LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, June 16, 2016

BOARD OF ADVISORS

Diego Arria
Director, Columbus Group

Devry Boughner Vorwerk
Senior Policy Advisor
Akin Gump Strauss Hauer & Feld, LLP

Joyce Chang
Global Head of Research,
JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Catterton Aimara

Marlene Fernández
Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President, Boeing Latin America

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

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
Chairman,
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
Policy Advisor, Chatham House

Shelly Shetty
Head, Latin America
Sovereign Ratings, Fitch Inc.

Roberto Sifon-Arevalo
Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

THEDIALOGUE

FEATURED Q&A

What Are the Main Challenges Facing Peru's Next Leader?

Pedro Pablo Kuczynski was elected Peru's president, with just a quarter of a percentage point separating him from his rival, Keiko Fujimori. // File Photo: Kuczynski Campaign.

Q In Peru's closest presidential election in decades, Pedro Pablo Kuczynski squeaked by his rival, Keiko Fujimori, in the country's June 5 runoff. Which issues resonated most with Peruvian voters, and what boosted Kuczynski most on election day? Will Kuczynski's razor-thin margin of victory be a liability for his government? What are the most pressing issues facing his new government, and how successful will PPK be in working with the opposition? Is he assembling the best cabinet to address upcoming challenges?

A **Cynthia McClintock, professor of political science and international affairs at The George Washington University:** "Only a week before Peru's runoff, Keiko Fujimori was leading by at least five points. She claimed that, like her father, she would apply 'mano dura' and channel benefits to the poor but that, unlike her father, she was an honest democrat. Meanwhile, the campaign of Pedro Pablo Kuczynski (PPK) was confirming Keiko's charges that he was an out-of-touch technocrat. However, a scandal erupted: the head of Keiko's party was under investigation by the Drug Enforcement Administration for money laundering. Keiko's response was to demonize the media. In further reminders of her father's government, Keiko became sarcastic and confrontational. Then, at the final debate, PPK asked the key question: how could Keiko succeed against crime when many leaders of her party, including 11 legislators, were under criminal investigation? Verónika Mendoza, the leftist candidate who was third in the first round, gave PPK a strong endorsement. Almost all the other first-round candidates

Continued on page 3

TODAY'S NEWS

POLITICAL

Former Executive Implicates Temer in Petrobras Case

In plea bargain testimony, the former head of Petrobras subsidiary Transpetro accused Brazilian interim President Michel Temer of seeking to funnel kickback money to the campaign of a mayoral candidate. Temer denied the allegation.

Page 2

ECONOMIC

Venezuelan Police Arrest at Least 400 After Looting

Venezuela's triple-digit inflation and shortages of medicines and other basic goods have led to more frequent protests and riots in recent weeks.

Page 3

POLITICAL

Mexico's Senate Approves Anti-Corruption Bill

President Enrique Peña Nieto's government backs the legislation, known as the "3-out-of-3" measure.

Page 2

Peña Nieto // File Photo: Mexican Government.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

POLITICAL NEWS

Former Executive Implicates Temer in Petrobras Scandal

In plea bargain testimony made public on Wednesday, Brazilian interim President Michel Temer was accused of involvement in the massive corruption scandal at state-run oil company Petrobras. In the plea deal, Sergio Machado, the former head of Transpetro, a Petrobras subsidiary, alleged that Temer in 2012 asked him to funnel approximately $400,000 in company money to the campaign of São Paulo mayoral candidate Gabriel Chalita, the Associated Press reported. Temer, who was vice president at the time, rejected the allegations on Wednesday, calling them "absolutely untrue," The Wall Street Journal reported. "[Temer] never permitted the collection of funds outside of the dictates of the law, whether for himself, for the party, or even less for other candidates who he occasionally supported in elections," said a statement from his office, the Financial Times reported. Chalita, who lost the 2012 mayoral election, has denied wrongdoing and has said all of his campaign contributions were made legally, The Wall Street Journal reported. In his plea bargain, Machado said the payments were made through construction company Queiroz Galvão, but that the funds' source were kickbacks originating at Petrobras, the AP reported. In the plea deal, Machado also alleged that other powerful members of Temer's PMDB party pocketed millions of reais in bribes, including Senate President Renan Calheiros, former Brazilian President José Sarney and Sen. Romero Jucá, The Wall Street Journal reported. Machado also accused Sen. Aécio Neves, the PMDB's presidential candidate in 2016, of accepting illegal payments. Calheiros, Sarney, Jucá and Neves have all denied wrongdoing. The release of the plea bargain testimony came a day after Brazilian Supreme Court Justice Teori Zavascki refused a request from Brazil's chief prosecutor to arrest Calheiros, Jucá and Sarney, saying they had not been caught committing a crime.

Temer // File Photo: Brazilian Government.

Also on Tuesday, a congressional ethics panel voted to expel suspended lower house Speaker Eduardo Cunha from Congress, saying he lied to his peers about hiding money, alleged to have been diverted from Petrobras. Cunha denies the allegations. He is a political enemy of suspended President Dilma Rousseff and spearheaded the drive to impeach her. She was suspended from office on May 12, pending a Senate trial that could lead to her permanent removal from office on charges of illegally manipulating the government's budget, which she denies. [Editor's note: See **Q&A** on Temer's government in Wednesday's Advisor.]

