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FEATURED Q&A

Who Are the Big Winners & Losers in Brazil's Local Elections?

Q Brazilians went to the polls Oct. 7 to choose mayors and other local officials in the first round of the country's municipal elections. Rio de Janeiro Mayor Eduardo Paes, of the Democratic Movement Party, easily won re-election, while in São Paulo, José Serra of the Social Democratic Party and Fernando Haddad of the governing Workers' Party now face a runoff on Oct. 28. Who were the big winners and big losers in the municipal elections? What effect will the municipal elections have on national politics in Brazil? What role has the 'mensalão' corruption trial and conviction of José Dirceu, the chief of staff to then-President Luiz Inácio Lula da Silva, played in the country's politics?

A Peter Hakim, member of the *Advisor* board and president emeritus of the Inter-American Dialogue: "Halfway through, Brazil's municipal elections seem unlikely to bring about any major political changes in the country. The possible election, for the first time, of a PT mayor in São Paulo appears to be the headline story. All this looks like good news for the PT and its prospects in the next presidential election. Most significantly, the election results suggest that neither the PT party nor the PT government of President Dilma Rousseff were affected by the 'mensalão' corruption scandal. The trial before Brazil's Supreme Court of the mensalão's ringleaders, including several top-level PT political figures, appears to have had little impact on the municipal vote—although the trial was the lead story throughout the campaign. The PT will, in short, likely emerge unscathed from its—and perhaps the country's--most tawdry political scandal ever. Former President Lula da Silva may be the biggest winner. Although the scandal occurred under his watch (and resulted in the conviction of his chief of staff), the election demonstrated that his commanding popular support and political clout are undiminished. He not only selected the PT

Continued on page 3

Argentine Stocks Slump as Gov't Tightens Grip on Economy

Argentina's Merval index saw its sharpest drop Tuesday after the government of President Cristina Fernández de Kirchner announced that it will tighten its grip on the economy, including by ordering insurers how to invest. See story on page 2.

File Photo: Argentine Government.

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NEWS BRIEFS

Jamaicans Brace for Tropical Storm Sandy

Jamaicans braced early this morning for the arrival of Tropical Storm Sandy, as the front edge of the storm began lashing the island with heavy rain and strong winds, the Associated Press reported. Sandy, the 18th named storm of the Atlantic hurricane season is forecast to rake Jamaica today and then churn toward eastern Cuba. As of 8 a.m. local time today, the storm was located about 95 miles south of Kingston, with maximum sustained winds of 70 miles an hour, according to the U.S. National Hurricane Center. Kingston's airport was scheduled to close at 7 a.m., cruise ships have changed their itineraries and authorities have ordered 48-hour curfews in some areas.

Modelo's Third-Quarter Profit Down 8.9 Percent

Mexico's **Grupo Modelo** on Tuesday reported an 8.9 percent drop in profit in the third quarter from the same period last year, Dow Jones reported. The decline can be in part attributed to a stronger Mexican peso, which tempered growth in exports and higher beer prices in Mexico. Overall sales were up 1.2 percent. Earlier this year, Modelo agreed to sell its remaining 50 percent stake to **Anheuser-Busch Inbev**, which already owns the other 50 percent, for $20.1 billion.

Brazil's Embraer Posts Profit of $65.2 Million for Third Quarter

Brazil's Embraer reported third-quarter net income of $65.2 million on Tuesday, Reuters reported. While analysts project growth of $103 million, the company said its work restructuring financing for U.S. carrier Chautauqua Airlines cut into earnings by $41.9 million.

