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## FEATURED Q&A

# Are Continued Struggles Ahead for Brazil's Economy?



Brazil's central bank, led by Ilan Goldfajn, last month lowered its forecast for the country's economic growth this year. // File Photo: Brazilian Government.

**Q** Brazil's central bank in late June slashed its forecast for economic growth this year to 1.6 percent, as compared to 2.6 percent previously. The bank cited a nationwide truckers' strike and a decline in economic activity at the beginning of the year as reasons for the lowered forecast. What will the second half of 2018 hold for Latin America's largest economy? Which industries are most healthy, and which sectors will struggle? How will the state of Brazil's economy affect this year's presidential election?

**A** Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services: "The central bank's June forecast for 2018 economic growth is just one more in a series of downturn revisions, following a sluggish first quarter. The outlook for stronger recovery, within the range of 2.8 percent to 3 percent, at the outset of the year, proved to be short-lived. Aside from the economic impact prompted by the grave nationwide truck drivers' strike in the second quarter, low consumer and investor confidence levels represent a major constraint factor for economic activities. A weak administration, threatened by ongoing corruption investigations, low credibility of politicians, negative perception about Congress' ability to pass minimal critical reforms before the end of the current mandate and, last but not least, the huge uncertainty over the outcome of the October elections, are just some of the ingredients behind the overall apathy. As a result, the large number of unemployed and underemployed remains a major concern and a source of social pressures. Against this backdrop, it is reasonable to estimate a modest economic growth of 1 percent to

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## TODAY'S NEWS

### POLITICAL

## Mexico Reportedly Opposes U.S. Asylum Proposal

Mexico's Foreign Ministry reportedly opposes a U.S. proposal under which migrants from third countries who reach the U.S.-Mexico border would be required to seek asylum in Mexico.

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### BUSINESS

## Brazilian Central Bank Expected to OK Itaú's Buy of Stake in XP

The central bank's approval of Itaú's purchase of a 49.9 percent stake in XP Investimentos could come by the end of the month.

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### POLITICAL

## Argentina Seeks Arrest of Former Iranian Foreign Minister

Argentina's Foreign Ministry has requested that Russia arrest former Iranian Foreign Minister Ali Akbar Velayati in connection with the bombing of a Jewish center in Buenos Aires in 1994.

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Velayati // File Photo: PressTV.

## POLITICAL NEWS

## Mexico Opposes ‘Safe Third Country’ Deal With U.S.: Report

Mexico’s government reportedly opposes a so-called “Safe Third Country Agreement” with the United States under which migrants who reach the U.S.-Mexico border and are seeking asylum would be required to apply to remain in Mexico, Reuters reported, citing a briefing note that was prepared for Mexican Foreign Minister Luis Videgaray. The note was prepared for Videgaray in advance of a meeting that he had Tuesday in Guatemala with U.S. Homeland Security Secretary Kirstjen Nielsen. “Mexico is not in the position to accept a safe third country agreement, as the United States has proposed on previous occasions,” the note says, the wire service reported. “Mexico has made a significant effort to provide Central Americans detained on [Mexico’s] southern border with greater information on asylum, and recently adopted measures which allow asylum applicants to work while their case is resolved.” U.S. officials reportedly hope that a “Safe Third Country Agreement” would deter the thousands of Central American migrants who travel each year through Mexico in hopes of reaching the United States. Many of the approximately 2,000 foreign-born children who were separated from their parents in recent months under a Trump administration zero-tolerance policy were in the United States because their parents were seeking asylum in the country. After a public uproar over the separations, U.S. President Donald Trump on June 20 signed an order that was intended to keep families together and still prosecute those who cross into the United States illegally. Less than a week later, U.S. Customs and Border Protection said it had stopped referring migrants for prosecution until they were able to determine how to keep families unified as they were being prosecuted, ABC News reported. On Tuesday, the Trump administration missed a court-ordered deadline to reunite families that had been separated at the border. A federal judge in San Diego had or-

dered the administration to reunite all children younger than five years old by Tuesday, but as of Wednesday, only four cases in which parents were reunited with their children had been confirmed, ABC reported. Administration officials and government attorneys told the network that 102 children age five and younger had been separated, and that they anticipated being able to reunify all those children with their parents by Thursday morning. However, the judge acknowledged in a hearing on Tuesday that not all of those 102 children could be reunified with their parents because some of the parents had been deported or had criminal backgrounds. Trump administration officials are hoping for cooperation from Mexico on immigration and security matters ahead of Andrés Manuel López Obrador’s inauguration as the country’s president on Dec. 1. López Obrador and Videgaray are both expected to meet today in Mexico with a U.S. delegation that includes Nielsen and Secretary of State Mike Pompeo. Mexico’s foreign ministry declined to comment on whether the United States’ asylum proposal will be on the agenda for the meeting, Reuters reported. [Editor’s note: See [Q&A](#) on U.S.-Mexico relations under the administrations of Trump and López Obrador in Wednesday’s issue of the Latin America Advisor.]

