

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter

Former Partner,
E.M. Warburg Pincus

Dirk Donath

Senior Partner,
Catterton Aimara

Barry Featherman

Senior Director,
International Government Affairs,
Gilead Sciences

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman, ManattJones
Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

What Does Lula's Conviction Mean for Brazil?



One of the most popular politicians in Brazil's recent history, Luiz Inácio Lula da Silva was convicted last week on corruption and money laundering charges and sentenced to nine and a half years in prison. He will remain free pending an appeal. // File Photo: Brazilian Government.

Q **Former Brazilian President Luiz Inácio Lula da Silva on July 12 was convicted and sentenced to nine and a half years in prison in connection with the massive corruption scheme involving state-run oil company Petrobras. Lula has denied wrongdoing, and his lawyers have vowed to appeal. What does Lula's conviction and sentencing mean for his political future and that of his Workers' Party? To what extent is there public support for the prosecution of politicians in the Petrobras case, and will the still-popular Lula see the sentencing diminish his support? What is the reason behind the Brazilian federal police force's disbanding of the task force behind the Petrobras probe last month, and how will that move affect the investigation?**

A **Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue:** "In recent years, Brazil's governing institutions have been discredited and debilitated by the graft and corruption that pervades the country's politics and large segments of its business community. Successive corruption scandals have today left Brazil in political turmoil. Its government is deeply distrusted and disliked, virtually without public support. Under these circumstances, the conviction of Brazil's most revered politician ever, former President Lula da Silva, on charges of graft, might be viewed as good news, and a sign that Brazil has a courageous and competent judicial system that is committed to defeating corruption and demonstrating that no one is above the law. There are reasons, however,

Continued on page 2

TODAY'S NEWS

ECONOMIC

U.S. Releases List of Objectives for NAFTA Talks

The administration of U.S. President Donald Trump released a 17-page list of objectives for its renegotiation of the North American Free Trade Agreement, or NAFTA, with Canada and Mexico.

Page 2

POLITICAL

Venezuelan Opposition Calls for Nationwide 24-Hour Strike

Opposition leaders said they were calling for a nationwide strike on Thursday in protest of President Nicolás Maduro's plan to rewrite the Constitution.

Page 3

POLITICAL

Guatemala Extradites Former Mexican Governor

Javier Duarte, the former governor of Mexico's Veracruz State, is suspected of siphoning millions of dollars of public money while he was in office. He denies wrongdoing.

Page 2



Duarte // File Photo: Mexican Government.

ECONOMIC NEWS

U.S. Releases List of Objectives for NAFTA Renegotiation

The administration of U.S. President Donald Trump on Monday released a 17-page list of its objectives for the upcoming renegotiation of the North American Free Trade Agreement, or NAFTA. "Some Americans have benefited from new market access provided by the Agreement," says the document, from the office of the U.S. trade representative. However, it adds that "NAFTA also created new problems for many American workers. Since the deal came into force in 1994, trade deficits have exploded, thousands of factories have closed, and millions of Americans have found themselves

stranded, no longer able to utilize the skills for which they had been trained." The document, which the Trump administration sent to Congress, makes reduction of U.S. trade deficits a top priority and also takes elements of the Trans-Pacific Partnership, which Trump abandoned after taking office in January, The New York Times reported. The outline also appears to send a signal to countries other than Canada and Mexico by including concerns about subsidized state-owned enterprises and currency manipulation, which apply more to countries such as China. The White House has said a renegotiated NAFTA will likely serve as a model for trade deals with other countries. The objectives also include elimination of the Chapter 19 dispute settlement panel, which allows Canada and Mexico to appeal duties that the United States imposes. Another potentially controversial proposal would do away with a provision that limits the United States' ability to impose import restrictions on its neighbors.

NEWS BRIEFS

Guatemala Extradites Former Mexican Governor Duarte

Javier Duarte, a former governor of Mexico's Veracruz State, who is wanted on charges of embezzlement and organized crime, arrived in Mexico on Monday after being extradited from Guatemala, the Mexican government said, Reuters reported. Duarte has denied wrongdoing. Duarte, a member of the ruling PRI party, was Veracruz's governor until last year, and is suspected of siphoning millions of dollars of public money while he was in office. He was arrested in Guatemala in April after spending five months on the run.

Brazil's Temer to Push for Simplification of Tax Code

Brazilian President Michel Temer on Monday said he plans to begin working on simplifying the country's tax code, Reuters reported. The announcement came after the successful passage of a landmark labor reform bill last week. In a video posted to his Twitter account, Temer said job creation and a recovery of investment are two indicators that the country is pulling out of its recession.

