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**
Senior Partner,
Aimara Capital LLC

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

**Marlene Fernández**
Corporate Vice President for Government Relations,
Arcos Dorados

**Peter Hakim**
President Emeritus,
Inter-American Dialogue

**Donna Hrinak**
President,
Boeing Brazil

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

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

**Craig A. Kelly**
Director, Americas International Gov't Relations,
Exxon Mobil

**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

### *Will Proposed Political Reforms Move Forward in Mexico?*

**Q Mexico's opposition National Action (PAN) and Democratic Revolutionary (PRD) parties last month submitted their proposals for reforming the country's political system. Among the proposed changes, the PAN's reforms would allow the direct re-election of lawmakers and mayors, create direct runoffs between presidential candidates and allow elections to be annulled on the basis of spending above campaign spending limits, changes that are seen as targeting the PRI. How would the proposed reforms affect Mexico's political system? Will the proposals gain widespread support or are they politically divisive? Will the opposition's insistence on electoral reform derail the passage of pending energy and fiscal reforms?**

**A Amy Glover, director at McLarty Associates:** "Political reform in Mexico would be positive for the country and could potentially enrich and strengthen democratic institutions. Mexico has made great strides over the last 15 years in transitioning away from one-party rule, but civil society participation remains weak, in part due to the fact that there is no re-election, which has particularly important repercussions for the Congress and local governments. The current system empowers party leaders, leaving the average Mexican with few mechanisms to influence policy decisions or hold politicians accountable. That said, resistance to re-election is a vestige of Mexico's caudillo past, and six out of 10 citizens rejected the idea of re-election for members of Mexico's Congress in a poll taken by Mitofsky in June; presidential re-election is not even under consideration. The PRD and the PAN realize they need to get something out of the Pact for Mexico in order to distinguish themselves from the governing PRI and appease their bases. Before taking up fiscal and energy reform, a priority of the Peña Nieto government, they believe it is time to call in their chits. The head of the PRI in the Senate, Emilio

*Continued on page 3*

### Brazilian Electoral Court Rules Against Creation of Silva's Party

Brazil's electoral court ruled Thursday against the creation of environmentalist and presidential hopeful Marina Silva's political party. The decision means that Silva will either have to run as the candidate of an existing party or sit out the 2014 election. See story on page 2.

*File Photo: Agência Brasil*

# Inside This Issue

**FEATURED Q&A:** Will Proposed Political Reforms Move Forward in Mexico?.....1

Brazil's Electoral Court Rules Against Creation of Silva's Party.....2

Colombia's FARC Cites 'Modest Progress' in Talks With Government .....2

Thirty Thousand Protest Education Reforms in Mexico City .....2

Ecuadorean Lawmakers Approve Drilling in Yasuni National Park .....2

U.S. Judge Bars Argentina From Bond Exchange Plan.....3

Copyright © 2013, Inter-American Dialogue

## NEWS BRIEFS

### Thirty Thousand Protest Education Reforms in Mexico City

Protesters in Mexico City on Thursday clashed with Mexican police as they expressed their opposition to President Enrique Peña Nieto's reform agenda, Bloomberg News reported. Some 30,000 students, teachers and supporters rallied on the capital's main business boulevard, Paseo de la Reforma, protesting the educational reforms passed last month, as well as proposed tax and energy reforms. Thirty-two officers were injured and 102 protesters detained after police used fire extinguishers and tear gas to defend against demonstrators' sticks, rocks and Molotov cocktails.

### Ecuadorean Lawmakers Approve Drilling in Yasuni National Park

After a 10-hour debate, Ecuador's Congress on Thursday approved by a margin of 108 to 25 a motion that would allow oil to be extracted from the Yasuní National Park, the Associated Press reported. The motion was backed by Ecuadorean President Rafael Correa, who in August announced that he was abandoning a plan that had sought to attract $3.6 billion in donations to prevent drilling in the Yasuní Park's ITT oil fields.

### MetLife Finalizes Acquisition of Chile's AFP Provida

U.S.-based insurer **MetLife** has finalized its acquisition of a majority stake in Chile's **AFP Provida**, *Insurance Business Review* reported Thursday. The deal, worth approximately $1.54 billion, gives the New York-headquartered company a 64.3 percent stake in the pension fund administrator. MetLife acquired the stake from Spanish bank **BBVA**. The deal includes a small asset management operation in Ecuador.

