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FEATURED Q&A

Is Peru Taking the Right Steps to Attract Investment?



During a two-day North American roadshow last month, Peruvian Economy and Finance Minister Alfredo Thorne (center) and other delegation members opened trading on the Nasdaq in New York on May 31. // Photo: inPeru.

Q Government officials from Peru have been undertaking an international road show to promote foreign investment in the Andean nation, touting planned structural reforms and economic stability. What are the most important such reforms, and what will they mean for Peru's economy if implemented? Is the government of President Pedro Pablo Kuczynski taking the right actions in order to draw more investment into the country? Which sectors of Peru's economy are best positioned to take advantage of higher levels of foreign investment?

A Francisco Durand, professor of political science at the Catholic University of Peru: "The economic and political cycles are turning in a more negative direction and are affecting one another. Kuczynski began his term with a vigorous pro-private sector agenda, to be stimulated by economic reforms aimed at facilitating investment (mostly through public-private partnerships), and initiatives to 'unblock' large projects delayed by social conflict, red tape or legal quagmires. The reforms, with some minor changes, were approved by a Congress controlled by fujimoristas. Yet, new problems have emerged. A decision to unblock the construction of Cusco's international airport by providing state financing to Kuntur Wasi, a contractor without capital, has led to a scandal about lobbies. This issue emerged at a time when the Brazilian 'Lava Jato' scandal provided evidence of corruption in public works and PPPs. Projects by Odebrecht, a leading Brazilian contractor, are paralyzed. The executive and the legislative branches of government

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TODAY'S NEWS

POLITICAL

Brazilian Electoral Court Signals it May Side With Temer

The Supreme Electoral Tribunal voted to exclude plea-bargain testimony from executives at Odebrecht from the case that has threatened to unseat President Michel Temer.

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BUSINESS

Airbnb Voices Support for Continued U.S. Ties With Cuba

The company urged members of Congress and the Trump administration not to reverse the United States' opening with Cuba.

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POLITICAL

Venezuela's Chief Prosecutor Wants High Court to Nix Constitution Plan

Luisa Ortega petitioned country's Supreme Court, seeking its rejection of President Nicolás Maduro's push to rewrite the Constitution.

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Ortega // File Photo: Venezuelan Government.

POLITICAL NEWS

Brazilian Electoral Court Favors Temer in Testimony Ruling

Brazil's Supreme Electoral Tribunal, or TSE, on Thursday voted to exclude plea-bargain testimony from executives at engineering giant Odebrecht, signaling that it may throw out a case that has threatened the ouster of President Michel Temer, Reuters reported. In a 4-3 vote, the tribunal excluded the executives' testimony after the court's chief judge, Gilmar Mendes, said any ruling should consider the country's stability and that Temer should not be forced from office for a minor reason. "Temer has the votes to stay in office," Brasília-based political consultant Welber Barral told the wire service. The court could make a ruling on the case as early as today, but any of the tribunal's seven judges could request more time to study the case, a move that could delay a ruling for weeks. Mendes, in addition to justices

Napoleão Nunes Maia, Admar Gonzaga and Tarcísio Vieira, voted to exclude the testimony in which the Odebrecht executives told prosecutors they funneled millions of dollars into the 2014 presidential campaign of Dilma Rousseff, who ran on the same ticket as Temer, who was then the candidate for vice president. The exclusion of that testimony bolsters Temer's argument that his campaign did not receive any illegal donations. A ruling against Temer could annul the results of the 2014 election, which could lead to Temer's ouster as president. In that event, however, he would likely appeal.

ECONOMIC NEWS

Merkel, Macri Vow to Foster Trade, Protect Environment

German Chancellor Angela Merkel and Argentine President Mauricio Macri vowed Thursday in Buenos Aires to foster multilateral trade

NEWS BRIEFS

Venezuelan Official Seeks High Court's Rejection of Constitution Rewrite Plan

Venezuela's chief prosecutor, Luisa Ortega, on Thursday petitioned the country's Supreme Court to reject President Nicolás Maduro's attempt to form a "constituent assembly" to rewrite the Constitution, the Miami Herald reported. Once a Maduro loyalist, Ortega said the plan is unconstitutional because it would first require voters' approval in a referendum. Maduro has said he would hold a referendum, but only after a new Constitution is written. More than two months of anti-government protests in Venezuela have led to nearly 70 deaths.

