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FEATURED Q&A

Must Brazil Choose Between Growth & Fighting Graft?



Twice this year, Brazilian President Michel Temer has survived crucial votes that could have led to his trial on corruption charges. // File Photo: Brazilian Government.

Q The lower house of Brazil's Congress on Oct. 25 voted for the second time this year to spare President Michel Temer from a trial before the Supreme Court on corruption charges. Members of the leftist Workers' Party argued that Temer should stand trial, saying the charges against him were more serious than those leveled against former President Dilma Rousseff of the Workers' Party, who was impeached last year on accusations of violating budgetary rules. However, Temer's allies in the lower chamber argued Temer should be allowed to serve out the rest of his term for the sake of the country's political and economic stability. Which is more urgent for Brazil: pursuing corruption investigations—wherever they may lead—and punishing the guilty, or reviving the country's crippled economy and reigniting stalled social progress? What bearing does Temer's ability to sidestep a graft trial twice have on future investigations of other politicians? Should former President Luiz Inácio Lula da Silva be allowed to run for president next year, despite the corruption charges against him?

A Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "Brazil's judicial authorities deserve applause for courage and high professional standards as they doggedly investigate and prosecute the pervasive corruption of the nation's politics. Few countries anywhere have launched a more concerted attack on corruption, which in Brazil has led to the exposure and punishment of many powerful politicians and business leaders. Curbing corruption is essential for the future of democracy and the rule of law in Brazil. But Brazilian democracy is also threatened by

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TODAY'S NEWS

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Venezuela in Selective Default: S&P

S&P Global Ratings declared Venezuela in selective default after the country's government failed to make \$200 million in coupon payments on bonds during a 30-day grace period.

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BUSINESS

Brazil's JBS Reports Drop in Third-Quarter Profit

The meatpacker has faced a food safety scandal and corruption investigations of its top leadership.

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ECONOMIC

Mexico Preparing for Possibility of NAFTA's End

Mexico's government and the central bank are preparing a plan that would address the fallout of a possible U.S. withdrawal from the North American Free Trade Agreement, said Mexican Foreign Minister Luis Videgaray.

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Videgaray // File Photo: Mexican Government.

ECONOMIC NEWS

S&P Declares Venezuela in Selective Default

S&P Global Ratings on Monday declared Venezuela in selective default following the South American country's failure to make payments on bonds following the expiration of a 30-day grace period, Reuters reported. Venezuela's government failed to make \$200 million in coupon payments for global bonds due in 2019 and 2024 by Sunday's expiration of the grace period, S&P said in a statement. The ratings agency added that it had lowered Venezuela's long-term foreign currency rating to "SD" and also lowered its long- and short-term foreign currency sovereign credit ratings for the country to "SD/D" from "CC/C." "Our CreditWatch negative reflects our opinion that there is a one-in-two chance that Venezuela could default again within the next three months," S&P said. The ratings agency added that it would raise its long-term foreign currency sovereign issue credit and also boost its ratings for Venezuela to "CC" if the government solves its defaults on the overdue coupon payments and makes its debt payments on time before a planned restructuring, Reuters reported. President Nicolás Maduro announced debt restructuring plans earlier this month and on Monday summoned creditors to Caracas to discuss its intentions for the restructuring of some \$60 billion in bonds. Investors who attended the meeting Monday at the presidential palace said they heard a half-hour speech from Vice President Tareck El Aissami, whom Maduro has put in charge of negotiations on restructuring the debt, The Wall Street Journal reported. The speech by El Aissami, who has been blacklisted by the United States for his alleged role in drug trafficking, focused on Venezuela's efforts to continue making its debt payments. After his talk concluded, investors at the meeting were given boxes of chocolates and escorted out of the building, the newspaper reported, citing two people who attended the meeting. "They didn't even allow questions," said one of the inves-

tors. "They gave no details on their plans and no future meeting dates." Maduro's government on Monday night called the meeting "highly promising" and said it was the beginning of the process of refinancing Venezuela's debt. The statement gave no details about how or when a refinancing would occur, but it said the government would continue servicing its debt.