# Political News

## Brazil's Electoral Court Rules Against Creation of Silva's Party

Brazil's electoral court on Thursday ruled that the party of environmentalist and presidential hopeful Marina Silva failed to gather enough signatures on petitions to establish the party, the Sustainability Network, Reuters reported. The decision means that Silva will either have to run as the candidate of an existing party or drop her bid for president in the October 2014 election. Silva won 19.65 million votes to finish third in the 2010 vote in which Rousseff was elected. Silva is seen as Rousseff's main potential rival ahead of her re-election bid, and the court's decision could be a significant boost for Rousseff. The electoral court ruled 6-1 against creating Silva's party, saying it failed to gather the required 492,000 signatures. Silva said electoral notaries across the country were to blame because they did not validate 95,000 signatures in time. Silva has until Saturday to decide whether to join another party, but she said she would make that announcement today. She added Thursday that she had not been in talks with other parties and planned to continue building her own party. "It's only a matter of time until it gets approved. We might not be registered, but we have the most important thing: ethics. We will become stronger," Silva told reporters. If Silva does join another party, the move could undermine her appeal to some voters who see her as an outsider with a reputation for honesty, according to analysts. "She will lose her political capital because she will look like just another politician," said Andre César, an analyst at consultancy **Prospectiva Consultoria** in Brasília. Recent opinion polls have shown Rousseff to be the front-runner ahead of next year's election. Her public support has strengthened since a dramatic decline in June amid street protests against poor government services and corruption. Sen. Aecio Neves is expected to be the candidate of the main opposition PSDB, and Eduardo Campos, the governor of Pernambuco state, plans to run against Rousseff after pulling his party, the PSB, out of the president's coalition. José Serra, who had been considering a third attempt at the presidency on the ticket of another party, ended speculation about his possible run by announcing that he will remain in the PSDB.

*Silva finished third in Brazil's 2010 presidential election.*

## Colombia's FARC Cites 'Modest Progress' in Talks With Government

The Revolutionary Armed Forces of Colombia, or FARC, rebels on Thursday said they have attained "modest progress" in their peace talks with Colombia's government, BBC News reported. The talks, which started last November in Havana, have led to a 25-page document including details on land reform, the first point of a six-point agenda for the discussions, said the FARC's chief negotiator, Iván Márquez. The government is responsible for delays in the talks due to "agenda changes," Márquez added. "Delays have happened due to changes on the discussion topics. This is not [the] FARC's fault and they cannot criticize us for that," he said. President Juan Manuel Santos has said he wants to reach a peace agreement by the end of the year. On Wednesday, the head of the Colombian Agency for Reintegration said the government agency is ready to help as many as 40,000 combatants transition into civilian life. Colombia's five-decade-long armed conflict has led to 220,000 deaths, according to Colombia's National Center for Historical Memory. Hundreds of thousands more have been displaced because of the conflict.

Santos

*File Photo: Colombian Government.*

Copyright © 2013, Inter-American Dialogue

# Economic News

## U.S. Judge Bars Argentina From Bond Exchange Plan

A U.S. district judge on Thursday barred Argentina's government from proceeding with a plan announced in August by President Cristina Fernández de Kirchner to exchange restructured bonds for debt payable in the South American country, Bloomberg News reported. Judge Thomas Griesa in Manhattan said the plan, which Fernández announced on Aug. 26, amounts to "an apparent attempt to evade" his decision in a case brought by holders of defaulted bonds dating from Argentina's $95 billion default more than a decade ago. Holders of more than 90 percent of the defaulted bonds agreed to large discounts in bond exchanges in 2005 and 2010. However, Griesa ruled in February that the government cannot pay the holders of the restructured debt without also paying those who refused to accept the discounts, the so-called "holdouts." The plan that Fernández announced in August would allow the bondholders who accepted the exchanges to swap them for new bonds governed by Argentine law. The current exchange bonds are governed by New York law. Griesa's ruling on Thursday prohibits Argentina from "altering or amending the processes or specific transfer mechanisms by which it makes payments on the exchange bonds, without prior approval of the court." Argentina's government has vowed to never pay the holders of the defaulted bonds, which include **Elliott Management Corp.** and **Aurelius Capital Management**, calling them "vultures." Argentina's Congress approved a law in 2005 barring payment to the holdouts.

*Argentina's Congress approved a law in 2005 barring payment to the holdouts.*

**Featured Q&A**

*Continued from page 1*

Gamboa, recently stated that the PRI is also interested in political reform and that proposals will be discussed within the Pact. This would suggest that the PRI may accept some form of political reform, but the details will most definitely be contentious. Mexico's Congress now faces the tremendous challenge of passing three complex reforms within the narrow window of political opportunity of the next two months. In early December, the PRD and the PAN will elect new party leaders, who may be less amenable to compromise with the ruling PRI. Even if the Mexican Congress is able to check each reform box, the quality and breadth of the reforms may suffer under the sheer enormity of the task."

