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FEATURED Q&A

Can Cuba's New President Attract Foreign Investors?



Cuba's new president, Miguel Díaz-Canel, is reportedly stepping up efforts to attract more foreign investment to the Caribbean nation. // File Photo: Radio Rebelde.

Q Under new President Miguel Díaz-Canel, Cuba is boosting its efforts to attract foreign investment and strengthen the island nation's languishing economy, the Financial Times reported on May 8. Among the projects, France's Total and Germany's Siemens are working to open a new gas-fired power plant in Cuba, and Guernsey-incorporated Ceiba Investments recently announced \$150 million in investment to upgrade four hotels and build a fifth one with Spain-based Club Meliá and Cuban partner Cubanacan. To what extent will foreign investments materialize, and how far will they go in solving Cuba's economic problems? How will tighter U.S. restrictions under the Trump administration affect investment, tourism and other commerce in Cuba? Is new Cuban President Miguel Díaz-Canel significantly changing course from six decades of Castro rule by seeking these new investments?

A Matthew Aho, special advisor on Cuba for the corporate practice group of Akerman LLP in New York: "Former President Raúl Castro for years extolled the virtues of foreign direct investment as a pillar of his efforts to 'update' his country's economy and achieve a more prosperous version of Cuban socialism. Yet, despite years-long efforts to charm investors with fancy trade ministry brochures containing glossy photos of potential business opportunities and countless government-sponsored industry fairs, the long-promised annual \$2 billion flood of foreign capital has never amounted to more than a trickle. Spanish involvement in hotels, Canadian investments in mining and energy, and French companies' worldwide

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TODAY'S NEWS

POLITICAL

Nicaragua's Ortega Violated Human Rights: Commission

Nicaraguan President Daniel Ortega's government violated human rights in its crackdown on protests, said the Inter-American Commission on Human Rights.

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ECONOMIC

Jamaica's Poverty Rate Falls to Six-Year Low

The Caribbean nation's poverty rate fell to 17.1 percent. Rising employment, higher agricultural output and lower consumer prices have reportedly helped.

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POLITICAL

Temer Drops Out of Brazil Presidential Race

Brazilian President Michel Temer, whose approval ratings have consistently been in the single digits, withdrew from the country's presidential race and endorsed his former finance minister, Henrique Meirelles.

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Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil's Temer Drops Out of Presidential Race

Brazilian President Michel Temer, whose approval ratings have languished in the single digits, on Tuesday withdrew from the country's presidential race and endorsed his former finance minister, Henrique Meirelles, Globo TV reported. "Meirelles is the best of the best," Temer said standing next to Meirelles at an event in Brasília hosted by the Brazilian Democratic



Meirelles is the best of the best."

— Michel Temer

Movement Party. In the speech, which Globo televised, Temer acknowledged his slim chances of being re-elected. "I am realistic. I know what I did and what I did not do [in office]," Temer said. Meirelles stepped down as finance minister in order to run for president. He also served as central bank president during the administration of former President Luiz Inácio Lula da Silva, who was jailed last month after being convicted on corruption charges. Temer, who took office in 2016 after the impeachment of his predecessor, Dilma Rousseff, has seen his approval ratings consistently in the single digits. At one point, it was as low as 3 percent, the Associated Press reported. Corruption allegations against him have also frequently diverted attention away from his government's reform agenda. Brazil's attorney general has charged Temer in two corruption cases. The lower house of Brazil's Congress, which must approve any prosecution of a current president, voted twice last year against allowing his prosecution. He still could face trial after leaving office at the end of this year. Recently, Brazil's federal police have investigated whether Temer

may have been involved in the laundering of illicit money, including through the purchase of real estate, the AP reported. Authorities are investigating whether he used his young son and other family members in the alleged money laundering. Temer has strongly denied wrongdoing and has called the investigation "criminal persecution." [Editor's note: See related [Q&A](#) in the May 8 issue of the Advisor.]