## BUSINESS NEWS

## Judge Clears Brazil’s Esteves of Obstruction Charges

A Brazilian judge acquitted André Esteves, a billionaire banker, on charges of obstructing justice as part of the investigation into the massive “Lava Jato,” or “Car Wash,” corruption scandal, BR18, a digital news site of O Estado de S.Paulo, reported Thursday. Judge Ricardo Augusto Soares Leite in Brasília ruled that there was insufficient evidence to convict Esteves and six others allegedly involved in the case, the Financial Times reported. Former President Luiz Inácio Lula da Silva, who has been in prison since April on corruption-related

## NEWS BRIEFS

## Argentina Seeks Former Iranian Foreign Minister’s Arrest in Bombing Case

The Argentine foreign ministry has asked Russia to arrest Ali Akbar Velayati, a former Iranian foreign minister, for extradition in relation to his alleged involvement in the bombing of a Jewish center in Buenos Aires in 1994, Agence France-Presse reported today. Velayati is a special advisor to Iranian President Hassan Rouhani and was in Russia for a meeting with Russian President Vladimir Putin. Argentina made the same request to China, where Velayati is going next. The Lebanese militant group Hezbollah is accused of executing the attack at Iran’s demand, AFP reported. Iran’s government and Velayati have denied involvement in the bombing.

## Morales Meets With Abdo in Bolivia

Bolivian President Evo Morales and Paraguayan President-elect Mario Abdo Benítez met Thursday in La Paz, El Deber reported. The two leaders discussed fostering integration between the two nations, particularly in railways and roads, and strengthening the regional organization Unasur. Abdo also vowed to work to incorporate Bolivia in Mercosur, South America’s trade bloc, El Deber reported. Abdo invited Morales to his inauguration, which will take place on Aug. 15 in Asunción, and Morales accepted.

## Peru Keeps Key Interest Rate Unchanged at 2.75%

Peru’s central bank on Thursday kept its benchmark interest rate unchanged at 2.75 percent for a fourth consecutive month, Bloomberg News reported. The decision, which all 13 economists surveyed by the news service had expected, came as Peru’s economy is poised to experience its fastest growth rate since 2013 in this year’s second quarter.

charges and has five other legal cases pending, was also cleared of some of the charges still facing him. Lula, Esteves and others were accused of trying to tamper with the testimony of former Petrobras director Nestor Certero, Agence France-Presse reported. Certero's son, Bernardo, had provided a recording as evidence, but Judge Leite found it did not prove any crime and in fact "comprises the credibility" of Certero's claims, BR18 reported. Esteves helped found BTG Pactual, Brazil's largest independent investment bank, which almost fell into bankruptcy after the corruption scandal involving Esteves came to light, offloading \$3.5 billion of assets and reducing several operations around the world, the Financial Times reported.

## Brazilian Central Bank Expected to OK Itaú's Buy of XP Stake

Brazil's central bank is expected to approve the sale of a 49.9 percent stake in XP Investimentos to Itaú Unibanco, Latin America's largest private bank, by the end of July, O Estado de S.Paulo reported Friday. The transaction would total 5.7 billion reais, or \$1.5 billion, Reuters reported. But the central bank will reportedly not accept Itaú's proposal for a change in the control of the brokerage firm, which would give the bank the possibility to become a controlling shareholder with a 75 percent stake in XP by 2020 and 100 percent by 2024, if XP shareholders agree to it, the newspaper reported. Cade, Brazil's antitrust regulator, already approved the minority stake sale in March, but two of its seven board members voted against the deal, citing concern with Itaú's concentration of power and a potential monopoly in the financial services market. Increasing competition in the sector has been a key area of focus for Ilan Goldfajn, who heads the central bank, according to the newspaper. Even if the central bank did approve the change in control of XP, Cade would need to review it before it takes effect, Reuters reported.

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1.5 percent for this year, as compared to 1 percent in 2017. The second half of the year will be driven primarily by utilization of existing idle industrial capacity, a mild expansion of retail and services sectors, agribusiness and exports. New investments, other than opportunistic or strategically-oriented ones—such as Boeing's recently announced deal with Embraer—will be largely deferred for a more predictable, post-election scenario. A sluggish economy—albeit with inflation on-target and strong balance of payments—compounded by a large fiscal deficit, mounting public debt and major structural bottlenecks, will be evidently leveraged by the opposition candidates. The risk will be the dissemination of unrealistic proposals and undue expectations raised by populist campaigns."

