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FEATURED Q&A

Is Brazil's Drive to Privatize Going to Pay Off in the End?

During his recent trip to China, Brazilian President Michel Temer (L) met with business leaders including Shu Yinbiao, the chairman of State Grid Corporation of China (R). // Photo: Brazilian Government.

Q The Brazilian government is pushing to privatize state assets in a bid to raise revenues and boost investment. Highways, ports and the country's mint, among other state assets, are up for privatization. In late August, President Michel Temer traveled to China to meet with potential investors. How big of a role will China play in Brazil's privatization plans? Is it a good idea for Brazil to relinquish state control of dozens of state firms, and are there any drawbacks to the government being less involved in these industries? To what extent will Temer's privatization efforts strengthen Brazil's economy?

A Margaret Daly Hayes, principal at Evidence Based Research in Vienna, Va., and professor of security studies at Georgetown University: "The Brazilian government's move to relinquish state control of many elements of the languishing economy is welcome and long-overdue. Brazil needs new infusions of money, management and diversification to restart economic growth. The government may retain a minority share in many of the firms. It holds 56 percent of Eletrobras, the first privatization to be announced. How much will be retained as privatization goes forward? The market's reaction to the announcement of the privatizations has been positive. Brazil's government-controlled enterprises have become inefficient and overloaded with unproductive political appointees. Heavy taxes have discouraged new investment in both public and private firms. Recently, a substantial number of independent producers have moved their manufacturing to nearby Paraguay in order to escape Brazil's tax burden. In the long run, however,

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Uruguay's Vice President Resigns Over Scandal

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Sendic // File Photo: Midimusic2 via Creative Commons.

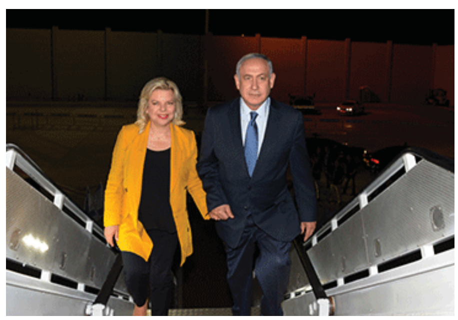
POLITICAL NEWS

Uruguay's Vice President Resigns Over Scandal

Uruguay's vice president resigned Saturday in the face of corruption allegations related to inappropriate credit-card purchases when he worked at the helm of state oil company ANCAP, the Associated Press reported. Raúl Sendic, 54, announced his "irreversible" resignation after a tribunal selected by his left-of-center political party, the Frente Amplio, determined he may have engaged in "unacceptable use of public funds" and suggested he had lied in his defense, according to the report. Between 2010 and 2013, Sendic allegedly used corporate credit cards to make purchases of jewelry, electronics, furniture and other goods that were unrelated to official business. Appearing before the tribunal, Sendic was unable to explain the purchases other than to say they seemed "strange." President Tabaré Vázquez, who had defended Sendic amid previous criticisms over his performance and conduct, on Saturday in a phone call asked Sendic for his resignation, El Pais reported. Sendic's resignation marks the first time that a sitting vice president has stepped down willingly in Uruguay. The country's Congress still needs vote on whether to accept his resignation, however. According to the constitution, Sendic should be replaced by the senator who received the most votes in the last election, which would be former President José Mujica, but he could be ineligible due to a prohibition on presidential re-election, which would make the senator next in line Lucia Topolansky, Mujica's wife and the former first lady.

Israel's Netanyahu Sets Out for Latin America Tour

Israeli Prime Minister Benjamin Netanyahu departed Sunday for a 10-day tour of Argentina, Colombia, Mexico and the United States, the first time a sitting head of state representing Israel has visited Latin America, the Times of Israel reported. Today Netanyahu is scheduled to attend ceremonies in Buenos Aires to commemorate two terror attacks in the early 1990s that targeted the local Jewish community and Israeli diplomats. On Tuesday, Netanyahu is scheduled to meet with President Mauricio Macri, and the two leaders are expected to sign agreements on public security and trade. They will be joined afterward by President of Paraguay Horacio Cartes for lunch, before Netanyahu attends a forum for business leaders. On Wednesday morning, the prime minister's delegation will fly to Bogotá for a brief meeting with Colombian President Juan Manuel Santos. Later that same day, Netanyahu will depart for Mexico for a meeting with President Enrique Peña Nieto, during which the two will sign joint



Netanyahu and his wife Sara // Photo: Government of Israel.