Mexico's Senate Approves Anti-Graft Legislation

Mexico's Senate on Wednesday passed an anti-corruption bill, commonly known as "3-out-of-3," that requires public servants to have their assets, tax returns and economic interests as public information, The Wall Street Journal reported. The measure, coming from a proposal signed by more than 60,000 civilians and part of more extensive anti-corruption reforms and constitutional changes, would create a new independent entity that would fight corruption and ensure the privacy of public servants. Mexico's lower house is expected to vote on the measure this week. The 85-22 vote in favor of the bill had support from Mexican President Enrique Peña Nieto's Institutional Revolutionary Party, the Green Party and some opposition members. "The legislation is an improvement compared to what we had, said Max Kaiser, an expert on anti-corruption issues at think

NEWS BRIEFS

Grupo Hotelero Santa Fe to Offer up to $114 Million in New Shares

Mexico-based Grupo Hotelero Santa Fe said Wednesday that it is planning to offer as much as 2.16 billion pesos ($114 million) worth of new shares, Reuters reported, citing a statement the high-end hotel operator made to Mexico's bourse. The company is planning to place as many as 215.6 million shares both in Mexico and abroad via the Latin American Integrated Market.

Lack of Quorum Delays Bill to Punish Absenteeism in Colombia's Congress

Colombia's Congress has scheduled a new session to discuss a bill that would punish chronic absenteeism among lawmakers after not enough senators attended the first scheduled session to make quorum, BBC News reported today. The bill proposes salary cuts for lawmakers who fail to attend congressional sessions. The first discussion had been scheduled for Tuesday, and the new session has been scheduled for today. The bill also proposes that members of Congress acquire a doctor's note if they miss sessions for any medical reason.

Slim Launches Online Educational Platform

Mexican telecommunications business magnate Carlos Slim has launched a free online educational platform that plans to increase knowledge and training opportunities for anyone with Internet access and a smartphone, the Associated Press reported Wednesday. Data charges will not accrue for the use of the platform, Aprende.org, if users connect via Slim's Telmex or América Móvil providers. The educational platform will integrate education materials that are already offered for a price online by his foundation.

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 1

did as well; 'no to Keiko' rallies were huge. Yet, not only was PPK's margin tiny, but the Fujimorista party has 73 of 130 legislative seats—whereas Mendoza's has 20 and PPK's only 18. PPK is likely to have to work hard to persuade the Fujimorista party that its interest is not in obstructionism; the party appears divided between Keiko and her brother Kenji, the leader of the 'old guard' closer to their father. Probably, PPK will propose house arrest (rather than continued imprisonment) for their father. Almost certainly, PPK will invite both leftist and Fujimorista leaders to important positions in his cabinet. Peruvians' priority is citizen security, and PPK's best start might be the immediate initiation of such widely favored reforms as increasing the number of police, raising their salaries and providing more technology."

Francisco Durand, professor of political science at the Catholic University of Peru: "Kuczynski is a Wall Street candidate narrowly elected by Main Street. The country's polarization against Fujimorismo, Peru's main and fearful political force, pushed independents and leftists to vote for Kuczynski. The campaign, as usual, was nasty. Kuczynski and his new allies presented Fujimori as a candidate connected to drug trafficking and other illicit economies. In addition, to win popular support and gain allies, Kuczynski signed 'compromises' with unions, indigenous groups, farmers and small-sized firms. These two strategies facilitated a narrow victory, obtained mostly by an unwilling leftist endorsement of his candidacy in order to block Fujimorismo. The two have a cost. No doubt Kuczynski will have initial difficulties with Congress, controlled by Fujimoristas (73 out of 130 seats in Congress) and leftists (20 seats) who, for different reasons, will emphasize an oversight role. APRA (5 seats) will try to play a mediating role as the most experienced politicians. The right is pressing Kuczynski to mend fences with Fujimorismo in order to guarantee 'governability', that is, defending the status quo, and the left, distrustful and vigilant, wants Kuczynski to prioritize the 'compromises' with the people. Kuczynski can resort to cabinet appointments in order to reconcile the country, but neither the left, nor Fujimoristas, the two main opposition forces, will join it. In other words, political arrangements and diplomatic moves are critical at this point and may prevail over policy issues. However, Fujimorismo has always supported pro-market policy initiatives. A congressional delegation of legislative powers to the executive in order to 'reactivate the economy' in this post-bonanza period can be achieved if Kuczynski manages to negotiate it. One important card on the bargaining table (to be used only once) is allowing house arrest for Alberto Fujimori. That, in turn, will accentuate internal dissent between Keiko and her now more ambitious rival, his brother Kenji, at no cost. In sum, Kuczynski needs to be inspired by Machiavelli rather than Locke. Can an international manager who has demonstrated to be an unskillful campaigner make these arrangements?"

