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FEATURED Q&A

Will Brazil's Economic Performance Continue to Disappoint?

Q Brazil's economy shrank 0.5 percent in the third quarter as compared to the second amid declining investment and slumping manufacturing and agricultural production, the government's statistics agency announced Dec. 3. That puts Latin America's largest economy on track for its third consecutive year of growth below 3 percent, a disappointment compared to emerging market heavyweights such as China and India. Brazil is also grappling with higher-than-targeted inflation of above 6 percent. What does 2014 hold in store for Brazil's economy? Is investor confidence in the country deteriorating? What should the government do in the year ahead to improve the economy?

A David Ross, managing director of Chevy Chase Trust Investment Advisors in Bethesda, Md.: "The string of subpar economic growth will continue in 2014. The economy will struggle to sustain 2 percent growth, a disappointment compared to most emerging markets as well as developed markets like the United States. Along with slow growth, inflation will remain high—around the 6 percent level. Ironically, one of the perceived positives, the World Cup, will likely provide further economic frustration as rising labor costs will be exacerbated by temporary employment needs surrounding World Cup events. Absenteeism, lower productivity and increased logistics problems in infrastructure-challenged Brazil during the games are growing concerns for businesses. With economic underperformance and a perceived business-unfriendly agenda, investor confidence has understandably declined over the last three years. Improvement will first require restoring fiscal policy credibility with a credit rating downgrade looming on the horizon. Then, the government must initiate business-friendly reforms. Brazil's ports demonstrate this need. In Brazil, it takes nearly twice as long to get goods cleared through

Continued on page 2

Snowden Offers to Help Brazil Investigate U.S. Spying

In an "open letter" published Monday, U.S. National Security Agency leaker Edward Snowden offered to help Brazil investigate U.S. spying and stopped just short of directly asking for asylum in the South American country. See story on page 2.

File Photo: The Guardian.

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NEWS BRIEFS

Taiwanese Foreign Minister Arrives in Nicaragua

Taiwanese foreign minister David Lin arrived in Managua on Monday for a visit aimed at strengthening ties with Nicaragua, one of the few countries with which it has official diplomatic relations, Agence France-Presse reported. On Monday, Lin visited a Managua park and laid flowers at the tomb of Carlos Fonseca, the founder of the Sandinista National Liberation Front, the country's governing party. The countries signed a free-trade agreement in 2006 and have seen trade grow from $47 million that year to $98 million last year.

Itaú Unibanco's Board Approves Share Buyback

The board of Brazil's largest private bank in terms of assets, **Itaú Unibanco**, has approved the bank's plan to repurchase as much as 3.96 billion reais ($1.3 billion) worth of shares, Dow Jones reported Monday. The bank will buy back up to 13.7 million common shares and 86.3 million preferred shares, at prices of 28.96 reais and 30.95 reais, respectively. The repurchase program will last for a year, until Dec. 15, 2014.

Moody's Downgrades Venezuela's Local, Foreign Currency Ratings

Moody's Investors Service on Monday downgraded Venezuela's local and foreign currency ratings to Caa1 from B1 and B2 respectively. The ratings agency cited "increasingly unstable macroeconomic imbalances" and a "materially higher risk of economic and financial collapse" in announcing the downgrade. The move by Moody's follows **Standard & Poor's** announcement Friday that it was cutting Venezuela's bond ratings further into junk territory.

Political News

Snowden Offers to Help Brazil Investigate Spying

In a letter published Monday, former U.S. National Security Agency contractor Edward Snowden offered to help Brazil's government investigate U.S. spying and stopped just short of directly asking for asylum in the South American country. In an "open letter to the people of Brazil," which Brazilian daily newspaper *Folha de São Paulo* published Monday, Snowden, who leaked hundreds of thousands of classified documents, said he is willing to help investigate U.S. electronic surveillance. "I have expressed my willingness to assist wherever appropriate and lawful, but unfortunately the United States government has worked very hard to limit my ability to do so," Snowden wrote. "Until a country grants permanent political asylum, the U.S. government will continue to interfere with my ability to speak." Snowden, who is currently living in Russia, said he was particularly pleased by Brazil's rejection of U.S. spying after his leaked documents showed that the NSA was spying on Latin American leaders including President Dilma Rousseff and state oil company **Petrobras**. "My greatest fear was that no one would listen to my warning. Never have I been so glad to have been so wrong. The reaction in certain countries has been particularly inspiring to me, and Brazil is certainly one of those," Snowden said in the letter. Snowden added that the NSA's programs are not about legitimate law-enforcement or anti-terror surveillance. "These programs were never about terrorism: they're about economic spying, social control and diplomatic manipulation. They're about power," he wrote. After the revelations, which led Rousseff to call off a planned state visit to the United States, U.S. President Barack Obama and Secretary of State John Kerry defended the surveillance programs and said the United States would discuss them with foreign counterparts.

