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## FEATURED Q&A

### What Should Bolivians Expect From a Third Morales Term?

**Q** Bolivian President Evo Morales won re-election on Sunday, Oct. 12 with some 60 percent of the vote. What can investors expect from another Morales administration? What do Sunday's legislative election results suggest about Morales' governing strength and maneuverability moving ahead? Will anticipated lower prices for natural gas, an important export commodity for Bolivia, undermine the recent momentum in the economy? What economic priorities would you advise Morales to set for his next term?

under Morales, but still have significant needs. Morales should look to the future and invest in children rather than pensioners, which is more popular politically. Support for Morales and his MAS party has plateaued and diversified. Preliminary results show Morales winning five points less than—while also winning more departments than—he did in 2009. But this means his support fell in traditional bases of support, even as it increased in the lowland regions. MAS is less polarizing than before, at least regionally. It also looks

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**A** Miguel Centellas, assistant professor of political science at Jackson State University in Mississippi: "I'm not sure what impact if any Evo Morales's re-election will have on investors. After governing for nearly a decade, his policies seem pretty clear. If anything, investors—who prefer stability over all else—should have been more nervous if Morales had lost. For all his flaws, Morales has steered Bolivian economic policy in a generally positive direction. Certainly, lower gas prices will have an impact. But unlike Venezuela, Bolivia has been conservative, stockpiling large cash reserves and spending rather frugally on social policy. The push to diversify exports and expand the domestic manufacturing base will likely continue. What many supporters will expect, however, is an increase in social spending in areas like education and health care—areas that have improved



### Protesters Torch Guerrero State Offices as Tensions Mount

Calling for the resignation of Guerrero state governor Ángel Aguirre, demonstrators protesting the disappearance of 43 students set fire on Monday to the state government's head offices after fierce clashes with riot police. See story on page 2.

*File Photo: Government of Mexico.*

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## NEWS BRIEFS

**Dominican Republic Names New Health Minister in Wake of Deaths**

The Dominican Republic's government named Altagracia Guzmán Marcelino as the new health minister on Monday and put the military in control of the country's largest pediatric hospital where 11 children died over a three-day period this month, Agence France-Presse reported. The previous health minister, Freddy Hidalgo, and the hospital's director, Rosa Nieves, were fired Friday over the deaths, which occurred Oct. 3-5. Hospital staff are protesting the changes. "We are not murderers, we are doctors," an employee representative told reporters.

**Ecuador: Oil Output Falls Among Private Producers**

Ecuador's central bank said Monday that crude oil output from private companies fell 5.6 percent between January and August this year, *El Comercio* reported. Production of private companies was 30 million barrels in the first eight months of the year, down from 31.7 million barrels over the same period in 2013. Meanwhile, oil production of state companies increased by 12 percent over the same period, reaching 105 million barrels this year.

**Latin America, Africa Boost SABMiller Sales Growth**

Brewer and soft drinks maker SABMiller said today that its Latin America and Africa regions have performed better than other parts of the world this year to date. In an earnings release, SABMiller said net producer revenue for Latin America grew by 7 percent in the first six months of this year, driven by price increases and total beverage volume growth of 3 percent. Soft drink volumes grew 10 percent.

**Political News****Mexico: Protesters Torch Guerrero State Offices as Tensions Mount**

Masked demonstrators protesting the disappearance of 43 students in the Mexican state of Guerrero set fire on Monday to the state government's head offices after fierce clashes with riot police, McClatchy reported. Tensions between authorities and activists have been rising for two weeks following the alleged abduction and potential executions of the students by police. About 600 protesters in Chilpancingo, Guerrero's capital, calling for the governor's resignation began their siege of the building around noon Monday, forcing employees to leave the building and setting it on fire, according to the report. The opposition leftist Party of the Democratic Revolution, or PRD, holds the governor's office in Guerrero. The mayor of Iguala, who is accused of links to an organized crime group and is now on the run, was also elected on a PRD

ticket. In related news, students in Michoacán, a state neighboring Guerrero, on Monday commandeered 21 buses to carry protesters to Chilpancingo to join the protests, Reuters reported. Nearly three dozen people, including at least 22 police officers, have been arrested in connection with the students' disappearance on Sept. 26.

**Economic News****Panama Wants Colombia to Remove it From Tax Haven List Before Talks**

Panama's foreign minister said Monday her country is willing to negotiate with neighboring Colombia on sharing tax information but only after the South American nation removes it from the official tax haven list it added Panama to last week, *Semana* reported. At a news conference, Isabel de Saint Malo de Alvarado, who also serves as the nation's vice president, defended her country's financial practices, saying "Panama is not a tax

**Featured Q&A**

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like MAS might have lost seats in the legislature, and will not count on a two-thirds supermajority. All this this could have a strong moderating force on Morales and his party, if it truly becomes a large 'national-popular' party like the 1950s MNR."

