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THEDIALOGUE

FEATURED Q&A

How Is the Sharing Economy Changing Latin America?

Uber, one of whose U.S. vehicles is shown above, must adhere to regulations including an annual permit fee and a minimum vehicle value to operate in Mexico City. // File Photo: Uber.

Q Mexico City last month announced regulations that would allow Uber and other smartphone-based ride-sharing applications to operate as long as drivers and cars register, among other conditions, the city's government said last month. In Mexico and elsewhere in Latin America, Uber has faced resistance from taxi drivers who say the company competes unfairly given that its drivers are not subject to the same regulations and inspections that they are. Brazil's largest city and capital have moved to outlaw the service. What is the future of Uber in Latin America? Does it provide users a valuable alternative transportation service, or does it encourage labor informality, as critics allege? How is the "sharing economy" transforming Latin American business, and do you expect it to be as disruptive to companies in the region as it has been in other parts of the world?

A Luis Antonio Espino G., Mexico City-based speechwriter and communications consultant: "If there is one thing at which governments are really bad, in Mexico and other Latin American countries, it is regulating markets. Regulation does not promote innovation, competition or better services at fair prices. What it promotes is 'cartel economies.' Whether formal or informal, legal or illegal, economic actors find it easier to survive and thrive when they form organizations to promote their interests, even against the law. From street vendors to industrial tycoons, and from teachers' unions to taxi drivers, different groups organize to pressure authorities to bend or break regulations in exchange for political support and social order. Uber is already disruptive, not only because of service quality or technology,

Continued on page 3

TODAY'S NEWS

POLITICAL

Haiti to Hold Long-Delayed Legislative Vote

Every seat in Haiti's parliament is up for election in Sunday in elections that have been delayed for years. Few voters are expected to show up at the polls, however.

Page 2

ECONOMIC

Chile Reforms to Provide Long-Term Gain: IMF

Reforms by President Michelle Bachelet's government are likely to boost productivity and long-term growth, said the International Monetary Fund. However, the IMF added that a high cost of capital and tax regime complexity could hurt short-term economic activity.

Page 2

POLITICAL

Argentina Holds Presidential Primaries Sunday

The vote is seen as a gauge of voters' intent ahead of the country's Oct. 25 presidential election. Ruling party candidate Daniel Scioli has been leading opinion polls.

Page 2

Scioli // File Photo: Scioli Campaign..

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POLITICAL NEWS

Argentines Head to Polls Sunday for Presidential Primary

Argentines are to cast ballots Sunday in the country's presidential primary election, which will gauge the opposition's chances ahead of the country's October presidential election. Unlike primaries in other countries, Sunday's balloting in Argentina will be less about parties selecting their candidates and more about measuring support for the front-running candidates, Agence France-Presse reported. The party of President Cristina Fernández de Kirchner is represented by Daniel Scioli, the governor of

Fernández // File Photo: Argentine Government.

Buenos Aires province, who has been leading opinion polls. The two other main candidates are Mauricio Macri, the conservative mayor of Buenos Aires, and Congressman Sergio Massa. Analysts will be watching how much support each of the candidates garners and whether Scioli has strong enough backing to avoid a runoff in November. Scioli has recently been leading opinion polls with about 35 percent, with Macri and Massa trailing with approximately 25 percent and 15 percent, respectively. If the presidential election goes to a runoff, analysts have said Macri could defeat Scioli by capturing Massa's supporters. The election is bringing 12 years of rule by the Kirchners—eight years under the current president and four under her late husband and predecessor Néstor Kirchner—to a close. Fernández, who is barred by term limits from running again, has more than 50 percent support. Argentines are required by law to vote in primaries and general elections. About 32 million voters are registered to cast ballots on Sunday. [Editor's note: See **Q&A** on the election in Monday's Advisor.]