Value of Renewable Energy Deals in Region Grows 157% Since 2013

The value of renewable energy deals in Latin America increased 157 percent between 2013 and 2016, according to data released Friday by Mergermarket, growing from \$975 million to \$2.5 billion. More than a third, or 26 of the 62 renewable energy deals recorded in the region since 2013, involved wind farms. Each country differs, however. While Brazil is the most advanced in the region, with 447 wind farms, Colombia has yet to join the renewable-energy bandwagon, as it has yet to launch a long-term renewable power auction, the report's authors said.

FEATURED Q&A / Continued from page 1

why some Brazilians are not cheering. Many are convinced that the judiciary is acting unfairly, with visible political bias. They ask, appropriately, why Lula, the leader of the leftist Workers' Party, appears headed for jail, while many others with even more evidence pointing to their guilt, including President Temer, continue to exercise power. If Lula did what he is accused of, and the evidence to support that conclusion is robust, he certainly should not be allowed to run for office again. He should be jailed, regardless of his popularity or earlier contributions. But so should others who have committed similar criminal acts. Some have been punished, but many still hold positions of power. If they are not vigorously pursued, sympathy and support for Lula, who now leads all other potential candidates ahead of the 2018 election, could grow stronger. Today, Brazil is confronting an increasingly open conflict between an energized and active judiciary and the country's Congress and presidency—a conflict that could well become as disruptive and damaging as the corruption itself. While the judges and prosecutors

are winning many battles, they are unlikely, fighting alone, to win the war against corruption. It will take all three branches of Brazil's government, working hand in glove, to begin to bring corruption—from which politics will never be free—under minimal control."

A Carlos Eduardo Lins da Silva, global fellow at the Woodrow Wilson International Center for Scholars:

"Former President Lula's conviction was widely anticipated. However, its formalization is a big blow to his ambition of returning to office next year. If he loses the appeal he filed in a superior court, he will not be permitted, by law, to run in 2018. The court's verdict must be announced in some months. Meanwhile, Lula will be free to campaign as he has been doing. He still faces four other lawsuits in which he is a defendant on various charges, from obstruction to justice to money laundering, corruption and conspiracy. His Workers' Party (PT), is not indicating that it intends to run any candidate other than Lula in next year's presidential election. Lula has

Continued on page 4

POLITICAL NEWS

Venezuelan Opposition Calls for Strike to Protest Constitution Plan

Venezuela's opposition on Monday called for a 24-hour nationwide strike, scheduled for Thursday, to protest President Nicolás Maduro's government's plan to rewrite the Constitution, the Associated Press reported. The opposition also announced plans to establish a parallel government, The Wall Street Journal reported. The vice president of the National Assembly, Freddy Guevara, and other opposition leaders said they were planning to create a "government of national unity," forming an alliance with dissidents from within the ruling PSUV. Also on Monday, U.S. President Donald Trump in a statement threatened "strong and swift economic actions" against the Maduro government if it ignores the results of a plebiscite held on Sunday in which millions of Venezuelans rejected the government's plan to hold a vote on July 30 to elect an assembly to rewrite the Constitution. The opposition has called the government's plan a power grab, but the government has said a new Constitution is needed to end the country's political and economic crises. Maduro has vowed to press forward with the constitutional rewrite. "I won't be intimidated," he said Monday in a speech.

BUSINESS NEWS

América Móvil to Audit Guatemala Unit Amid Graft Probe

Mexico's América Móvil said Monday that it will audit its Guatemalan unit, Telecomunicaciones de Guatemala, or Telgua, after authorities in the Central American country raised questions about payments made by a former company executive, Reuters reported. Last Friday, Gua-

THE DIALOGUE CONTINUES

Is Piñera a Shoo-in to Return to Chile's Presidency?

Q **Sebastián Piñera on July 2 coasted to victory in the primary of the center-right Chile Vamos coalition, cementing the former president's status as the frontrunner ahead of Chile's November presidential election. Is Piñera a shoo-in to return to the presidency? To what extent do his rivals, such as Alejandro Guillier of the New Majority coalition, pose a threat to Piñera's candidacy? Which issues are driving the presidential race? What influence will outgoing President Michelle Bachelet have on the election?**

