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

How Much Has the Mansion Scandal Harmed Peña Nieto?

Q President Enrique Peña Nieto's government became embroiled in scandal earlier this month amid reports that the registered owner of First Lady Angélica Rivera's opulent home is a company that is part of the Grupo Higa business group, which has won several government contracts dating back to Peña Nieto's time as governor of Mexico state. To what extent has Peña Nieto's government been harmed by the scandal? How much credibility has the president lost, and what must he do to regain it? Is Mexico losing the fight against corruption?

A Andrés Rozental, member of the *Advisor* board, president of Rozental & Asociados in Mexico City and senior fellow at the Brookings Institution: "Recent developments on these issues in Mexico have resulted in a huge setback for the country's image and for the Peña Nieto government's credibility. After a largely positive and well-received set of major reforms to the economy and other parts of Mexico's social and political structures, including transcendental changes to the energy, telecom and financial sectors, the tragic and brutal events in the state of Guerrero, incidents of violence and anarchy among protesting groups, the abrupt cancellation of a high-speed rail project and the headlines involving the president and his wife in a scandal about their private home in Mexico City, have all combined to create a perfect storm of public anger and global coverage that at least in the short term negates much of the favorable publicity that Mexico and Mr. Peña Nieto had garnered during the first two years of his administration. Today, amid calls for changes to his cabinet and even his resignation, Mexico's president is faced with a serious challenge to his image and the manner in which the country's domestic policy is being conducted. Growing evidence of a breakdown in law and order in various parts of the country, impunity for political and economic elites

Continued on page 3

China Loosens Terms on Nearly $50 Bn of Loans to Venezuela

China has loosened repayment terms on almost $50 billion worth of loans that it has provided to Venezuela since 2007. Under President Nicolás Maduro, Venezuela is struggling with economic problems including inflation of more than 60 percent. See story on page 2.

Fie Photo: Venezuelan Government.

Inside This Issue

FEATURED Q&A: How Much Has the Mansion Scandal Harmed Peña Nieto?.....1

China Loosens Payment Terms for Loans to Venezuela.....2

Securities & Exchange Commission Seeks Petrobras Documents.....2

Thirteen New Guatemala Supreme Court Justices Sworn in.....2

Mastercard Expecting Strong Growth in Latin America.....2

Chile's Codelco Expecting 5 Percent Slide in Output, Sales.....3

Copyright © 2014, Inter-American Dialogue

NEWS BRIEFS

Thirteen New Guatemala Supreme Court Justices Sworn in

Following a process that has been questioned by civil society and international human rights group, the president of Guatemala's Congress on Monday swore in 13 new magistrates to the country's Supreme Court, EFE reported. The inauguration of the new justices, who will serve from 2014 to 2019, comes just days after Guatemala's Constitutional Court rejected five legal actions that sought to overturn the election and selection process, which has been criticized as overly influenced by special interests and for not adequately considering candidates' qualifications.

MasterCard Expecting Strong Growth in Latin America

U.S.-based **MasterCard** is expecting strong growth in Latin America and the Caribbean over the coming years, the company's president of operations for the region told the *Miami Herald* in an interview published Sunday. "Our outlook for growth in the region is very positive," Gilberto Caldart told the newspaper. Half of the company's 340 million payment cards in the region are debit cards and the other half are credit cards, while its debit cards are seeing more growth in the region, said Caldart.

Panama-Based Bicsa Eyeing Growth in Colombia

Panama-headquartered bank **Bicsa** is looking to Colombia as part of its short- and medium-term growth plans, chief executive officer Daniel González told *Portafolio*, the newspaper reported Sunday. "Our goal is to support Central American companies that are in Colombia and also the Colombians with a presence in the region," he said.

