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FEATURED Q&A

Is Brazil the New Dominant Power in South America?

Q With a booming economy and financing from its giant state development bank, Brazil has been implementing infrastructure and other projects across South America. However, the country is also beginning to face pushbacks from its neighbors, which worry that Brazil's interests may come at a high domestic cost. Bolivian President Evo Morales recently canceled a high-profile road that was financed by Brazil after major protests. Other projects in Guyana, Ecuador, Peru and elsewhere have also stalled. The New York Times reported. How do you see Brazil's influence in South America? Is it slowly replacing the United States as the new dominant power in the region, as some have suggested? Is Brazil promoting its own economic development at the expense of its neighbors?

examples of Brazil playing the 'good neighbor' role in the region. Now that Brazil is emerging as an important international actor in some arenas—the G-20, climate change talks, for example—and is also now viewed as an increasingly wealthy nation-state with vast oil reserves, a major producer of ethanol and of agricultural products as well as raw materials, Brasilia will need to adopt an increasingly sophisticated foreign policy in the region. As its exports of foodstuffs and raw materials increase, it

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Mexico Tapping Reserves to Support Battered Currency

Mexico's central bank will auction \$400 million of its reserves daily in an effort to bolster the country's peso. Deputy Finance Minister Gerardo Rodríguez said the government is not planning any measures in addition to the auctions. See brief on page 2.

File Photo: Mexican Government.

A Riordan Roett, director of the Latin American Studies program at the Johns Hopkins School of Advanced International Studies:

"As a new world order emerges, slowly and fitfully, the leaders in that process—Brazil, China and India, among others—are discovering the complexities of wealth and influence. For centuries, Brazil was viewed as a large and somewhat menacing presence in South America. Over the last century, boundary disputes were settled and Brazil adopted a diplomatic policy of multilateralism—Mercosur, Unasur and the South American Defense Council are some

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NEWS BRIEFS

Mexico Tapping Reserves to Bolster Battered Peso

Mexico's central bank will auction \$400 million of its reserves daily at a peso exchange rate that is at least 2 percent weaker than the level on the previous day in an effort to strengthen the peso, the country's currency exchange commission announced Tuesday, Bloomberg News reported. Mexico, which is tapping \$140 billion in reserves, is not planning any additional measures to support the peso, said Deputy Finance Minister Gerardo Rodríguez. The country's market "has been evolving with relative order and good liquidity given what's happening in the world," he told the news service in a phone interview.

Chevron Delays Three Brazil Wells Amid Drilling Ban

Chevron has delayed drilling three wells off Brazil's coastline amid a government ban after an oil spill earlier this month, Bloomberg News reported. The Nov. 7 spill resulted in as much as 3,000 barrels of leaked oil and a ban on Chevron's drilling until an investigation is completed. The company still plans on investing \$3 billion in existing projects in the country, said Ali Moshiri, head of operations in Latin America and Africa, in an interview with the news service.

Chile's Collahausi Mine Hit With Work Stoppage

Roughly 10 percent of workers at Chile's Collahausi mine halted work on Monday, resulting in limited copper cathode output, Reuters reported. The workers implemented the stoppage amid fears of impending layoffs, but union members would have to vote for it to legally become a strike.

Political News**Honduran Congress Deploys Military to Fight Cartels**

Honduran legislators voted Tuesday to deploy the army to fight Mexican drug cartels, which are blamed for a surge in violence in the Central American country, the Associated Press reported. Honduras' Congress overwhelmingly voted to take action similar to that of Mexican President Felipe Calderón, who soon after taking office in December 2006 employed

Honduras had the world's highest murder rate last year on a per capita basis.

his country's military to fight the cartels. Since then, drug-related violence in Mexico is estimated to have claimed more than 45,000 lives. But Honduras had the world's highest murder rate last year on a per capita basis, with 82 murders per 100,000 people, according to the United Nations. Honduras records about 20 killings every day. Most of the murders are blamed on cartels that smuggle cocaine from South America through Central America and to the United States. Honduras is also beset by violence from street gangs that use death threats to extort small businesses. "This legislation will allow the armed forces to take on policing roles to confront organized crime and drug traffickers operating across the country," ruling party Congressman Oswaldo Ramos said, according to the Associated Press. Some human rights activists and lawmakers have expressed concern that Honduras' military will not be able to fight the cartels and have accused Mexican soldiers of rights abuses in fighting that country's drug war. "We have serious doubts about the implications of sending the army to do police work," said leftist Congressman

Sergio Castellanos, the AP reported. "They are not prepared to deal with civilians and this will only strengthen their position in society after the coup." Concerns remain about the military's power after it helped oust leftist President Manuel Zelaya in 2009.

