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FEATURED Q&A

How Will Massive Protests in Brazil Change the Country?

Q Massive crowds have been gathering this month in Brazil in demonstrations that began as protests against transit fare hikes, but then grew to encompass the public's frustrations on issues ranging from high taxes and corruption to the low quality of public services. Why have Brazilians' grievances boiled over to this extent now? What will President Dilma Rousseff's government do to address the protesters' concerns? How will the massive demonstrations affect her ability to govern? Would the proposed anti-corruption law, which imposes liability on companies for bribery, be effective in reducing graft? What does it mean for businesses?

A Peter Hakim, member of the *Advisor* board and president emeritus of the Inter-American Dialogue: "President Dilma Rousseff agrees that the Brazilian protesters are justified in their anger about the dismal quality of the nation's police, health care, education, transport and most other public services, and about sky-high taxes, rampant corruption and outrageous levels of inequality (recent improvements notwithstanding). Although they expose much that is negative about the country, the massive protests may also be a sign of progress. First, they emerge from encouraging advances, including a generation of lively democratic competition and a robust economic performance in this century's opening decade, producing a rapidly expanding, albeit vulnerable, middle class. Moreover, the protesters have generated wide support across Brazil's diverse society without provoking polarizing rifts or partisan political conflicts. But the multiple, spreading demonstrations may indicate that Brazil is again entering a cul-de-sac, that its aspirations are too grandiose and its progress too slow and erratic to be sustained. They suggest some critical weaknesses in the nation's political and civic institutions—which have been largely invisible as amorphous, undirected crowds

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Mexico Expected to Continue Seeing Record Tourism Numbers

Mexico is expected to continue receiving record numbers of tourists, according to Tourism Minister Claudia Ruiz Massieu. Tourism is likely to become the country's third-largest source of income, up from the fifth-largest today, she added. See story on page 2.

File Photo: Mexican Government

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NEWS BRIEFS

Repsol Board to Consider Offer for YPF Settlement

The board of Spanish oil company **Repsol** today will consider a non-cash offer from Argentina as compensation for the 2011 expropriation of Repsol's majority stake in **YPF**, EFE reported. Argentina's offer, which was reportedly made through Mexican state oil company **Pemex**, is said to include a stake in the Vaca Muerta shale gas fields and $1.5 billion in Argentine bonds. Repsol has indicated it will consider an out-of-court settlement for the $10 billion it is seeking in compensation for its YPF stake.

Gemalto Signs Prepaid Card Agreement with Brazil's MFS

Amsterdam-based digital security company **Gemalto** said Tuesday that it will supply prepaid payment cards to Brazil's **Mobile Financial Services**, or MFS, the joint venture formed by **Telefónica** and **MasterCard**. The launch is part of a new payment service offered by Telefónica's Vivo brand that aims to improve financial inclusion for the unbanked population of Brazil. No financial details were disclosed.

Canada Raises Concerns Over Jamaican Ban on Its Beef

Robert Ready, Canada's High Commissioner to Jamaica, has raised concerns about Jamaica's protracted ban on the import of beef from his country, the *Jamaica Gleaner* reported today. The ban was imposed in 2003 during the mad cow disease scare. Since then, international regulators have regarded Canada as a "controlled-risk" country. However, Jamaica continues to ban Canada's beef, a decision Ready suggested could be considered a form of protectionism, according to the report.

Political News

At Least Nine Killed in Favela Violence in Rio de Janeiro

At least nine people have been killed in gun battles in a Rio de Janeiro favela, or slum, BBC News reported Tuesday. The bloodshed in the Bonsucesso neighborhood broke out Monday night after a demonstration devolved into violence and looting along a main access road to Rio. Authorities deployed hundreds of police officers and National Guard troops, who also used a tank, in order to secure the area. At least six of the people killed were suspected to have ties to drug trafficking. At least one of the victims was a police officer, according to police. Authorities arrested at least nine people during the operation in the Favela da Mare and seized several weapons and drugs, police said, adding that during the mass robberies, criminals held up stores, bystanders and demonstrators. Schools in the area were closed on Tuesday, affecting thousands of children. The Mare area is comprised of several slums where more than 130,000 people live.

At least six of the victims were suspected of having ties to drug trafficking and at least one victim was a police officer.

