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FEATURED Q&A

Which Issues Will Define the Brazil-Mexico Agenda?

Q Brazilian President Dilma Rousseff is planning to visit Mexico this year, likely in March, Reuters has reported. The two countries have been at odds in recent months over an automobile trade dispute, but there are some indications that trade relations may improve. Will Rousseff and Mexico's newly sworn-in president, Enrique Peña Nieto, get along well? What are the key issues that will define their bilateral agenda in the near term? Where are there openings for increased economic and political cooperation in both the public and private sectors?

A Peter Hakim, member of the *Advisor* board and president emeritus of the Inter-American Dialogue: "Brazil-Mexico trade is barely even a trickle today. With a combined GDP of nearly $4 trillion, the region's two giants exchange less than $8 billion in goods and services annually. That compares to U.S. trade of $500 billion with Mexico and $50 billion with Brazil. Presidents Lula and Calderón were right in thinking that they had a win-win proposition when they agreed in 2010 to pursue a 'special economic pact.' But negotiations stalled, in part because Mexican businesses were uneasy about encouraging competition from Brazil's booming economy. The shifting fortunes of the two countries, however, may have improved prospects for agreement. Mexican self-confidence has risen with a notable three-year upswing of the economy. Today's vibrant Mexican markets will, in turn, have greater appeal to an economically slumping Brazil (although its response to the slowdown has been more to raise protectionist barriers, including a quota on Mexican auto imports, than to embrace freer trade). Still, presidents Dilma and Peña Nieto should be motivated by the huge potential payoff of a robust trade arrangement that opens untapped markets for both nations. The Brazilian government is aware as well that an arrangement with Mexico also offers new

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Fernández Renting Plane for Fear 'Tango 01' Could Be Seized

The government of Argentine President Cristina Fernández de Kirchner is renting a plane for $880,000 for her upcoming trip to Cuba and Asia for fear that her presidential aircraft, known as "Tango 01," could be seized by creditors. See story on page 2.

File Photo: Argentine Government.

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NEWS BRIEFS

Rescuers in Venezuela Continue Search for Missing Plane

Hundreds of rescuers searched Monday for a fourth day for a missing plane carrying six people including Italian fashion designer Vittorio Missoni, ABC News reported. Almost 400 people, including 30 divers, were involved in the search, said Venezuela's government. The plane, a twin-engine BN-2 Islander, had enough fuel when it took off Friday morning for a three-hour flight from Los Roques Island, where the group was vacationing, Venezuelan authorities have said.

Walmex Rings Up 1.6 Percent Increase in Same-Store Sales

Wal-Mart's Mexico unit said on Monday that sales at its stores open for at least a year rose 1.6 percent in December from a year earlier, Reuters reported. **Walmex**, as the company is known, said total sales, including those from newly opened stores, increased 5.4 percent in December from a year earlier. The company said it opened 285 new stores and restaurants in 2012 throughout Mexico and Central America.

Chile's Largest Pension Funds Post Average Return of 4.6%

Chile's largest pension fund managers posted a 4.6 percent average return in 2012, Dow Jones reported Monday. The regulatory agency overseeing the private institutional investors, known as AFPs, said all of the nation's biggest funds saw positive returns, ranging from 3.2 percent to 6.1 percent. Overall, the AFP funds were managing $164.58 billion at the end of December, up 10.2 percent from the end of 2011. **AFP Provida SA** had the largest portfolio, with $46 billion under management, up 8.3 percent year-on-year.

