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FEATURED Q&A

Is Mexico's Middle Class Fundamentally Changing the Country?

Q "The rise of the Mexican middle class is the most relevant development of the last decade in the country," a new report from the Woodrow Wilson International Center for Scholars states. Mexican society has fundamentally changed, as citizens have acquired stronger senses of property and ownership and demand more accountability from authorities, the report added. Do you agree? What opportunities and challenges would a growing Mexican middle class bring to businesses in Mexico? For governments? Would a stronger middle class change Mexico's political calculus?

A Andrés Rozental, member of the *Advisor* board and president of Rozental & Asociados in Mexico City and senior fellow at the Brookings Institution: "There is no question that Mexican society, with its emerging majority middle class, has made a huge difference in demanding accountability from its government and the private sector. The North American Free Trade Agreement has also influenced the establishment of norms and regulations on transparency, the fight against corruption and accountability in order to make Mexico competitive with its two geographical neighbors. But we are still not at the point where we can consider the mission accomplished. Internal political resistance to change, combined with a still-overwhelming bureaucracy, present two huge challenges to further progress in this field. As Mexicans demand more from their government, there has to be a response that meets minimum national and international standards in political fairness, the fight against corruption and the as yet unrealized goal of established rule of law. Too many instances of impunity and judicial incompetence continue to surface in the day-to-day lives of all Mexicans, not just the middle class. However, following on the historical examples of other societies that evolved into democratic, law-abiding and competitive nations, there is certainly

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Colombia's FARC Rebels Release 10 Long-Held Captives

A soldier who wrapped himself in Colombia's flag with a nurse accompanying him was among 10 captives released Monday by FARC rebels. The hostages were held for at least 12 years. See story on page 2.

Photo: Caracol Radio.

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NEWS BRIEFS

Fernández Seeks Identification of Soldiers Buried in Falklands

Marking Monday's 30th anniversary of the beginning of the Falklands War, Argentine President Cristina Fernández de Kirchner said she wants DNA identification of unidentified soldiers buried in the islands, the Associated Press reported. In her speech at the monument in Ushuaia that honors Argentines killed in the conflict with Britain, Fernández vowed to "respect the interests of the islanders" as Argentina seeks to peacefully gain control of the Falklands. British Prime Minister David Cameron has refused to negotiate the islands' sovereignty, saying the issue is up to the Falklands' residents.

Mexico Hit With Aftershock, No Injuries Reported

Mexico was hit Monday with a 6.0 aftershock from a powerful earthquake that hit the country last month and killed at least two people, the Associated Press reported. According to the Mexico's seismological service, it was the strongest of at least 280 aftershocks since the March 20 earthquake. There were no immediate reports of injuries or serious damage, officials said.

Conduit Capital to Sell Stake in Peruvian Pipeline

Conduit Capital Partners said Monday that it has agreed to sell its stake in Peru's Southern Andean Pipeline to Brazilian conglomerate **Odebrecht**, Dow Jones reported. The 1,000-kilometer pipeline is being developed by **Kuntur Transportadora de GAS** and may require as much as $4 billion. President Ollanta Humala attended the launch of the construction last week and called it the "most important project" of the last century.

Political News

FARC Rebels Free Captives Held for More Than a Decade

The Revolutionary Armed Forces of Colombia on Monday released 10 hostages—military members and police officers who were each held for between 12 and 14 years, the Associated Press reported. Though the rebel group said the captives were the final ones being held by the FARC, some Colombian officials have said the group still holds as many as two dozen captives, including four Chinese oil workers kidnapped last June. President Juan Manuel Santos said the FARC's release of the captives was "a step in the right direction, a very important step." However, he said the release by itself was not enough to merit peace talks that the FARC has been seeking. Santos said he needs proof that the rebel group, is truly abandoning kidnapping for ransom. "When the government considers that sufficient conditions and guarantees exist to begin a process that brings an end to the conflict the country will know," said Santos. The rebel group announced Feb. 26 that it would release the 10 captives—six police officers and four soldiers—and would abandon kidnapping. The hostages were flown out of a secret jungle location aboard a loaned Brazilian air force helicopter bearing a Red Cross logo. They were transported to the airport in Villavicencio, 45 miles southeast of Bogotá, where they were reunited with relatives and then hospitalized for medical checks. The FARC has suffered significant setbacks in past years. Pressure from Colombia's military, backed by billions of dollars in U.S. aid, has made it increasingly difficult for the rebels to hold captives. Last month, the military attacked two FARC camps, killing more than 60 rebels. The attacks were in response to the FARC's killing of at least 11 soldiers in an attack in Arauca, near the Venezuelan border.

President Juan Manuel Santos said the release itself was not enough to merit peace talks the FARC has been seeking.

Economic News

Obama, Calderón, Harper Vow to Boost North American Jobs

During a meeting at the White House, the leaders of the United States, Mexico and Canada vowed Monday to reform regulations and boost trade in an effort to help create more jobs in North America, Bloomberg News reported. "Our three nations are launching a new effort to get rid of outdated regulations that stifle job creation," U.S. President Barack Obama said at a news conference alongside Mexican President Felipe Calderón and Canadian Prime Minister Stephen Harper. Last year, trade among the three countries surpassed $1 trillion for the first time, according to Obama. U.S., Mexican and Canadian economic and trade officials will soon begin work to streamline or abolish regulations that stifle trade in an effort to "make our joint economies stronger," Obama said. Efforts are already in the works to cut transaction costs and boost trade in areas including standards for vehicle emissions, railroad safety and coordinating regulations on chemicals in the workplace, said officials. Obama, Calderón and Harper also condemned the increase in violence and drug trafficking

Calderón, Harper and Obama Monday at the White House

Photo: Mexican Government.