**A** **Margaret Daly Hayes, professor of security studies at Georgetown University:** "Brazil will continue to struggle for the remainder of 2018, and likely beyond. October's presidential election will consume public attention and delay decision-making in Congress, where President Temer has not been able to pass necessary reforms—such as pension reform—aimed at controlling the country's growing budget deficit. The October election is also dicey. Lula remains the strong favorite in polls, but he is imprisoned and prohibited from running because of his conviction for bribery. If Lula does not or cannot run, former army captain, Jair Bolsonaro, a right-winger, is favored, followed by Marina Silva, a rubber tapper's daughter. Both promise a change from the 'old' politics that have contributed to recent corruption scandals like Lava Jato, but neither has a strong congressional representation, and this would make governing difficult. Election uncertainty and rising global interest rates contribute to slowing investments in Brazil, and thus to the forecast of lower economic growth in 2018. Temer's failure to achieve identified financial, tax and administrative

reforms also contribute to the slowdown. To restore growth, Brazil must begin to tackle the inefficiencies of its productive sectors. The country relies heavily on exports of raw materials, with oilseed (soya), ores, meats and mineral fuels including oil along with sugar, coffee and cereals. China is Brazil's

**“Brazil will continue to struggle for the remainder of 2018, and likely beyond.”**

— Margaret Daly Hayes

top trading partner, taking 21.8 percent of the country's exports. The United States follows with 12 percent and Argentina with 8 percent. India is fast becoming a major importer of Brazilian goods as well. Brazil's challenge for future governments is to improve the productivity of all its economic sectors. The list is long, but it includes streamlining tax and regulatory procedures, assessing local content rules to better integrate with global markets, and promoting technology integration in the domestic market as well as improving education and training to generate a more skilled and productive labor force."

**A** **Natan Rodeguero, regional head for Latin America at M-Brain in São Paulo:** "With the World Cup coming to an end, the focus of discussions in Brazil has switched toward the presidential election. Brazilians have roughly 90 days before deciding who will run the country starting in January. Brazilian companies are on hold in terms of investments and big movements, such as incurring a long-term debt in U.S. dollars, for example, because the four leading candidates (Jair Bolsonaro, Geraldo Alckmin, Marina Silva, and Ciro Gomes, according to latest polls) have fundamental differences in

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attitude, economic background and political objectives. With the uncertainty, exporters tend to be more successful because of the appreciation of the dollar against the real. An increase in interest rates—currently at 6.5 percent—is also expected in the year's second half, increasing the cost of capital and making it more difficult for companies to sell in installments. The Ibovespa index, despite the volatility, is expected to increase regardless of who wins among the current three better-positioned candidates. In terms of the expected reforms (labor, fiscal and welfare), the candidate with the best outcome—that is, who will support and move ahead with the reforms—is Geraldo Alckmin, who is currently in third place. This is the current scenario for Brazilians, but as in the World Cup—in which Brazil's fortunes ended up in smoke—the horizon may change unexpectedly."

**A Paulo Vieira da Cunha, partner at Verbank Consulting, LLC in New York:** "The truckers' strike (actually, a lockout by providers of trucking services along with some independent truckers) has much to do with the downward revision in expectations. The disruption caused a sudden drop in manufacturing output. In the seasonally adjusted series, the index fell 12.2 percent in May. There were widespread declines in consumption,

including of food staples. April was the peak in business' confidence. It has deteriorated steadily since. The strike was not, however, the only catalyst for the turnaround; the main force was politics. Faria Lima (Brazil's Wall Street) was convinced that, ultimately, 'the center' would win. It would carry on with the fiscal adjustment—the sine qua non for public debt sustainability. The investment boom that was promised for 2018 would come in 2019, with greater intensity. It took a succession of crises, truckers, Argentina, the strength of the U.S. dollar and plunge in the real, and accumulating evidence from political polls, to shake it off this conviction. Nothing is certain about October's political outcomes: There is a strong anti-establishment bias, starting with the unprecedented low level of support for the incumbent administration. Voters care most about quality of life issues, security above all, and not so much about the current economy. Lula is still a force, despite the fact that, almost certainly, he will remain in prison, and will be unable to compete. Established analyses fail. At this point, in spontaneous polls, 70 percent of respondents say that they will either abstain from voting, don't care or don't know for whom they will vote."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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Leonor Arteaga, Due Process of Law Foundation  
Chuck Call, American University

View a webcast of the July 2 discussion.

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