Mexico Preparing for Possibility of NAFTA's End

The Mexican government is preparing a macro-economic response in case President Donald Trump follows through on his threats to withdraw the United States from the North American Free Trade Agreement, Reuters reported Monday. Mexican Foreign Minister Luis Videgaray said Monday that the government and the central bank were preparing a plan to address the fallout from a possible U.S. withdrawal from NAFTA, though he gave few additional details. Mexico's government has said it would look into ways to provide certainty to investors about their investments if the 24-year-old free trade agreement falls apart. Trade negotiators from Mexico, the United States and Canada will meet in Mexico City this week to continue talks on overhauling the agreement. Videgaray added that Mexico will continue to work on diversifying trade, protecting foreign investment, reviewing possible changes to tariff barriers and preparing a macro-economic response from the finance ministry and the central bank. "We have to be prepared for all the scenarios, and one of the scenarios is that the United States leaves the treaty, and as we have said, that is not the end of the world; the Mexican economy is much bigger than NAFTA." The free-trade agreement is the basis for some \$1.3 trillion in annual trade among the three countries, and nearly 80 percent of Mexico's exports go to the United States. In light of the uncertainty surrounding the NAFTA negotiations and the upcoming presidential elections next year, the International Monetary Fund in its annual Article IV consultation on Monday said Mexico's economic growth would slow 1.9

NEWS BRIEFS

Eight Killed, at Least 12 Bodies Found in Mexico's Guerrero State

Eight people were killed and at least 12 bodies were found in Mexico's Guerrero State on Sunday, the Associated Press reported. Among the incidents, the bodies of three young men were reportedly found early on Sunday in Acapulco and showed signs of having been tortured. Later that morning, a shoot-out between police and armed men took place on a central avenue that led to a car chase and left one suspect dead and the other two arrested. Authorities also discovered a clandestine grave in a bar, where an excavation revealed five bodies. Authorities also discovered more human remains in the municipality of Copanatoyac.

Thousands Protest in Rio After Committee Advances Total Abortion Ban

Thousands of women took to the streets of Rio de Janeiro on Monday in protest of a recent committee vote in Congress to make abortion illegal without exception in Brazil, the Associated Press reported. Abortion is currently legal in Brazil in some cases, including rape and pregnancy that threatens the life of the mother. A congressional committee last week adopted a measure that would remove those exceptions and make the procedure illegal in all cases.

América Móvil to Push Back on Rivals' Subsidies

América Móvil, which is controlled by Mexican billionaire Carlos Slim, said it would push back against its rivals "regulatory subsidies," Reuters reported Monday. The statement came less than two weeks after Mexico's telecommunications regulator ruled that América Móvil can begin charging its competitors for calls made to customers on its network. The regulator's move weakened a main part of the country's 2014 telecommunications reform.

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economic stagnation and social regression. In the past three years, the economy has shrunk by 10 percent, unemployment is at record levels and chronic inequality has worsened. Confidence in government is at rock bottom. Corruption has amplified Brazil's economic slump, but it is also true that the anti-corruption campaign could slow or even reverse a still embryonic recovery. Despite public disapproval, President Temer, a practiced and skilled politician, has made some headway in remedying Brazil's horren-

“Allow Temer to complete his term...”
— Peter Hakim

dous fiscal situation. He and his economic advisors offer the only hope for congressional approval of the measures needed to accelerate growth. But Temer has been weakened by charges of corruption. Anti-corruption initiatives could also compromise the legitimacy of next year's election. The frontrunner, former President Lula da Silva, is on the verge of being barred from running. He is awaiting the decision of his appeal of a corruption conviction, which would make him ineligible if upheld. So, what to do? Call a halt to anti-corruption efforts and allow corrupt politicians to contest elections and hold high office? Or stick with the rule of law, and potentially stall economic recovery and deny Brazilians the right to choose their president? No easy choices here. Brazilian politics are in turmoil; recovery remains precarious and political institutions have lost credibility. Now is the time to take a deep breath. Allow Temer to complete his term, which ends on Jan. 1, 2019, before pressing charges. But also, let Lula run. His exclusion

from the presidential race, while Temer goes unchallenged, would dangerously politicize Brazil's anti-corruption battle and probably diminish the judiciary's reputation for honesty and independence.”

A **Mark S. Langevin, director of the Brazil Initiative and research professor at the Elliott School of International Affairs at The George Washington University:** “The corruption charges leveled at President Michel Temer are much more troubling than the ‘crimes of responsibility’ imagined by those leading the charge for the impeachment of former President Dilma Rousseff in 2016. Nearly the same congressional coalition that condemned Dilma for delaying fiscal transfers to Banco do Brasil now stand in the way of holding Temer accountable for pay-to-play corruption before and during his presidential tenure. If Dilma's impeachment was a disruption, then the lower house's votes to protect Temer from immediate prosecution constitute a full breach of the Constitution and rule of law. The opportunistic reasoning offered by Temer's supporters is morally bankrupt and reveals a strong movement within the Brazilian legislature to avoid accountability and evade further corruption prosecutions among its adherents. Brazil's long-term economic and social development depends on the successful investigation and prosecution of corruption at all levels of government and throughout the private sector. Any short-term economic costs arising from removing corrupt officials from office can only be calculated against the game-changing benefits of government transparency and accountability. The votes to save Temer and the recent nomination of Fernando Segóvia (who enjoys close ties to Temer's inner circle) to become the next director of the federal police both demonstrate the ruling coalition's tenacity to foil the Lava Jato investigations and quash the fragile struggle against corruption. The real question is not whether former President Lula will overturn

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percent next year, down from July's 2 percent projection for next year's growth, the Financial Times reported. The economy grew 2.3 percent last year.

