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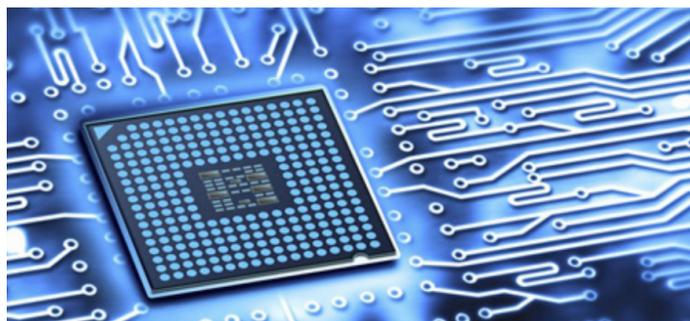
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## FEATURED Q&A

# Should Brazil Do More to Boost its High-Tech Sector?



High-tech contributes less to Brazil's economy now than it did in the 1980s. // File Photo: Brazilian Government.

**Q** Brazil's high-tech industry—despite the sweeping economic changes brought by globalization and consumers adopting new technologies—has been shrinking, Folha de S.Paulo reported last month. The segment made up 9.7 percent of the South American country's GDP in the 1980s but has fallen to about 5.5 percent today. What explains the drop? Should policymakers in Brazil be concerned about the trend? If so, what actions should Brazil take to reverse the decline?

**A** Welber Barral, senior consultant at BMJ Consultores Associados and former Brazilian foreign trade secretary: "Although Brazil's high-tech industry has evolved over the last decades, it has not kept pace with the agribusiness and services sectors. Thus, it has lost participation in the total GDP. This trend can be explained by the unstoppable efficiency of the agribusiness sector, and also by the 'servicification' of the whole economy. Besides, an overvalued currency in the last two decades favored imports of final technological products, reducing local investment in this industry. The high-tech industry is crucial to promote innovation, in addition to its power to generate wealth and high-paying jobs. A diverse country such as Brazil, with a large and young population, should certainly be concerned with expanding its high-tech industry. A fiscal reform and lower taxes on wages could engender incentives in this direction. Previous government import-substitution initiatives were relevant to promote the high-tech industry, but created rent-seeking distortions in the long run. Modern and more efficient policies should focus on reducing the overall cost of doing

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## TODAY'S NEWS

### POLITICAL

## Thousands Clash in Venezuela as Guaidó Seeks Maduro's Ouster

Thousands of anti-government demonstrators filled the streets in several states following a call by opposition leader Juan Guaidó to overthrow President Nicolás Maduro's government.

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### ECONOMIC

## Mexico's Economy Contracts in Q1

The country's GDP contracted 0.2 percent in the first quarter as compared to last year's fourth quarter. As compared to the first quarter of last year, the economy grew 1.3 percent.

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### BUSINESS

## Ex-Petroperu Official Admits to Involvement in Bribery Scheme

Miguel Atala Herrera, a former vice president of the Peruvian state oil company, admitted to acting as a frontman for late President Alan García.

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Atala // File Photo: Peruvian Government.

## POLITICAL NEWS

## Thousands Clash in Venezuela as Guaidó Calls for Overthrow

Thousands of Venezuelans took to the streets on Tuesday in clashes against pro-government forces following an early-morning call by opposition leader Juan Guaidó to overthrow the government of President Nicolás Maduro, The Wall Street Journal reported. Guaidó, whom dozens of countries recognize as Venezuela's



Anti-government demonstrators took to the streets by the thousands on Tuesday. // Photo: @jguaido via Twitter.

legitimate president, appeared early Tuesday alongside a small group of pro-opposition National Guard troops outside a Caracas military base and called on Venezuelans to help force Maduro to step down. "This is the moment. The moment is now," Guaidó said at the La Carlota air base. Protests continued throughout the day and into the evening, leaving more than 60 people injured, but there was no sign that the actions had dislodged Maduro from power. Clashes occurred in 24 states, and 119 people were reportedly detained, according to The Washington Post. In a televised address late Tuesday, Maduro appeared alongside the country's top military leaders after being out of sight for most of the day. "Today has been an intense day" said Maduro, The Wall Street Journal reported. "We must never surrender." Maduro added that he had appointed three prosecutors to investigate the day's incidents, the Financial Times reported. "They cannot go unpunished," he said, referring to opposition members. Earlier on Tuesday, U.S. Secretary of State Mike Pompeo told CNN that Maduro had been preparing to step down and flee to Cuba,

