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FEATURED Q&A

What Is at the Heart of the Argentina-Brazil Trade Dispute?

Q An all-but-declared trade war between Argentina and Brazil overshadowed the Dec. 7 meeting of the Mercosur trade bloc, according to some observers. Argentine trade restrictions have led imports from Brazil to plunge 21 percent for the year through November, Reuters reported. Argentine officials, however, have denied that they are specifically targeting Brazilian goods through their efforts to improve Argentina's balance of payments. What is at the heart of the clash? Will Brazil's government take action against Argentina, as Brazilian businesses have urged? What are the chances for a breakthrough in resolving the dispute, and how will other countries within Mercosur, such as new member Venezuela, play a role in shaping the region's trade relations?

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 once-proud Mercosur continues to crumble. The current crisis is triggered by Argentina's self-generated economic implosion, while the longer-term erosion is attributable to the reluctance of Itamaraty, Brazil's powerful foreign ministry, to negotiate solid rules and institutions to govern the inevitable tensions between member states. Instead, Itamaraty has preferred to defer important decisions and bilateral bargaining to the political leadership. This myopic 'realism' has undercut the legitimacy of Mercosur in the eyes of the other member states, leading repeatedly to disruptive unilateral actions. Apparently, Itamaraty recognizes that Mercosur is no longer very useful, otherwise it should not have invited a Venezuela governed by Chavistas into the tent—a Venezuela that shares few of the core values that drove Mercosur's founding mission. (The admission of Venezuela to the regional commer-

Continued on page 2

Venezuelan Supreme Court May Delay Chávez's Inauguration

If ailing President Hugo Chávez is too ill to return to Venezuela to be sworn in for his new term Jan. 10, the country's Supreme Court would decide whether to delay the inauguration, Supreme Court President Luisa Estella Morales said Thursday. See story on page 2.

File Photo: Venezuelan Supreme Court.

Inside This Issue

FEATURED Q&A: What Is at the Heart of the Argentina-Brazil Trade Dispute? 1

Venezuelan Supreme Court May Delay Chávez's Inauguration 2

Argentina Sends Troops to Bariloche After Looting 2

Mexico's Pepsi Bottler Seeking More Than $300 Mn in Offering 3

Brazil's Rousseff Announces Plan to Privatize Two Major Airports 3

The Dialogue Continues: What Issues Are Driving Paraguay's Presidential Race? 3

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NEWS BRIEFS

Argentina Sends Troops to Bariloche After Looting

The Argentine government has sent federal troops to the city of Bariloche, a popular tourist locale, after looters rampaged at least three supermarkets and other shops, BBC News reported Thursday. The government blamed the attacks, which were perpetrated by dozens of people, on small gangs. Local authorities, however, accused anarchist organizations. The provincial governor also linked the incidents in Bariloche to attacks on power lines, which occurred earlier in the day in the province on Neuquén.

Colombia's Third-Quarter Growth Weakest Since 2009

The Colombian economy grew 2.1 percent in the third quarter, below analysts' expectations and the slowest pace since 2009, Reuters reported Thursday. In the same period last year, the country recorded a 7.5 percent growth rate. "It was a total surprise. No one had been so pessimistic," said the head of economic research at Banco de Bogotá, Camilo Perez. The slow growth could push the central bank to further lower its benchmark interest rate after last month's cut.

Argentina's Industrial Production Slips 1.4 Percent

Argentina's level of industrial production declined 1.4 percent year-on-year in November, according to government data released on Thursday, Reuters reported. Industrial production fell 2.1 percent last month as compared to October. The year-on-year declines in November were largely due to drops in the production of goods including steel, aluminum and paper.

Political News

Venezuelan Supreme Court May Delay Chávez's Inauguration

Venezuela's Supreme Court may decide whether it is constitutional to delay next month's inauguration of ailing President Hugo Chávez, who is recovering from his fourth cancer surgery last week in Cuba, the Associated Press reported. Luisa Estella Morales, the president of the Supreme Court, said that it would be within the court's purview to decide the matter if Chávez is not well enough to return to Venezuela for his Jan. 10 swearing-in. "At this time, there is no constitutional question to resolve," Morales said Thursday. "When the matter is brought up, if it's brought up, then it will be the Constitutional Chamber of the Supreme Court of Justice that will decide." Morales' statement came after National Assembly President Diosdado Cabello said earlier this week that the inauguration could be delayed, fueling uncertainty about Chávez's condition. "I only expressed my opinion, of which I'm absolutely convinced since it's in line with our constitution," Cabello said Thursday in a posting on Twitter. In a speech Thursday, Vice President Nicolás Maduro, whom Chávez named as his hand-picked successor if his health forces him from office, said Chávez is conscious and recovering. Maduro added that the president was being treated for a respiratory infection and has been with his family. "He's well. He's conscious," Maduro said in a speech in Guarico state. "He's fighting a great battle … for his life, for his health." [Editor's note: See related Q&A in Thursday's *Advisor*.]

