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FEATURED Q&A

What Can Brazilians Expect From Dilma's Second Term?

Q Brazilian President Dilma Rousseff began her second term on Jan. 1 with vows to fight corruption and to take steps to revive the country's struggling economy. What must Rousseff do to return Brazil to economic growth? What do Rousseff's cabinet picks say about the direction of her second term? To what extent will a corruption scandal at state-run oil company Petrobras hinder Rousseff's agenda?

A Peter Hakim, member of the *Advisor* board and president emeritus of the Inter-American Dialogue: "President Rousseff had a rough first term. A booming economy stagnated, political protests erupted nationwide, Brazil's worst corruption scandal ever was exposed, and U.S.-Brazil relations soured. The fault was not all Dilma's. The global economy turned against Brazil. China's hyper-growth slowed, reducing demand and prices for Brazil's exports. Foreign capital flows to emerging markets declined. But Dilma's government made mistakes too. It increased already bloated taxes and public spending, pushing inflation up. New import barriers left the country more and more closed and protectionist. Little was done to improve debilitated infrastructure or deficient educational and health systems. Following her re-election, the prime question was whether Dilma would continue the state-led economic development strategy of her first term—or if she would shift toward a more mainstream approach relying more on market forces. Her cabinet designations suggests the market approach is likely to prevail. Although doubts remain, the new appointments have lifted the confidence of Brazil's business community—which especially welcomed banker Joaquim Levy's appointment to the key post of finance minister. Now the questions are whether Dilma will give her new ministers the authority and independence they need to redirect economic policy—and whether she will succeed in generating the political support

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U.S., Cuban Officials to Hold Talks This Month in Havana

A U.S. delegation, led by Assistant Secretary of State Roberta Jacobson, will meet with Cuban officials later this month in Havana in the first such meeting since the two countries announced that they would re-establish diplomatic relations. See story on page 2.

File Photo: U.S. State Department.

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NEWS BRIEFS

Approval Rating of Chile's Bachelet Falls to 40 Percent

Chilean President Michelle Bachelet's approval rating declined through the second half of last year to its lowest level since she took office in March, according to a poll published Thursday, *The Wall Street Journal* reported. Pollster **Adimark** said Bachelet's approval rating fell to 40 percent in December from 58 percent in June as the high expectations about promised reforms that many held before she took office have not been realized. The drop could prompt a cabinet shuffle, analysts told the newspaper.

Mexico's Pemex Seeks Exception to U.S. Crude Oil Export Ban

The 40-year old U.S. ban on most crude oil exports could be loosened following a request by Mexican state oil company **Pemex** for an exemption to import 100,000 barrels of day of light crude to increase gasoline production and improve refining, Bloomberg News reported Thursday. Pemex is in talks with the U.S. Commerce Department and would send its heavy oil to U.S. Gulf Coast refineries in exchange. The announcement comes a week after the Commerce Department published its first guidelines for exporting condensates, an ultra-light type of crude.

Brazil Needs Tough Steps to Restore Growth: Barbosa

Brazil needs to take tough steps to restore growth of the region's largest economy, Planning and Budget Minister Nelson Barbosa said Thursday in an interview, Bloomberg News reported. The country needs to increase power rates amid a serious drought and also must look at potential cuts to investments, he told Globo News.

Political News

U.S.-Cuban Officials to Hold Talks This Month in Havana

High-level talks between U.S. and Cuban officials are planned for Jan. 21-22 in Havana, BBC News reported Thursday. The two countries have been holding routine talks on migration every six months, but the upcoming round of talks will be the first since U.S. President Barack Obama and Cuban President Raúl Castro announced last month that they would re-establish diplomatic relations for the first time in more than five decades. Assistant Secretary of State Roberta Jacobson will lead the U.S. delegation at the talks, in which officials will discuss migration as well as the two countries' rapprochement. Since the Dec. 17 announcements by Obama and Castro that the countries would restore relations and open embassies in each other's capitals, the U.S. Coast Guard has reported an increase in the number of Cubans attempting to cross the Florida Straits and enter the United States. Last month, nearly 500 migrants either reached the United States or were stopped at sea, more than double the number from December 2013. BBC News reported that many Cubans fear that the United States will put an end to its "wet foot, dry foot" policy, which allows Cubans to stay if they make it to dry land, but results in their being sent back to Cuba if they are intercepted at sea. The Obama administration has said that it will continue pushing Cuba's government to allow freedom of speech and respect human rights. U.S. Senator Marco Rubio (R-Fla.) and other Cuban-Americans in Congress have criticized Obama's move to normalize relations with Cuba, saying that the change would provide money and legitimacy to the Castro government while it violates human rights. Last week, Cuban authorities detained several dissidents who were planning to protest in Revolution Square in Havana. The U.S. State Department issued a statement saying it was "deeply concerned." Authorities eventually released the dissidents. On Thursday, Cuba also released eight additional detainees as it begins to free 53 people considered by the United States to be political prisoners, Reuters reported. Cuba's agreement to free the 53 prisoners was part of the historic deal announced in December. Over the past two days, Cuban authorities released 11 of the 53 prisoners, according to political opposition groups.

