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THEDIALOGUE

FEATURED Q&A

Will Brazil's New Infrastructure Plan Boost the Economy?

Brazilian President Luiz Inácio Lula da Silva this month unveiled a new infrastructure plan designed to strengthen the country's economy. // File Photo: Brazilian Government.

Q Brazilian President Luiz Inácio Lula da Silva on Aug. 11 unveiled an infrastructure plan that includes nearly 1 trillion reais (nearly $200 billion) in spending. The plan revives an initiative that Lula first launched in 2007 after he was sworn in for his second term. The Growth Acceleration Program, or PAC, has attracted criticism, saying that similar large-scale programs in the past were never fully realized and led to massive corruption. How likely is the plan to receive legislative approval and attract partnerships with private companies? How is the initiative different from the one launched in 2007, and what are the main risks associated with it? Where are the funds expected to go toward, and which industries are set to benefit most?

A Carlos J. Alsua, professor of practice in the Eller College's McGuire Center for Entrepreneurship at The University of Arizona: "Brazilian President Luiz Inácio Lula da Silva recently made headlines by unveiling a massive 1 trillion real ($200 billion) plan for infrastructure. This Growth Acceleration Program, or PAC, is not exactly new. Lula took a stab at something like this in 2007, but it fell short and got caught up in accusations of corruption. What catches the eye is how this revived PAC echoes the Biden administration's plans for bouncing back after the pandemic. They're both big on infrastructure to get the economy humming again. That's a big deal, and it's worth watching how it plays out. But here's where it gets worrisome: is this Brazilian plan opening the door to corruption? They've been there and done that with these large-scale projects, and often, they've ended up in some

Continued on page 3

TODAY'S NEWS

ECONOMIC

Chinese Investments in Brazil Fall to 13-Year Low

Chinese investments in Brazil fell 78 percent last year to $1.3 billion, their lowest level since 2009. Overall, Brazil's total foreign direct investment nearly doubled last year.

Page 2

BUSINESS

Ecopetrol Gets Authorization for $1 Bn Credit Line

Colombia's finance ministry authorized state-owned oil company Ecopetrol to secure a line of credit of as much as $1 billion.

Page 2

POLITICAL

President Calls for Orderly Transition of Power in Guatemala

Guatemalan President Alejandro Giammattei on Tuesday called for an orderly transition of power to President-elect Bernardo Arévalo in January.

Page 2

Giammattei // File Photo: Guatemalan Government.

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POLITICAL NEWS

President Calls for Orderly Transition of Power in Guatemala

Guatemalan President Alejandro Giammattei on Tuesday called for an orderly transition of power in January to Bernardo Arévalo, who won the country's Aug. 20 presidential runoff election, the Associated Press reported. Despite accusations of fraud by Arévalo's opponent, former First Lady Sandra Torres, Giammattei said there were no "significant" problems during the vote. "Now the doors are open to an orderly, transparent and efficient government transition," said Giammattei, the AP reported. Arévalo, a former diplomat, defeated Torres in a landslide, garnering 61 percent of the vote to Torres' 39 percent. However, while Guatemala's Supreme Electoral Tribunal confirmed his victory on Monday, the Citizens' Registry electoral agency suspended his Semilla party over alleged irregularities in the party's registration. Arévalo called Semilla's suspension part of an "illegal political persecution," Bloomberg News reported. The party has requested that the suspension be lifted, and it will be up to the country's Supreme Electoral Tribunal to decide, the AP reported. "We're basically entering really unexplored legal terrain," Tiziano Breda, a researcher at Italy-based Istituto Affari Internazionali, told the AP. "But Arévalo's victory is very hard to overrule. I'm not sure they want to risk great international concern, a diplomatic crisis, or what it could imply socially, the unrest it could provoke." On Tuesday, U.S. Secretary of State Antony Blinken congratulated Arévalo on his victory in the election, adding that the United States remains "concerned with continued actions by those who seek to undermine Guatemala's democracy." Blinken added, "We stand with our partners in the international community and with the Guatemalan people against these unacceptable efforts, including the use of prosecutorial powers against those who seek transparency and accountability." [Editor's note: See related **Q&A** in the Aug. 23 issue of the Advisor.]

ECONOMIC NEWS

Chinese Investments in Brazil Fall 78% to 13-Year Low

Chinese investments in Brazil plunged 78 percent last year as compared to 2021, falling to a 13-year low, the Brazil-China Business Council announced Tuesday, Reuters reported. Brazil's largest trading partner, China directly invested $1.3 billion in the South American country last year. That was the lowest level since 2009, the business council said. Overall, Brazil's total level of foreign direct investment soared 95 percent in 2022, to $90.6 billion, the highest level in a decade.