Peru's First Lady Not Eyeing Presidency: Humala

Peru's first lady is not considering a run for the presidency, President Ollanta Humala said Tuesday, *The Wall Street Journal* reported. Humala is barred from running for a consecutive term in 2016, but political analysts and opposition politicians have speculated that First Lady Nadine Heredia could be promoted as a candidate. However, Humala seems to have put an end to that speculation Tuesday, saying that a presidential bid by his wife is not in the works. "There is no way we are thinking about this scenario," Humala told reporters. Heredia's approval rating stood at 50 percent this month, according to an **Ipsos** poll published in *El Comercio*, a nearly 10 percent decline from a similar poll taken in April. President Humala's approval rating declined to 39 percent this month from 44 percent in May, according to polling group **Gfk**. Still, his current approval rating is higher than the average of Peru's previous two presidents during their terms in office. Under current law, Heredia would be barred from running in 2016 because she is married to the president. Analysts have said that law could be change before the next presidential election. Heredia is a founding member of the ruling Gana Peru party and has been a high-profile advocate for social programs.

Heredia

File Photo: Peruvian Government.

Economic News

Growth in Mexico's Tourism Industry Expected to Boost GDP

Mexico's tourism industry is expected to continue growing to become the country's third-largest source of income by the end of President Enrique Peña Nieto's administration in 2018, Bloomberg News reported Tuesday, citing an interview with the country's tourism minister. Approximately 24 million tourists, a record number, visited Mexico in 2012, Tourism Minister Claudia Ruiz Massieu told the news service on June 21. That amounted to 2.6 percent more than the previous year, according to figures from the World Bank. Last year, international visits to emerging economies increased 4.1 percent, while trips to advanced economies grew 3.6 percent, according to the World Tourism Organization. "Tourism is already one of the most important economic sectors for Mexico," Ruiz Massieu told Bloomberg News. "We are confident that it can represent at least

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one point more of GDP at the end of the administration and that [tourism] can become the third source of revenue at least." The participation of tourism in Mexico's gross domestic product is expected to grow to 9.4 percent, she added. Tourism is currently Mexico's fifth-largest source of foreign income after manufacturing, oil, remittances and foreign direct investment, according to **Banamex**, a unit of **Citigroup**. In 2012, tourism generated $12.7 billion in inflows, an increase of 10.5 percent in comparison to 2011, according to **JP Morgan Chase** Mexico wants to see continued growth in tourism from the United States and Canada, said Ruiz Massieu. "We want to keep growing the market share in our traditional markets," she said. However, she added that Mexico's tourism industry is also focusing heavily on emerging markets including Argentina, Brazil, China and Russia. The increase is happening despite Mexico's drug violence. More than 6,200 people have been killed in the country's drug-related violence since Peña Nieto took office Dec. 1, according to Mexico City-based newspaper *Milenio*.

IMF Approves $5.84 Billion Credit Line for Colombia

The International Monetary Fund has approved a $5.84 billion credit line for Colombia, Reuters reported Tuesday. The two-year flexible credit line replaces a $6 billion credit line that recently expired. Colombia's government has said that it does not intend to draw on the new credit line and is considering it a precautionary measure. The IMF has said that it provides such credit lines to countries that have strong fundamentals and may need to draw on the credit in crisis situations. Although Colombia has good supervision of its financial sector, a flexible exchange rate and effective inflation targeting, it remains vulnerable to economic developments globally, analysts say. "Risks to the global economic outlook remain elevated, and if they materialized, they would affect Colombia's economy and external accounts," said David Lipton, the IMF's first deputy managing director and acting board chairman.

Featured Q&A

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of protesters without clear priorities or aims, take the lead. The *New York Times* quoted one young demonstrator as saying 'we want everything, and we want it now.' Whether the protests will propel change is uncertain. They just might peter out or become a source of confrontation and instability. Even though President Rousseff appears sympathetic to protester demands, it is not a simple task to respond effectively and quickly. It will take huge amounts of money, many years and difficult political battles to upgrade Brazilian schools and health facilities, or to reduce government waste and corruption. Managing Brazil after the protests will be a hard test of the Brazilian president's leadership, but it will also be an opportunity for her to emerge from her predecessor's shadow and set her own course."