Haiti to Hold Long-Delayed Legislative Vote

Haiti on Sunday is scheduled to hold its long-delayed legislative elections, but few Haitians are expected to cast ballots, Agence France-Presse reported. The Caribbean nation's parliament was dissolved in January, leaving President Michel Martelly to rule by decree, after lawmakers' terms ran out. On Sunday, every seat in the Senate and Chamber of Deputies is up for election, but only 15 percent of voters are expected to participate, AFP reported. "Him I know, but he won't do anything for me. Her—I've never seen her face before," a Port-au-Prince shoe shiner known as Luckson told the wire service as he pointed at campaign posters. The last time Haiti held an election, for president in 2011, less than a quarter of Haitians cast ballots. International groups

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>
> **— Sandra Honore**

have expressed concerns that low participation on Sunday could threaten the vote's success. "Your participation in large numbers and your decision to say good-bye to violence in any form—this is the chance for you to show once and for all that you choose peace and democracy," Sandra Honore, the head of the United Nations mission in Haiti, said in Creole in an online video message, urging Haitians to participate in the election. Enthusiasm among candidates seen earlier this year has evaporated, said José Antonio de Gabriel, the deputy

NEWS BRIEFS

OAS Calls for Haiti, DR Migration Crisis Talks

The Organization of American States is calling for dialogue between Haiti and the Dominican Republic and has offered to mediate talks as the neighboring nations remain at an impasse over a looming migration crisis, The Miami Herald reported this week. "If you have this bi-national dialogue between the two countries, it could be easier to ... have a common understanding of what's happening in that situation," OAS secretary for political affairs Francisco Guerrero told the newspaper.

U.S. Offers $5 Million Reward for 'El Chapo'

The U.S. government is offering a $5 million dollar reward for information that leads to the capture of Mexican drug lord Joaquín "El Chapo" Guzmán, who escaped from a high-security prison near Mexico City last month, BBC News reported Thursday. The acting director of the U.S. Drug Enforcement Administration, Chuck Rosenberg, has said he believes that Guzman, the head of the Sinaloa Cartel and one of the world's most-wanted drug lords, is still in Mexico.

Chile's Economic Reforms Beneficial in Long Term Despite Short-Term Pain: IMF

Economic reforms being pushed by the government of Chilean President Michelle Bachelet offer Chile an opportunity to increase growth in the long term, though the economy could see short-term pain, the International Monetary Fund said Thursday, Bloomberg News reported. Bachelet has already implemented tax and education reforms and is still planning reforms to labor regulations, pension funds, health care and the constitution. Growth is likely to quicken this year to 2.5 percent and 3.1 percent next year, the IMF said.

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director of the European Union's election observation mission. "The intensity of the campaign is rather weak," he told AFP. "We don't see a strong mobilization effort by the candidates or parties." This Sunday is just the first of three election days scheduled this year. Elections for local officials and the country's next president are scheduled for Oct. 25. Martelly is constitutionally barred from running. [Editor's note: See **Q&A** on Haiti's legislative elections in the July 31 issue of the Advisor.]

BUSINESS NEWS

Brazil's BTG Pactual Bracing for Prolonged Downturn

São Paulo-based investment bank BTG Pactual is preparing for the possibility that a downturn in Brazil's economy could last another 18 months by trimming assets and increasing regulatory capital ratios to protect itself, CEO André Esteves said Thursday, Reuters reported. In the last quarter, the bank cut total assets and its loan book by 6.7 percent and 0.6 percent, respectively, and also took extra provisions for problem loans and proprietary oil and gas investments. Executives said they may take the same measures again if conditions in Brazil, which is facing its sharpest economic decline in 25 years, continue to deteriorate. BTG Pactual's net income hit a three and half-year high last quarter due to unusually low taxes and proprietary investments. Profit in the quarter reached 1.02 billion reais ($291 million). The bank will increase taking risks only when economic conditions improve, and while a weak economy may lead to deterioration in the bank's credit portfolio, it will not significantly affect future earnings, Esteves told investors recently. Despite economic headwinds in Brazil, which is also struggling with the political fallout of a corruption crisis at state oil company Petrobras, BTG can deliver annual returns on equity of around 20 percent, Esteves said. The bank added that Brazil will remain a key market, but that when its acquisition of Switzerland-based BSI Group is finalized, non-Brazilian operations will make up most of its income and staff.

Brazil is facing its sharpest economic decline in 25 years.