Economic News

Argentine Stocks Slump as Gov't Tightens Grip on Economy

Argentina's Merval stock index fell 3.6 percent Tuesday after the government of President Cristina Fernández de Kirchner announced it would seek to tighten its control of stock and commodities markets and also force insurers to increase their investing in the country. The Merval's drop on Tuesday was its sharpest fall since November 2011, Bloomberg News reported. "It's scaring away the few investors we had left," Guillermo Maresco, a trader at **Nación Bursatil** in Buenos Aires, told the news service. "The Dow Jones Industrial Average is also falling, so we're facing the perfect storm." The Fernández administration is sending lawmakers a bill that would increase the involvement of Argentina's regulatory agency, known as CNV, in the activities of brokers, which are currently self-regulated. Among other changes, the measure would make trading cheaper and connect markets, Economy Minister Hernán Lorenzino said late Monday. "We want to generate a big change in line with major global markets and the expansion of channels that the general public can access," said Lorenzino, Bloomberg News reported. The government also issued a decree Tuesday requiring insurance companies to invest as much as 30 percent of their holdings in "productive activities" aimed at improving the country's infrastructure, the Associated Press reported. "This decree links the insurance industry with the development of the actual economy." By investing in "projects that have a clear productive and social purpose," insurance companies will "encounter new possibilities of investment that that will feed a virtuous cycle of development with social inclusion," the decree added. The government named Deputy Economy Minister Axel Kicillof and Commerce Secretary Guillermo Moreno to lead a committee that will decide how insurers can invest. Lorenzino said that the country's insurance companies have $13 billion to invest, but have put only $18.5 million of that sum into projects that the government considers productive. The government wants to raise that amount to $1.5 billion by the middle of next year. All 13 stocks in the Merval index fell Tuesday, Bloomberg News reported. **Grupo Financiero Galicia**, the country's largest consumer lender, shed 4.3 percent. **YPF**, Argentina's largest oil company, saw its shares slide 4.7 percent.

Lorenzino

File Photo: Argentine Government.

Political News

Panama's President Scraps Plans to Sell State Land After Deadly Protests

Panamanian President Ricardo Martinelli announced Tuesday that his government would scrap plans to sell off state land in the Colón duty-free zone after deadly protests against the move, BBC News reported. Demonstrators have been protesting against the sale, which was signed into law on Friday, saying that the decision would cost jobs and reduce wages. Three people have been killed during clashes between area residents and authorities. Martinelli had said that the sale would benefit the area. However, in a posting late Tuesday on Twitter, he said, "If the people of Colon don't want the sale of lands in the Free Trade Zone, the sale will be repealed." Instead, Martinelli said he will agree to the protesters' demands to hike commercial rents and reinvest the money in the region. The duty-free area is beset by crime and poverty and is the largest duty-free zone in Latin America. Martinelli is currently in Japan and has

> "If the people of Colon don't want the sale of lands in the Free Trade Zone, the sale will be repealed."
>
> *— Ricardo Martinelli*

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faced criticism for not cutting short his trip after the violence broke out. Trade unions, civil society groups and members of Colón's chamber of commerce have been among the opponents of selling the land. The government had sent a delegation to meet with the protesters, but the government officials returned to the capital after the demonstrators refused to meet with them unless the measure was repealed.

Company News

Colombian Lawmakers, Rivals Seek to Limit Slim's Dominance

Colombian lawmakers and rival wireless companies are seeking to limit the dominance of billionaire Carlos Slim in the mobile phone industry through market-share limits and other efforts, Bloomberg News reported today. A government plan under development for the auction of 4G licenses and a bidding document excluded Mexico City-based **América Móvil**, which Slim controls. Also, legislators last week proposed a measure to bar any one company from controlling more than 30 percent of Colombia's mobile phone market. The legislation could force América Móvil to return licenses or break apart. Currently, the company controls approximately 60 percent of the wireless sector in Colombia, which is the company's third-largest market. The proposal to limit any one company's control would increase costs for consumers, said América Móvil. "It will basically sentence the company to a slow death," Juan Carlos Archila, head of the company's unit in Colombia, told Bloomberg News. "The company would have immense limitation to compete in the market." Senate opposition leader Jorge Robledo proposed the bill to limit market share, and there is good chance that it will win approval, said Roy Barreras, the president of the country's Congress.

Slim

File Photo: Carlos Slim Foundation.

Featured Q&A

Continued from page 1

candidate for São Paulo mayor, he also worked hard to get him elected. President Rousseff also emerged a winner. She, too, has remained untarnished by her party's scandal—and the PT election victories will give her a strong base for a re-election campaign two years hence. There were some losers too. The most regrettable is former governor and mayor of São Paulo José Serra, who ran second to Dilma in the last presidential race (and to Lula in 2002). If he fails to capture the mayor's office, as most observers predict, he will miss the opportunity for another run at the presidency."