Chávez

File Photo: Venezuelan Government.

To Our Subscribers

In observance of the Christmas and New Year's holidays, the Latin America Advisor *will not be published next week. We will resume publication on Wednesday, Jan. 2, 2013. We wish our readers a happy holiday season and a prosperous new year.*

Featured Q&A

Continued from page 1

cial pact also manifests the degree to which Brazilian foreign policy today is driven by the 'pragmatic' hunger for corporate contracts, overshadowing political or even strategic interests.) More broadly, the current geopolitical circumstances of South America's largest state are far from envious, surrounded as Brazil is by unstable, contentious neighbors: a testy, self-destructive Argentina; a feisty Uruguay; tumultuous, disobedient Paraguay; nationalist and irredentist Bolivia; and a competitive Venezuela facing serious crises of political succession and tough economic adjustment. While assertive Brazilian diplomats strut the global stage in full peacock plumage, their own neighborhood is increasingly unruly and unpredictable. As a consequence of these and other setbacks, Itamaraty no longer commands blind loyalty at home; rather, a rising chorus of informed voices is calling into question both the strategic vision and the practical results of Brazilian diplomacy."

A Margaret Hayes, principal at Evidence Based Research Inc. in Vienna, Va., and professor of security studies at Georgetown University: "Argentina is desperate to improve its overall budget and balance of payments, and the government, which has adopted any number of questionable policies in recent years, is using all instruments available. Brazil has also been the principal beneficiary of Mercosur integration, particularly in the manufacturing sector, largely because of its larger and more diverse private sector. Intra-Mercosur trade, and Argentina-Brazil trade in particular, is sensitive to economic trends. Brazil supplies about a third of Argentina's imports, which are

Continued on page 4

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Company News

Mexico's Pepsi Bottler Seeking More Than $300 Mn in Offering

The bottler for **Pepsico** in Mexico wants to raise as much as $300 million next year in an equity offering, Bloomberg News reported Thursday, citing two unnamed people familiar with the matter. **Organización Cultiba** is looking to plan the offering in part to increase the trading volume of its stock, according to the sources, who were unidentified because of the private nature of the talks. The offering would increase the number of Cultiba shares outstanding. The company's trading volume last month was 50,000 shares, as compared to 19 million for **Coca-Cola Femsa**, Mexico's largest bottler of Pepsi's main rival.

Cultiba's trading volume last month was 50,000 shares, as compared to 19 million for Coca-Cola Femsa.

Economic News

Brazil's Rousseff Announces Plan to Privatize Two Major Airports

Brazil will privatize the international airports in Rio de Janeiro and Belo Horizonte in early 2014 as part of its infrastructure plan ahead of the World Cup that year and the Summer Olympics in 2016, Dow Jones reported. In the last decade, Brazil's air traffic has more than doubled and will likely exceed 170 million passengers this year. "Brazil will have, on the horizon of 2030 and 2050, exponential growth in demand," Rousseff told reporters Thursday in Brasília. "This is an industry in which partnerships with the private sector will be very much emphasized." The government estimates that the winning bidders for the Rio de Janeiro and Belo Horizonte airports will need to invest some 11.4 billion reais ($5.4 billion) in order to modernize and expand the facilities. In addition, Rousseff's government is planning to spend 7.3 billion reais to modernize regional airports. The plans are likely to increase competition in the airline industry as air traffic within Brazil is expected to soar due to the upgrades. Brazil's outdated infrastructure is often seen as a main obstacle to the country's ability to compete globally. Last February, the government handed airports in São Paulo, Campinas and Brasília to private operators. The government is also privatizing roads, ports and railways as part of its infrastructure modernization plans.

Rousseff

File Photo: Brazilian Government.

The Dialogue Continues

What Issues Are Driving Paraguay's Presidential Race?

Q Millionaire Horacio Cartes won a Dec. 9 presidential primary in Paraguay to lead the conservative Colorado Party in its effort to retake the presidency. The party governed Paraguay for more than six decades until the election in 2008 of Fernando Lugo, who was impeached by Congress and removed from office last June. Cartes' main rival appears to be center-right Liberal Party candidate Efrain Alegre. What chance does Cartes have to return the Colorados to power? What issues are driving the race? To what extent is Lugo, who announced in November that he will run for Senate, affecting Paraguayan politics?