but that Russia's government had convinced him to remain. "He had an airplane on the tarmac," said Pompeo. "He was ready to leave this morning, as we understand it. Russians indicated he should stay." Russia did not respond to Pompeo's statement, and Venezuela's ambassador to the United Nations, Samuel Moncada, called the comments "propaganda," the Financial Times reported. In a video posted to social media, Guaidó said Tuesday's protests showed weakness on Maduro's part. Guaidó called Maduro a coward "who has remained hidden behind four walls out of fear." Guaidó added, "He's not going to appear because he doesn't have the backing of the armed forces." Opposition leader Leopoldo López, whom the government had jailed in 2014 and later placed on house arrest, joined Guaidó on Tuesday, saying rebellious military officers had freed him earlier in the day. Late Tuesday, López reportedly took refuge with members of his family at the Spanish Embassy in Caracas after first seeking asylum at Chile's diplomatic residence, The Wall Street Journal reported. Some 25 military officers reportedly sought asylum at Brazil's diplomatic compound. Also on Tuesday, U.S. President Donald Trump blasted Cuba, calling on its government to immediately end its support of Maduro's government, Reuters reported. Trump said the United States would impose a "full and complete embargo" if Cuba does not drop its military backing of Maduro. Venezuelans braced this morning for more protests as both Maduro and Guaidó called for their supporters to take to the streets on May Day.

## BUSINESS NEWS

## Pemex Reports \$1.9 Billion Loss for First Quarter

Mexican state oil company Pemex reported a loss of 36 billion pesos, roughly \$1.9 billion, in the first quarter of this year but said it was moving in the right direction, pointing to a sharp drop in fuel theft, the Financial Times

## NEWS BRIEFS

## Mexico's Economy Contracts in First Quarter

Mexico's economy contracted in the first quarter of the year as compared to the fourth quarter on a seasonally adjusted basis, the national statistics institute announced Tuesday, The Wall Street Journal reported. Gross domestic product shrank 0.2 percent in the January-to-March period as compared to the previous three months. Industrial production declined 0.6 percent from the previous quarter.

## Former Petroperú VP Admits to Bribery Scheme Involvement With García

Miguel Atala Herrera, a former vice president of Peruvian state oil company Petroperú, has confessed to acting as a frontman for late President Alan García in a bribery scheme in connection with Brazilian construction conglomerate Odebrecht, a prosecutor said Tuesday, Agence France-Presse reported. Atala said he received money from the firm and later transferred it to the former president. García committed suicide two weeks ago to avoid being arrested in relation to the corruption case.

## Former Security Chief for Colombia's Uribe Arrested After Return From U.S.

Former Colombian President and current Senator Álvaro Uribe's ex-security chief was arrested on charges of forced disappearance and murder after the United States sent him back to Colombia on Monday, according to Colombia Reports. Mauricio Santoyo had been extradited to the United States in 2012, where he was convicted on drug trafficking charges. His arrest is part of an ongoing investigation into alleged links between paramilitary death squads and officials in the department of Antioquia. Santoyo had repeatedly requested to remain in the United States, but his petitions were denied.

reported Tuesday. The company had recorded a profit of 113 billion pesos in the same period a year ago, but the first-quarter loss is much smaller than the 157 billion peso loss recorded in the fourth quarter of last year, which officials said reflected the positive impact of a 121 billion peso foreign exchange profit and Pemex's new strategies. "We have



Velázquez // File Photo: lopezobrador.org.mx.

made improvements, although gradual ones. We have advanced in all areas. The challenges will require time to resolve but the trend is clear," said Alberto Velázquez, the company's chief financial officer, the newspaper reported. "Pemex is moving in the right direction." The company also reduced fuel theft, a major cash drain, by 79 percent as compared to December. Velázquez added that Pemex's crude production, on its 15th consecutive year of decline, is being controlled. The company's output in the first quarter totaled 1.66 million barrels per day, nearly 11 percent lower than the same period a year earlier, the Associated Press reported. Total sales fell 10 percent in the quarter to 356 billion pesos, and earnings before interest, tax, depreciation and amortization dropped 17 percent to 115.7 billion pesos. [Editor's note: See related [Q&A](#) in Monday's issue of the Advisor.]

## Huawei Launches New Smartphone Handsets in Brazil

China's Huawei on Tuesday launched two high-end smartphone handsets in Brazil, in its second attempt to enter the world's fourth-largest smartphone market and expand its presence in Latin America, Reuters reported. Huawei, the world's third-largest smartphone manufacturer,

### FEATURED Q&A / Continued from page 1

business in Brazil, while promoting scientific education and a highly qualified workforce."