Carlos Eduardo Lins da Silva, director of Educare in São Paulo: "Tip O'Neill had an axiom that is applicable to Brazil as well as many democracies: 'All politics is local.' That is the key to understanding the results of Brazil's Oct. 7 municipal elections. Fifty cities will hold a second round on Oct. 28 because no candidate won more than 50 percent of the vote. In most races, the logics of local politics prevailed over national worries or policies. Brazil has a longstanding tradition of municipal and state alliances being far more important than the national ones when it comes to local issues. This may explain why some parties that are solid allies in federal matters have fought fiercely in some important cities. It is the case of the PSB (led by Pernambuco Gov. Eduardo Campos) and the PT (of former President Lula and current President Rousseff). O'Neill's saying also helps explain why the PT apparently has not been significantly hurt in the ballots by the trial and convictions of some of its most important leaders from the Lula administration. However, it is also true that some of the 2012 municipal election results may have national implications: the PSB emerges from them with much more political strength than before and Campos is now a clear possible candidate for the presidency in 2014 or 2018; José Serra, twice defeated in presidential campaigns, will probably retire from politics if he loses the second round of the São Paulo election, as is largely anticipated; former President Lula confirms his impressive leadership skills if his young and inexperienced candidate wins the election in São Paulo (where Lula himself never got the majority of votes in his four attempts for the presidency); PSDB, the main opposition party in the federal arena, would lose an important stronghold with Serra's defeat in São Paulo; despite some important victories for the PT, President Rousseff loses political capital with her candidate's loss in Belo Horizonte; and Senator Aécio Neves is now the only relevant PSDB leader and probably the undisputed candidate for the presidency in 2014 with the victory of his candidate in Belo Horizonte."

> "Brazil has a longstanding tradition of municipal and state alliances being far more important than the national ones when it comes to local issues."
>
> *— Carlos Eduardo Lins da Silva*

João Augusto de Castro Neves, Latin America analyst at the Eurasia Group: "The main takeaway from local elections was the little correlation between national politics and local results. An important sign of this decoupling was the miniscule impact that the mensalão trial had on the PT's overall performance. Despite media focus on the trial over the past two months, the party won more municipalities than it did four years ago and was also able to secure a spot for its candidate in São Paulo's runoff later this month. Overall, the electoral spoils were somewhat evenly distributed among major parties. Although the electoral results

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Featured Q&A

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suggest no major shifts at the national level in the short term, a few incipient trends may gain political importance in the longer term. A strong showing by the leftist PSB and center-right PSD presage possible shifts within governing and opposition coalitions heading into the 2014 presidential elections. The PSB will likely push for more space within the coalition and it will be challenging for President Rousseff to accommodate the party and its rising leader, Eduardo Campos. As for the PSD, its strong showing reflects the fragmentation of conservative votes in major cities. This means that the opposition could have a harder time coalescing around one party or one candidate in 2014. Finally, it is noteworthy to mention that the São Paulo race will affect the fate of the opposition down the road. A José Serra victory would consolidate Aécio Neves as PSDB's presidential candidate in 2014. If Serra loses, although his standing within the party will be diminished, he will maintain enough political capital to create some uncertainty or even threaten to move to another party (PSD), which could hamper Neves' plans and performance in 2014."

> "The mensalão trial has not and will not significantly affect the outcome of the municipal elections."
>
> — *Paulo Sotero*

Paulo Sotero, director of the Brazil Institute at the Woodrow Wilson International Center for Scholars in Washington: "Brazil's massive municipal elections set the stage for national elections two years later. This year's two rounds of voting will likely enhance the local positions of parties in the government coalition despite the losses of the PMDB, the main ally of the Workers' Party. Overall, the elections have projected to the national stage a new generation of progressive leaders in state capitals and major cities who share two common traits: they are all moderates guided by the need to respond to the demands of Brazil's growing middle class rather than ideology; their political formative experience was the democratization process of the 1980s rather than the struggle against the dictatorship in the 1960s and 1970s. PT's Fernando Haddad, the 49-year-old former minister of education handpicked by former president Luiz Inácio Lula da Silva, will defeat former governor, mayor and twice-PSDB presidential candidate José Serra, helped as much by Serra's unpopularity as by Lula's support. PMDB's Eduardo Paes, elected in the first round in Rio with two-thirds of the vote, and Gustavo Fruet, set to win in the second round in Curitiba, are former members of the PSDB. PSB's Marcelo Lacerda, re-elected in Belo Horizonte with the support of PSDB's presumptive presidential candidate Aécio Neves, defeated PT's Patrus Ananias, a former minister from Lula's government. One clear winner is the governor of Pernanmbuco, Eduardo Campos, a 47-year-old who emerged as a presidential contender. Campos' party is a key member of President Dilma Rousseff's coalition. But Campos fought Lula and Dilma in various elections and exposed political fault lines in the government's base of support. The mensalão trial has not and will not significantly affect the outcome of the municipal elections, but has revealed once again the fragmentation of the Brazilian political system, which is at the source of the scandal."

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 NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

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