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FEATURED Q&A

What Accounts for Chinchilla's Low Approval in Costa Rica?

Q Costa Rican President Laura Chinchilla's approval ratings sank to 26 percent in July amid criticism over high crime levels as well as public dissatisfaction with the country's health care and social security systems. On July 29, Chinchilla announced a cabinet reshuffle and the resignation of the country's popular health minister, María Luisa Ávila, which marks the fifth minister, in addition to four vice ministers, who have resigned in the first 15 months of the administration. What accounts for Chinchilla's low approval ratings? Does the administration face a leadership crisis, as some critics have charged? Which issues are Costa Ricans most concerned about? What direction should the government take to resolve them?

A Ottón Solís, runner up in the 2006 and 2010 presidential elections as candidate of the Citizens' Action Party in Costa Rica: "The central tenet of Chinchilla's presidential campaign was that the country was in such good shape that the most convenient outcome was to continue along the same path set by her boss and mentor Óscar Arias. In that vein, she stated during the campaign, for instance, that the fiscal situation was sound and that no new taxes were required. She even attacked us given that I proposed a tax bill in view of a fiscal deficit above 5 percent of GDP. Yet as soon as the campaign came to an end and she won the elections, she stated that new taxes were

required. Furthermore, she has converted the tax bill into her most important legislative priority. This has severely undermined her credibility. On top of that she presented herself as an expert in the fight against crime, yet after more than a year in government all she has done is to present a broad general plan whose execution is subject to additional research and to new funding that requires legislative approval. All of this has been coming to light while the crime situation becomes worse. Finally, there

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Brazil's Economic Activity Declines for First Time Since '08

Brazil's economic activity declined in June for the first time since the depths of global economic crisis in late 2008. The administration of President Dilma Rousseff also suffered its fourth high-level departure as the country's agriculture minister quit. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Haiti Reconstruction Panel Announces New Project

The Haiti reconstruction panel on Wednesday announced a new project that will revitalize 16 neighborhoods, seeking to move the 5,239 families living in the most vulnerable camps back to the neighborhoods where they had lived before the January 2010 earthquake, the Associated Press reported. Much of the \$78 million plan will be funded by the Haiti Reconstruction Fund, set up by donor nations, and the United Nations. The International Organization for Migration estimates about 630,000 people in Haiti are still homeless.

Carrefour's Brazil Unit Not for Sale: CEO

France's **Carrefour** is not selling its Brazilian unit, despite speculation that Wal-Mart was in talks to acquire it, said CEO Lars Olofsson, Bloomberg News reported, citing a Wednesday interview with newspaper *Estado de S. Paulo*. Olofsson added that the company is interested in expanding the unit but it does not need a local partner. A merger had been planned with **Grupo Pão de Açúcar**, but it was blocked by its partner, **Casino Guichard-Perrachon**.

Trinidad Prime Minister Diagnosed With Dengue

Trinidad's prime minister, Kamla Persad-Bissessar, has been diagnosed with dengue, the Associated Press reported Wednesday. Persad-Bissessar has a mild form of the illness, which is spread by mosquitoes, and likely contracted it during a walking tour in the country's capital, according to the Caribbean country's health minister. The prime minister is among nearly 1,700 people in the country with the disease.

Economic News**Brazil's Economic Activity Declined in June for First Time Since 2008**

Brazil's economic activity slowed in June for the first time since the depths of the global economic crisis in late 2008, Bloomberg News reported Wednesday. The central bank's IBC-Br index of economic activity declined 0.26 percent in June from May, the first monthly drop since December 2008. Greater weakness in the global economy and domestic worries such as high inflation rates have led economists to revise forecasts downward for Brazil's economic growth. On Wednesday, **Morgan Stanley** lowered its forecast for Brazil's gross domestic product increase this year to 3.7 percent, down from 4 percent earlier this year. For 2012, the firm lowered its GDP forecast for Brazil to 3.5 percent from 4.6 percent. Last year, the country's economy surged 7.5 percent, its sharpest increase in 24 years. However, the growth came at the expense of rising prices. Since April, the benchmark IPCA inflation index has risen above a 6.5 percent government ceil-

ing. Brazil's central bank has raised interest rates five times this year, to 12.5 percent from 10.75 percent this year. In addition to economic woes, the administration of President Dilma Rousseff has also been beset by high-level departures from her cabinet. On Wednesday, Rousseff lost her fourth cabinet minister since taking office Jan. 1. Agriculture Minister Wagner Rossi resigned amid corruption allegations. Rossi, a member of the Democratic

The resignation of Agriculture Minister Wagner Rossi was the fourth high-level departure from Rousseff's administration.