**A** **Delfina Cavanagh, associate director at the sovereign and international public finance group at Standard & Poor's:**

"We expect that economic policy will remain broadly pragmatic, reflecting the government's need to encourage foreign and private firms to invest and introduce new technology to expand output in key sectors of the economy, such as hydrocarbons and minerals. Sustaining both private and public investment will remain a key priority for long-term economic growth. We also expect the government to continue to pursue an ambitious program of social and infrastruc-

ture development broadly along the lines of his previous years in office. Still, the Morales administration will remain vulnerable to social unrest and demands for higher wages, especially from social groups that carry clout within the governing political party. Continued investment, consumption and gas production should sustain GDP growth above 5 percent in 2014 and likely at about 4.6 percent on average in the next three years. Commodities comprise more than 80 percent of total exports, and about one-third of fiscal revenues (tax revenues and royalties) comes from the hydrocarbon sector. Sustaining recent high GDP growth rates and booming exports will depend on the government's ability to encourage nonstate firms to undertake exploration work by providing sufficient incentives within the current legal framework. It would also depend on the government's ability to adequately manage public-sector enterprises such that

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haven. We have a robust system," Panama's *La Prensa* reported. The dispute over sharing information about the assets of citizens in each others' countries has roped in the heads of both nations. President Juan Carlos Varela of Panama and Colombia's Juan Manuel Santos are continuing to hold telephone conversations over the issue, according to the report. Meanwhile, Panama's foreign ministry is reportedly considering "retaliatory" measures against Colombia. Last week, Colombia declared Panama a tax haven for not signing an agreement to exchange tax information on a timely basis. The Central American nation is trying to protect its standing as a leading global center for corporations and banks, while Colombia is putting in place its first-ever legal restrictions on tax evasion as it attempts to plug a multi-billion-dollar budget deficit.

## Company News

### Spain's Gas Natural Offers \$3.3 Billion for Chile's CGE

Barcelona-based **Gas Natural Fenosa** said Monday it will launch a takeover offer for Chilean electricity and gas service provider **Compañía General de Electricidad**, *The Wall Street Journal* reported. Gas Natural, led by CEO Rafael Villaseca, said the deal would be worth



Villaseca

Photo: Gas Natural.

about \$3.28 billion if all shareholders accept the offer, which would be the largest purchase Gas Natural has made outside its home country. CGE distributes about 40 percent of the electricity Chile uses and has 2.3 million customers. Founded in 1905, CGE had \$4.4 billion in annual revenues in 2011 and is listed on the Santiago Stock Exchange. Gas Natural has operations in over 31 countries and more than 20 million customers, according to ACN, the Catalan news agency. In Latin America, it operates in Brazil, Colombia and Mexico.

## Countdown to Brazil's Election

*A series of views and analysis from David Fleischer, editor of Brazil Focus*

### After Holding Out, Silva Declares Support for Aécio Neves

BRASÍLIA—When Aécio Neves got into the Oct. 26 runoff election together with President Dilma Rousseff after placing second in the Oct. 5 first round election, it was thought at first that the third place runner up, Marina Silva (PSB), would declare her support for Neves on Oct. 9, considering the PSB's executive board had decided to support Neves the previous day. Not to be. Instead, Marina issued a long list of policy demands that Neves should incorporate into his government platform.

In anticipation of Marina's decision, a Datafolha poll (conducted on Oct. 8-9) asked those who had voted for Marina in the first round who they would vote for in the second round. Sixty percent said Neves, 18 percent were for Dilma, 6 percent were blank/null and 10 percent were "don't know" or "no response." On Oct. 8, the *Epoca* news magazine released a poll conducted by IPP that showed a 54 percent-to-46 percent valid vote split in favor of Neves. On Oct. 9, Datafolha and Ibope polls showed exactly the same result: Neves (51 percent) and Dilma (49 percent). However, the results of a new poll conducted by Sensus was released by *IstoÉ* news magazine on Oct. 11 and showed Neves with a 17-point lead: 58.8 percent versus 41.2 percent.

Still awaiting a statement from Marina Silva, on Oct. 11, Neves traveled to Recife where he met with Renata, the widow of the former PSB candidate Eduardo Campos, who gave him her blessing. In addition, her son João read her endorsement letter to a pro-Neves rally.

