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## FEATURED Q&A

# Are Multinational Companies Turning Away From Brazil?



Brazilian President Jair Bolsonaro's government is seen as business-friendly, but companies have been scaling back operations in Brazil. // File Photo: Brazilian Government.

**Q** Switzerland's Roche said March 26 that it would halt production of medicines at its plant in Rio de Janeiro because the factory is not financially sustainable. The pharmaceutical company's announcement followed automaker Ford's decision to shutter its truck plant outside São Paulo and Avianca Brasil's move to terminate 21 of its air routes. What conditions are leading international businesses to scale back their operations in Brazil? How favorable is Brazil's business climate going forward, under new President Jair Bolsonaro? Which industries in Brazil are poised to thrive, and which will suffer?

**A** Thomas Rideg, president of M-Brain Americas Inc.: "Brazil is in a new era with a race to facilitate business and trade, reduce fat from the state, root out corruption and move forward with a pension reform. Bolsonaro has already taken important measures, such as visiting key nations (the United States, Chile, Israel and soon China) to advance trade, eliminating some bureaucratic steps to open businesses, laying off more than 21,000 public employees and setting off to privatize 23 poorly managed ports and other companies such as Eletrobras. If approved, the proposed pension reform will boost confidence in the country. Meanwhile, many companies are suffering from Brazil's economic devastation of the last five years. While the market is cautiously optimistic, some companies simply can't afford to wait any longer, and in the case of Roche and Ford, this is not only due to Brazil's situation but also to global mandates for efficiency and profitability. Roche's factory in Brazil produces drugs at the end of their life cycle.

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The Trump administration imposed new sanctions on Venezuela's government, this time targeted at oil shipments between Venezuela and Cuba.

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The Fuerabamba community agreed to end its blockade of a road leading to MMG's Las Bambas copper mine.

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## U.S. Homeland Security Secretary Steps Down

Kirstjen Nielsen, who has overseen President Donald Trump's immigration policies, resigned on Sunday. Trump said Kevin McAleenan, the commissioner of U.S. Customs and Border Protection, will become acting Homeland Security secretary.

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Nielsen // File Photo: U.S. Department of Homeland Security.

## ECONOMIC NEWS

## White House Targets New Sanctions at Venezuelan Oil

The administration of U.S. President Donald Trump on Friday slapped new sanctions on Venezuela's government, this time targeted at oil shipments between the Andean nation and Cuba, *The New York Times* reported. Vice President Mike Pence announced the sanctions in a speech to a Venezuelan exile community in Houston, saying Washington is imposing sanctions on 34 vessels that Venezuelan state-owned oil company PDVSA either owns or operates. The sanctions also apply to two international companies that ship Venezuelan crude oil to Cuba. "Venezuela's oil belongs to the Venezuelan people," said Pence, who this week is expected to address the United Nations Security Council on the subject, the newspaper reported. With the sanctions, the Trump administration is attempting to force a "recalibration" of the Venezuela-Cuba relationship, said top administration officials. Cuba, along with Russia and China, are among the countries that support the government of Venezuelan President Nicolás Maduro, whom the United States and other opponents consider a dictator. The United States and dozens of other countries recognize National Assembly leader Juan Guaidó as the country's acting president. In the short run, the new U.S. sanctions against the Maduro government are designed to put an end to the arrangement through which Venezuela provides Cuba with oil in exchange for intelligence and counterintelligence, *The New York Times* reported. Venezuela is estimated to be shipping Cuba between 20,000 and 50,000 barrels of oil per day, according to White House officials and oil industry experts. The sanctions followed a month of frequent power outages in Venezuela that led to the loss of a week's worth of oil production. In addition to the blackouts, Venezuelans have been suffering shortages of food, water, medicines and other basic goods as well as skyrocketing inflation. On Friday, a top White House official said the

newest sanctions would "tighten the noose of the financial strangulation of Maduro and his cronies." Other previously announced U.S. sanctions have targeted Venezuelan development bank Banesco, Maduro and several of his associates, Venezuela's gold sector and a Russian-based bank that the administration accuses of facilitating illegitimate transactions for the Maduro government. Tens of thousands of Venezuelans took to the streets on Saturday to protest Maduro and support Guaidó, Reuters reported. Guaidó called for demonstrations to mark the beginning of what he said was a new series of "definitive" protests to force Maduro from power. Maduro still has the support of Venezuela's military and has blasted Guaidó as a puppet of the United States, saying he will face justice. Last week, Venezuela's powerful Constituent Assembly, which is aligned with Maduro, stripped Guaidó of his legislative immunity from prosecution, paving the way for his possible arrest.

