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FEATURED Q&A

What Makes Brazil's Retail Sector So Appealing Now?



Core retail activity in July, while relatively flat, was driven mainly by sales of food and beverages. A municipal market in São Paulo is pictured. // File Photo: ThePhotographer via Creative Commons License.

Q Wal-Mart is planning to invest \$316 million through 2019 to refurbish about 120 stores in Brazil, Reuters reported last month. Meanwhile, Grupo Carrefour Brasil is adding stores, and rival retailer GPA is also renovating its locations in Brazil. What market forces are pushing retailers to increase their investments in Brazil, and what is the outlook for retailing in the country? To what extent are the investments a vote of confidence in President Michel Temer's agenda? What do retail-sector investments say about the future of Brazil's economy?

A Henrique Rzezinski, public policy and regulatory affairs director at ENEVA and member of the executive committee at CEBRI: "Brazil is in a very special moment in its history. A complex anti-corruption process has hit positively upon society's values by demanding deep reforms in public and private governance processes, as well as political reforms, social security reform and other important reforms. Society became more conscious about the urgency of passing these types of legislation in order to get back to a sustainable development scenario in order to revert the recession years. Prices of Brazilian assets are very low. Confidence indexes are growing. Inflation is decreasing. Interest rates are falling. Stock market prices have reached historic records. There is a feeling that the economy has acquired some independence and will positively influence the political process. The Operation Car Wash process has shown the strength of Brazil's institutions. There is a repressed demand that is to be recovered in the next years. These are the forces that are pushing retailers to increase their

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TODAY'S NEWS

POLITICAL

Democrats, White House in Talks to 'Enshrine' DACA

Soon after announcing plans publicly to allow so-called Dreamers to stay in the United States, disagreement between the White House and Democrats erupted over exactly what had been decided.

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ECONOMIC

Argentina Renews Biodiesel Exports to Europe

Exports had stopped after the European Union imposed duties on Argentine biodiesel amid dumping charges.

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POLITICAL

U.S. Pushes Hard on Colombia Over Cocaine Output

U.S. President Donald Trump said that he will not rule out decertifying Colombia as a partner in the drug war after a spike in cocaine production. Sen. Diane Feinstein (D-CA) also criticized Colombia this week over the issue.

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Feinstein // File Photo: U.S. Government.

POLITICAL NEWS

Democrats, White House in Talks to ‘Enshrine’ DACA

Democratic leaders in the U.S. Congress announced Wednesday they have agreed to work together with U.S. President Donald Trump on legislation to protect illegal immigrants who were children when they entered the United States and have for years been allowed to stay under an Obama Administration measure, Reuters reported. However, soon after announcing the plans publicly, disagreement erupted over exactly what had been decided. In a statement following a dinner with Trump Wednesday, Senate Democratic leader Chuck Schumer (N.Y.) and House of Representatives Democratic leader Nancy Pelosi (Calif.) said Trump had “agreed to enshrine the protections of



Schumer and Pelosi // File Photo: National Press Club.

DACA (Deferred Action for Childhood Arrivals) into law quickly, and to work out a package of border security, excluding the wall, that’s acceptable to both sides.” A top Trump campaign promise had been to build a controversial wall spanning the U.S.-Mexico border to stop unauthorized migration. White House spokeswoman Sarah Sanders quickly denied a deal had been reached to leave the wall out of the legislation. “While DACA and border security were both discussed, excluding the wall was certainly not agreed to,” she said on Twitter. Earlier in the day, former Democratic President Jimmy Carter expressed optimism that Trump could break a legislative logjam with his six-month deadline for Congress to address the immigration status of some 800,000 U.S. residents who were brought to the country illegally as children, the

Associated Press reported. “I don’t see that as a hopeless cause,” Carter said at an Emory University event. He added that Trump’s critics, including himself, “have to give him credit when he does some things that are not as bad” as they are depicted, suggesting that Trump might in the end achieve broader immigration reforms beyond addressing DACA. However, some immigration advocates fear the anti-immigrant forces within the administration will next turn to another category of immigrants living in the United States under “temporary protected status,” which allows the government to grant temporary work authorizations and protection from deportation to immigrants from certain countries where life remains dangerous. More than 440,000 people in the United States are protected by that program, including many from Haiti, Honduras, Nicaragua, El Salvador and elsewhere in Latin America and the Caribbean.

