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FEATURED Q&A

Will Brazilians Forgive Corruption in Next Year's Vote?



Former President Luiz Inácio Lula da Silva remains the front-runner ahead of next year's presidential election in Brazil, despite his conviction on graft charges. // File Photo: Lula Institute.

Q At a recent event at the Inter-American Dialogue, Matias Spektor of Brazil's Getúlio Vargas Foundation said public safety and rule of law would be key issues in Brazil's presidential elections next year, amid a massive corruption probe and homicides reaching a record level in 2016. Last year, a poll by Latinobarómetro showed that 55 percent of Brazilians said they would not mind a nondemocratic government, as long as it "solved problems." Brazil was ruled by a military dictatorship from 1964 to 1985. How will voters' concerns shape the campaigns leading ahead of up to next year's election? Will former President Luiz Inácio Lula da Silva's implication in the massive "Operation Car Wash" corruption probe mean that another candidate will soon lead in the polls? What should the Brazilian government do to restore confidence in the rule of law?

A Peter Quilter, senior fellow at The Ash Center for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government: "The 'Car Wash' investigation, now in its fourth year, has shown Brazilians and the world that corruption is ingrained in the catechism of Brazilian politics. Fundamentally, and for a much longer time than we knew, political consensus in Brazil has simply been purchased. That model was exported to other Latin American countries, and now we learn that it was in full flower during Brazil's successful Olympic bid. The judiciary remains the hero of the story, in which a scrappy young prosecutor from Curitiba, far away from the traditional center of Brazilian power, leads a young posse taking down corrupt actors one at a time, with lots of help from Brazil's sprawl-

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TODAY'S NEWS

ECONOMIC

Trudeau, Peña Nieto Vow to Continue With NAFTA Talks

The Canadian prime minister and Mexican president said in Mexico City they are committed to finding a trilateral deal, even as talks have turned sour over U.S. hard-line demands. U.S. President Donald Trump has repeatedly threatened to scrap the deal unless it undergoes major changes.

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BUSINESS

Latin America Units Help Drive Profit at Citi

The New York-based bank eked out a profit gain for the third quarter, which saw a boost from the bank's Latin America units.

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POLITICAL

Venezuelans to Vote Sunday in Regional Elections

The vote for governors and state legislators is seen as a test both for the opposition and for President Nicolás Maduro.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuelans to Vote Sunday in Regional Elections

Venezuelans are to vote Sunday in elections for state governors and state legislators in balloting that is seen as a test for President Nicolás Maduro and for the country's opposition, which unsuccessfully tried to unseat him during months of violent street protests this year, Agence France-Presse reported. Sunday's vote is the first contested election since legislative elections in 2015 gave the opposition control of the National Assembly. However, Maduro's government has been accused of dismantling



Capriles // Photo: Facebook page of Henrique Capriles.

the country's democracy by taking over state institutions, including through his government's creation of a "constituent assembly," which declared itself superior to all other government institutions, including the elected legislature and the courts. Former presidential candidate Henrique Capriles is among those calling on Venezuelans to vote on Sunday. "Get out and vote, win and free the country from the dictatorship of Maduro," said Capriles, the outgoing governor of Miranda State. A big turnout could mean victory for the opposition in the majority of Venezuela's states, according to experts, AFP reported. The opposition Democratic Unity Roundtable, or MUD, coalition is finding itself trying to encourage its dejected supporters, who have seen Maduro grow stronger as he faced down protests calling for his ouster amid the country's political and economic crises. "Vote, vote. We have to overcome the despair," shopkeeper Juan Carlos, 50, told passersby

as he handed out opposition flyers in eastern Caracas, the wire service reported. Earlier this week, Maduro said the vote would be tantamount to a vote of support for the constituent assembly and said governors that are elected would have to be "sworn in and subordinate themselves" to the superbody or be dismissed. "It's an inescapable requirement," Maduro said. The election could boost Maduro even if his allies suffer losses, David Smilde of the Washington Office on Latin America told AFP. "If they hold a semi-legitimate election that leads to opposition figures taking their position in governorships, it will inevitably reduce the resonance of the term 'dictatorship' when applied to Venezuela," said Smilde.

