

Other programs, like one called Bolsa Familia give small subsidies to millions of poor Brazilians to buy food and other essentials.

Bolsa Familia has been far more effective at raising per-capita incomes than recent increases in the minimum wage, which rose 36 percent since 2003, said Marcelo Neri, the director of the Center of Social Policies at the Getulio Vargas Foundation in Rio de Janeiro.

The bottom-up nature of such social programs has helped to greatly expand both formal and informal employment as well as the Brazilian middle class. The number of people below the poverty line—defined as those earning less than 125 reais a month, or \$79.50—fell to 33 percent in 2006 from 38 percent in 2000.

'I feel like we are part of this group of people that are coming up in the world.'

In this northeastern region of Brazil, the social programs have put more money in the pockets of people who are buying televisions and refrigerators at a faster rate than in the rest of the country.

Two years ago Maria Auxiliadora Sampaio and her husband were struggling to find work to support their three children. They were receiving Bolsa Familia payments of about 50 reais a month. Then she used a microcredit loan of 300 reais to buy nail polish and reenergize her manicure business, which she ran out of her house.

Today Sampaio is making 100 to 120 reais a day giving manicures—about four minimum salaries per month, she said. She works hard to keep her customers loyal, allowing them to pay her at the end of the month, when they receive their salary checks, and sometimes even loaning them small sums of money herself.

With her next loan, she plans to put 220 reais toward buying a stove to sterilize the nail clippers. Until then, she makes do with hot water.

The fruits of her new business have allowed the couple to retille their house, and buy a television and a mobile phone. Earlier this month her husband, who works at a Cachaca factory, was able to realize a dream: to buy a drum set.

He plans to use it to start a band that plays forró, a traditional music in this region of Brazil. His wife said that "We always ate and paid bills, but he waited and waited," and finally bought the set in cash for 1,240 reais. "I feel like we are part of this group of people that are coming up in the world," Sampaio, 28, said. "It was nothing. Today, I am in heaven."