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that affects the three countries as Obama said his administration accepts responsibility for the demand for illegal drugs in the United States. Obama added that his administration has quickened the delivery of equipment to Mexico to help it fight drug cartels. Increasing levels of violence in Mexico have coincided with the expiration of an assault weapons ban in the United States, said Calderón. "If we don't have mechanisms to forbid the sale of weapons, such as we had in the 1990s, or for registry of guns, at least for assault weapons, then we are never going to be able to stop the violence in Mexico," he said. The Mexican and Canadian leaders also expressed interest to Obama in joining the Trans-Pacific Partnership, a proposed free-trade deal that the United States is leading. The talks include Chile, Vietnam, Australia, Peru, Singapore, Malaysia, New Zealand and Brunei. The nations involved would have to agree on any new countries joining the discussions. The Trans-Pacific Partnership would be the United States' largest trade accord since the North American Free Trade Agreement took effect in 1994.

Company News

Brazil's Petrobras Says it May Have Liability in Chevron Spill

Brazil's state-run oil giant, **Petrobras**, said in a regulatory filing that it may be liable for 30 percent of any damages U.S.-based **Chevron** must pay in connection with a November oil spill off Brazil's coastline, Bloomberg News reported Monday. Petrobras maintains a stake of 30 percent in the offshore Frade project, where about 3,000 barrels of oil spilled into the ocean. A Brazilian federal prosecutor's claim against Chevron and **Transocean**, which operated the drilling rig involved, is "unreasonable," Petrobras said in the filing on Friday. Brazil's government has been more closely monitoring oil producers following the 2010 **BP** spill in the Gulf of Mexico. Chevron, based in San Ramon, Calif., is also fighting a lawsuit by Brazil's main oil workers' union to bar it and Transocean from operating in Brazil. Federal prosecutor Eduardo Santos has also filed criminal charges against Chevron and Transocean executives. "The Brazilian government is going to come down with some significant penalties even for minor accidents, there are indeed some very draconian measures that are being implemented," Gianna Bern, president of **Brookshire Advisory** in Chicago, told Bloomberg News in an interview.

A Brazilian federal prosecutor's claim against Chevron and Transocean is "unreasonable," Petrobras said.

Featured Q&A

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room for optimism. As Mexico's middle class continues to grow and make its demands on the political, economic and social establishment, there will be no other way for Mexico to go. A clear example of this has been the recent strengthening of our competition authorities and of the transparency and access to information entity."

> "We are still not at the point where we can consider the mission accomplished."
>
> — *Andrés Rozental*

A Nicolás Mariscal, member of the *Advisor* board and chairman of Grupo Marhnos in Mexico City: "Mexico's middle class has indeed grown in the past decade and today has a greater sense of ownership and demands more accountability. However, better organization is needed to meet the latter goal. Mexico's middle class coexists with approximately 52 million poor people, representing 46 percent of the population. The big challenge in view of the economic and global financial situation is for the country to be able to create the conditions necessary for the poor to become part of the middle class and to keep middle-class Mexicans from becoming poor. To achieve this, it is necessary for political strategy to focus on providing quality public services, mainly health and education. The latter is vital for people to develop their potential and have equal-opportunity access to the labor market, either as entrepreneurs, business owners or employees in the public or private sector in order to generate income that will allow for a dignified and prosperous life. This also requires the development of medium-, small- and micro-enterprises as they generate most of the country's jobs. In addition, the middle class, through its consumption, helps maintain a healthy and active economy. Also, because of its training and interests, members of the middle class can be part of the political class that sets the course for the country's politics and democracy."

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "I am not at all convinced by the argument of an expanding middle class in Mexico, viewed only from the data on wages for the working population. Sixty-seven percent of the economically-active population either make less than $14 per day (which is equal to about three times the minimum wage), are unemployed, report no income from work or have an unspecified income. Only 23 percent of the economically active population report incomes above $14 per day. These data are consistent with poor growth of sales and poor expansion of companies serving market segments of what one might describe as products or services for an increasingly affluent working or middle class. They also help to explain the rapid

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Featured Q&A

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increase in overdue consumer bank loans after only a brief period of expansion or its high cost (37.7 percent effective interest for loans tied up to the payroll, according to the National Banking Commission, i.e. a 'middle' class treated as a high risk by commercial banks). Now, it is true that housing schemes have given the working class access to their own tiny houses and undoubtedly owners must see this as a sign of a higher standard of living. I agree with the notion that people who are not middle class at a level comparable to what would be regarded in the United States as middle class may see and define themselves as middle class, but that is an entirely different matter from what the data says. "

A Richard Feinberg, professor of international political economy at the University of California at San Diego and former president of the Inter-American Dialogue: "The growth of a middle class, however broadly defined, is a transformative development in many Latin American countries, including Mexico, Brazil, Argentina, Colombia and Chile. In general, the middle class is forward-looking and optimistic, leaving behind traditional Latin fatalism. An optimistic middle class is also less susceptible to the clarion calls of irresponsible populism, while pressing for more open, effective and accountable government and better quality social services. From the U.S. perspective, the more cosmopolitan middle class will tend to look favorably on the more positive aspects of U.S. society and seek productive inter-American relations that promise practical solutions to real-world problems. Politicians as well as corporate marketing specialists that ignore the emerging middle classes and their modernist values will do so at their peril."

> "In general, the middle class is forward-looking and optimistic, leaving behind traditional Latin fatalism."
>
> — *Richard Feinberg*

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

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2012

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

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