## Economic Policies 'Bearing Fruit' for Argentina: IMF

The International Monetary Fund's executive board on Friday released its third review of Argentina's economic progress under its \$56 billion standby financing deal with the country, unlocking another \$10.8 billion in funds, the international lender said in a statement. "The



Lagarde // File Photo: International Monetary Fund.

authorities' policies that underly the Fund-supported arrangement are bearing fruit," IMF Director Christine Lagarde said in the statement. "The high fiscal and current account deficits—two major vulnerabilities that led

## NEWS BRIEFS

## U.S. Homeland Security Secretary Steps Down

U.S. Homeland Security Secretary Kirstjen Nielsen, who has overseen President Donald Trump's immigration policies, resigned Sunday amid tensions with some in the White House who have seen her as not doing enough to stop migrants from crossing the country's southern border. "I hope that the next Secretary will have the support of Congress and the courts in fixing the laws which have impeded our ability to fully secure America's borders and which have contributed to discord in our nation's discourse," she said in her resignation letter.

## California Governor Begins Trip to El Salvador

California Governor Gavin Newsom arrived in El Salvador on Sunday for a four-day trip during which he says he wants to learn about the poverty and violence that are leading thousands to flee north, in a countermove to what he called President Donald Trump's demoralizing rhetoric about the Central American nation, the Associated Press reported. During his first visit abroad since he took office in January, Newsom will meet with Salvadoran President Salvador Sánchez Cerén and President-elect Nayib Bukele, as well as human rights groups.

## Two Cars Plunge Into River After Ferry Strikes Bridge in Brazil

A ferryboat hit a bridge pillar in Brazil's Pará State on Saturday, causing part of the bridge and two cars to fall into the Moju River and cutting off a route to Belém, home to one of the country's busiest ports, authorities said, the Associated Press reported. The fire department dispatched scuba divers to find victims in the river. The five crew members aboard the ferry survived. Local media reported that a January inspection of the bridge showed corrosion problems on the pillars.

to the financial crisis last year—are falling.” She said there are economic signs that the country’s recession “has bottomed out,” adding that the IMF expects a gradual recovery in the coming quarters. Argentine statistics institute Indec in recent weeks has published downbeat economic indicators, including a report that the country’s GDP shrank 6.2 percent in the fourth quarter of last year, the worst quarterly performance since 2009, La Nación reported. According to the IMF report, Argentina’s economy will likely contract 1.2 percent this year, an improvement of the previous forecast of 1.7 percent contraction. It estimates that inflation will be 30.5 percent this year. An Argentine Treasury official, who asked not to be named, said the IMF program was going as expected and that no further major spending cuts were planned, Reuters reported.

## BUSINESS NEWS

### Peru Indigenous Group Agrees to End Protest Near Mine

The indigenous Fuerabamba community in Peru agreed to end its two-month blockade of a road leading to Chinese miner MMG’s Las Bambas copper mine in exchange for the company’s commitment to pay the village for transiting through its farmland, Reuters reported, citing a document dated Saturday.

**The roadblocks were first put up in early February.**

Fuerabamba’s leader, Gregorio Rojas, signed the document, as did Peru’s prime minister and the mine’s manager, after a 10-hour negotiation in Lima. The roadblocks, which started in early February, had halted exports from the Las Bambas mine, which produces some 400,000 metric tons of copper per year. The conflict escalated in recent weeks after Rojas and two attorneys representing the indigenous

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Roche’s more innovative medications are imported, and the company will maintain distribution and administrative centers in Brazil. Ford’s decision has been discussed since before the election and extends beyond Brazil, as it was part of a global restructuring initiative. The company had major losses in Brazil in 2018. While Avianca may be terminating 21 of its air routes, flights from Europe to Brazil increased by 4 percent year-on-year in March. Brazil’s economy is currently projected to grow 1.9 to 2.4 percent this year. Opportunities are in Internet of Things, technology and e-commerce that support large industries such as automotive, agribusiness and even tourism. The largest risks to the Brazilian economy’s much-needed comeback are corruption scandals in the new government and failure to win approval for the tax and pension reforms.”