ECONOMIC NEWS

Jamaica's Poverty Rate at Six-Year Low

Jamaican Finance Minister Nigel Clarke said Tuesday that the island's poverty rate had fallen to 17.1 percent, a six-year low, the Jamaica Gleaner reported. A combination of rising employment, higher agricultural output and lower consumer prices has brought the poverty rate down 19 percent since 2015, according to the report. Data from the Planning Institute of Jamaica, or PIOJ, indicated that poverty in rural Jamaica has fallen by 30 percent. "This is great news for the people of Jamaica, as it speaks to the fact that economic opportunity is expanding for more and more of our fellow citizens," Clarke said, speaking in the House of Representatives. Jamaica's economy expanded 1.2 percent in the first three months of this year, with the mining and quarrying industry growing by 25.5 percent, according to preliminary data released by PIOJ on Tuesday. For fiscal year 2017-18, however, the growth rate was lower, expanding by just 0.8 percent. Bank of Jamaica Governor Brian Wynter said earlier this week that Jamaica's market interest rates are at record lows and "still falling," while the government's fiscal performance remains strong, the state-run Jamaica Information Service reported. Wynter said he expects a modest acceleration in economic growth ranging between 1.5 and 2.5 percent per quarter over the next two years, with inflation contained at the lower end of the bank's target of 4-6 percent. A strong economy in the United States, a top source of tourism and trade for the island, is helping boost the bank's projections, Wynter said.

NEWS BRIEFS

Ortega Violated Human Rights in Crackdown: Commission

The Inter-American Commission on Human Rights said Monday that Nicaraguan president Daniel Ortega's government gravely violated human rights in a crackdown on mass protests against the government last month, Nicaraguan newspaper La Prensa reported. The commission's preliminary report listed torture, inhumane treatment, censorship of and attacks against the press and illegal detention as some of these violations, according to BBC News. The commission also counted 76 deaths and 868 injured.

All Survive Crash of Private Jet in Honduras

There were no fatalities in the crash of a private jet in Honduras on Tuesday morning, Honduran daily newspaper La Prensa reported. The plane, which carried four passengers and two crew members and was traveling from Austin, Tex., veered off the runway and split in half when the pilot was attempting to land at Toncontín International Airport in Tegucigalpa. Preliminary reviews suggest the crash was a result of human error and not aircraft malfunction.

Fourteen Chilean Priests Suspended Amid Investigation

Catholic Church officials in the Chilean city of Rancagua on Tuesday suspended 14 priests who are under investigation on allegations of "improper conduct," Reuters reported. The development could worsen a sexual abuse scandal involving Catholic priests in the South American country. Earlier on Tuesday, the Vatican announced that Pope Francis would host a second group of victims who had suffered abuse at the hands of priests.

Brazil Eyes Cutting Diesel Taxes to End Truckers' Strike

In an attempt to bring a two-day truck driver strike to an end, Brazil Finance Minister Eduardo Guardia announced an agreement with Congress for the government to cut special taxes on diesel, *Folha de S. Paulo* reported on Wednesday. The agreement is subject to congressional approval of the government's payroll project. The statement came after truck drivers blocked highways and other roads on Monday and Tuesday in protest of rising fuel prices, threatening to hurt the country's economy, which relies heavily on transportation. More than 200,000 truck drivers are calling for Petrobras, Brazil's state-owned oil giant, to untie its prices from international oil prices, said a national truckers association representative on Tuesday, according to *The Wall Street Journal*. Diesel prices, which make up the bulk of truckers' costs, have increased by 16 percent in comparison to the same period last year, the newspaper reported. They are also demanding a reduction in fuel taxes. The strike has disrupted traffic in at least 17 of 26 Brazilian states and may continue throughout the week, Reuters reported. On Monday, Guardia told reporters that "[the government] cannot afford to have a reduction in tax revenue at this moment," according to Reuters.

BUSINESS NEWS

Vista, Jaguar Announce Venture on Mexico Projects

Vista Oil & Gas and Jaguar Exploration and Production on Tuesday announced a joint venture on three onshore oil projects, two in Tabasco State and one in Veracruz, Mexican daily newspaper *El Financiero* reported. Under the deal, Jaguar is selling a 50 percent stake in the three

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distribution of Cuban rum and cigars are a proverbial drop in the bucket relative to the country's needs. A major infrastructure project like the gas-powered plant would be a big step in the right direction (assuming it ever breaks ground and amounts to more than a flurry of good press). Average Cubans like to talk about two 'blockades.' The first is imposed by the United States from afar. The second is the so-called 'internal blockade' and refers to bureaucratic bottlenecks, lack of transparency and outmoded mindsets among many Cuban officials. If he wants to succeed where his predecessors failed, Mr. Díaz-Canel should focus first and foremost on the latter, where he exercises greater control. The U.S. embargo is inarguably a deterrent to investment. But risk-tolerant global capital would almost certainly flow by the needed billions if European, Asian and Middle Eastern investors could only figure out a place to put their money where it would truly be protected by the rule of law and generate adequate annual returns on investment."