The talks will be held Jan. 21-22 in Havana.

Economic News

China's Xi Sees Nearly Doubled Level of Trade With Region

Chinese President Xi Jinping on Thursday vowed to use his country's economic influence to back billions of dollars worth of projects in Latin America and nearly double China's trade with the region to $500 billion over the next decade, the Associated Press reported. Xi made the comments at the opening of a two-day forum between China and member nations of the Community of Latin American and Caribbean States, or CELAC. "I am sure that this meeting will yield rich results, send to the world a strong message of our commitment to deepening cooperation for common development," said Xi. Two-way trade increased from $10 billion in 2000 to $257 billion in 2013. The rise was driven largely by China's appetite for commodities, including oil. China's slowing growth will mean less demand for those products, but the

Xi

File Photo: Chinese Government.

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Chinese president said that both his country and Latin America will see benefits from forecasts that China will import $10 trillion worth of goods over the next five years, the AP added. Xi added that he wants to boost Chinese direct investment in Latin America to $250 billion during the next five years. Six months ago, China granted a $20 billion loan for infrastructure development in Latin America, in addition to $10 billion in preferential loans, $5 billion for a cooperation fund and $50 million for development of agriculture. This week's meeting will in part lead to plans for cooperation goals through 2019 in the areas of diplomacy, finance and trade. Among the Latin American leaders attending the meeting is Venezuelan President Nicolás Maduro, who announced Wednesday that China had agreed to provide the Andean nation with $20 billion in new investment. Venezuela is struggling with economic problems including the world's highest rate of inflation. Also on Wednesday, Ecuador announced that China was providing it $7.5 billion in credit. [Editor's note: See Q&A on China's relations with Latin America in Thursday's *Advisor*.]

Company News

Mexican Beer Brands Boost Profits for Constellation

Sales of Mexican beer brands such as Modelo Especial and Corona Extra are fueling growth for U.S.-based **Constellation Brands**, Bloomberg News reported Thursday. The company, based in Victor, N.Y., said it expects earnings of $4.25 to $4.35 per share this year. That represents an increase from its previous forecast of $4.10 to $4.25 per share and is higher than analysts' average estimate of $4.24. "Our beer business continued to gain share across all channels during the third quarter, driven by Modelo Especial, Corona Extra and Modelo Especial Chelada," Constellation's chief executive officer, Rob Sands, said in a statement. "Our outstanding beer portfolio is experiencing tremendous momentum." The company's shares rose 4.5 percent Thursday to close at $107.64 in New York.

Featured Q&A

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needed to make some drastic, politically contentious changes. It is the economic choices Dilma makes and the outcomes they produce that will most determine the success of her second term, and most shape the future of Brazil. Substantial attention, however, is also needed to ensure that the shameful Petrobras scandal is thoroughly investigated in a timely fashion, and Brazil's wider political corruption is finally confronted and also to rebuild trust and cooperation with the United States."

A Joel Korn, president of WKI Brasil: "The best thing that President Rousseff can do to restore the government's credibility and investor/consumer confidence is to support the new economic team in the implementation of the bold economic adjustment measures—and, hopefully, overdue structural reforms—that will be required, particularly over the next two years. Her commitment to badly needed fiscal austerity and tight monetary policies will call for mobilization of the political forces, in order to secure congressional approval of applicable legislation. Easier said than done, given the dramatic shift from economic policies adopted in her first term and their inevitable implications on employment and social programs. Rousseff's new economic team is a good step in the right direction. It is experienced and up to the challenge that lies ahead, enjoying strong support from the business community and financial markets. Other cabinet positions reflected a series of political compromises to sustain government support. As such, the president missed a good opportunity to attract talents for some key positions. There is a high likelihood, though, that further cabinet changes will be made in a near future, as the due-diligence process involving corruption scandals evolves. As the ongoing corruption investigation involving Petrobras unfolds, one should expect further far-reaching negative implications for the government, members of Congress and for some leading private sector companies with outstanding track records in infrastructure projects. These developments, however, must not hinder the government's undivided commitment to sound economic policies. Moreover, it will be necessary to design a plan to restore the capacity of Brazilian companies within the oil and gas supply chain and infrastructure sector."

