INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Managing Director,
Eton Park Capital Management

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Jason Hafemeister
Vice President,
Allen F. Johnson & Associates

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris International

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig Kelly
Vice President,
The Cohen Group

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

Why Are Private Health Insurers Betting Big on Latin America?

Q Minnesota-based insurer UnitedHealth Group said Oct. 8 it has agreed to acquire Brazil's largest healthcare company, Amil, for $4.9 billion in cash. What opportunities exist for UnitedHealth in the health insurance market in Brazil, where the constitution guarantees universal access to healthcare? Is it a good deal for UnitedHealth? What other countries in Latin America could see big plays from foreign health insurance companies?

A Laura Schoen, chair for Latin America and president of the Global Health Care practice at Weber Shandwick: "UnitedHealth's move to enter the Brazilian market is a bold strategic move. With only one quarter of its 200 million people enrolled in private healthcare plans, Brazil offers plenty of room for growth. The Brazilian middle class is looking for private health insurance to lower its dependence on the inefficient national health system. Brazil's healthcare market is also behind in the use of IT solutions, a major strength of UnitedHealth. United has a great chance to raise standards, increase efficiencies, lower costs and improve clinical outcomes. From a business point of view, the rationale for UnitedHealth is very solid. On the political side, things are less clear. The Brazilian constitution provides that healthcare is an essential service that must be managed by nationals. Even if Amil and UnitedHealth's lawyers have found legal loopholes, and even if the new political environment is more tolerant to foreign capital participation, the deal still requires the approval of the ANS (National Health Agency). This step is likely to ignite political debate. If it does go through, the merger will open the market by challenging existing legal and political barriers blocking foreign-owned health care companies from doing business in Brazil. But UnitedHealth would then face another challenge: how to satisfy its patients. There is widespread distrust and

Continued on page 4

Obama to Submit Immigration Bill 'Soon After Inauguration'

Citing strong Latino voter turnout and new opportunities for compromise with opposition lawmakers, U.S. President Barack Obama said Wednesday he plans to submit a comprehensive immigration reform bill to Congress early next year. See story on page 2.

Photo: Associated Press.

Inside This Issue

FEATURED Q&A: Why Are Private Health Insurers Betting Big on Latin America?.....1

Obama to Submit Immigration Bill 'Soon After Inauguration'.....2

Argentine Inflation Continues to Rise Even as Economy Cools.....2

Chile on Track for Developed-Nation Status: Finance Minister.....3

Colombia: Interbolsa Case Widens into Criminal Probe.....3

In Focus: New U.S. Drug Laws Create 'Huge Problem' for Mexico: Amb.. 3

Copyright © 2012, Inter-American Dialogue

NEWS BRIEFS

Brazil's JBS Bets Grass-Fed Beef to Provide Competitive Advantage

Brazilian agribusiness giant **JBS** sees big potential for the grass-fed beef industry to win global market share next year, as high grain prices squeeze production in some major producing countries like the United States, Reuters reported Wednesday. The family-run company will open six additional slaughterhouses that will increase its beef production capacity in Brazil by 15 percent, Chief Executive Wesley Batista said on Wednesday. The company slaughters nearly 12 million of the 40 million head of cattle that Brazil processes annually.

APM Terminals Plans $750 Million Investment in Peru Port

A Dutch-led consortium is investing $750 million to make Callao, Peru's largest port, into a major hub for the region, state news agency Andina reported Wednesday. Henrik Kristensen, head of **APM Terminals Callao**, said Wednesday that the company will carry out the modernization project over the next ten years. APM Terminals took over the management of the port's north terminal under a 30-year concession in July 2011. The port currently handles 90 percent of the country's container cargo.

Uruguay's Congress to Consider Gay Marriage Law

Uruguay's congress will debate a proposed gay marriage law next week that would give same-sex couples the same rights and responsibilities of heterosexual married couples, the Associated Press reported Wednesday. The proposed "marriage equality" law is being advanced by legislators in the ruling Frente Amplio coalition but faces opposition from the Catholic Church.

Political News

Obama to Submit Immigration Bill 'Soon After Inauguration'

U.S. President Barack Obama said Wednesday he plans to submit a comprehensive immigration reform bill to Congress early next year, Reuters reported. "Before the election, I had given a couple of interviews where I predicted that the Latino vote was going to be strong and that that would cause some reflection on the part of Republicans about their position on immigration reform. I think we're starting to see that already," Obama said at his first press conference since winning re-election. "And my expectation is that we get a bill introduced and we begin the process in Congress very soon after my inauguration," he said. Obama added he is "very confident that we can get immigration reform done." While leading Republicans have expressed more openness to compromise since their party's defeat in the Nov. 6 election, Obama's plan will still need to address their priorities. A legislative package would likely include strengthening border security and penalties for employers that hire undocumented workers, for example. But it would also feature an avenue for the millions of illegal immigrants already in the United States to gain citizenship, Obama said. Opponents to that proposal criticize it as unjust "amnesty" for lawbreakers. Sen. Marco Rubio, a leading Republican from Florida, has been floating a plan that would grant legal status and eligibility to receive in-state university tuition to those who illegally immigrated to the United States as minors and have kept out of trouble with the law. But Rubio's plan would not provide an automatic pass to citizenship, according to reports.