Economic News

China Loosens Payment Terms for Loans to Venezuela

The Chinese government has loosened payment terms on the nearly $50 billion worth of loans that it has provided to Venezuela since 2007, providing the economically troubled South American country some relief, *The Wall Street Journal* reported Monday, citing Venezuela's *Official Gazette*. Venezuela is beset by inflation of more than 60 percent as well as falling prices for oil, its main export. Last month, China did away with the requirement that Venezuela send it at least 330,000 barrels of oil per day as payment for outstanding loans. In addition, Maduro last week used a $4 billion credit from China, which has traditionally been used for infrastructure projects, to boost reserves to $23.2 billion. China's moves could buy time for Maduro, whose popularity has fallen to some 30 percent amid the country's high inflation rate as well as a falling currency and shortages of several basic goods. China is "so invested in Venezuela's oil industry that they may have calculated that a political crisis would have a negative impact on their return on investment or on Venezuela's repayment of loans," Barbara Kotschwar, a research fellow at the Peterson Institute for International Economics in Washington, told *The Wall Street Journal*. Oil revenues, which contribute 96 percent of Venezuela's dollar income, declined 35 percent over the past month, President Nicolás Maduro said last week. The Andean country had dollar shortages even when oil was selling for more than $100 a barrel. On Friday, average prices for heavy crude for the first time in four years declined below $70 a barrel. Venezuela is also pressing fellow members of the Organization of Petroleum Exporting Countries to act at their next meeting Thursday in Vienna to boost oil prices. On Monday, Venezuela's sovereign 2027 bond increased to 56.41 cents, with an 18.2 percent yield. That compared to 53.7 cents at the beginning of last week.

Oil revenues, which contribute 96 percent of Venezuela's dollar income, declined 35 percent over the past month, said Maduro.

Company News

Securities & Exchange Commission Seeks Petrobras Documents

The U.S. Securities and Exchange Commission has sent a subpoena to Brazilian state-run oil company **Petrobras**, seeking documents related to an investigation it is undertaking, the *Financial Times* reported Monday, citing a note from Petrobras to investors. The company did not elaborate on the contents of the subpoena, but it did pledge to cooperate. "Petrobras reiterates its promise to attend to the American public authorities with the same effort that it is attending to the Brazilian public authorities," said the company, whose shares are publicly listed in Brazil and also in the United States through American Depositary Receipts. The company did not specify what types of documents the SEC had requested, and it did not say whether the subpoena was related to a corruption case at the state-run oil giant, in which a former employee and an accomplice have alleged that they skimmed money from construction contracts and used it to provide kickbacks to politicians. However, the SEC and the U.S. Department of Justice have opened an investigation of Petrobras to determine whether it or its employees received bribes, the *Financial Times* reported earlier this month. Brazil's ruling Workers' Party has denied involvement in the scandal, and President Dilma Rousseff, who previously served as

Rousseff

File Photo: Brazilian Government.

Copyright © 2014, Inter-American Dialogue

Petrobras' chairwoman, has also denied wrongdoing and has said she would not impede investigators' probes of the company. A Department of Justice unit that investigates possible violations of the Foreign Corrupt Practices Act is investigating Petrobras' activities, Reuters reported Monday, citing an unnamed person familiar with the matter. The investigation that is being carried out by the Department of Justice and the SEC is "broad" and has been going on at least since the beginning of this year, the person told the wire service. Police in Brazil have recently made several arrests in connection with the scandal, including two people who were senior executives of the company.

Chile's Codelco Expecting 5 Percent Slide in Output, Sales

Chilean state-run copper giant **Codelco** is expecting a five-percent decline next year in its output and sales of refined copper, Bloomberg News reported today, citing the company's top sales manager. Codelco will decrease its shipments to China and all of its other markets, said Rodrigo Toro, the company's corporate sales vice president. "We cannot continue selling the same amount, as we have less," Toro told the news service in a Nov. 21 interview in Shanghai. "Not only to China, not only to Asia. We are selling less to the world." By 2025, Codelco is planning to increase annual production to approximately 2.5 million metric tons from its current level of 1.7 million metric tons. It is investing $24 billion over the next four to five years and $5 billion more over the next decade. Toro said he is expecting a "small oversupply" of copper next year. China's imports of the metal will decrease next year as smelters in the Asian country produce higher levels of copper amid higher levels of ore globally, Toro said.