Rousseff

File Photo: Brazilian Government.

Featured Q&A

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the port as the world average; Brazil is one of the few countries where those responsible for clearance of goods work only during business hours. Visiting the Port of Santos, Brazil's largest grain exporting port, will entail passing miles of trucks lined up waiting to be called for cargo transfer. A train pulling into the port will need paperwork processed for each individual railcar compared to the common practice of one set of paperwork for the train. These are the types of inefficiencies that add to the 'Brazil cost' and shave points off economic growth."

A Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates: "As 2013 draws to a close, the economic outlook for Brazil in 2014 is decidedly mixed and may depend as much on the global economic recovery as Brazil's own economic management. Fears that Brazil could suffer a credit downgrade in 2014 have catalyzed a tightening cycle to raise the primary surplus which should help improve both fiscal performance and boost overall investor sentiment next year. The results of recent airport and highway concessions also indicate that the Brazilian government is moving in a more constructive direction in its offering of investor terms. Industry favorably received Finance Minister Guido Mantega's recent announcement renewing the Investment Support Program financing line at BNDES for capital goods (even at the slightly higher interest rate). However, with the U.S. Federal Reserve expected to begin tapering its quantitative easing policies sooner than expected, and prospects of stronger growth in the

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U.S. Suspends Anti-Drug Spraying in Colombia After Shoot-Downs

The United States has indefinitely suspended its aerial killing of coca plants following the shoot-down, apparently by leftist rebels, of two planes that were spraying the plants, the *Los Angeles Times* reported Monday. One of the planes was shot down Sept. 27, killing the American pilot, and the other crop-duster was taken down Oct. 5. The incidents led the U.S. Embassy in Bogotá to suspend the spraying of the plants that are used to make cocaine, an unnamed source familiar with the matter told the newspaper. The apparent involvement in the shoot-downs by the Revolutionary Armed Forces of Colombia, or FARC, rebels, was first reported Sunday by Colombian online news magazine *La Silla Vacia*.

Economic News

Mexican States Approve Energy Sector Overhaul

A majority of Mexican state legislatures have approved the country's overhaul of its energy industry, bringing Mexico a step closer to allowing foreign investment in the country's oil industry for the first time since 1938. San Luis Potosí on Monday became the 17th state to ratify the reform, which requires ratification by a majority of state legislatures because it changes the Constitution, the *Los Angeles Times* reported. Several other states signed off on the reform over the weekend. "This shows that Mexico has solid democratic institutions, capable of carrying forth major national transformations," President Enrique Peña Nieto, who was on an official visit to Turkey, said via Twitter. Mexico's Senate must now officially recognize the states' votes before Peña Nieto can sign the reform into law. Mexico's Congress approved the overhaul last week. Supporters of the reforms say Mexico needs outside help to exploit its oil. However, opponents say allowing foreign companies to drill amounts to the country giving up natural resources. [Editor's note: See related Q&A in Monday's *Advisor*.]

Legal Briefs

Hogan Lovells Advises PDVSA in Gazprombank Financing Agreement

Hogan Lovells represented Venezuelan state oil company **PDVSA** in a $1 billion, eight-year loan transaction with Russian's **Gazprombank** that was finalized on Nov. 28 and is expected to become available in January, the law firm announced in statement on Dec. 3. Caracas-based partner Bruno Ciuffetelli led Hogan Lovells' cross-border team in the negotiation process.