A Diego Abente Brun, visiting professor of Latin American Studies at Brown University: "The Paraguayan general elections scheduled for April 21, 2013 will involve Horacio Cartes, the millionaire candidate of the conservative Colorado Party, and Efraín Alegre, candidate of the center Authentic Radical Liberal Party (PLRA), and other smaller parties. The choice could not be starker. Cartes, who became a card-carrying member of the Colorado Party only a year ago and who is said to have financed the Colorado campaign for the 2010 municipal elections, represents the Colorado Party's attempt to return to power. He was prosecuted for foreign currency fraud and spent time in jail in the late 1980s. Cartes was mentioned in a January 2010 cable, released by WikiLeaks, from the U.S. Embassy in Buenos Aires. A cable from the U.S. Embassy in Buenos Aires in January 2010, released by WikiLeaks, references an operation to dismantle the 'Cartes DTO,' or drug trafficking organization. The cable said the investigation involved 'drug trafficking, money laundering and other criminal organizations.' Alegre, on the other hand, is a reformist liberal who was the successful minister of public works during the Lugo government until he was fired in an attempt to prevent his rising prominence. He embodies the forces of economic modernization and social justice. However, he has yet to show that he can rebuild the socio-political coalition made up by the PLRA, progressive forces and leftist parties, which was shattered by President Lugo's removal from office. Polarization is likely to prevail in the presidential campaign and Alegre can win a considerable portion of the votes of the left."

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

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Featured Q&A

Continued from page 2

concentrated in the automotive sector, electrical machinery, appliances and other equipment. The auto sectors in both countries are closely integrated. Argentina has seen a sharp drop in its industrial sector trade balance in recent years and has used a variety of mechanisms, some questionable, to address this imbalance. But Brazil has also seen sharp variation in its trade balance and has taken its own measures to restrict imports, particularly in the auto sector, which impacts Argentina severely. (Brazil is the destination for some 80 percent of Argentine auto sector exports and supplies some 60 percent of Argentine imports). In the past, both governments have tried to address differences while mostly kicking the can down the road. The Mercosur trade agenda includes a number of rules and agreements that need to be resolved. It is unlikely that this will occur until economies are growing again. Meanwhile, governments need to continue to meet and sustain dialogue. The Brazil-Argentina trade relationship is bilaterally so important that it should not be much affected by Venezuelan initiatives, and these can be expected to be modest in the near term until more is known about Hugo Chávez's health."

A Beatrice Rangel, member of the *Advisor* board and director of AMLA Consulting in Miami Beach: "I believe chances for a breakthrough in this latest trade dispute between Argentina and Brazil are rather slim. Argentina's trade corset is essential to maintaining the purity of its development model which is based on continuing growth of domestic aggregate demand. Giving up on this restriction would propel Argentina into a non-financed trade deficit. As Argentina has yet to close negotiations with, among other debtors, the Paris Club, it is unlikely that it will find financiers for its trade deficits. The long-term solution to Argentina's growth dilemma of course is to create and nurture a good investment climate. But recent developments concerning the seizure of energy company assets, restrictions on internal pricing for service providers and other unorthodox economic policy measures are failing to achieve such an objective. And while filing investment dispute suits at ICSID and other multilateral organizations is a good move in terms of documenting failure to abide by international obligations, it will lead nowhere in the case of Argentina. Indeed, myriad investors have filed and won suits at ICSID against Argentina. Less than 5 percent of those decisions have been enforced. But perhaps given the weight that Brazilian products carry in the workings of the Argentine economy, Argentina may abide by the decisions in these suits."

A Gary Hufbauer, senior fellow at the Peterson Institute for International Economics: "Brazil is waking up to the fact that its commercial future lies to the north, not with its southern neighbor. At best, Argentina will be a fair-weather trade partner. It will respect the rules when times are good, but ignore them when domestic mismanagement creates havoc in the Argentine economy. Meanwhile, the United States has dropped its ethanol tariff and might find common ground with Brazil on the undervalued Chinese renminbi. Mexico and the Pacific countries of Latin America are growing at a good pace, there's no long-term slowdown in Asia and all these partners pay reasonable attention to the WTO rulebook and commercial norms. If Brazilian leaders are practical, they will forget about Argentina until a different regime and sensible policies take hold in Buenos Aires."

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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