Toro

File Photo: Codelco.

Featured Q&A

Continued from page 1

and a surge in the worst forms of violence and criminal activity have led to an outpouring of criticism and calls for redefining Mexico's current trajectory. For Mr. Peña Nieto to regain credibility in Mexico and abroad, he needs to do something he hasn't wanted to do so far: listen to what people are saying at home and abroad outside of his inner circle of advisors and publicly be seen exercising leadership and governance. So far, the policy of isolating himself from day-to-day problems and limiting himself to daily appearances at well-controlled, insignificant events inaugurating public works or addressing groups of political supporters has proven to be the wrong way to show that the reins of government are firmly in the president's hands."

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "President Enrique Peña Nieto was badly hurt by the scandal linking him to a mansion owned by a favorite contractor while he was governor of the State of Mexico and that recently formed part of the consortium awarded the first large public contract to build a high-speed train. This contract was abruptly canceled, just before news of the mansion was released. As his wife appears to be the buyer of the mansion from the contractor, Peña Nieto has lost credibility to fight conflicts of interest and corruption. Mexico's credibility in international business and with China Railway Company and the Chinese government was also damaged. The credibility of the Ministry of Transport and Communications, responsible for this and many forthcoming public bids, was demolished. It will be difficult to win back the credibility lost, given the impact and global diffusion of this case. An attempt to mitigate damage by his wife explaining the contract and funding of the mansion was not credible to 76 percent in a survey by *Reforma*. Mexico's informed public will hardly concede a new lease on credibility once it is lost, as the example of President Salinas and his brother Raúl demonstrated, even years after he left office. Yet Peña Nieto must still try to regain it. He thus needs to immediately change cabinet members who are compromised by corruption and improper management of public resources in cases that have accumulated over the past two years and that have been wrongly tolerated. The president also needs to prosecute the ex-governor of Guerrero, who is politically responsible for the tragedy of the 43 missing students, and also confront salient cases of past governments. The long list of corruption cases pending prosecution demonstrates that Mexico is not losing the fight against corruption because that fight in earnest has not begun."

> "It will be difficult to win back the credibility lost, given the impact and global diffusion of this case."
>
> — *Rogelio Ramírez de la O*

A Rubén Olmos, managing partner of Global Nexus in Washington: "The investigation into the first lady's house by reporter Carmen Aristegui is yet an additional issue that the Peña Nieto administration is facing, and the administration has responded effectively amid voices that suggest that the government should have responded earlier. Let's keep in mind that President Enrique Peña Nieto was in China and Australia attending international summits and was also dealing with the disappearance of 43 students in Iguala. First Lady Angélica Rivera has come out publicly in a video and has explained how she obtained the house and has offered to put it on the market.

Continued on page 4

Copyright © 2014, Inter-American Dialogue

Featured Q&A

Continued from page 3

By having the first lady personally come out and face scrutiny, the administration is sending a message that it addresses the incident and its negative impact on the president's image. There is an enormous opportunity for the president to show now more than ever that he is committed to the fight against corruption and should immediately move forward with the help of Congress and push comprehensive measures to increase transparency and accountability, especially with government contracts. This also sets an example for other public officials, especially at the state and municipal levels, to do the same, as corruption remains high in many areas of the country. As the Peña Nieto administration moves forward from this difficult period, all the political forces, media and civil society need to work together and peacefully resolve their differences. There is an immediate threat from obscure forces that want to create chaos, and this should not be an alternative for a country that is pushing reforms and moving in the right direction."

> "There is an enormous opportunity for the president to show now more than ever that he is committed to the fight against corruption..."
>
> — *Rubén Olmos*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

WHAT'S KEEPING YOU UP AT NIGHT?

The **Latin America Advisor** gets **answers** to the **questions** that informed executives are asking, every business day, so that you can rest easy.

Prospective subscribers can email freetrial@thedialogue.org for complimentary preview access.

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2014

Erik Brand
Publisher
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
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

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 © 2014, Inter-American Dialogue