**A** **Amanda Mattingly, senior director at The Arkin Group in New York:** "Even as Brazilians have embraced a digital, online lifestyle, the country has not done enough to nurture its own high-tech industry or to create the conditions for new tech companies to grow and develop in recent years. The tech sector has faced similar challenges as others trying to do business in Brazil: corruption, bureaucratic red tape, complicated legal and tax codes, and a lack

“**While Brazil is behind other major economies when it comes to its high-tech industry, there is evidence that it is ripe for a tech boom today.**”

— Amanda Mattingly

of investment in human capital. However, according to a recent McKinsey and 'Brazil at Silicon Valley' report, this trend could be reversing as national and international investors are looking at Brazil as a next best bet in tech and innovation. Reportedly, Japan's Softbank, the major shareholder in Uber, is investing \$5 billion in Latin American start-ups with its eye on Brazil as a place of

first launched a smartphone in Brazil in 2014, but the project was discontinued following weak demand amid the country's economic crisis. "We are in a very different market share position than we were five years ago, and we're seeing tremendous brand momentum," Ketrina Dunagan, Huawei's vice president of marketing for the Americas, said in an interview, Reuters reported. The two new devices, the P30 Pro and P30 Lite, will be available for purchase in eight online and brick-and-mortar stores

opportunity. Meanwhile, the Brazilian government started a program called TechD, a \$4.6 million public-private partnership looking to invest in tech start-ups, incubator projects, and IT companies and consortiums. President Bolsonaro's push for privatization across various sectors will also increase the drive for efficiency, benefiting tech startups looking to provide new IT solutions. With growing enthusiasm in the tech sector in Brazil, start-ups such as ride-share service 99, food delivery service iFood and digital bank Nubank, as well as new competitors will continue to develop and expand their reach in e-commerce, the sharing economy, IoT solutions and delivery services across the country. While Brazil is behind other major economies when it comes to its high-tech industry, there is evidence that it is ripe for a tech boom today."

**A** **Alberto Pfeifer, coordinator of the Group for the Analysis of International Conjunction (GACInt) at the University of São Paulo:** "Rather than seeing this as a drop, a dysfunctional arrangement drove a surge in high-tech industries in the 1980s. Among the factors were the apex of the import-substitution industrialization model following decades of indiscriminate governmental intervention in Brazil's economy. Also, there was a red-tape extravaganza and conspicuous subsidies of all sorts, Himalayan tariff barriers, the duplicity of quantitative foreign-exchange restrictions

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starting May 17, she added, saying they would cost between 2,500 reais (\$638) and \$5,500 reais (\$1,403), Folha de S.Paulo reported. The handsets will be imported from China initially, but Dunagan said Huawei was looking at hiring people locally "to manage the business here" and "establish what is necessary to ensure our success in Brazil," Reuters reported. Dunagan said marketing efforts at first would be focused in São Paulo, Rio de Janeiro and Brasília, the wire service reported.

## FEATURED Q&amp;A / Continued from page 3

within a controlled exchange-rate regime, a cozy intellectual protection system, benevolent state acquisitions, a regressive tax structure and the development of high-tech industries that benefited a few at the expenses of the collective well-being. For a long time, Brazilian consumers were forced to purchase poorer and costlier products and services than similar foreign ones. Additionally, fostering high-tech industries led to lower productivity gains, as compared to countries that embraced trade liberalization. Thirty years later, the focus should turn to high-tech as an omnipresent element of a productive system. The good news is that Brazil has enviable high-tech sectors outside traditional manufacturing. This includes agritech (where Brazil is second to none in terms of agricultural technology), fintech and the banking system, aerotech (Embraer), tech-intensive mining (Vale) and deep-water oil-drilling (Petrobras). Brazil should let competition and high-tech in, and let high-tech champions go outside. In parallel, it should reduce the general cost of doing business with more rational social assistance, pension, tax and fiscal systems, as well as updated physical infrastructure and improved human capital."

**A** **Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates:** "The decline in high-tech manufacturing in Brazil can be attributed to multiple factors, but most notably is Brazil's steadfast commitment to industrial policy programs coupled with a closed economy. This stated approach to economic development dates back decades and links tax incentives to local content requirements and R&D investments which, in the context of Brazil's high tax burden, provides an important offset for companies. These policies were the focus of a 2013 WTO complaint filed by the European Union and Japan, protesting Brazil's industrial policy programs. In the filing,

which Brazil ultimately lost, the European Union cited the cost of smartphones that raised the price of devices 50 percent higher as compared to other countries, despite the tax benefits enjoyed by local manufacturers. But the consequences of Brazil's industrial policies go beyond the high price tag for

“Brazil’s industrial policy ends up reinforcing preferences for older technologies...”

— Gabrielle Trebat

smartphones; they have inhibited the growth of high-tech industries as the programs do not respond efficiently to the realities of highly innovative industries with rapid product development timelines reliant on access to global supply chains. For high-tech companies, it is difficult to source components locally to comply with program requirements, given significant capacity gaps in the domestic supply chain. As a result, Brazil's industrial policy ends up reinforcing preferences for older technologies while the country's closed economy inhibits access to needed components that could accommodate those upgrades. There is optimism that the Bolsonaro administration with its neoliberal economic approach could loosen policies that have constrained the development of the high-tech industry. The intention to open Mercosur is a good start, but there are also regulatory fixes that could address the problem. For example, by exempting high-tech manufacturers from local sourcing obligations when domestic firms are unable to supply needed components and/or expanding options for R&D investment to offset the lack of local sourcing."

*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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