agreements on space, aviation, communications and development cooperation. According to the Israel-Latin America Chamber of Commerce, trade with Latin America reached $2.8 billion in 2015, about 4 percent of Israel's overall trade, with Israel having a $1 billion trade surplus, the Jerusalem Post reported. Netanyahu is also expected to offer Peña Nieto assistance from Israel to help victims of last week's massive earthquake off the Pacific coast, which killed scores of Mexicans. On the final leg of his trip, Netanyahu will fly to New York, where he announced Sunday new plans to meet his counterpart, Donald J. Trump, according to Reuters. "From Mexico I will go to New York to speak at the United Nations General Assembly and there I will meet my friend, President Donald Trump," Netanyahu said. Netanyahu and his wife, Sara, are facing corruption allegations at home, and it is unclear whether she will join him for the entire trip, according to media reports. They both deny the allegations.

NEWS BRIEFS

Pope Suffers Minor Injury on Final Day of Colombia Tour

Pope Francis suffered a minor injury Sunday as he began the last of his five-day tour of Colombia, CNN reported. The Argentine-born pontiff hit his head when his "Popemobile" stopped sharply as it traveled down the streets of Cartagena, cutting his eyebrow and bruising his cheek. The Vatican said the Pope was fine and he continued his full schedule, speaking primarily about human rights. Pope Francis' trip was aimed at helping cement the peace deal signed between the government and Revolutionary Armed Forces of Colombia, or FARC guerrillas, last year.

Venezuela Plans to Sell Oil in Other Currencies Than the U.S. Dollar

Facing tough new sanctions from Washington, Venezuelan President Nicolás Maduro announced on Friday his government will sell oil and other commodities in currencies other than the dollar, Agence France-Presse reported. Maduro cited the Chinese yuan, Japanese yen, Russian ruble and Indian rupee among the currencies to be used. "An economy free from the U.S. imperialist system is possible," he said. Washington has barred U.S. banks from trading in new bonds issued by the government or state oil company PDVSA.

Brazil's Batista Turns Himself in to Police

Joesley Batista, the Brazilian billionaire who in May implicated President Michel Temer in a major corruption scandal, on Sunday handed himself in to police, BBC News reported. A judge ordered the arrest, finding Batista had hidden evidence in violation of a plea bargain. Batista's lawyers accidentally sent to the prosecutor's office a recording that incriminated Batista as well as colleagues and officials.

ECONOMIC NEWS

Economic Damage of Mexico's Earthquake 'Limited': Report

The damages to infrastructure and housing from Mexico's massive earthquake last week, the strongest the country has seen since 1985, will likely be limited and not culminate in unmanageably large insurance claims for the industry, ratings firm A.M. Best said Friday. Since states near the epicenter such as Oaxaca and Chiapas have high poverty levels and typically lower insurance penetration, the company does not expect to see any rating movement on the Mexico insurers it follows. Mexico's government last month issued a catastrophe bond for up to $360 million against losses from earthquakes and tropical cyclones which would be payable to Mexico's fund for natural disasters and should mitigate the impact of the earthquake on infrastructure and the population in affected areas, according to the report. The death toll from Thursday night's quake, which registered magnitude 8.1, has now risen to 90, the Associated Press reported Sunday. Thousands of people remain homeless and many have been sleeping outdoors as scores of aftershocks continue to shake buildings. Entire communities are lacking electricity, water and cellphone service, authorities say. Mexico's education secretary, Aurelio Nuño, announced over the weekend that schools will remain closed today in Oaxaca and Chiapas.

Latin American Imports of Chinese Steel Rise 11 Percent

Latin American steel imports from China rose 11 percent in the first 8 months of the year as compared to the same period of 2016, Freight News reported today. According to regional steel industry association Alacero, Latin America imported 4.6 million metric tons of steel products from China so far this year, with Central America being the main export destination for Chinese steel, receiving 20 percent of the region's total. Chile received 18 percent and Peru 14 percent. Brazil, Ecuador, the Dominican Republic, Argentina and Chile all saw their imports of steel from China grow in percentage terms over last year, while, Cuba, Venezuela and Paraguay saw shipments fall. The Chinese government has curbed some steel production this year, acknowledging that a glut of steel on world markets was causing prices to fall so low that even Chinese companies couldn't turn a profit, the Washington Post reported last month. The administration of U.S. President Donald Trump has threatened to impose steel import tariffs on national security grounds, unless China and other producers reduce excess capacity.