> "Although they expose much that is negative about the country, the massive protests may also be a sign of progress."
>
> *— Peter Hakim*

A Paulo Sotero, director of the Brazil Institute at the Wilson Center: "Massive, leaderless protests organized through social media are likely to continue and influence not only President Rousseff's ability to govern, but also that of all political actors at all levels in Brazil. It will certainly affect their chances to remain in power. Gone is the sense of inevitability of Rousseff's re-election in 2014 that existed until two weeks ago. The president continues to be seen as an honest person. Her proposal on corruption contains a measure of courage, since she is surrounded by the problem in her own party and coalition. But it offers nothing that could not have been legislated already by the majority that supports her government in Congress. A more promising proposal is taking shape in the form of a direct popular petition to Congress to ban corporate donations, which would make Brazil cheaper for doing business and introduce two-phase elections where voters would choose party platforms before electing candidates to advance them. The idea is to reduce the number of parties and strengthen political representation, which no longer exists in the eyes of the people. Having experienced the fruits of some prosperity with more equity, the country's young and rising middle class now in the streets fear that a stalled economy with growing inflation may end their dream of a better life. Overall, Brazilians are expressing their exasperation with the slow pace of change. They are utterly fed-up with politicians and a political system seen as mostly corrupt and self-serving. The landscape has been transformed by the protests and opened space for leaders capable of presenting concrete proposals that address real problems, from public transportation, education and health to corruption and accountability. They are also tremendously disappointed with the Workers' Party (PT), seen now as part of the problem, including that of corruption. PT senator Lindbergh Farias, a former student leader from Rio, acknowledged this week the party 'distanced itself from society and the youth.' The famously popular and usually talkative former President Lula has stayed silent and out of view."

A Carlos Eduardo Lins da Silva, director of Educare in São Paulo: "The protests that have swept Brazil took most people by surprise. Nobody could have foreseen their intensity and breadth, although every Brazilian knows how fed up most are with the chronic problems that have afflicted the country for decades. The new 'Belindia' metaphor that is most

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Featured Q&A

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appropriate for Brazil nowadays is: its citizens are taxed as in Belgium and are offered public services as in India. All knew that, but few anticipated that such frustration could generate this reaction. What may have triggered the revolt was the very high cost of the soccer stadiums constructed for the 2014 World Cup and delivered for its preview, the Confederations Cup. President Rousseff remained silent for a couple of days and spoke on national television last Friday but said very little beyond generalizations and then offered a more detailed plan on Monday. But what she proposed is basically undeliverable (a referendum to call a constitutional assembly with a mandate to reform the political system), unless the present constitutional order is drastically changed, which is unlikely and undesirable. One of her proposals is to pass an anti-corruption bill to impose liability on companies for bribery, which may be fair. However, there are few hopes for its enforcement if it becomes law because the judicial system's slowness and its permission of countless injunctions and appeals, especially for defendants who can afford good lawyers."

David Fleischer, emeritus professor at the University of Brasília and editor of *Brazil Focus*: "A broad list of grievances by Brazilians led to massive demonstrations of discontent since June 13, just prior to the opening of the Confederations Cup. In part, this discontent boiled over due to complaints regarding the very large expenditures for this event and the World Cup in 2014. President Dilma Rousseff first responded to these protests in a televised prime time speech, which was followed by a meeting with governors and mayors. During the latter encounter, she proposed five 'pacts' to resolve these dilemmas—political reform, increased funding for education, the importation of foreign medical doctors, fiscal responsibility (to combat inflation), and investments in 'urban mobility.' She also proposed penalizing corruption as a 'heinous crime' (without bail). The protesters have practically ignored these proposals and continue their street demonstrations. In June 2014, these protests will reappear with increased vigor on the eve of the World Cup. The political reform proposal for a constituent assembly convoked by a plebiscite is not viable because this is the prerogative of Congress, which would also have to approve any tougher anti-corruption law. If approved, domestic and foreign firms would have to be more careful to avoid bribery and other corrupt practices. Brazil's medical associations are strongly opposed to the use of foreign doctors even in remote areas where Brazilian doctors refuse to work. A fiscal responsibility law has existed since 2001. Reducing inflation will require other measures. Any 'urban mobility' reform will require involvement of state and municipal governments. In two recent public opinion polls, President Rousseff's approval rating declined by eight points. Thus, without more concrete and profound measures, she may encounter increased difficulties in governing Brazil and strong challenges to her re-election in 2014."

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

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

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