A **Maria Luisa Puig, senior analyst at the Eurasia Group:** "Former President Sebastián Piñera has a slight edge in what will likely be a very competitive election. First, strong demand for change, evidenced in President Michelle Bachelet's low approval ratings, will help Piñera in his bid. Support for Bachelet has remained below 30 percent for most of her administration, and is unlikely to recover much in a context of unfulfilled expectations and sluggish growth. In addition, Piñera will benefit from divisions within the left. Independent senator Alejandro Guillier, backed by most parties of the ruling coalition, will lose moderate votes to Carolina Goic of the Christian Democratic Party and leftist votes

to Beatriz Sánchez of the Broad Front in the first round. These add to any votes three-time candidate Marco Enríquez-Ominami could capture. Guillier will have more space than Piñera to increase his share of the vote in a runoff, but it is difficult to see the radical and moderate extremes of the ruling coalition coalescing behind him. In fact, many within the Christian Democrats would probably vote for Piñera in a runoff even if not openly endorsing him, since they are closer in ideology and resent Guillier (or simply don't vote, which will also benefit Piñera). Guillier would have trouble convincing Sánchez supporters, who traditionally have low turnout, to vote for someone who wasn't their first choice. Piñera's main vulnerability is high demand for political renewal. A series of scandals have taken a toll on the image of politicians and businesses. A businessman and politician, Piñera only stands to lose from this sentiment. On the contrary, Guillier and Sánchez are taking advantage of their outsider status as former journalists with little or no experience in politics to attract disenchanted voters."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the July 11 issue of the Advisor.

temalan police arrested 17 people suspected of involvement in a corruption scheme that Guatemala's former communications minister, Alejandro Sinibaldi, allegedly directed, the wire service reported. Sinibaldi has been a fugitive since June of last year. Investigators at the United Nations-backed anti-corruption commission in Guatemala, known as CICIG, discovered evidence of payments from Telgua in an account that Sinibaldi controlled. An América Móvil spokesman said the company is

auditing Telgua to discover the reason behind the payments. "Guatemalan law permits these contributions," the spokesman told Reuters. "What we are trying to find out is why these contributions were made without observing the norms and requirements that Guatemalan law establishes." CICIG said that the payments were made in order to secure favorable treatment for Telgua in a dispute with local rival Tigo. A Tigo spokesman did not immediately respond to Reuters' request for comment.

FEATURED Q&A / Continued from page 2

always been larger than PT, and he still is. Other leftist parties also have no one who has the same chance of gathering more than 20 percent of the votes as does Lula. There is strong support among Brazilians for the prosecution and conviction of politicians suspected of bribery. All polls show support margins between 85 percent and 95 percent. In Lula's case, he still enjoys the allegiance of some 30 percent of voters. But it is possible that now he has been formally convicted, this percentage will decrease. The federal police force is suffering from budget restrictions as are all other departments of federal government. This will delay its anti-corruption and other actions, but public support for these actions will not allow them to end."

A **Charles H. Blake, professor of political science at James Madison University's School of Public & International Affairs:** "The implications of former Brazilian President da Silva's conviction depend on the outcome of the initial appeal process because, if this conviction were confirmed in advance of the elections, then Lula da Silva could not be a candidate for the Workers' Party (PT) in the 2018 elections. The PT has other potential presidential candidates, but none has da Silva's visibility and breadth of support. If da Silva's judicial appeal is successful, the impact on his support could be minimal while if the verdict is upheld, then his level of support as a candidate becomes less directly relevant. To date, opinion polls reveal support for a continuation of the investigations and prosecutions but also skepticism in two-fifths of the population regarding whether Operation Car Wash will reduce political corruption in Brazil. Part of this skepticism emerges from the supposition that Eduardo Cunha and Michel Temer (two non-PT figures in Dilma Rousseff's governing coalition) supported her impeachment to try to protect themselves and other allies from prosecution. The Temer government's reduction in the budget for the federal police and the

recent decision to disband the federal police task force central to the Operation Car Wash investigations have been viewed through this politicized lens—especially in light of the bribery charges levied against Temer in June. While the police reorganization may hamper the investigations' effectiveness, it will be difficult to cease the investigations because many of the businesspeople implicated have already named specific politicians and alleged specific instances of corruption."

A **Gilberto M. A. Rodrigues, professor at the Federal University of ABC in Brazil and member of Coordinadora Regional de Investigaciones Económicas y Sociales in Buenos Aires:** "Judge Sérgio Moro's leadership of the Operation Car Wash is not only fueled by legal standards but also by political ones. That is clear in former President Lula's case, conviction and sentencing. The lack of evidence connecting Lula to the accusations reveals a methodology that has been criticized as a 'judicial state of exception.' In fact, some basic civil rights have been sacrificed in the name of combating corruption and impunity. But this is not the only problem regarding Moro's judgment. His timing is political rather than legal. Lula's sentencing occurred in the middle of two important political facts that weakened the country's democratic rule: the congressional approval of a labor reform that suppresses social rights and President Temer's political maneuver to escape a conviction in the Chamber of Deputies' constitutional committee. There is strong support from the public for combating corruption, but there is also widespread criticism regarding the way this fight has been performed. Still with a huge popular support, which may also rise, Lula will fight to reverse his conviction and make viable his candidacy. Also, why did Judge Moro not send Lula to jail? Perhaps to preserve Operation Car Wash from growing attempts to dismantle it."

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.