Movement Party, or PMDB, quit after *Veja* magazine reported three times since July 30 that there was evidence of embezzlement and kickbacks in the ministry. "I regret the minister couldn't count on the principle of presumed innocence," Rousseff said in a statement to reporters. The president named Deputy Minister José Gerardo Fontelles as acting agricul-

Featured Q&A

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have been constant corruption scandals involving some of her most trusted team members and she has lacked the determination to sack any of them. Yes, the administration does face a leadership crisis, in part due to a total lack of resolve regarding the fight against corruption, and, above all, because there seems not to be a vision to anchor government actions within a coherent rationale. Costa Ricans are most concerned about the lack of job opportunities, crime and political corruption. The government should engage in sustained and continuous dialogue with the main actors within the business sector, trade union movement and the opposition. There are all sorts of proposals floating around. The president must regroup them and lead the efforts towards setting a path."

A José Antonio Muñoz, partner at **Arias & Muñoz in San José:**
 "President Chinchilla has received low approval ratings from followers of her own, and very divided, Partido Liberación Nacional (PLN). With a significant minority in Congress, and after having struggled during the first 12-month legislature, the PLN lost the May Day congressional leadership elections to the ad-hoc 'Alliance for Costa Rica,' which amalgamates four of the five opposition parties with congressional representation. The Alliance for Costa Rica has proven to be resilient and capable of steering congressional work. PLN's internal fissures have grown into three groups; the president's minority, the 'Aristas' and the 'Figueristas.' The former are those who would like to see former President Óscar Arias' brother Rodrigo elected; the latter, those who yearn for a return of former

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ture minister. The ministry's executive secretary, Milton Ortolan, stepped down Aug. 6 amid the accusations. Rousseff's defense minister, Nelson Jobim resigned Aug. 4 after criticizing other members of the administration. Alfredo Nascimento quit last month as transportation minister after *Veja* reported there was over-billing and kickbacks in the ministry. Also, Rousseff's chief of staff, Antonio Palocci, stepped down in June amid financial misconduct allegations that he denied.

Venezuela's Chávez Preparing to Nationalize Gold Industry

Venezuelan President Hugo Chávez said Wednesday that his government is preparing to nationalize the country's gold industry in order to stop illegal mining and increase reserves, Bloomberg News reported. The country is facing



Chávez

File Photo: Venezuelan Government.

international arbitration over its seizure of gold assets from companies including Canada's **Crystallex International Corp.** The government took over the company's Las Cristinas mine in February. In an effort to increase stalled production and take advantage of soaring gold prices, the government relaxed restrictions last year on exports of the metal, allowing some companies and government joint ventures to export as much as 50 percent of their production. "The area is run by the mafia," Chávez said Wednesday of the industry, Bloomberg News reported. "We're going to nationalize gold. We can't keep allowing them to take it away." **Rusoro Mining Ltd.** is the last publicly traded gold mining company still operating in Venezuela and has been in talks with the government about increasing exports. Venezuela's state gold producer **Minerven** has been shut down for 15 days because of a strike. Since 2006, Chávez has nationalized companies in the oil, petrochemicals, mining, metals, cement and telecommunications industries. Chávez also ordered the govern-

The Dialogue Continues

What has Colombia's Santos Achieved in his First Year?

Q Colombian President Juan Manuel Santos last week completed his first year in office. A poll released July 31 by Ipsos Napoleon Franco showed Santos has an approval rating of 71 percent. What is behind Santos' high approval rating, and will he be able to sustain it? What have been the major achievements of his first year as president? What have been his failures or shortcomings since taking office?

A Juan Felipe Muñoz, founder of The Otun Group in Greenwich, Conn.: "Santos has had a high approval rating primarily for two reasons: he has been good at what he was elected to do and he has no opposition. Colombians elected a president who would satisfy the next issue they had on their agenda, which was primarily the economy: jobs and growth. Santos very wisely has sold the idea of the 'locomotives' and how they will pull the whole economy up. Regarding his opposition, he has the 'national unity' government and all the political parties are with him, and only his predecessor Álvaro Uribe is against him. The press is with him and the only bad news that is printed are legacy issues of Uribe.