United States Pushes Hard on Colombia Over Cocaine Output

U.S. President Donald Trump said Wednesday that he will not rule out decertifying Colombia, its staunchest ally in Latin America, as a partner in the drug war after cocaine production spiked in the South American nation, the Associated Press reported. The move surprised longtime observers of relations between the two countries. Of the 22 nations on the list of drug-producing countries or transit zones, only two, Venezuela and Bolivia, were deemed not to be fulfilling their international obligations to combat drug production and trafficking. In a statement, Trump said he “seriously considered” adding Colombia to the list of negligent countries but decided against that due to the country’s status as a strong security partner. The United Nations in July released a survey saying the area under coca cultivation in Colombia increased by 52 percent last year, to 146,000 hectares from 96,000 hectares in 2015, the highest level in two decades. On Tuesday on Capitol Hill, lawmakers expressed concern at a Senate hearing that a Colombian peace deal with the FARC terrorist group has

NEWS BRIEFS

Topolansky Becomes Uruguay’s Vice President

Uruguayan Senator Lucía Topolansky, the wife of former President José Mujica, assumed the office of Vice President on Wednesday, El País reported. Topolansky fills the role vacated by Raúl Sendic, who resigned on Saturday over allegations of inappropriate credit card purchases and lying to cover them up. A former guerrilla fighter who was imprisoned for more than a decade, Topolansky was named to the post because she had won the most votes in the latest election, second to her husband, who was not eligible for the job.

New Amazon Warehouse to Triple Distribution Space in Mexico

Seattle-based online retailer Amazon is preparing to open a 1 million-square-foot warehouse near Mexico City, Reuters reported Wednesday, citing sources familiar with the project. The new warehouse in the Tepotzotlán municipality should be completed next year and would triple Amazon’s distribution space in Mexico. Some U.S. retailers have been trying to convince Mexico to raise a \$50 limit on the value of online purchases that can be imported duty-free, according to the report, which would likely benefit Amazon’s business model.

University of West Indies to Build Own LNG Plant

The University of West Indies, Mona will set up and operate a seven-megawatt liquefied natural gas facility that will run independently of Jamaica Public Service Company, the national power provider, the Gleaner reported Wednesday. The plant is projected to save 350 million Jamaican dollars (\$2.73 million) annually in energy bills. “Energy costs are the second-highest costs to the UWI, followed by salaries, and we can’t do anything about salaries but we can add LNG,” university official Paul Aiken said.

failed to stem the flow of cocaine from that country into the United States, the Hill reported. Sen. Chuck Grassley (R-Iowa), chairman of the Senate Caucus on International Narcotics Control, and Sen. Dianne Feinstein (D-Calif.), the co-chairwoman, questioned Colombian efforts to negotiate with drug traffickers, citing concerns over higher cocaine use in the United States. "I was an early supporter of the plan as a matter of the fact, and I very much hoped it would be a success. The plan has failed," said Feinstein. [Editor's note: See related [Q&A](#) in the July 31 edition of the Advisor.]

ECONOMIC NEWS

Argentina Renews Exports of Biodiesel to Europe After Spat

Argentina has again started shipping biodiesel to the European Union, returning to what was once its biggest market after a four-year legal battle over import tariffs, Platts reported Wednesday. "We have begun exporting biodiesel to Europe very gradually," Claudio Molina, head of the Argentina Association of Biofuels and Hydrogen, told the publication. Exports to Europe likely will "reach a volume like the one that existed in 2013," or more than one million metric tons, he said, without specifying how long this could take. The European Union imposed duties of more than 20 percent on Argentine biodiesel amid allegations the South American country was selling its product at below-cost. Argentina took the case to the World Trade Organization, which ruled in its favor last October. Meanwhile, the United States has opened its own investigation into alleged dumping and last month imposed a 57 percent duty on Argentine biodiesel. The United States is also at odds with Brazil over biofuels. Last month, Brazil's Chamber of Foreign Trade imposed an immediate two-year tariff-rate quota system for ethanol imports, slapping a 20 percent tariff on purchases from the United States after a 600 million-liter quota is met. This year fuel ethanol exports to Brazil were

THE DIALOGUE CONTINUES

Why Are Chilean Gov't Officials Resigning?

Q Chile's finance, deputy finance and economy ministers resigned on Aug. 31, dealing a blow to President Michelle Bachelet's government. What was behind the resignations? What do the high-level departures mean for Bachelet, her political coalition, and for her ability to carry out the remainder of her agenda before she leaves office in March? What can be expected of the country's new finance minister, Nicolás Eyzaguirre, and the new economy minister, Jorge Rodríguez?