Political News

Venezuelan Leadership Calls for Inauguration Day Rally

Top government officials in Venezuela have called for a massive rally on Thursday, the day President Hugo Chávez is scheduled to be sworn in for his next term, as a show of support for the ailing leader, Agence France-Presse reported Monday. Chávez has not been seen or heard in public since his Dec. 11 cancer surgery in Cuba, but his condition is stable, Information Minister Ernesto Villegas said Monday night. Officials have said Chávez is suffering from a respiratory infection after his fourth cancer surgery. What exactly will happen if Chávez is too ill to be sworn in remains a mystery. But National Assembly leader Diosdado Cabello said a rally that day will show the public's support for Chávez. "All of Venezuela will come here in front of the Miraflores presidential palace, the people supporting our president, the people supporting comandante Chávez—in an overwhelming manner, the people in the street," Cabello said. He added that other Latin American heads of state are expected to attend. Uruguayan President José Mujica's office confirmed that he would be in Caracas. Venezuela's leadership also received support from Brazil, where an official said Venezuela's Constitution provides for continuity for as many as 180 days if Chávez cannot take the oath of office. Marco Aurelio García, a top advisor to President Dilma Rousseff, met last week with Venezuelan officials and said there is a process in Venezuela to delay the inauguration for 90 days, which could then be renewed for another 90 days, after which officials would decide whether Chávez is permanently incapacitated. Venezuela's Constitution calls for a new presidential election within 30 days if a president dies or is permanently incapacitated before being sworn in or within the first four years of his term. The Constitution calls for the National Assembly's leader to act as president in the interim. When asked if there is no chance Chávez would be inaugurated on Thursday, Cabello said, "We rule out absolutely nothing." He added that Venezuelan leaders have a plan for what will happen on Thursday, however. "But we're not going to get to the 10th and not know what we are going to do. We know what we're going to do," he said, AFP reported. Chávez opponents have argued that Chávez's current term ends on Thursday and cannot be extended. "People should get ready to protest and rebel against what will be a failure to uphold the constitution," said Julio Borges, the national coordinator of the Justice First party. The Catholic Church in Venezuela also entered the debate. Monsignor Diego Padrón, the leader of the Venezuelan Conference of Bishops, said Venezuela's leadership is twisting the Constitution. "It is not our job to intervene publicly, but in this case the good of the country and the defense of ethics is at stake. To alter the Constitution to attain a political objective is morally unacceptable," said Padrón, BBC News reported.

Cabello

File Photo: Venezuelan Government.

Argentina's Fernández Rents Jet for Fear Plane Could Be Impounded

Argentina's government has rented a private jet for President Cristina Fernández de Kirchner's upcoming trip to Cuba and Asia for fear that her official presidential plane could be impounded by creditors. The government is renting the jet from Britain's **Chapman Freeborn**, which it also used for Fernández's trips in South America and Europe in 2010 and 2011, for $880,000, *The Wall Street Journal* reported Monday. That amount is approximately 20 percent more than it would cost to use the presidential plane, "Tango 01," a Boeing 757. The Fernández administration decided to rent the aircraft after government attorneys said creditors could attempt to seize Tango 01. Last year, an Argentine Navy ship was impounded for two and a half months in Ghana after a **NML Capital** persuaded a local judge to order its seizure. The investment fund, which owns defaulted

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Argentine sovereign debt, is attempting to collect $1.6 billion in judicial awards against the government. Argentina has fought with creditors who have refused to accept restructurings since the government's massive default on nearly $100 billion worth of debt in 2001. On her trip, which begins Thursday, Fernández plans to first visit Havana to see ailing Venezuelan President Hugo Chávez. She then plans to promote trade ties in visits to the United Arab Emirates, Indonesia and Vietnam.

Economic News

Latin American Banks Seeing Sharp Increases in Payroll Loans

Payroll loans, which borrowers repay to financial institutions through paycheck deductions, have sharply increased in Latin American countries, *The Wall Street Journal* reported Monday. The relatively small consumer loans have boomed in popularity, largely due to preapproved offers at ATMs and sometimes through attractive interest rates, the newspaper reported. In the 12-month period ending last September, payroll loans increased 16.5 percent in Brazil to approximately $88 billion, according to the country' central bank. That amounts to about 60 percent of all credit in Brazil. **Itaú Unibanco Holding**, Brazil's largest bank, last month announced a partnership with **Banco BMG** to loan approximately $14 billion through payroll loans during the next four years. For the 12 months through September, payroll loans in Mexico increased 32 percent to more than $9 billion. Three of the country's largest banks have said that one in five of their customers has taken out a payroll loan, which typically have lower default rates than credit cards. Javier Arrigunaga, the chief executive of Mexico's **Banamex**, said available information on payroll loan customers, including income and withdrawals, allow for "much healthier" credit than unknown customers. However, critics have said banks provide payroll loans too liberally to customers who may already be overextended.

Featured Q&A

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access to the U.S. market, while the new Mexican administration knows that Brazil is a vital entry point to all of South America. And a bonus looms. A trade deal between Mexico and Brazil, which together produce almost two-thirds of Latin America's output, could be a crucial step toward greater hemisphere-wide economic cooperation. It would break down the region's current divide into two non-overlapping economic groups—the 11 countries that have free-trade agreements with the United States and the seven countries that are current or prospective members of Mercosur."