> "I predicted that the Latino vote was going to be strong and that that would cause some reflection on the part of Republicans ..."
>
> *— Barack Obama*

Economic News

Argentine Inflation Continues to Rise Even as Economy Cools

Argentina's official inflation rate was 0.8 percent for the month of October, Reuters reported Wednesday. Consumer prices cooled only slightly compared to September's fast 0.9 percent pace, state statistics agency INDEC said. Prices in the heavily weighted food-and-beverage category rose 0.9 percent last month. Overall, inflation in the 12 months through October reached 10.2 percent, according to INDEC. However, Argentina's official inflation figures are disputed by many private analysts. According to a survey of economists released by opposition members of Congress Tuesday, inflation has risen 24.6 percent year-on-year and was up 1.82 percent on the month in October, more than twice the government estimate, Dow Jones reported. Prices in Argentina appear to be rising even as economic growth has slowed. **S&P** said last week it expects real GDP to expand only about 1.5 percent in 2012, a sharp fall from economic growth near 10 percent several years ago. The New York-based ratings agency on Nov. 5 cut Argentina's ratings to 'B-' with a negative outlook, stating that the government of Argentina could face increasing debt management risks after a recent U.S. court ruling in favor of standout bondholders. Argentina's ambassador to the United States, Jorge Argüello, has steadfastly defended the government's debt policies, telling Reuters on Tuesday that Argentina has settled 93 percent of the debt on which it defaulted in 2001. "The bonds linked to GDP growth have paid off the great majority of creditors who trusted that this potential would result in economic growth, as it indeed did," Argüello stated.

Argüello

File Photo: Embassy of Argentina.

Copyright © 2012, Inter-American Dialogue

Chile on Track for Developed-Nation Status: Finance Minister

Chilean Finance Minister Felipe Larraín said Wednesday that his country is on track to achieve developed-nation status ahead of a self-imposed 2018 target date, Bloomberg News reported. If economic growth sustains this year's pace of about 5 percent for the next five years, Chile would become the first South American nation to meet that landmark, according to the report. To do so, gross domestic product per capita must reach $22,000 a year on a purchasing power parity basis, up from today's level of almost $19,000. Chile faces some headwinds in that goal, however. The price of copper, which accounts for half of Chile's exports, has fallen 12 percent this year, although it remains well above recent historical averages. Inequality has also been a point of contention, with increasingly violent protests in recent years over education reform and other social issues.

Company News

Colombia: Interbolsa Case Widens into Criminal Probe

Colombian Finance Minister Mauricio Cárdenas said Wednesday he has opened a tax evasion investigation into liquidated stock brokerage **Interbolsa**, Reuters reported. The allegations involve a plan to evade taxes with **Premium Capital,** a fund based in Curacao. Company executives could face criminal charges, according to the report. The government seized Interbolsa, Colombia's largest brokerage, on Nov. 2 over a shortage in funding. "No financial market is exempt from companies that once in a while make mistakes and bad business decisions," Cárdenas said at the time. Just last month, Interbolsa announced plans to expand into Peru and Chile. But its rapid descent and the expanding scope of its troubles have led some to believe the Interbolsa saga could have wider implications for the Colombian stock exchange as well as on how overseas investors perceive the Andean country's business environment, the *Financial Times* reported today.

In Focus

New U.S. Drug Laws Create 'Huge Problem' for Mexico: Amb

by Rachel Sadon

WASHINGTON—The legalization of recreational marijuana on ballot measures in Colorado and Washington last week present "a huge problem" for the Mexican government's effort to rally public support for the country's deadly war on drugs, Mexican Ambassador Arturo Sarukhan said Wednesday.

The heated debates over marijuana policy in the United States have amplified on the other side of the border, where the offensive against drug cartels has left thousands dead and embittered a long-suffering populace. "It is very hard for many in Mexico and for public opinion in general to understand why Mexico is expending resources to curtail trafficking … of marijuana to the United States if two of the states in the union have legalized [its] recreational use," Sarukhan said in an event at the Inter-American Dialogue. "This is a huge problem and a huge challenge."

The ballot votes, which conflict with federal law, have not yet been addressed by the Obama administration. The Department of Justice is reviewing the initiatives, a spokesperson said last week, declining to provide further details on the federal government's response. "We have to wait and see how the U.S. administration positions itself" before there can be a "full-fledged debate," said Sarukhan.