Economic News**Time Is Right for Financial Sector Expansion in Region: World Bank**

Having weathered the global financial crisis better than most other regions, the financial sector of Latin America and the Caribbean has shown it is on stable ground, making now a good time for the sector's sustained expansion, according to a report released Nov. 29 by the World Bank. The region has a history of "recurring instability," but it showed that it has strengthened its macroeconomic policies and oversight during the crisis, which saw its depths in 2008 and 2009, said the report, "Financial Development in LAC: The Road Ahead." The region's stronger macroeconomic policies and oversight helped its financial sector avoid toxic loans and bubbles like those seen in the United States. "During the 1980s and '90s, financial sectors were the region's Achilles heel. Ever since, they have grown and deepened, becoming more integrated and competitive, with new actors, markets and instruments springing up," Pamela Cox, the World Bank's vice president for Latin America and the Caribbean, said in a statement accompanying the report's release. "Now that the successes of LAC's macro-financial stability are widely recognized and tested, it is the right time to move forward with a broader agenda." But despite the region's resilience during the crisis and the sector's relatively steady financial footing, there has not been a commensurate increase in financial services in the region, the report added. The report said the region's banks have sever-



Cox

File Photo: World Bank.

al weaknesses. Among them are that they have substantially lower levels of lending while charging more, they finance individual consumption disproportionately more than firms' production and they are "particularly stingy when it comes to mortgages." In recent years, despite an increase in consumer credit in Latin America and the Caribbean that outpaces such increases in other parts of the world, mortgage credit has lagged behind. Mortgages make up 14 percent of the region's total credit in 2008 and 2009, as compared to 58 percent in China, 49 percent in Eastern Europe and 47 percent in G-7 countries. Also, annual checking account fees in Latin America and the Caribbean are twice those in China and seven times higher than in Eastern Europe.

Company News

Newmont's Peru Mine Project Suspended Amid Violent Protests

Peru's \$4.8 billion Conga gold and copper mining project has been suspended amid increasingly violent protests by opponents of the project, the Associated Press reported Tuesday. "After discussions with the government, it was agreed that to help restore public order, the project would be suspended," Omar Jabara, a spokesman for Denver-based **Newmont Mining**, which is the project's majority owner, told the AP in an email. At least 20 people



Lerner

File Photo: TV Peru.

were injured Tuesday in confrontations between police and the project's opponents, mainly highland peasants who say the project threatens their water supply. Eight of the wounded sustained gunshot wounds, Reynaldo Nuñez, Cajamarca State's regional health director, told the Canal N television station. The mine had been planned to begin production in 2015. However, speaking to reporters in Lima, Peruvian Prime Minister Salomón Lerner did not answer a question about

The Dialogue Continues

Is Nicaragua's Ortega 'Intent on Re-Creating' a 'Dictatorship'?

Q Daniel Ortega was re-elected Nicaragua's president Nov. 6, winning 62 percent of the vote, according to the country's electoral council. Ortega's run for a third term came after the country's Sandinista-dominated Supreme Court ruled in 2009 that he could seek another term despite a constitutional ban on presidential re-election. Ortega 'now appears intent on re-creating the dictatorship his 1979 revolution overthrew,' *The Washington Post* said in a Nov. 8 editorial. What will Ortega's landslide victory allow him to do in his next term? To what can he attribute his popularity? How has Ortega's relations with Nicaragua's business community affected his hold on power and what should businesses expect from his next term?