ECONOMIC NEWS

Argentina Consumer Prices Rise Faster Than Expected

Argentina's consumer prices rose faster than expected in September, putting more pressure on the country's central bank to control inflation, The Wall Street Journal reported Thursday. Consumer prices increased 1.9 percent last month, as compared to August, according to the state statistics agency. Prices are up 17.6 percent so far this year.

Brazil's Meirelles Expects Pension Reform by Year's End

Brazilian Finance Minister Henrique Meirelles on Thursday said there is a "very good chance" that the government's proposed pension reform bill will be approved by the end of the year, Reuters reported. Meirelles said it would be easier to pass the bill this year than next year, citing political changes to come ahead of next October's presidential elections. "I think there's a very good chance of having that approved this year, which is more convenient than next

NEWS BRIEFS

Trudeau, Peña Nieto Vow to Continue With NAFTA Talks

Canadian Prime Minister Justin Trudeau and Mexican President Enrique Peña Nieto vowed Thursday in Mexico City to continue pushing for a NAFTA renegotiation deal even as talks in Washington became sour due to hard-line demands from the United States, Reuters reported. "I think that Canada and Mexico share that the NAFTA agreement is a good mechanism, not the only one, but it is a good mechanism to boost the development of the region," said Peña Nieto.

Colombia's Peace Deal Under Threat by Drug Trafficking: Official

Colombian Peace Commissioner Rodrigo Rivera said Thursday that the successful implementation of the peace deal between the government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group, is being threatened by drug trafficking and the continued cultivation of coca, the base ingredient for cocaine, Reuters reported. The comment followed a confrontation between coca farmers and police that left seven dead. "While [drug cultivation and trafficking] exists, it's like honey attracting bees, they're circling, and it's creating new organized crime in the territories where the FARC no longer are," Rivera said.

Bachelet Welcomes 60 Syrian Refugees to Chile

Chilean President Michel Bachelet welcomed more than 60 Syrian refugees to Santiago on Thursday, as the country joined other Latin American countries in offering asylum to families fleeing war-torn Syria, Reuters reported. As part of a resettlement program, families will be provided furnished homes with social benefits, including monthly stipends, schooling, health care and language classes.

year,” Meirelles said. “It’s a good moment for the reform to be approved in Brazil.” The bill would significantly alter Brazil’s generous pension system, cutting back on benefits such as allowing workers to retire in their 50s. The proposal has been popular with investors who



Meirelles // File Photo: Brazilian Government.

believe the reforms are necessary to curb government spending. However, the measure has also contributed President Michel Temer’s record-low approval rating. There is some uncertainty as to whether Temer will be able to push the measure through Congress, however. His presidency has been marked by corruption scandals. Though the lower house of Congress in August voted to shelve graft charges against the president, then-chief prosecutor Rodrigo Janot filed additional graft charges against Temer before Janot’s term ended in September. Meirelles said he expects Congress to vote on the bill by the end of this month or next month, and that he also sees Congress voting on a proposed tax reform bill in the near future.

BUSINESS NEWS

Latin American Units Help Citi to Post Profit Gain for Q3

The fourth-largest U.S. bank by assets, Citigroup, on Thursday reported a slight gain in quarterly profits, due in part to improvement at its Mexico division, where the bank is investing heavily, the Financial Times reported. The bank’s overall net income for the third quarter rose from \$3.84 billion to \$4.13 billion year-over-year, though Citi’s sale of its fixed

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ing free press. But there are significant old-guard political forces trying to rewrite that story. It is not a forgone conclusion that the heroes will win. As for the 2018 presidential elections, they are wide open, and fueled by anger and frustration. Last Saturday’s informal and colorful ‘Plebisl’ won enough votes for three southern states to declare their own country, ‘away from the corruption.’ The leaders in the presidential polls, Lula

“**Fundamentally, and for a much longer time than we knew, political consensus in Brazil has simply been purchased.**”