Neves, in turn, replied to the demands formulated by Marina and in general responded favorably, with the exception of objections to his proposal to reduce the criminal/penal age in Brazil from 18 to 16. In spite of the fact that the PSB (as a party) had already endorsed Neves, Marina held out under strong pressure from leaders of her "party in formation," the Rede Sustentabilidade, to await Neves' total acceptance of her/their demands. Finally, on Sunday, Oct. 12, Marina told a press conference that she affirmed her endorsement of Neves against Dilma and compared him to former President Lula in terms of his proposals for change in the 2002 presidential campaign.

Apparently, shortly after the second round election, Marina Silva plans to leave the PSB and again attempt to collect signatures needed to register her Rede. Because of this PSD-Rede split (over when and how to support Neves), the PSB executive board met on Oct. 13 to reorganize its directorate and ousted those who voted in favor of the party remaining "neutral" (not to support Neves), including the interim party president, Roberto Amaral, and federal deputy Luiza Erundina. Amaral was replaced by Carlos Siqueira, a close ally of Eduardo Campos who had been the PSB national coordinator until he had a falling out with Marina and abruptly resigned on Aug. 16.

Leading up to the first live debate on TV Bandeirantes on Oct. 14, President Rousseff has suffered some setbacks. Testifying before a federal judge in Curitiba, the two most prominent figures accused in the Operation Lava Jato Petrobras corruption scandal—former Petrobras director Paulo Roberto Costa and Alberto Yousseff, who operated the transfer of bribes and kickbacks—detailed the corruption scheme and how money was distributed to the PT, PMDB and PP to finance 2010 election campaigns. Among those identified were João Vacarri Neto (the current PT treasurer) and Sérgio Machado (currently the head of Transpetro).

**Featured Q&A***Continued from page 2*

they continue to generate resources to make more investments. Higher output, would, at least partially, compensate for a potentially sharp fall in commodity prices. Also, Bolivia is likely to make gradual progress in creating a longer chain of production using natural resources by building downstream industries, especially in petrochemicals, gradually diversifying the economy."

**A Jaime Aparicio Otero, former Bolivian ambassador to the United States:** "With 60 percent of the votes, President Morales secured an unconstitutional third term. The election news came as no surprise. There is no question that the average Bolivian has seen a clear improvement in the standard of living under Morales' government. Regrettably, it has come at the expense of democracy, freedom and rule of law. Bolivia is a dysfunctional democracy benefiting from high commodity prices. During his celebratory speech, Morales dedicated his victory to Fidel Castro, Hugo Chávez and to all the anti-capitalist governments around the world. He also blasted the Pacific Alliance (Chile, Colombia, Mexico and Peru), accusing them of 'joining the Washington Consensus.' Although Morales' populist rhetoric does not bring fresh air to potential U.S. investors, it is possible that beyond his inflammatory speeches, the shadows of a major slowdown in the economies of emerging markets, and lower gas prices, may bring a more pragmatic approach toward foreign investment. As Professor James Petras points out, Bolivia has 'a very astute political regime which successfully manipulates radical rhetoric and applies orthodox economic policies. Morales has secured a political-economic formula which has succeeded in gaining the support of Fidel Castro and the IMF, the agro-oligarchy and the indigenous peasant coca farmers.' In the long-term perspective, Bolivia is far from overcoming the challenges of building a more sustainable economy that is able to generate value and transform natural resources into a productive force. Unless President Morales, the last

'caudillo' of the socialism of the 21st Century, decides to tackle structural problems (productivity, education), its largest economic boom is at risk of becoming the greatest missed opportunity in Bolivian history."

**A Roberto Laserna, director of the Center for the Study of Economic and Social Reality (CERES) in Cochabamba:** "In his previous administrations, President Morales had electoral and social support, expanding its political power. He even changed the Constitution. And yet, governance, measured by the capacity of the government to implement and monitor its policies, was low, mostly due to weak institutions and lack of managerial skills. Moreover, clientelistic pressures absorbed much of the energies of the president and cabinet. These problems were disguised by the unprecedented flow of money from the exports boom. No matter how impressive they are, the Sunday ballots have not made those problems disappear. The prospects for the coming years are dim. Commodity prices are declining and so will exports. Industrial investors could not take advantage of the internal market because they fear changing policies on interest rates, labor costs and taxation. Consumption was supplied by imports on low exchange rates. The economy is more vulnerable and dependant on natural resources and exports than 10 years ago, despite its international reserves. The government ignored warnings and advice and lost opportunities to make a better use of the bonanza. It despised private investors and trusted its inexperienced bureaucrats, whose investment decisions failed one after the other: PDVSA exploring for oil, Jindal developing the iron industry, communities managing milk and coca plants, and so on. It is time to give private investors the legal certainty they need to do their job. Bolivia needs to reestablish the rule of law, to strengthen its institutions and to give the money, currently in the hands of the bureaucrats, to the citizens. Doing these would energize the productive capacities of the people."

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