BUSINESS NEWS

Colombia Authorizes Ecopetrol to Arrange $1 Billion Credit Line

Colombia's finance ministry authorized state-owned oil company Ecopetrol to get a line a credit of up to $1 billion from international lenders, the company said Monday, Reuters reported. The loan will be provided by Deutsche Bank, Banco Inbursa, the Latin American Bank of Foreign Trade and ICBC Standard Bank, Ecopetrol said. The credit line has a seven-year maturity and a variable interest rate, but Ecopetrol did not disclose further details. Some $800 million will be disbursed over the next few days under the terms of the agreement, with an optional additional $200 million in the following 90 days, Ecopetrol added. The loan will assist the company with funding its gas expansion and decarbonization plans. Ecopetrol previously said it intended to invest between $6.1 billion and $7.2 billion this year toward green energy transition and renewable energy, among other investments. Earlier this year, Ecopetrol appointed Ricardo Roa as its new CEO following the departure of former

NEWS BRIEFS

Biden Discusses Migration, Trade With Costa Rica's Chaves

Costa Rican President Rodrigo Chaves met with U.S. President Joe Biden on Tuesday at the White House to discuss legal pathways for migration and trade, The New York Times reported. "We're united by the vision we share," Biden told Chaves. "A vision for future greater opportunity for freedom and equality and, quite frankly, dignity for all of our people," he added. The White House announced shortly after the meeting that the State Department will send more than $12 million to Costa Rica to help address migration.

Hurricane Idalia Causes Flooding, Power Outages in Cuba

Hurricane Idalia brought heavy rains and flooding to western Cuba on Tuesday, The Wall Street Journal reported. In Pinar del Río province, approximately 60 percent of the population lost electricity, according to state-run media. Idalia made landfall this morning in Florida as a Category 3 hurricane and at 8 a.m. Eastern Time was centered 10 miles south-southeast of Perry, Fla., according to the U.S. National Hurricane Center.

Eni, Repsol Plan to Expand Oil-for-Debt Deal With Venezuela

European oil majors Eni and Repsol plan to expand an oil-for-debt deal with Venezuela, with the United States' approval, people close to the matter said, Reuters reported Tuesday. The agreements aim to supply refined products to Venezuelan state-owned oil company PDVSA and increase exports to Europe. The U.S. State Department last year authorized Eni and Repsol to take Venezuela crude and process it in Europe, amid Western sanctions cutting off Russian oil from the region.

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company head Felipe Bayón. Roa committed in a Twitter posting to a "fair and sustainable energy transition for the benefit of the entire country." "Ricardo Roa could help Ecopetrol design the blueprint for national oil companies in Latin America to make a sustainable and equitable energy transition," Cecilia Aguillon, a nonresident fellow at the Institute of the Americas, told the weekly Energy Advisor in a **Q&A** published April 28. "Roa's challenge will be to balance keeping oil export revenues high while accelerating the country's energy transition at the pace Petro expects," she added.

Brazil's Marfrig to Sell 16 Beef Plants to Minerva

Brazil-based meat processor Marfrig has agreed to sell 16 of its beef processing plants to competitor Minerva for $1.5 billion, Agence France-Presse reported Tuesday. The deal includes Marfrig's operations in Brazil, Argentina, Chile and Uruguay, the wire service reported. The sale is still subject to approval by competition authorities. In a statement, Minerva expressed hope that the deal will allow it to take "a leap forward" in its market performance by becoming Latin America's second-largest beef producer after Brazil-based JBS. "We are very excited about this move, which is in line with our geographic diversification strategy and complements ... our operation in South America," said Minerva's chief executive officer, Fernando Queiroz. Marfrig said in a statement that the agreement was part of its strategy to "focus on the production of branded meats and products with higher added value." The plan will help Marfrig to focus on the sale of higher-value processed meat products and premium fresh cuts, Reuters reported, citing a company spokeswoman. The plants that are part of the sale represent approximately 40 percent of Marfrig's Latin American sales, the spokeswoman added. The news of the acquisition sent Minerva's shares down 18.26 percent to 8.91 reais ($1.84) on the São Paulo stock exchange, while Marfrig's shares rose 10.7 percent, to 7.45 reais.