Rubens Barbosa, former ambassador of Brazil to the United States: "In his first visit to Brazil as Mexico's president-elect, Peña Nieto told businessmen at a meeting of the Federation of Industries of São Paulo that he wanted to work with President Rousseff to enhance political, economic and trade relations with Brazil. During Rousseff's visit to Mexico, the personal relationship between the two presidents will be strengthened. The Brazilian business community supports a more comprehensive trade agreement with Mexico and has informed the government of that. Historically, the private sectors of both countries have opposed any significant progress. Brazil's business community in the past and the Mexican business community more recently were responsible for the breakdown of the negotiations. I hope presidents Peña Nieto and Rousseff mean business this time and manage to take the bilateral trade, investment and economic relationships between the two largest economies in Latin America to a more important level. There are new issues that will have a bearing on future conversations. The expansion of the current trade agreements will have to include other sectors, not only the auto sector, with reduced tariffs and other restrictions. Mercosur has requested observer status in the Pacific Alliance Agreement and Brazil presented a candidate for the highest post in the World Trade Organization. These are political issues that will have an influence on the general climate of the bilateral relationship.

> "I am afraid that aspirations for a significant partnership will remain rhetorical ..."
>
> — *Rubens Barbosa*

Being pragmatic however, I am afraid that aspirations for a significant partnership will remain rhetorical because Brazil and Mexico belong to two different geopolitical and geoeconomic worlds."

Ruben Olmos, partner at Global Policy Strategies in Washington: "This year seems to be the right moment to relaunch a new era of strategic bilateral relations between Latin America's two giants. While stakes are high, it is important to be cautious about expectations given the series of setbacks in the last couple of years. Officials in both countries remain skeptical, especially when it comes to potential new talks about a free-trade agreement. Instead, let's look for new synergies such as the ones taken by the leaders of both countries. President Peña Nieto had a great initial meeting with President Rousseff in September, which included talks about using Petrobras as a model for Pemex, the latter now headed by Emilio Lozoya Austin, then the head of international relations of the transition team and the architect of the visit. Two additional positive signs include President Rousseff's agreeing to visit Mexico in early 2013 and the immediate acceptance by Brasília of Mexico's new ambassador to Brazil, long-time Brazil connoisseur Beatriz Paredes Rangel, a well-known PRI politician. Looking forward, both

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Featured Q&A

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nations have three initial key items on the agenda, which I believe are central to jumpstarting this new era: energy, tourism and infrastructure. Mexico has much to learn from Petrobras; Brazilians love Mexican beaches and therefore visa facilitation is vital; and last but not least, both nations are in need of new infrastructure. Brazil has a World Cup and Olympic Games in sight and Mexico is en route to modernizing its highways and ports."

Joel Korn, president of WKI Brasil: "Ingredients are clearly present for strengthening ties between the two largest economies of Latin America. Last September, Peña Nieto visited Brazil and made it clear to President Rousseff and to business leaders that his administration is committed to deepening relations, particularly with trade and investments. Rousseff's upcoming visit to Mexico will reinforce the political support and mark the beginning of a process that will benefit both countries. A successful bilateral agenda will be predicated on the search of convergence of interests, synergies and strategic complementary actions, leaving aside supposed rivalries. The current trade volume leaves much to be desired. Less than 2 percent of the total is not compatible with the size and diversity of the economies of Brazil and Mexico. The upside opportunities are significant for both countries, paving the way for more direct investments. Mexico has an open trade regime. As a NAFTA member, the country in the 1990s signed several trade preference agreements with Latin American, European and Asian countries. Yet, its exports remain overwhelmingly concentrated to the United States (80 percent). Brazil's exports are largely dominated by commodities (close to 70 percent). Brazil and Mexico, the largest consumer markets in Latin America, offer reciprocal possibilities to diversify and expand significantly the trade within the region, a mutual objective. President Peña Nieto has signaled the objective of breaking monopolies and promoting a modernization of the oil and gas sector, allowing for the participation of investors, an opportunity for Brazil, especially Petrobras. In turn, Brazil is faced with the longstanding challenge of improving the country's weak infrastructure and creating lasting conditions for the competitiveness of the local industry. Brazil should be prepared to review its position regarding protectionist measures, particularly those related to the imposed quotas within the existing automotive agreement. On the other hand, there are studies that demonstrate Brazil's competitive advantages in several sectors. Both countries must have a constructive stance towards an expanded list of products under a commercial preferences agreement."

> "The upside opportunities are significant for both countries, paving the way for more direct investments."
>
> — *Joel Korn*

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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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

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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