A Guillermo Holzmann, professor at the University of Valparaíso, Chile and CEO of Analytika Consulting: "The surprise resignation of Bachelet's economic team represents a confrontation between those who are against investment in the context of the neoliberal model and the investment process, and those who look for arguments to dismantle and/or weaken the neoliberal model that is in force in Chile. In this example, we see the debate over the environment and its social impact. The fact is that this process of environmental evaluation has lasted for four years, and the final decision was eminently political. The resignations reveal the political and strategic divisions within the government and the Nueva Mayoría party. This portends a future scenario of difficulties for the next Congress, where there will be representatives from more than 24 political parties, and where the possibility of changing environmental regulations or achieving political support for foreign

nearly twice that figure as of July, according to Census Bureau data. Brazil, the largest ethanol export market for U.S. producers, has been considering the establishment of new biofuel mandates for fuel distributors, which would

investment will be minimal. In short, the resignations sound the alarm with respect to the possibilities of accessing foreign investment and exposes an ideological conflict. In what remains of Bachelet's term, the goal is to show control over the macroeconomic model and do damage control.

““ These resignations suggest the complexity of the future of Chilean politics.”

— Guillermo Holzmann

This means Eyzaguirre and Rodríguez, who are familiar with the international financial system and who both are ex-ministers from former administrations, will have the task of convincing others that macroeconomic policy and especially growth commitments will remain in force. Finally, these resignations suggest the complexity of the future of Chilean politics and raise the issue of the relevance of the upcoming elections, where the persistence of the Chilean model and its capacity for adaptation is at stake, versus the social pressures for the state to take a more active role."

EDITOR'S NOTE: The above is a continuation of the [Q&A](#) in Wednesday's issue of the Latin America Advisor.

require distributors to acquire a set amount of 'certificates of emissions reductions' annually through the purchase of ethanol and biodiesel. [Editor's note: See related [Q&A](#) in the May 12 edition of the weekly Energy Advisor.]

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investment in Brazil, with a positive forecast for future years. As a participant of the last government, President Temer is seen as the greatest chance of passing the necessary unpopular reforms without the electoral burden that any future candidate would have to assume. Ultimately, there is a silent vote of confidence in President Temer's agenda. Retail is therefore signaling a positive trend for the sector."

A **Alberto Pfeifer, partner at LatinUS Consulting:** "The market forces pushing large retailing brands to position better in Brazil are, at the end of the day, the market itself. There are two visible components: sheer size and economic recovery. Brazil's consumer pool will reach over 211 million by 2019, according to the Brazilian Statistics Institute (IBGE). Brazil is an urban society—the World Bank estimates that less than 13 percent of the population lives in rural areas—with a high propensity to consume (on average less than 8 percent of households' income is directed to savings). The economy is recovering after almost three years. Household spending jumped 1.4 percent, the first gain since the last quarter of 2014, amid a slowdown in inflation, lower interest rates and higher real wages. Retail sales year-on-year led to four positive months between April and July this year, after 26 negative months in a row. The reality and the potential of the Brazilian retail market are sound and promising in the long term. According to PricewaterhouseCoopers, Brazil's strong retail coverage encompassed nearly 14,500 convenience stores, approximately 5,300 discount stores, more than 1,220 hypermarkets and more than 8,300 supermarkets. Brazil ranks strongly in the world market for beauty and healthcare products, food products, personal computers, televisions and medical equipment. It is among the three largest markets for corporations largely dependent on reliable distribution channels, like Unilever, Avon, Proctor & Gam-

ble and Johnson & Johnson. It is also an important market for ICT industries like TIM and Nextel, and the second-largest global producer of organic food (after the United States). Current strategic repositioning of mega-retailers is therefore a response to the size of the market, the consumer recovery and the outlook for the Brazilian economy. It's not a vote of confidence on Temer's reformist agenda itself, but a realization that the measures being taken are conducive to a more consistent path that Brazil is gradually embarking on, in terms of generating a more amenable business environment."

A **Thomas Rideg, regional chief executive officer of Americas at M-Brain:** "The fact that Brazil's GDP had the slightest increase two quarters in a row, after more than eight straight quarters of decline, is enough to make investors 'cautiously optimistic.' Consumption is growing at 1.4 percent over last year, faster than the GDP's one percent growth, and this has been stimulated by an increase in wages, lower interest rates, lower inflation and higher access to credit. The SELIC (the basic interest rate) has been on a decreasing trajectory, which in turn decreases the cost of credit. A note of caution is that access to the FGTS (or severance pay funds) may also have contributed to increased consumption, which would indicate that some of this recovery may be slightly overstated. The economy is still very distant from its pre-crisis era, but it has passed the 'fundo do pouco' (a Brazilian term for rock bottom) and is beginning to react, though very modestly. These investments by retailers are definitely a vote of confidence in Temer's program, which in turn should bring confidence to other sectors and bring Brazil to a more tangible recovery process by mid-2018."

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