— Peter Quilter

and Bolsonaro, are both scary in their own way. Is it time for the outsiders? João Doria, the former host of the local version of *The Apprentice*? Marina Silva, if Lula crashes? I am less concerned that Brazilians will look to a non-democratic leader than I am with voters expecting that the election will solve everything. It will not. President Obama disappointed some in a recent speech in São Paulo for not providing more prescriptions for Brazil’s problems. The moment highlights a truth Brazilians cannot escape from: Durable solutions are on a different timeline from the elections, and will only come from Brazilians themselves.”

income analytics business to the London Stock Exchange inflated the figure by allowing the bank to have a \$355 million pre-tax gain. Citi’s business showed particular strength in Latin America, where the bank is investing in equities trading, a business it is trying to expand in the region. A strong showing in Latin America and especially in its Mexico division helped offset weakness in Citi’s bond trading and provisions for non-accrual loans. Group-wide revenues

A Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: “Brazilian politics today are tarnished, confused and unpredictable. Contradictions abound. Nothing has contributed more to public hostility and wide disrespect for government than the massive corruption scandals of Brazil’s political and business elites. Yet, recent polls put former President Lula da Silva, recently convicted for taking bribes (although still free, pending appeals), far ahead of other potential candidates in next year’s presidential election. The economy is another priority concern for Brazilians. After three years of deep recession, 10 percent shrinkage of GDP and widespread unemployment, signs of recovery are just beginning to appear. President Temer, despite clear evidence of his own corruption, surely deserves some credit for the economic rebound. Yet, only 4 percent of voters support him, while a large majority vehemently reject his economic agenda. He can barely go out in public without being booed. If he is eligible to run, Lula will likely win the presidency for a third time. Brazilians—particularly, but not exclusively, the lower income groups—still remember his successes as president and his efforts to make the country more equal. And despite his legal troubles and advancing age, no other politician in Brazil comes close to matching his charisma or campaign skills. He is still magnetic. But should his conviction be upheld, as now appears likely, and he is barred from the race, the outcome

Continued on page 4

grew by 2 percent year-over-year to \$18.2 billion. Operating expenses were at \$10.2 billion, \$233 million lower than during the same period last year. Earnings per share were \$1.42, higher than analysts’ forecasts of \$1.32. Citi’s trends were similar to those posted by rival JPMorgan Chase, showing a mixed outlook that indicates that the expected boost to the sector from the election of U.S. President Donald Trump may have yet to materialize.

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of the presidential election, like a lottery, will be impossible to forecast. Steady economic improvement over the coming six months should benefit the center and center-right (represented by potential PSDB candidates Geraldo Alckmin and João Doria, governor and mayor of São Paulo, respectively). On the other hand, a stagnant economy, coupled with deteriorating public security, new corruption revelations and growing protests could lead to the election of a rank outsider, even right-wing populist Jair Bolsonaro, who now scores second in the polls behind Lula. The elections will, hopefully, produce a government that is viewed more favorably by Brazil's citizens. It is unlikely, however, to resolve Brazil's deep governance crisis."

A James Bosworth, founder of Hxagon and author of *Bloggings By Boz*: "While it's doubtful that any meaningful portion of the population would accept dictatorship, voters' responses on the Latinobarómetro questions about democracy are a reflection of citizens' frustration with the current political class and the corruption it represents. In the coming year, voters will likely cycle through anti-establishment alternatives to the traditional parties, looking for a candidate who represents a major change from the current system. Outsider politicians including Jair Bolsonaro and João Doria will try to tap into that anger. Traditional parties, including the PMDB, are already responding. Last week,

Congress passed reforms to the campaign finance system that will eventually benefit the larger parties and harm independent and small party candidates. Lula's ability to run amid this voter outrage is a big wild card. While markets dislike the possibility of a

“Many Brazilian voters remember their lives being better under Lula.”

— James Bosworth

Lula return, many Brazilian voters remember their lives being better under Lula. His base does not blame him for the country's current problems, even if they are aware of his role in the unsustainable spending and corruption scandals. Lula could never have run as an outsider with Dilma Rousseff in office, but after her impeachment, he is once again able to credibly tap into the voter discontent with the sitting government and economy. If he is allowed to run, Lula has a strong base of support and can certainly make it to the second round, where he would be competitive against almost any opponent."

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

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