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## FEATURED Q&A

### Is Latin America Prepared for Gold Price Volatility?

**Q** Amid an uncertain recovery in the global economy, gold prices remain near the record level of \$1,300 an ounce. Participants at the London Bullion Market Association (LBMA) forecast an average price of just over \$1,400 per ounce next September, while the chief financial officer of Barrick Gold, Jamie Sokalsky, speculated last week that prices could rise about \$1,500 an ounce in the coming year. Is there a risk of a bust in gold prices? Which countries stand to benefit most from soaring prices? How can those countries leverage profits for long term growth?

protecting mining investment. These four countries have a greatly reduced potential to benefit from the current market. Several Latin American nations have instituted heavy taxes and tariffs that impact the start-up cost of a mine, or any other business that depends upon foreign technology. Viewed in the long term, a superior system would ease the start-up taxes on businesses, and apply moderate taxation on subsequent business proceeds. This will result in many more high-tech businesses and mines to benefit the population and

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**A** Miles Rideout, president and chief executive of Latin American Minerals Inc.: "I cannot conceive of a circumstance in the present economic climate that would provoke national gold reserves to be liquidated. A near-term bust in the price of gold is extremely unlikely. Whereas bullion probably represents a safe haven for capital, I discourage the speculative investment in gold since a stable gold price is in everyone's best interest. There are better markets for speculative investment; one example would be in stock of gold producers and in the resource sector in general. Most countries in Latin America have potential as gold producers, and several have truly impressive gold resource potential. Whereas most of Latin America welcomes foreign investment, four South American countries have poor legislative records for



### Tensions Rise in Chile Over Argentina Asylum Case

Chilean Foreign Minister Alfredo Moreno formally lodged a complaint on Monday with Argentina's Ambassador to Chile over Argentina's decision to grant asylum to former guerrilla Sergio Galvarino Apablaza. See story on page 2.

*File Photo: Government of Chile*

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## NEWS BRIEFS

**Brazil Doubles Tax on Foreign Fixed-Income Investments**

Brazil is raising the financial transactions tax, or IOF, which is levied on foreign investment in fixed-income securities, from 2 percent to 4 percent, Finance Minister Guido Mantega said Monday, Bloomberg News reported. The IOF tax was enacted in October 2009 to help slow down the tremendous flow of foreign capital into Brazil. Mantega added that the tax hike is designed to stem the sharp rise in the Brazilian real currency's exchange rate, which hit a two year high last week.

**Watson Pharma Investing \$30 Million in Brazilian Firm**

**Watson Pharmaceuticals** announced Monday it will invest \$30 million in Brazil's **Moksha8**, based in São Paulo. The New Jersey-based company said the deal will expand its commercial presence in Latin America's two largest markets, Brazil and Mexico. The deal is part of Moksha8's approximately \$61 million financing that includes investments from existing investors **TPG Biotechnology** and **Montreux Equity Partners**. Watson has also committed to invest \$20 million more next year, pending certain product and sales goals being met.

**Ecopetrol Planning to Tap Local Markets to Raise Funds: Report**

Colombian state oil company **Ecopetrol** will likely tap local debt markets for the first time in more than a decade to help fund record investments amid rising oil demand in China, chief executive officer Javier Gutiérrez told Bloomberg News Monday. The company may raise \$500 million in a sale of peso-denominated bonds in the fourth quarter, Gutiérrez said.

## Political News

**Tensions Rise in Chile-Argentina Relations Over Extradition Case**

Diplomatic tensions mounted on Monday between Argentina and Chile, as officials from the neighboring nations met to discuss the status of former guerrilla fighter Sergio Galvarino Apablaza, a Chilean who last week was granted political asylum by Argentina. Chilean Foreign Minister Alfredo Moreno formally lodged a complaint in a meeting with Argentine Ambassador to Chile Ginés González García and Chilean President Sebastián Piñera. "The government of Chile strongly laments and rejects the decision" made by Argentina against the extradition of Apablaza, said Moreno after their meeting with Piñera, Mercopress reported. Apablaza is charged with the murder of Conservative Senator Jaime Guzmán, killed in 1991, and the kidnapping of businessman Christian Edwards del Río.

**Ecuador's Congress Plans to Change Contentious Police Salary Law**

Ecuador's congress plans changes to a salary law that prompted a national crisis

last week, including "additional compensation" for police and members of the military, congress President Fernando Cordero said Monday, Bloomberg News reported. A member of President Rafael Correa's ruling Alianza País party, Cordero said in an e-mailed statement that congress will revise a public service law that cut wages and benefits. Lawmakers must take up the matter "immediately," he said. [Editor's note: See stories on Ecuador's turmoil in last [Friday's](#) and this [Monday's Advisor](#).]