Mexico's Rate of Inflation Hits Eight-Year High

Mexico's inflation reached an eight-year high in May, indicating that the Bank of Mexico may continue to raise interest rates this month, The Wall Street Journal reported Thursday. The annual inflation rate rose to 6.16 percent from 5.82 percent at the end of April, the highest rate since 2009. The consumer-price index fell by 0.12 percent in May, likely due to summer-time subsidies on electricity costs offsetting the increase in prices for food and other goods, the National Statistics Agency said Thursday.

Codelco Resumes Operations at Mines Closed for Rain Storm

Chilean state-owned copper mining company Codelco on Thursday resumed operations at mines in the northeastern part of the country after a rain storm led the company to pre-emptively close some mines the day before, Reuters reported. Operations at the Radomiro Tomic, Ministro Hales and Chuquicamata mines had resumed normal operations, Codelco said in a statement. The company said it expects the foundry and refinery at its Salvador mine to fully resume operations soon.

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are now constantly clashing on various political issues. The main problem is an overall emphasis on investment promotion by an entrepreneurial-technocratic government without much political experience, which now faces increasing opposition from Congress. In the meantime, the road show attempts to attract foreign investors to buy as much as \$2 billion in Petroperú bonds in order to finance the new Talara refinery. Some delayed projects (such as the Quellaveco copper project) are likely to stimulate the mining sector."

A César Arias, vice president and Andean economist at Deutsche Bank: "Mining will remain the most attractive sector for foreign investment. Peru will double mining output and consolidate as a top world producer of copper, gold, lead

and zinc in 2017. The country's comparative advantages—young reserves, a low cost structure, energy self-sufficiency and a favorable business environment—position it well to continue gaining market share from competing jurisdictions. The recent upswing in metals prices is creating incentives to expand existing mines and develop new ones, especially Anglo American's \$5 billion copper project Quellaveco. The Kuczynski administration overhauled the investment promotion agency (Proinversion), revamped procurement systems and eased land acquisition and construction permits to crowd in capital into infrastructure. These efforts will take time to pay off. A pipeline of \$19 billion, nearly 9 percent of GDP, in awarded private concessions is stalled due to licensing issues, contractual disputes and the restructuring of failed construction consortiums after the abrupt exit of Odebrecht earlier

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relations and also protect the environment, the Associated Press reported. The two leaders met on the first day of Merkel's three-day visit to Latin America, which also includes a stop in Mexico. Merkel's trip comes ahead of next month's G-20 summit in Germany. She has criticized the protectionist trade rhetoric of U.S. President Donald Trump and has called his decision to withdraw the United States from the Paris Agreement on climate change "extremely regrettable."

BUSINESS NEWS

Airbnb Voices Support for U.S. Ties With Cuba

Vacation rentals and home-sharing company Airbnb on Thursday voiced its support for some of the U.S. government's efforts to continue to open relations with Cuba, while President Donald Trump is weighing whether to reverse policies enacted under former President Barack Obama that sought to warm relations between the two countries, The Hill reported. "We support your efforts in maintaining the opening that has been made with Cuba and your efforts in opposing further restrictions," Airbnb said in a letter to Rep. Tom Emmer (R-Minn.) and other members of the Cuba working group in the House of Representatives. The company sent a similar letter to White House officials, including National Security Advisor H.R. McMaster and Secretary of State Rex Tillerson. After taking office in January, Trump had put Obama-era policies regarding relations with Cuba under review. "If Cuba is unwilling to make a better deal for the Cuban people, the Cuban/American people and the U.S. as a whole, I will terminate deal," Trump tweeted in November after the presidential election. Airbnb has benefited from the decision by the Obama administration to allow Americans to visit Cuba. Earlier this week, the company said 12 percent of Americans who travel to Cuba stay in an Airbnb lodging, bringing some \$40 million in earnings to Cubans.

THE DIALOGUE CONTINUES

Which Sustainable Development Goals Are Most Crucial?