A Lisa M. Schineller, managing director for sovereign ratings at Standard & Poor's in New York: "Brazil's current low-growth story reflects a combination of negative factors. Key among them is the deterioration in macroeconomic policy execution in recent years—especially fiscal policy, both on- and off-budget—and the absence of a microeconomic reform agenda and resulting loss in competitiveness over the past decade. Inconsistent policy signaling and uncertainty over the policies to be pursued under a second Rousseff administration weighed on already very low levels of private-sector confidence and a contributed to a contraction of in investment in 2014. This is of course exacerbated by the subdued global growth backdrop and ongoing commodity price declines, the risk of energy and water shortages in Brazil, and the prospect of lower investment by Petrobras and construction companies affected by the ongoing corruption investigations. While we expect growth of less than 1 percent in 2015, prospects could improve depending on the degree to which the new economic team strengthens macroeconomic policy execution, sends clear and consistent policy signals and starts to advance a microeconomic reform agenda. Engineering a multi-year fiscal correction, be it by raising revenue, cutting expenditures and curtailing the use of quasi-fiscal activity (including the state-owned banks) and tackling high inflation, is key toward recovering lost policy credibility. The signs being sent by the new economic team that assumed office this week led by

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Featured Q&A

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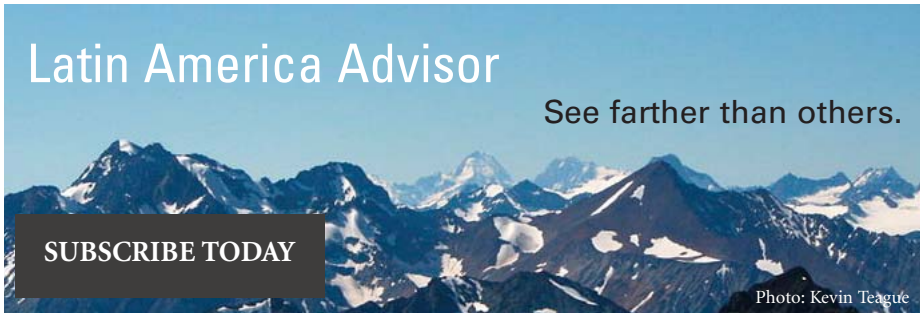
Finance Minister Joaquim Levy aim to do just that. While these policies tend to damp growth in the near term, they boost growth prospects down the road. Success depends on effective execution, which requires leadership and commitment not just from the Ministry of Finance, but broad backing from the president, her cabinet, and the Brazilian Congress in the coming months and years. Navigating Congress and building multiparty coalitions to pass legislation will be no easy task given the president's lower level of political capital, key allies potentially implicated in the corruption scandal and an emboldened opposition. That said, Brazil has demonstrated commitment to make difficult decisions before enabling its sovereign creditworthiness to rise to the investment grade category."

Margaret Hayes, principal at Evidence Based Research Inc. in Vienna, Va., and professor of security studies at Georgetown University: "Dilma Rousseff assumed her second term with an ambitious speech promising 'change,' 'more and better' and 'reform.' Building on the achievements of her first term, she promised a government more attentive to business and the private sector, a focus on education and continuation of investments in infrastructure, energy, highways and ports. She would promote political reform ('democratizing power') and a 'national pact against corruption' and seek improved relations with the United States. Economic performance will be key to her success. The goal is to rebalance with growth picking up toward the end of 2015. This will entail restricting public spending. A series of proposals reducing overgenerous pensions and unemployment benefits has already been announced. They may be challenged. In addition to spending less, the government needs to become more efficient. That means taking on bureaucracy and red tape. The new economic team is experienced and their near-term goals have been welcomed. This gives them time to realize reforms, but the public may not be as patient. Moreover, Dilma's eight-party coalition in Congress has fewer votes than in the past. She needs 40 additional votes to pass constitutional amendments. Meanwhile, the unfolding Petrobras corruption scandal is a drag on the recovery and reforms. Charges against senior executives in Brazil's major construction firms, likely implication of a number of politicians and class action lawsuits in the United States will discourage investment and access to financing in Brazil in general, and certainly in Petrobras whose New York shares were down 50 percent at end of 2014. Lower oil prices may slow pre-salt development. Dilma will need plenty of good luck to achieve her ambitious, but necessary, agenda."

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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