**U.S. Offers Asylum to Exiled Cuban Prisoners**

The United States government is working on a special parole program to grant asylum to exiled Cuban political prisoners currently living in Spain, the Associated Press reported Monday. State Department spokesman Charles Luoma-Overstreet confirmed the report, saying "the U.S. Embassy in Madrid is actively reaching out to the released political prisoners to inform them of this possibility and share information about eligibility." According to an unnamed official, under the Significant Public Benefit Parole Program, each applicant would apply individually and be vetted by Homeland

**Featured Q&A**

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also to augment the government's revenue stream. On the subject of countries wishing to leverage the federal proceeds from mining for long term growth, it really depends on what scope you wish to consider. I don't think that governments need to participate or re-invest in mining ventures to leverage the benefits. Investment in national educational institutions focusing on the technical fields, and investment in infrastructure to support more advanced businesses are two ways to strongly promote a nation's best interest, particularly here in Latin America."

**A Patrick Connolly, head of communications at AWD Chase de Vere:**

"The conditions have been fantastic for gold investors for the past 10 years, starting with the fallout from the technology boom and leading through a sustained period of global economic uncertainty, wars and threats of terrorist attacks and we still have a distinct lack of confidence in other asset classes today. There continue to be bullish statements and predictions about gold, and it doesn't look as if the upward momentum is going to stop any time soon. However, these are exactly the sentiments that investors had back in 1999 and 2000 in relation to technology stocks. There was a belief that the only way was up. The reality, though, is that nothing goes up forever. It is easily forgotten that the price of gold fell by about 70 percent from January 1980 to August 1999. At some point the price of gold will fall, and when it happens it could be quite fast. Asset prices tend to overshoot in bull markets and fall too

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Security officials. The exiles would arrive in the U.S. and then apply for residency. In July, the Roman Catholic Church and Spanish government brokered an accord with the Cuban government to free the 52 remaining political prisoners of a 2003 crackdown on political dissidents. One has settled in Chile and 39 left for Spain with their families. The remaining 12 reportedly refuse to leave Cuba, but were contacted recently by the Cuban government and asked again if they would accept exile, the AP reported Sunday, citing a human rights activist. In another move to end the imprisonment of political dissidents, Cuba has offered early release in exchange for exile to nine additional inmates who were not part of the original accord, said Elizardo Sánchez, head of the Cuban Commission on Human Rights and National Reconciliation, the AP reported. Though the original 52 were all imprisoned for nonviolent activism, only one of the nine on Sánchez's list was not convicted of a violent crime, such as assault or piracy.

## Economic News

### New Oil Price Estimate Could Throw Mexican Budget Off Balance: Official

If policy makers change the estimated oil price in the proposed 2011 budget, which is currently set at \$63 a barrel, the Mexican government could face a budget imbalance next year, Deputy Finance Minister Jose Antonio Meade said in an interview Monday with Bloomberg News. Meade added that the Finance Ministry also does not have a substitute plan if lawmakers cut the value-added tax, which has been proposed by Mexico's Institutional Revolutionary Party (PRI) and would cut an additional \$2.6 billion from the country's coffers. The head of the budget committee in the lower house of Congress, Luis Videgaray, said Sept. 23 that the opposition may propose to widen the deficit and raise the estimate of oil prices in the 2011 budget, Bloomberg News reported. The income part of the budget must be approved by the lower house by Oct. 20 and the spending portion by Nov. 15.

## Countdown to Brazil's Election

*A Biweekly Series of Views and Analysis from David Fleischer*

### Attention Shifts to Plans of Marina Silva, 18 New Governors

BRASILIA—On Sunday, 111,277,736 Brazilian voters went to the polls to elect a new president, 27 governors, 54 senators, 513 federal deputies and state legislators. The turnout was 81.83 percent—more or less the same level as in previous elections. Blank and null votes totaled 8.64 percent. The polls closed at 5 p.m. and before 11 p.m. the presidential election results were known, plus the outcome in the 27 states, because of Brazil's very efficient electronic voting machines and computerized national tallying system.

President Lula's former chief of staff, Dilma Rousseff, who was boosted rigorously by him since early 2010, came close to winning the first round outright (46.9 percent of the valid vote) similar to the proportion of the vote received by Lula in 2006. Former São Paulo Governor José Serra (PSDB) polled 32.6 percent and Marina Silva (PV) received 19.3 percent. This performance by the Green Party candidate was surprising because the polls projected her as topping out at some 15 percent. Apparently, many voters were alienated by both Dilma and Serra and chose Marina Silva as a "third way." Thus, Dilma and Serra will face each other on Oct. 31.