BUSINESS NEWS

Brazil's JBS Reports Drop in Third-Quarter Profit

Brazilian meatpacker JBS, which has been rocked by a food safety scandal and corruption investigations of its top leadership, saw its third-quarter profit drop to 323 million reais (\$98.5 million), down from 887 million reais (\$270.5 million) during the three months through September last year, the Financial Times reported Monday. JBS said the adjusted earnings before interest, taxes, depreciation



Wesley Batista // File Photo: JBS.

and amortization was a record 4.32 billion reais, up from 3.14 billion reais last year. Net profit was 1.9 billion reais, and net debt shrank by 9.6 percent to 45.5 billion reais in the third quarter from 50.4 billion reais in the second quarter of this year. This is the first time the company has posted its earnings since brothers Wesley and Joesley Batista, the former CEO and former chairman of JBS, were arrested in September. The company attributed the drop in revenue of its Brazilian unit, which fell by 24.4 percent to 5.1 billion in the third quarter, to the sale of the company's beef operations in the Mercosur bloc. The company has been selling assets in order to help cover its debt, and the Batista brothers' investment company, J&F, is facing 10.3 billion reais in fines over 25 years.

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his conviction on appeal and runs for the presidency, but whether the 2018 elections will advance Brazil's existential struggle to punch-out privilege, discrimination and corruption for generations to come. Only Brazilian voters can win that fight."

A **Brian Winter, editor-in-chief of Americas Quarterly and vice president of the Americas Society/Council of the Americas:** "Punish corruption—or revive the economy? That's a dangerous and false choice, but one that Michel Temer has successfully peddled to enough of Brazil's establishment to survive in office. Temer's message, that only he can ensure Brazil's economic recovery continues and that structural reforms get made, has 'paid off'—for him and his allies, anyway. The important question is whether it will benefit Brazil's people over the medium and long term. Let's be specific: Congress' decision to turn a blind eye to Temer's alleged infractions has infuriated a Brazilian public already deeply angry with the political class as a whole. It's not just Temer who is unpopular, with his 5 percent approval rating—virtually every national politician is 'upside-down' in polls, with higher disapproval than approval. It is precisely this environment that explains why Luiz Inácio Lula da Silva and Jair Bolsonaro are running first and second in polls, respectively, with 52 percent of the vote between them. Lula is benefiting from the 'All politicians are corrupt, but only Lula did anything for me,' narrative, which Temer's travails have reinforced. Bolsonaro's supporters, meanwhile, are also disgusted by corruption and are willing to overlook his other flaws (including misogynistic, anti-gay comments) in order to 'punish' the ruling class. Both of these candidates carry huge question marks, at best, on whether they'd govern with pro-business policies. So: By choosing to tolerate Temer's alleged cor-

ruption, Brazil's establishment may end up destroying the economy as well. We'll know in less than a year."

A **Peter Quilter, senior fellow at The Ash Center for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government:** "Pursuing corruption or tackling Brazil's political agenda is a false choice. It is no accident that the 'forgive and forget' argument in the name of stability is always trotted out by the perpetrators of bad deeds. In Latin America, it has been a painful leitmotif of its history of dictatorships. Amnesties, for instance, are undertaken when societies decide that political alignments of that moment can accept little else. With any luck, the amnesties are thrown out later when those alignments change. But that dry recitation masks the fact that the process is painful and wrenching, and inevitably leaves deep scars. There is little reason for Brazil as a society, in this moment, to choose to subject itself to the pain and lasting damage of letting corrupt politicians escape justice. Yes, the old guard, well represented in the Congress and party structures, stands in the way. This means Brazilian society stands on the other side of a chasm from its current political class. This will change, but it will take time. By remaining a candidate, Lula is exploiting in a most unseemly way the distortions inherent in that chasm. He should step aside, for the good of his country and its challenges. Brazil's booming stock market conceals an underlying fragility of its inward-looking economy, unsustainable pension system and deep need for regulatory reforms. And while a credible centrist candidate has not yet cracked the top of the polls for the upcoming election, Brazilians should not fall into the trap of believing that only corrupt politicians can tackle this agenda."

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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
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