Mexican President Felipe Calderón, who has been an opponent of marijuana legalization, said this week that the measures reduce the United States' "moral authority" to ask other countries to help combat the inflow of drugs. While the Colorado and Washington initiatives "won't fundamentally impact policy per se," they do provide a "different template for discussion" about U.S.-Mexico relations, said Sarukhan. Obama's response to the initiatives could have a profound impact on the bilateral relationship with the incoming Mexican administration of President-elect Enrique Peña Nieto, who takes office on Dec. 1. The two leaders are scheduled to meet Nov. 27.

Calls to rethink global drug policy have grown louder in recent years from both high profile former leaders and several sitting presidents in Latin America. Public perception in the United States seems to be shifting, as well. A poll taken by Rasmussen Reports conducted Nov. 9-10 found 45 percent of American adults are in support of marijuana legalization, while 45 percent are opposed and 10 percent unsure. It represents an increase from 2009, when the same poll found 46 percent of the population was opposed while 40 percent was in favor.

Nonetheless, the specific effects that widespread decriminalization would have on Mexico's violence remain contested. There is no consensus about how much revenue drug trafficking organizations derive from marijuana sales, the ambassador noted, pointing to a 2010 Rand Institute study which estimates that the drug accounts for just 15 to 26 percent of cartels funds.

If the cartels find themselves pushed out of the marijuana market by legalization, they will simply "muscle into other illicit activities, as they have in the past 6 years and which is in part to blame for the surge in violence," Sarukhan warned. "Whoever thinks that legalization is the answer to violence is wrong," he added.

[Editor's note: A recorded webcast of Wednesday's event is available online.]

Copyright © 2012, Inter-American Dialogue

Featured Q&A

Continued from page 1

dissatisfaction with health coverage prices and services in Brazil, which has led to frequent court arbitration of disputes. That said, although other markets in Latin America are also attractive, the size of the Brazilian population and the growth of its middle class makes the deal unique."

Paola Sanchez Torres and Robert Kiss, associates at Diaz Reus & Targ, LLP: "The healthcare sector offers new investment opportunities in Latin America. Consider UnitedHealth's entry into Brazil. Although Brazilians enjoy constitutionally guaranteed access to healthcare, the private market is growing by leaps and bounds. This growth is due in large part to budget constraints that have reduced the quality of public healthcare in the face of growing middle-class demands for improved services. Companies like UnitedHealth should target Latin American countries with profiles similar to Brazil, such as Mexico. Mexico and Brazil account for more than 75 percent of pharmaceutical sales in the region. Mexico's economy is growing with an increasing portion of its 113 million citizens entering the middle class. The Mexican government is encouraging its citizens to take up private insurance while at the same time supporting joint ventures to improve the country's healthcare infrastructure. Investors should proceed with caution in other parts of the Southern Cone. Venezuela's centralized economy and danger of nationalization of private healthcare institutions pose a threat to investors. Argentina and Chile are two of Latin America's highest spenders and most successful implementers of universal healthcare, offering private sector investors less opportunities. When investing in the Latin American healthcare sector, investors should look for certain indicators; a growing middle class, encouraged private sector participation and a less centralized healthcare system."

Guido Cataife, research associate at IMPAQ International: "Yes, UnitedHealth has announced its decision to buy Brazil's largest private healthcare organization. In light of the fact that Brazil has a comprehensive public health system that provides free services at the primary, secondary and tertiary level, we may wonder what reasons might explain this decision. First, in Brazil, the world's sixth-biggest economy, only 26.3 percent of the population is covered by private health plans, according to 2008 estimates. Also, the main target group in this market, the middle class, is growing robustly. Second, the strong public health sector promotes rather than hinders the growth of its private counterpart by providing high-complexity, high-cost health procedures even to the privately insured. This benefits private insurers by reducing their risks, saving costs and broadening the market. Third, the data and intelligence that UnitedHealth's Optum division may gather in the complex Brazilian market may prove crucial for expansion plans throughout South America. However, UnitedHealth should also expect challenges. The current health system was not conceived by lawmakers, but by a social movement aimed at expanding social rights. The movement's health system principles of universality, integrality and social participation were later on incorporated in the 1988 Constitution. This social achievement is protected jealously, and the private sector is under permanent scrutiny. In 2011, physicians held a countrywide 24-hour strike against health insurance companies, protesting for better remuneration and autonomy in medical decisions. Academics and experts too are concerned about the imbalances in the relationship between the private and public health sectors. Their claims for political solutions may involve tighter regulations."

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

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Rachel Sadon
Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Remittances and Development Program
Tamara Ortega Goodspeed, Senior Associate, Education
Jeffrey Puryear, Vice President, Social Policy

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

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Copyright © 2012, Inter-American Dialogue