Q **Government representatives as well as U.N. agencies, international financial institutions, businesses and other groups met April 26-28 in Mexico City at the first Forum of the Countries of Latin America and the Caribbean on Sustainable Development. At the meeting, participants discussed the United Nations' sustainable development goals, or SDGs, which include fighting poverty and hunger, as well as improving health, education and gender equality, among others. What are the most important SDGs to prioritize for Latin America and the Caribbean, and what will it take to achieve such goals on a regional scale? Is the SDG framework and schedule well designed for success, or will the effort fall short of expectations? Where in the region have multilateral efforts to foster sustainable development succeeded, where have they failed, and what can be learned from past experiences?**

A **Gabriela Wurcel, vice president of corporate affairs for Latin America and Canada at Philip Morris International:** "The U.N. Sustainable Development Goals (SDGs) represent the future we all want, and they are a call for joint action by the public sector, civil society and businesses. Large multinational corporations have a critical role to play in addressing some of the most pressing challenges outlined by the Forum of the Countries in Latin America and the Caribbean on Sustainable Development. In the case of Philip Morris International (PMI), with thousands of employees in the region and a vast supply chain, this role includes increasing the productivity and income of small-scale farmers, investing in technical support, agronomy research and technology, as well as upholding and promoting decent

work conditions and respect for labor rights across the entire value chain (Goals 2 and 8). However, as a tobacco company, Goal 3 (Good health and well-being) is the one in which we can have the greatest impact. Smoking cigarettes causes serious diseases and the best way to avoid the harm of

“ Large multinational corporations have a critical role to play... ”

– Gabriela Wurcel

smoking is to never start, or to quit. But much more can be done for the world's 1.1 billion smokers and to achieve the ambitious targets of Goal 3. Technological innovation is transforming our industry, and for many years PMI has been working on the research and development of products that have the potential to reduce the harm associated with smoking. Most recently, we started the commercialization of such products and have stated our goal to lead a full-scale effort to ensure that reduced-risk products ultimately replace cigarettes. We welcome the adoption of the SDGs and consider them an additional motivation for our journey to transform our company and, with the help of others, the entire tobacco industry. Leading the effort to replace cigarettes with less harmful alternatives is our single biggest positive contribution to the SDGs and we are committed to transparent collaboration and open dialogue with civil society and the public sector to make it happen."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the May 5 issue of the Advisor.

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this year. The government estimates that overexposure to Brazilian contractors will shave one percentage point from economic growth in 2017. Finally, Peru continues to make progress on its strategy to enhance the depth and liquidity of local capital markets. The treasury has increased the size of long-term government bond benchmarks and will launch a pilot program to make certain segments of the sovereign yield curve Euroclearable. In May, the number of qualified listed companies in the stock market increased, ensuring the country's inclusion in the MSCI emerging market index, a widely tracked benchmark for institutional equity investors."

A **Carlos Arata, partner in the corporate practice at Rubio Leguía Normand in Lima:** "During the last quarter of 2016, the Peruvian government initiated a structural reform of the Peruvian economy in order to strengthen and promote the growth of foreign investment, which had slowed down since 2014 and throughout 2015 and 2016 as a consequence, largely, of the poor incentives of the previous government and the global economic situation. Among the reforms the current government has promoted are the promotion and simplification of investment in infrastructure projects, the reinvestment of companies' profits in the country and the promotion of new public infrastructure projects in the main productive sectors such as energy, transportation and mining. It is also important to highlight the government's initiative to take concrete actions to encourage and promote foreign investment, such as road shows or negotiation of bilateral and commercial agreements, among others. However, despite these efforts, the natural disasters caused by El Niño and the crisis caused by the 'Lava Jato' scandal have distracted the government's attention from these matters, and for that reason, we have not been able to see the results of the new regulatory framework. To

face the natural disasters, the government has created the 'Authority for the Reconstruction and Improvement Process' that will be in charge of conducting the reconstruction of the north of Peru. Also, to face the corruption scandals, among others, the government passed a regulation that entitled corrupt companies to sell their assets while securing an indemnification for the government. The results of these measures are yet to be seen."

A **Augusto Álvarez-Rodrich, daily columnist on political affairs at La República:** "The government earlier this year promulgated a set of rules to unlock investment projects, but, contrary to the positive expectations generated by the start of the presidency of Pedro Pablo Kuczynski, the economic outlook has darkened as a result of the confluence of several factors. These include the 'Lava Jato' corruption allegations, which are paralyzing various investment projects and decisions in the public sector, as well as the economic slowdown and growing tensions between a politically fragile government and a Congress that has an overwhelming majority. The difficulty of reaching a basic political agreement of coexistence between the two has become the main obstacle to progress in Peru. One consequence of the lack of agreement is the impossibility of implementing longstanding reforms to improve the competitiveness of the Peruvian economy, such as labor reform. The problem is serious because the opposition managed by the Fuerza Popular party (led by Keiko Fujimori) and the PPK government still have no way of reaching a basic understanding that would facilitate investment decisions in the country as well as the launch of pending reforms."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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