FEATURED Q&A / Continued from page 1

scandal. What's going to make this one different? Will it get the green light from lawmakers? Will actual private companies want to jump on board? These questions don't have easy answers, and that's a problem. We need to know where this money is going and who will benefit the most. Everything needs to be above board, or else we could be looking at another messy situation. So here's the bottom line: Brazil's big plan aligns with what's happening globally to recover from the pandemic, including what's happening here in the United States. But history has some lessons that should be addressed. There must be a real commitment to doing things correctly to ensure this considerable investment grows the economy without growing corruption. After all, nobody wants to see a recovery road turned into a path lined with scandal."

Martín Castellano, head of Latin American research at the Institute of International Finance: "The program's motivation is quite reasonable. Longstanding infrastructure shortcomings and the need to prepare the country for multiple opportunities from the new global geopolitical landscape make boosting investment a priority. Amid a weakness in public finances, a key challenge will be attracting private sector partners to push the plan forward. Fiscal responsibility should be at the core of the program design and implementation to gain investor support. The public finance aspects are also vital to win legislative approval, as Congress will likely focus on financing sources and debt sustainability implications. Reconciling the extra spending with the recently approved fiscal framework, which sets spending caps and targets a balanced primary budget in 2024, will be challenging. The government seems aware of the binding budget constraint, learning from past experiences where spending pressure exacerbated fiscal imbalances, increasing borrowing costs and discouraging much-needed private investment. The main risk is the program failing to gather traction and deliver meaningful infrastructure improvements. But the projects, if properly structured and executed, could be highly beneficial, leveraging private investment in critical industries, including agriculture and energy. These two sectors have been crucial to lift Brazil's trade surplus from an average of 1.2 percent of GDP in the 2010s to more than 3 percent in 2023, strengthening the country's position as a major global commodity supplier. Improved transportation, other logistics and sanitation infrastructure could support the remarkable transformation underway in these sectors and shore up many others, bolstering Brazil's external accounts and making growth more sustainable."

Welber Barral, senior consultant at BMJ Consultores Associados and former Brazilian foreign trade secretary: "There is a consensus in Brazil's Congress that poor infrastructure is affecting Brazilian competitiveness. The PAC program indicates the administration's priorities and provides a roadmap to attract the private sector, including providers and potential investors. Compared to President Lula's former administration, there are two notable differences. First, there is an understanding that the current fiscal situation will not allow federal funding to cover all the projects. Concessions will be mandatory, and there are positive examples that have been implemented in the last years. Public-private partnerships will also be promoted, and Brazil has already an efficient law for these, although some regulations must be updated. Second, compliance and surveillance on the implementation of the projects will be stricter than in the past. Certain areas will depend directly on the federal budget, such as health and defense. But most of the investment will be directed at infrastructure, and it will have a multiplying effect on the private investment, particularly in concessions. This may represent a huge

Continued on page 4

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FEATURED Q&A / Continued from page 3

opportunity for sanitation, roads, airports, ports–and the many providers for these industries, from construction companies to technological innovators."

João Ricardo Costa Filho, research fellow at Nova School of Business and Economics and professor of economics at Fundação Getúlio Vargas in São Paulo: "There is no doubt that the Brazilian economy lacks the capability to sustain long periods of high growth. The reasons behind it vary from economic policymaking errors, misallocation and low human and productive capital, among other things. Therefore, the government's new Growth Acceleration Program (PAC) should be received as good news, right? Well, if we focus on the 'new' part—for instance, the fact that this time, instead of focusing on specific sectors, as in the previous PAC, it was designed based on investment axes—it could be interpreted in that way. But the devil is always in the details. The fact that this is what is missing is what makes agents suspicious about its effectiveness. Inclusive infrastructure, smart and sustainable cities, digital inclusion and connectedness, education, science and technology. It is all there. And it is precisely what Brazil should focus on. There is a green transformation happening in the world right now, and Brazil could be one of the leaders, but it is still lagging behind. The new PAC could fix it if it is done properly. It's not just about the aims but also (and especially) the means. What and how is it going to be done by the state? And by the private sector? What is the governance structure designed for the relationship between public and private agents? Does Brazil have the managerial capability for these high investments? At this point, we have more questions than answers. That's the problem."

> **"There is no doubt that the Brazilian economy lacks the capability to sustain long periods of high growth."**
>
> **— João Ricardo Costa Filho**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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Gene Kuleta
Editor

Lara Kovandova
Reporter

Nili Blanck
Reporter

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