White & Case Promotes 11 to Local Partner and 20 to Counsel

White & Case on Dec. 11 announced the promotion of 20 of the firm's lawyers to counsel and 11 to local partner, including Hernán González Estrada, who was named a counsel in the firm's Global Project Finance Practice in Mexico City and focuses on advising clients in matters of project finance, government procurement, commercial litigation, antitrust, regulatory and banking matters.

Diaz, Reus & Targ Hires New Attorneys in Miami and Bogotá Offices

Law firm **Diaz, Reus & Targ LLP** on Nov. 18 announced the addition of five attorneys to its team, including two in its Miami headquarters and one in the firm's Bogotá office. Elizabeth Cantu and Fausto Sanchez will be based in Miami, and Claudia Medina-Artiga will work in the firm's Bogotá and Miami offices. Cantu, who has previous experience as an associate attorney and Japanese-English translator at law firms in Tokyo, will practice in the area of cross-border commercial litigation. Sanchez, who speaks English and Spanish, most recently worked in Broward County, Fla., as an assistant state attorney, and will focus his practice on family law, civil and property cases. Medina-Artiga previously worked as a prosecutor for the Office of the District Attorney in Bogotá and most recently as an immigration consultant at a law firm in Miami and paralegal for Legal Services of Northern Virginia. Her practice will focus on international transactions, immigration and commercial disputes in Colombia.

Headrick Rizik Álvarez & Fernández Advises BHD on Merger With Banco León

Álvarez

File Photo: Headrick Rizik Álvarez & Fernández.

Santo-Domingo-based **Headrick Rizik Alvarez & Fernández** served as counsel to the Dominican Republic's **Centro Financiero BHD**, which announced Dec. 4 that it will acquire all the companies of **Grupo Financiero León**. The deal will result in the merger of **Banco BHD** and **Banco León** to form **Banco BHD-León**, and will consolidate Banco BHD's position as the second-largest privately held bank in the Dominican Republic. The deal is the largest to date in the country's financial sector, according to *Latin Lawyer*. "This transaction forms part of the development of the Dominican legal and financial markets, and we are very proud to have been able to participate in the same," partner Francisco Álvarez said in statement. The Monetary Board of the Dominican Republic has already given preapproval for the transaction.

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Featured Q&A

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United States and recovery in the eurozone in the year ahead, capital may begin to flow back to global equities and away from emerging markets like Brazil. And though interest rates have risen in Brazil, the expected rise in long-term interest rates in the United States may be more attractive to investors who view U.S. debt as less risky, particularly if Brazil were to suffer a downgrade. While the capacity for further price controls has been exhausted, fiscal tightening should help maintain inflation around 5.5-6 percent as it has since 2011. Amid an uncertain global outlook in 2014, the Brazilian government will have to do all it can to boost productivity, incentivize investor appetite and buffer the economy from volatility as the global economy undergoes an adjustment period."

Paulo Vieira da Cunha, partner and head of research at EMVal Partners LP: "Next year is the year of elections: presidential, gubernatorial, mayoral and legislative in a democracy with potentially 140 million voters. The key to the elections' outcome will be the economy. That is why policy will continue to be expansionary and unbalanced, a step closer to the brink of a crisis that could come in 2015. There is a gap, today—and the incumbents hope, until the elections—between the perceptions of the broad electorate, driven by developments in the labor market that remains relatively strong, and those of investors. Growth, investment and job creation will continue to slow down. Meanwhile, the once-strong trade surplus is likely to vanish. The current account deficit could exceed 3 percent of GDP shouldering fiscal borrowing requirements also in excess of 3 percent of GDP. A disappearing primary fiscal surplus could trigger concerns that the future path of the public debt (approaching 65 percent of GDP in gross terms) could once again trail the borders of sustainability. Yet, looking at their pocketbooks and back at the decade-long record of sustained income gains, most voters won't see this. Unemployment will not rise suddenly in the coming months and, in any case, fiscal transfers for the safety net will continue to increase. The concerns are for those who look at 2015 and beyond, through the buttresses of strength that remain in the economy and the veil of still-buoyant global financial markets despite the anticipated U.S.-tapering."

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

Sergio Bitar, Nonresident Senior Fellow

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