**Luis Rubio, chairman of the Center of Research for Development (CIDAC) in Mexico City:** "Mexican politics confronts two challenges: governance and accountability. Neither can be fixed with tighter controls of campaign spending, a second electoral round, nor, by itself, with re-election. Governance requires a strong government as well as a limited government. Thus, the reform must respond to these issues or it will become another of the many that are approved, then diluted and then ignored. For a reform to make a difference, it has to address the core issue of Mexican politics: the structure of power and its institutionalization. Neither is in the cards. Therefore, though the proposed reforms could, if implemented, have an impact, they will not change the reality. For example, re-election sounds great, but for it to work Mexicans would first have to solve the conundrum created by the odd hybrid of direct and proportional representation in the legislative branch. The problem with proposals like those of the PAN-PRD is that they do not pay heed to the central matter. They limit themselves to their own (petty) interests without recognizing the essential. Contrary to the heart of their proposal, Mexico calls for a strong presidency, but this must be limited by effective mechanisms of accountability. In the absence of this, there's likely to be a lot of discussion among opinion makers and academics, but no support from the average Mexican that, over the past decades, has become very skeptical of reforms that do not deliver on their promises. Rightly so."

**George W. Grayson, Class of 1938 Professor of Government Emeritus at the College of William & Mary in Williamsburg, Va.:** "The PAN's political reforms are dead on arrival. There is no 'new PRI.' For the Peña Nieto regime, democratizing actions are like kryptonite to Superman. His goal is re-concentrate the influence that his party enjoyed in its heyday. Examples abound: centering power in Gobernación, moving to control the Federal Transparency Institute (IFAI), the Federal Electoral Institute (IFE), and the new Federal Communications Institute (IFETEL); unveiling a plethora of costly, corruption-prone initiatives in health care and housing, while offering universal pensions for senior citizens and waging a 'crusade against hunger.' To fund these ventures and spur economic growth, Finance Secretary Luis Videgaray is seeking to attract investment in the energy sector. The government has enough votes from the PRI, PAN and PVEM to amend Article 27 of the Constitution to permit risk contracts in hydrocarbons and revamp Pemex. Instead of pursuing root-and-branch changes, Peña Nieto and Videgaray caved to special interests and put forth a timid 'lite reform.' This permits joint ventures between the state monopoly and other companies—with compensation in cash, not ownership, of any gas and oil discovered. Meanwhile, the PRI has performed a miracle: it has united the PAN, which teetered on the verge of fragmentation after stinging electoral losses. The issue forging cooperation is the announced 2014 budget, which increases taxes on home mort-

*Continued on page 4*

Copyright © 2013, Inter-American Dialogue

## Featured Q&A

*Continued from page 3*

gages, professionals and private school tuition. In addition, it would boost the VAT from 11 to 16 percent (the level elsewhere) in border states whose firms face American competitors. PAN officials decry the 'declaration of war on the middle class.' Priístas from the north are also seething over the VAT gambit. Videgaray has until Dec. 15 to make compromises, lest he fall prey to a Washington-style deadlock in a country that doesn't have the artifice of 'continuing resolutions' to pay the government's bills after Jan. 1, 2014."

**Ruben Olmos, managing partner at Global Nexus LLC in Washington:** "Over the past two decades, Mexico has undergone several political reforms, which have strengthened democracy, driven economic competitiveness and improved social inclusion. The current agenda of reforms that President Enrique Peña Nieto's administration is pushing and all parties in Congress are discussing is perhaps the best example of how Mexico's political system has benefitted from previous political reforms. Today, every single voice is heard and is able to agree or disagree in Congress. I believe the PAN reform is politically divisive in the sense that it is clearly targeted to disfavor the PRI, mainly its majority of state governors. The PAN proposal seeks to target 'corrupt practices and abuses' by governors. Measures include abolishing state electoral institutes in favor of federal-level tribunals, imposing stricter limits on campaign spending and enforcing these limits with strong penalties including potentially canceling the guilty candidate's registration or annulling the election. Another element of the PAN proposal that potentially could be politically divisive is the proposed raising of the minimum percentage of votes (from 2 percent to 5 percent) that a party must win in an election to preserve its registration as a party. This could affect the PRD because it traditionally allies itself with small leftist parties. According to several recent polls, the political-electoral reform received the lowest ranking when it comes to priorities at 4 percent. The most popular reform was transparency/anti-corruption (57 percent), followed by fiscal reform (15 percent) and energy reform (10 percent). While a new set of political reforms are needed, I believe it is a mistake that both the PAN and PRD believe that energy and fiscal reform cannot be passed until electoral reform has been approved. This could mean a serious delay for both of these critical reforms, which would benefit Mexico's competitiveness."

**Latin America Advisor**
*is published every business day by the Inter-American Dialogue, Copyright © 2013*

**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

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Maria Darie, Director, Finance & Administration

Mary Ellen Flather, Senior Director of Strategy and Development

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 commentator 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 © 2013, Inter-American Dialogue