**A** **Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates:** “Brazil is at a history-making inflection point with respect to its economic, trade and industrial policies and approach to foreign affairs, triggered by several years of lackluster economic growth, corruption scandals and a sharp shift to the right with the election of President Bolsonaro. While this moment is generating enthusiasm among the business community that long-stalled reforms will finally find traction, the transition is also injecting uncertainty with regard to predictability and business planning. Despite the optimistic outlook, companies continue to struggle with the lag effects of sluggish growth over the last few years

village were arrested for allegedly trying to extort MMG. Rojas was subsequently released without charges, but the two lawyers, brothers Frank and Jorge Chávez, remain jailed and under investigation, El Comercio reported. They both deny wrongdoing. Fuerabamba had initially demanded the attorneys be freed as part of the agreement to lift the roadblocks, but the document signed on Saturday did not men-

and the continued burden of the infamous ‘Brazil Cost.’ Bolsonaro’s economic team, led by Minister Paulo Guedes, is acutely aware of the urgency to address long-stalled reforms—particularly pension and tax—and changing the rules of the game with respect to trade and decades-long industrial policies

**“Despite the optimistic outlook, companies continue to struggle with the lag effects of sluggish growth over the last few years...”**

— Gabrielle Trebat

to secure Brazil’s long-term economic competitiveness. President Trump’s support for Brazil initiating the accession procedure to become a full member of OECD creates external and internal pressure for the Brazilian government to accelerate adoption of OECD standards with regard to regulatory transparency, consistency and predictability in tax and judicial determinations, simplification of the tax system including alignment with international best practices on transfer pricing, and rule of law. With an effort underway in Brazil to investigate past lending practices at BNDES to return the institution to its original mission of economic development, national champions that have long relied on preferential financing to fund their overseas expansions—including in the United States—can be expected to undergo some difficult readjustments.”

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tion them. Earlier that day, Rojas defended the attorneys and demanded their freedom before entering the meeting with the prime minister and MMG representatives. Peru’s public prosecutor’s office alleges the Chávez brothers head the Los Chavelos criminal organization, which purportedly plans blockades to force private companies to accede to economic demands, El Comercio reported.

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**A** **Alberto Pfeifer, coordinator of the Group for the Analysis of International Conjuncture (GACInt) at the University of**

**São Paulo:** “It depends on the sector to determine the root causes of any given company closing facilities anywhere. Over time, multinational corporations shift factories between countries according to the dynamic changes of the comparative and competitive advantages and to technological advancements, which may make old plants inefficient. Inward-looking production has paid a high price in the past five years in Brazil, due to persistent high unemployment and tightening of consumer credit. The economy

“**The economy has been bouncing back since the second half of 2017, but at no more than 2 percent of GDP annually.**”

— Alberto Pfeifer

has been bouncing back since the second half of 2017, but at no more than 2 percent of GDP annually. Bolsonaro was elected on the basis of a highly pro-business, free-market agenda. He’s been in power for less than 100 days. It is too early to say whether his economic proposals are inducing international businesses to flee. Reducing the size of the state encompasses the triple effect of fixing government accounts, increasing total productivity and reducing opportunities for corruption. It will benefit the majority of the private sector, although some low-productivity industries, including some domestic-oriented multinational firms that have laid on subsidies and trade barriers, will surely be displaced. Systemic modernizing reforms, targeted at tightening the size of the state and opening up the economy, are a lengthy and complex process, which involves Congress, the judiciary and state-level decision-making. However, solid economic policy is just a necessary aspect: sound

political economy is the sufficient condition to make sure reforms will be approved—and this latter condition is yet to be seen from the part of the executive branch.”

**A** **Margaret Hayes, professor of security studies at Georgetown University:** “Brazil is slowly

emerging from its severe recession of 2015-2016. GDP grew by 1 percent in 2017 and is expected to be around 1.8 percent for 2018. This emergence takes place in the context of significant changes in demand for some Brazilian exports, a new government and global industry restructuring. For example, the global auto industry is experiencing excess capacity. This trend explains Ford Motor’s closing of its São Paulo factory. General Motors has also threatened to leave Brazil, but when São Paulo’s state governor announced significant tax incentives to auto companies expanding capacity in the state, GM announced that it would stay and invest 10 billion reais in its São Paulo plants and hire additional workers. On the political front, Brazil is struggling to advance a pension-reform proposal that has been pending for several years. Under Brazil’s very generous retirement system, pensions account for some 44 percent of the federal budget. The system allows government employees to retire in their mid-50s on full salary. The proposal would set a minimum retirement age and raise contributions. Passage of the reform bill requires the votes of more than three-fifths of each house of Congress. Historically, to achieve such a majority, the political system has depended on a pork-barrel practice to buy the support of diverse elements of the 28 parties represented in Congress. The system has been profoundly corrupting, as revealed in the ongoing Car Wash investigation. It is not clear that the Bolsonaro government can muster the votes.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gene.kuleta@thedialogue.org](mailto:gene.kuleta@thedialogue.org).*

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