> **"The country's polarization against Fujimorismo, Peru's main and fearful political force, pushed independents and leftists to vote for Kuczynski."**
>
> **— Francisco Durand**

Maria Luisa Puig, Latin America analyst at the Eurasia Group: "Official results confirm Pedro Pablo Kuczynski won the June 5 runoff against Keiko Fujimori by the narrowest of margins (50.1 percent to 49.9 percent). Polls published a week prior to

Continued on page 4

tank IMCO in Mexico City. "Mexico will have a stronger anti-corruption legal framework and stronger independent anti-corruption authorities," The 3-out-of-3 bill was just one among four other anti-corruption measures that passed in the Senate this week. The other legislation established a special independent anti-corruption attorney, a special corruption court, stronger punishments for corrupt public servants and a framework to strengthen the federal audit office.

ECONOMIC NEWS

Venezuelan Police Arrest at Least 400 After Rioting, Looting

Venezuelan police have arrested at least 400 people this week after rioting and looting over food shortages, authorities said on Wednesday, Reuters reported. More than 100 shops in the coastal town of Cumaná were looted and at least one person died, according to local media, BBC News reported. Venezuela's runaway inflation rate and rampant shortages of food, medicine and other basic goods have caused public unrest in recent months and have led to more frequent protests and riots in recent weeks. Critics blame government mismanagement for the current conditions. The government says the shortages are part of an economic war being waged to drive President Nicolás Maduro from office. Congresswoman Milagros Paz was quoted in Venezuelan newspaper El Universal as saying that authorities "have not admitted the food distribution emergency," and that most of the looting was for food. However, Venezuelan newspaper El Nacional reported that socialist governor of Sucre state, Luis Acuña, said opticians and clothes shops were targeted in the looting. More than 10 attempts at looting happen every day in Venezuela, according to the non-governmental organization Venezuelan Violence Observatory. [Editor's note: See Q&A on Venezuela in the June 9 issue of the Advisor.]

COPYRIGHT © 2016, INTER-AMERICAN DIALOGUE

FEATURED Q&A / Continued from page 3

the election had shown Keiko leading voter intentions by 4 to 8 points. It seems that Kuczynski's ability to reverse her lead in polls was due to scandals involving some of Keiko's closest aides, along with support from the left that allowed him to perform better than expected in the country's interior. Results of the second round and those of the first round on April 10 indicate that Kuczynski will be an institutionally weak president. A large share of those who voted for him did so only to prevent Keiko, daughter of imprisoned former president Alberto Fujimori, from winning the election. Kuczynski's Peruvians for Change party secured only 18 out of 130 seats in the unicameral Congress, well below Keiko's Popular Force, with 73 seats and the leftist Broad Front with 20 seats. That said, Kuczynski's key appointments and policy priorities are likely to win congressional support, at least at the beginning of his five-year term in office. He will avoid confrontation with Popular Force by appointing well-respected technocrats on economic posts, and seeking political operators to negotiate with the opposition. He will also look for areas of consensus with Keiko's party when defining his policy priorities. Keiko and her party will avoid obstructing his government from day one because it would alienate voters. This could change as Kuczynski's government advances and he starts losing popularity."

Cesar Arias, vice president and Andean economist at Deutsche Bank: "PPK has strong market credentials and a skilled technocratic team. New minister of finance Alfredo Thorne is an advocate of central bank independence, price stability, de-dollarization and a more flexible exchange rate. PPK's two vice presidents are the effective governor of the Moquegua mining region, Martin Viscarra, and the former minister of trade and tourism Mercedes Aráoz. However, we highlight three challenges for the upcoming administration. First, a virulent electoral campaign, a narrow victory and a weak legislative minority (14 percent of seats) leaves PPK with a legitimacy deficit. Fujimori's Popular Force party has veto power in the legislature (56 percent of seats). While we do not expect Fujimorismo to adopt an obstructionist stance, it will have the ability to dictate policy and economic reform in 2016-2021. Second, sustaining economic growth depends on attracting new private investment into mining and hydrocarbons. However, mining investment contracted 11 percent in 2014, 15 percent in 2015 and 44 percent in the first quarter of this year. Investors will closely follow campaign proposals to increase the government intake in gas export contracts and the halt of new mining projects due to community opposition. Third, markets and rating agencies would be increasingly wary of the impact of a second round of fiscal stimulus. PPK intends to inject 3 percent of GDP to lift real growth to 5 percent by 2021, by widening the budget deficit to 3 percent of GDP, increasing public debt to 30 percent of GDP and tapping fiscal cushions. Yet, his stimulus proposal exceeds the targets in the recently approved fiscal responsibility and transparency law."

> **"PPK has strong market credentials and a skilled technocratic team."**
>
> **— Cesar Arias**

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

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2016

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

THEDIALOGUE

Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Kevin Casas-Zamora, Director, Peter D. Bell Rule of Law Program
Ramón Espinasa, Nonresident Senior Fellow
Ariel Fiszbein, Director, Education Program
Alejandro Ganimian, Nonresident Fellow
Peter Hakim, President Emeritus
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Migration, Remittances & Development
Jeffrey Puryear, Senior Fellow
Tamar Solnik, Director, Finance & Administration
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.