Without a doubt, his major achievement has been drawing the line with Uribe. Once and still a charismatic leader, Uribe's legacy and popularity have been overshadowed as serious corruption scandals have emerged during the Santos administration and currently his two most loyal people are in jail. And while Santos' popularity is high, Uribe's scandals will eventually fade and people will expect Santos to deliver. The ability to draw the line has been key for a successful foreign policy, in the hands of María Angela Holguín, who, among others, allowed Santos to ease relations with neighboring Venezuela. We will have to see about his ability to deliver on the free trade agreements with the United States and the European Union. One of his 'locomotives' has to do with enhanced mining and oil production, which are located in geographic areas where indigenous peoples and minorities live. We may also see issues arising from Convention 169 of the International Labour Organization."

Editor's note: The above is a continuation of a Q&A published in Tuesday's Advisor.

ment to repatriate \$11 billion in gold reserves currently held in banks abroad, including the Bank of England, JPMorgan Chase & Co., Barclays, Standard Chartered and Bank of Nova Scotia.

Political News

Peru's Government Suspends U.S. Coca Eradication Program

The government of Peruvian President Ollanta Humala announced Wednesday that it is suspending its relatively small

U.S.-funded coca eradication program, the Associated Press reported. The government next month will convene members of a special panel in order to outline an eradication strategy that will emphasize alternative development, "social inclusion and fighting poverty," said Prime Minister Salomón Lerner. On her way to see Lerner, U.S. Ambassador Rose Likins told reporters the announcement came as a surprise. "It would have been nice to be informed in advance," she said. Peru is the world's second-largest coca producer after Colombia and has seen land under cultivation of coca grow steadily over the past four years.

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President José María Figueres, who is in self-imposed exile in Europe. The Chinchilla administration has been forced to look at alternative leadership arrangements because it has been unable to recruit from the party's Arista contingent. I see the administration being creative at adjusting to a new multi-party political system, in which her divided party has a congressional minority. This is a first for Costa Rica in the last few decades. Polling reflects low popularity for the president but it could easily reflect a new way of governing which, if judged by congressional work, has been effective in the past quarter in which the executive and the new legislative leadership have promoted a common agenda. Costa Ricans are most concerned about national security, the Central American drug wars, souring relations with Nicaragua, the international economic crisis and state of the U.S. economy and the lack of alignment between the country's mostly dynamic private sector and its sclerotic bureaucracy. President Chinchilla and her cabinet must either return to the traditional PLN style of government by reaching a working truce with the Arista camp or, alternatively, comport like a minority coalition government in the style of Mrs. Merkel, Mr. Cameron or Mr. Harper. The congressional record of the past few months shows the administration is closer to the second than the first alternative."

A Kevin Casas-Zamora, senior fellow in the Latin America Initiative at the Brookings Institution and former vice president of Costa Rica: "President Chinchilla is, no doubt, a responsible and well-intentioned leader. Yet, her administration has been plagued by three fundamental problems: first, a consistent inability to articulate its goals and priorities; second, an overly risk-averse style that puts a premium on the avoidance of conflict at all costs; and third, a cabinet that lacks any real political heft. The result has been an administration that since day one has lacked political initia-

tive and has been at the mercy of events. The resulting power vacuum has been filled by the increasingly empowered opposition (which has controlled Congress since last May), pressure groups, early presidential candidates and the press. While the administration's lack of clarity and spine is not helping matters, it ought to be recognized that Costa Rica has come to have a deeply dysfunctional political system, riddled with institutional veto points that make it exceedingly difficult to adopt political or economic reforms or implement those that

“The country's serious governance problems precede President Chinchilla and would make life very difficult for any leader. .”

— *Kevin Casas-Zamora*

are adopted. The country's serious governance problems precede President Chinchilla and would make life very difficult for any leader. Plotting a way back for Chinchilla involves a clearer definition of her administration's priorities, a dramatic improvement of the government's negotiation abilities and a more robust political style. In terms of issues, while paying attention to the country's deteriorating security and fiscal situation is a must, it seems probable that the arrival of the long-predicted crisis of the health care-cum-social security system, a pillar of the country's social stability, will sidetrack Chinchilla's efforts in other areas. In all likelihood, the combination of a weak government and an unwieldy political system will make Costa Rica's slow but real downward spiral continue unabated."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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