A Mario Arana, director of the Nicaraguan Foundation for Economic and Social Development and president of Polaris Energy Nicaragua: "Aside from judgments about the election's mandate, having won a majority of seats in the National Assembly allows for constitutional changes and total control over the branches of government. With regard to economics, the Sandinista government has complained about unconstructive opposition that has made it difficult to negotiate and pass responsible laws to manage the economy. With a majority in the assembly, the

Sandinista government will be able to pass any law it wants. Their dilemma is whether to do it alone or with consensus, as Ortega has offered to continue working together with the private sector and workers. Ortega's government has arranged an average of \$500 million annually from Venezuela to invest, spend on social programs and finance its political campaign. A mixture of high poverty levels, the possibility of satisfying immediate needs, low education of the population and a campaign directed at youth with no memory of the 1980s, along with abundant campaign finance resources, strong economic conditions over the past two years and a strong media campaign have changed the perception of Ortega's government. The business sector initially expected to survive another Ortega term. With the international crisis, they were surprised by the possibility of a strategic alliance that has worked up until now, along with responsible management of the macroeconomy. The Sandinista government clearly understands that without private investment, their agenda is not sustainable. Before a divided opposition, the organized private sector has taken a pragmatic approach of working with the government and it is yet to be seen whether that will continue."

Editor's note: The above is a continuation of a Q&A published in the Nov. 15 issue of the Advisor.

whether the project's suspension is temporary or permanent. Alongside Newmont's vice president, Carlos Santa Cruz, Lerner said the government was creating "a new relation between communities and mining, a relation that was historically marked by mistrust," the AP reported. Lerner said that includes involving local residents in mining decisions to "dispel all doubts and guarantee,

as a priority, water for human consumption." Milton Sánchez, a local protest leader, blasted Peru's government. "We peasants of Cajamarca feel tremendously defrauded by [President] Ollanta Humala and really consider him a traitor," he said. Humala, who was elected in June, said during his campaign that protecting their supply of water was more important than gold mining.

Featured Q&A*Continued from page 1*

will need an extensive network of roads, airports, ports and container shipment facilities. In seeking to maximize its export potential, Brazil will have to be aware of indigenous rights and territories, of rising nationalism in the Andean countries and of a growing perception, in some quarters, that the 'sleeping giant' has awakened and the consequences are not yet clear to the neighbors. There is a great deal that Brazil can do with its newfound wealth to support development in the region, but it must do so with a high level of political awareness that its actions, increasingly, could be seen with suspicion and hostility if diplomacy does not pave the way."

A Luiz Felipe Lampreia, former foreign minister of Brazil: "Brazil is living in a particularly felicitous moment. The Brazilian people have long had a most fervent national belief in the greatness of the country and of its eventual elevation to the highest level of international influence and prestige. Economic stability and social progress allowed President Lula to conduct a vigorous policy of international recognition, which was due to a considerable extent to his personal history and talent. However, even in its own region, Brazil has yet to achieve a clear and effective leadership. Our influence is clearly established in the Southern Cone and it is growing in the Andean countries, especially since Chávez's glow is no longer what it was on account of the utter failure of his government. Brazilian firms have put a strong emphasis on an expanding role in the neighboring markets, sometimes big enough to cause reactions. Naturally, this growing role of our economic agents is a most serious challenge for Brazilian foreign policy. Should it follow President Calvin Coolidge who famously said that 'the business of the United States is business?' Should it put more emphasis on being a mild giant? Or some balanced combination of both? The answer is probably not yet defined. In any

case, I doubt that the Brazilian government and business community have decided to make a strong effort to replace the United States as the dominant power in the region."

A Gilberto M.A. Rodrigues, professor of international relations at the Catholic University of Santos in Brazil and member of Coordinadora Regional de Investigaciones Económicas y Sociales in Buenos Aires: "Brazil's influence in South America is currently growing, based on regional multilateralism, mainly through Unasur agreements and decisions, which means that there is a consensus among governments on a common ground of cooperation and integration. That's the main difference between the emerging Brazilian influence and U.S. influence, historically exercised by bilateral relations, focused on foreign or internal enemies (for example, communism or terrorism), and also by unilateral means, including interventionism, according to Washington priorities. The Brazilian economic development agenda is indeed benefiting its neighbors, considering that the infrastructure projects will foster all the economies involved. The main point is not 'why' Brazil is doing it, but 'how.' The Brazilian concept of development, part of the so-called Brasília Consensus, is excluding a broad and permanent discussion with civil society from development strategies, which have been decided from the top to the bottom. As long as the demands of environmental and human rights protection have been perceived more as obstacles and less as part of the sustainable development, social and political conflicts will continue to arise and spread in South America."

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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