FEATURED Q&A / Continued from page 1

but also because it exposed the reality: taxi drivers in Mexico City have to pay very high formal fees to operate, but they also pay bribes to avoid the enforcement of cumbersome regulation, which results in a low-quality service and thousands of unauthorized vehicles providing transportation. These 'pirate taxis'—as the locals know them—are organized in groups that provide political support to local politicians, who then turn a blind eye toward them. But Uber and Cabify disrupted this arrangement, as they did not pay a dime to the government or to one of the many leaders of 'taxi cartels.' So, when the Mexico City mayor says that Uber and other smartphone services will be regulated, it means that they will have to pay for a special permit and, from time to time, bribes to police officers and transport inspectors so they can operate. Users will probably have to absorb part of the cost, and there will be no new benefits for them. Uber and other companies are an example of how innovation will always find strong resistance in economies that are not ruled by the law, but rather by special interests."

Agustín Rossi, non-resident fellow with the Global Public Policy Institute (GPPi) and a PhD candidate at the European University Institute (EUI): "Uber will face the same resistance as in Europe and the United States, but will end up establishing in most Latin American markets. Uber offers a cheap and good service to cash-strapped consumers and an opportunity to make extra money to cash-strapped workers. It screens drivers and cars and pays taxes for its transactions since they all go through the formal banking sector. This is already better than the informal/pirate taxi industry. Uber has tremendous possibilities for improving Latin Americans' lives. Safety is an issue, even for users of traditionally regulated taxis. Uber can allow customers to share real-time information about their trip (driver, car, route, GPS location and ETA) with other users. Parents would be happy to know who is driving their kids, where and when. Drivers would also enjoy not having to carry cash, discuss a fare or not know the reputation of their passengers. Uber can solve all these problems. Uber does not encourage labor informality per se: pirate or illegal taxis exist across Latin America. Uber offers a service for which there is a market (cheap transportation) with more guarantees than the existing alternatives to traditional cabs. However, Uber should be regulated to guarantee that it pays its fair share of taxes and its drivers are correctly protected. The sharing economy is already transforming Latin American business by introducing the culture of use over the culture of ownership: for example, almost 10 Latin American cities already have

Continued on page 4

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FEATURED Q&A / Continued from page 3

a bike-sharing system. The sharing economy has the potential to bring out of the shadows many of Latin America's informal markets like pirate taxis (Uber), off-market vacation housing rental (Airbnb) and odd jobs (TaskRabbit). That said, the sharing economy is the iPhone version of the informal economy. Latin American regulators should embrace the possibilities of the sharing economy to bring to the surface many informal markets in a way that allows for taxation and regulation. However, they have to be careful since inadequate taxation and regulation can send those markets back to the shadows. The entrance of services like Uber will spark new ideas in regional entrepreneurs to provide unique services in a new way."

Susan A. Shaheen, adjunct professor and co-director of the Transportation Sustainability Research Center at the University of California, Berkeley: "While our research has focused mostly on ride-sharing, ride sourcing, and e-hail services in North America, we are certain that services such as Uber will make a profound impact on urban transportation in Latin America. Each city in Latin America is different, so it's difficult to broadly state that ride sourcing and e-hail services will either provide a valuable alternative or encourage labor informality. Given that Latin American cities are developing at rapid rates, ride sourcing and e-hail services provide a transportation alternative in cities where public transit and infrastructure has not kept pace with population and economic growth. Shared mobility services, a segment of the sharing economy, are now transforming Latin American business, especially in promoting transportation alternatives to vehicle ownership and driving alone. Car-sharing and bike-sharing systems in Mexico City and São Paulo are examples of successful services in shared mobility. They provide short-term access to cars and bicycles, providing mobility to those who do not own cars, and providing relief to overcrowded bus and rail services in these congested cities. We believe shared mobility will continue to affect cities worldwide, particularly in developing cities, such as in Latin America."

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> **— Susan A. Shaheen**

Editor's note: The Advisor requested a commentary from taxi driver organization Taxistas Organizados de la Ciudad de México (TOCDMX) but did not receive a response.

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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