At the state level, 18 governors were elected outright in the first round, and the two top candidates in another nine states will run in the second round of the election. The elections for 54 senators—two-thirds of the Upper House (two slots per state) confirmed the PMDB and PT as the largest delegations for 2011. The PMDB elected 16 Senators and the PT returned 11. The opposition (PSDB and DEM) fared badly, electing five and two senators, respectively. Therefore, if Dilma Rousseff were elected president, she would have a stronger majority in the senate (near 60 percent) than Lula had in his second term.

Lula also campaigned hard in several states to defeat important opposition leaders in the senate in order to deliver a more favorable majority to Dilma in 2011. The defeated senators include: Arthur Virgílio (PSDB-AM), Tasso Jereissati (PSDB-CE), Efraim Morais (DEM-PB), Marco Maciel (DEM-PE) and Heráclito Fortes (DEM-PI). In addition, Lula worked diligently to defeat former Rio Mayor Cesar Maia (DEM).

The results for the chamber of deputies are as yet not available because of uncertainties caused by the Ficha Limpa law. Many candidates for federal deputy were disqualified by the election courts because they had "dirty court records" and the votes they received are considered null—pending appeals. If they win their appeals, these votes would then be included in the calculation of the election quotients under Brazil's proportional representation system—and would alter the list of those elected in some states. The election courts have promised to deliberate all such appeals before those elected are "credentialed" in early December.

There are two important questions weighing on the second round campaign between Dilma and Serra: 1) which candidate would Marina Silva and her PV party support (or whether they would remain neutral); and 2) the support and engagement of the 18 governors elected on the first round in this campaign. An important "kingmaker" in the PSDB will be former Governor Aécio Neves, who was elected senator from Minas Gerais with a large vote total. He aspires to become an important national leader in the reorganization of the PSDB in 2011 and his support for José Serra would be crucial.

David Fleischer is emeritus professor at the University of Brasília and editor of *Brazil Focus*.

**Featured Q&A***Continued from page 2*

heavily in bear markets. This is why reversals and corrections can happen very rapidly. When the price of gold does fall, it will be those who joined the party latest who will suffer the most. The countries that benefit from increasing gold prices are those holding gold or producing it. Like any sensible investor, these countries need to ensure their investments, and their economies, are diversified so they are not too heavily impacted if, perish the thought, the price of gold doesn't go up forever."

**A Mark Dampier, head of research at Hargreaves Lansdown:** "Yet again, much has been made of the gold price going through another number, this time \$1,300. The word 'bubble' has been called out, but I remember that at \$500 an ounce, too. The term bubble is wildly misused, and I think for there to be a true bubble in gold, it would have to at least double from where we are today. Can gold go higher? I think the answer is yes. The circumstances surrounding gold and its price really haven't changed. There is huge economic dislocation around the world. In addition, in the west we are seeing a debasement of currencies on a huge scale, and as yet many people haven't realized this. When they do I think we will see a greater rush into gold. Gold is a final source of value. It cannot be debased by politicians, and contrary to what many people believe, it works as well if not better in a deflationary climate as much as an inflationary one. As the top economists around the world can't tell us which climate we might get, gold's attractions get ever greater. So, while in the short term we may well see some profit taking, my own recommendation would be to buy on any dips."

**A George Gero, precious metals strategist and vice president of global futures at RBC Capital Markets:** "The world's central and most liquid and largest metals are traded on the Comex division of the CME and on Globex as well as in other

countries. There are many countries that can benefit: those that hold gold in central banks and treasuries and those that mine it. You also have to remember that copper and silver are just as important to most of those countries, and platinum and palladium, which are principally exported from Russia, South Africa and Canada, are in the limelight, as well. Canada, Mexico, Peru, Chile and other Latin American countries have very good mines and transport facilities. We mine copper and some metals in the U.S. as well. The central banks of many countries, such as India, China, Thailand, Brazil, the European Central Bank and the IMF in the U.S., hold gold and sell from time to time if they need to raise dollars. Today gold has demonstrated itself to the world market that it is not only a hedge against inflation and loss of purchasing power but a hold against deflation and currency devaluations."

**A Tim Price, director of investment at PFP Group:** "The real question is not what gold is worth, in U.S. dollars or any other fiat currency. The real question is what fiat (paper) currencies are worth and whether, since they are backed purely by politicians' promises, they are worth anything. My conclusion would be that at a time when government indebtedness is awesome, it makes sense to de-risk one's currency exposure by holding gold. A volatile animal for sure, but gold persists. No paper currency ever has. As with any commodity, there's always the possibility of a pullback, perhaps substantial, in the gold price. But our view would be that the macro situation, most notably the steady deployment of quantitative easing and implicit or explicit currency depreciation throughout the developed world, makes the fundamental case for gold ownership—as sound currency—utterly compelling."

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*The Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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