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the success of the privatizations will depend on the quality of their implementation. New investors will need the freedom to address management inefficiencies, invest in infrastructure and develop worker skill levels. The Brazilian government needs to address the latter issue with some urgency. Investors are interested in how this will play out, as evidenced by recent stock market performance. And it behooves Brazil to seek a variety of domestic and foreign investors in its companies to encourage exposure to the most productive ones. Chinese investment should be encouraged, but also carefully monitored. Investments should be job-creating for Brazilian labor, not just for Chinese workers. Environmental safeguards need to be monitored and sustained, particularly if Brazil opens investment in the fragile Amazon region. Brazilian exports to China—and not just commodity exports—should be monitored and encouraged. Investment that provides Brazilian value-added in its export mix should be encouraged. China should not be the only 'non-traditional' investor to be encouraged. India has recently begun to explore and invest in Brazil, and India brings more technology know-how to the table."

A **Pedro Rossi, professor at the State University of Campinas:** "First, we must recognize that the notion of privatizing large state-owned companies was rejected in the last election. In the most recent campaigns, the candidates denied having intentions to privatize companies like Petrobras. This push to privatize now reinforces the antidemocratic aspect of the times Brazil is currently going through. An illegitimate government, which was openly conspiring to depose an elected president, is proposing to sell strategic public assets without the least bit of democratic consensus. The main justification is the need for fiscal relief in the public accounts, but the nature of the fiscal problem is different, and the amount collected with privatizations is nothing compared to the problem. Eletrobras, for example, should be worth some 20 billion reais, while public spending with interest is around 500 billion reais per year. So it would take the sale of about 25 Eletrobrases to pay the interest expenses for the year; we'll see the fiscal problem continue. The privatization program discards instruments of economic development and national sovereignty. Eletrobras has cutting-edge technology in the generation, transmission and distribution of energy, as well as in hydroelectric, wind energy and electric vehicles. Why get rid of such a strategic company? In addition, China has already entered the Brazilian energy sector through a state company, the State Grid Corporation of China. If this company

> **"The privatization program discards instruments of economic development and national sovereignty."**
> **— Pedro Rossi**

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buys Eletrobras, it would not be exactly a privatization, but rather a transfer of assets from the Brazilian government to the Chinese government."

A **Bernard Higgins, São Paulo-based business consultant and coach:** "Although we will have to see whether President Michel Temer will be able to consolidate the country's privatization program before the end of his term in office, on a whole, I believe that his move to privatize 57 state-held companies is on the right track. Many, if not most, state companies are overburdened with political appointments that are used to favor cronies with well-paying jobs and little accountability, known in Brazil as 'Cabides de Emprego,' rendering them inefficient. This characteristic, together with the country's present limited ability to invest, makes the privatization option an attractive alternative, as long as regulatory agencies remain strong and technical. Brazil's situation demands urgent action to put the economy back on track and a need for the government to focus taxpayer resources on health, education and security for the long-term welfare of the country. Thus, the country requires an alternate source to invest in and update much-needed infrastructure, which is essential to gaining competitiveness for its products and services at home and abroad, if it is to grow and generate employment. For this, foreign investment is essential. Although not limited to China, it seems reasonable that the Asian power will play a significant role in this venture. Today, China is Brazil's largest trade partner, with exports to that country growing 41 percent year-on-year and now representing 19 percent of all exports, versus the United States' 13 percent, with an increase of 2.2 percent during the same period."

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>
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A **Natan Rodeguero, regional head for Latin America at M-Brain in São Paulo:** "According to the Ministry of Planning, 41 publicly owned companies were privatized in Brazil since 1990, and the state still directly or indirectly owns 120 companies. It is undeniable that, with the privatizations, Brazilians saw a huge improvement in the country's level of service on many fronts: telecommunications, roads, energy, the banking sector and ports, among others. Critics will say this came at a high cost—after all, with low competition, the winners of the bids tend to overprice—but those in favor will argue that it is better to pay a price and enjoy good service, than to pay less and have it very poorly rendered, or not have it at all. In the 1990s, people would pay and wait for more than a year just to have a landline phone installed. China, or any other wealthy nation for that matter, represents a big opportunity for the local government to get rid of all the companies it is involved in; an opportunity not only to raise revenues, but more importantly, to move away from businesses that are not its core, leaving them in the hands of specialists, with more technology and a strong will to 'make things happen.' Temer's privatization efforts are seen very positively by investors, by the population who utilize the services and even by the employees of those companies. Those against privatizations are usually tied to that old-fashioned belief that 'they are selling the country to the foreigners.' It is about time Brazilians get used to the so-called globalization and make the best of it."

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

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