A Paul Webster Hare, senior lecturer at the Frederick S. Pardee School of Global Studies at Boston University and former British ambassador to Cuba: "The European Union has a long foreign investment history with Cuba. Indeed, 20 years ago it was the source of more than 70 percent of all foreign investment. Then Fidel Castro closed the door, and most existing investors left or saw their property expropriated. Some were imprisoned without charge. Thereafter, Venezuela became the only investment and

trade partner that mattered. Now, Venezuelan largesse is drying up, and Cuba is negotiating again with the European Union. Many substantial problems exist. Important sectors such as agriculture, financial services and retail remain closed to foreign investment. Investors must still employ

“**Important sectors such as agriculture, financial services and retail remain closed to foreign investment.**”

—Paul Webster Hare

only those chosen by the state and pay their salaries through the state. These policies are to reward loyalty and limit the inequality that foreign investment stimulates. Beyond the direct impact of the investments, other challenges must be resolved. How far will foreign investors in areas like tourism be permitted to compete directly with the military-owned conglomerates? And will Cuban-Americans and self-employed Cubans be able to partner with overseas investors? Meanwhile, the recent project announcements will remind Cuba watchers that many get the green light but few actually happen. Bureaucracy is often Cuba's answer to overzealous entrepreneurs. If Díaz-Canel wants to signal change, he must address these points. I doubt that new U.S. restrictions will now deter investors. The United States has

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onshore blocks to Vista for \$37.5 million, plus additional payments based on the future price of oil, Bloomberg News reported. Vista will operate the two blocks that are already under production, while Jaguar will operate the third area, an exploratory block. Jaguar, an upstart Monterrey-based oil company that Mexico's Grupo Topaz owns, won the three projects at auctions last year, Reuters reported. Mexico's

oil regulator, the National Hydrocarbons Commission, still must approve the joint venture in order for it to take effect. Last year, Vista became the first publicly traded oil firm in Mexico, four years after the country's landmark energy reforms, which ended decades of monopoly control of the sector by state-owned energy company Pemex. Vista has also eyed assets in Brazil and elsewhere for possible acquisition.

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fought and lost those battles before. And with possible new U.S. sanctions on European investors in Iran, European governments will not back down knowing they will have strong public and international support.”

A **Jaime Suchlicki, director of the Cuban Studies Institute at the University of Miami:** “Cuba has had foreign investments from European countries for decades. They have done little to transform the Cuban economy or to improve the lives of the average Cuban. The Cuban government depends on the program to send physicians abroad, remittances from Cuban-Americans, drug trafficking, tourism and nickel exports.

“**Investors must deal with Cuba’s reality: bureaucracy, corruption and slowness in implementation.**”

— Jaime Suchlicki

These are the key items for the economy. Tourism has been dropping, in part because of Trump’s policies, and in part because tourists are not returning to the island for a second trip. The initial curiosity seems to be fading. Many of the investment projects are only projects. Investors must deal with Cuba’s reality: bureaucracy, corruption and slowness in implementation. The Díaz-Canel regime is nothing more than the Raúl Castro rule with a younger look. Raúl remains secretary general of the Communist Party, the maximum authority on the island. With little support within the military, the party and the population, Díaz-Canel is a fearful, cautious and obedient bureaucrat unwilling to chart a new course for the Cuban regime. With Raúl

alive, and even after he is gone, change in Cuba will be slow and painful.”

A **Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana:** “In 1823, U.S. Secretary of

State John Quincy Adams predicted that ‘if an apple severed from its native tree cannot choose but to fall to the ground, Cuba....can gravitate only towards the North American Union.’ Almost 200 years later, it may finally be said with some certainty that Adams’ ‘ripe fruit theory’ has been proven wrong. Even after the expropriation of U.S. property valued at close to \$2 billion by Cuba’s 1959 Revolution and the United States’ imposition of a devastating unilateral embargo that is almost 60 years old, it still seemed as if the geographic proximity and American capital would one day prove Adams’ ‘ripe fruit theory’ true. Cuba’s successful transition to a new president who is welcoming foreign investment from major European firms, if continued and expanded, could allow the island to diversify its traditional dependency on a single foreign state and slow its growing dependence on Russia and China. To sustain growth, Cuba’s antiquated and inefficient communist system will have to give way to rapid communications, technology and greater individual freedom. But the United States will not be part of that process. President Trump’s return to a punitive policy has shattered promising American trade and investment. In consequence, conservative Cuban-Americans who imagined a return to the island may find that the longed-for apple has finally escaped their reach and that Cuba has found a path toward true independence.”

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

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