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FEATURED Q&A

How Sustainable Is Bolivia's Economic Growth Path?

Q Bolivia's economy grew 6 percent in January, driven by manufacturing and exports of gas to Argentina and Brazil, the Economy Ministry said March 26. How sustainable is Bolivia's economic growth? How well are the policies of President Evo Morales fostering the economic and business climate? How well is Bolivia's economy performing relative to other countries in the region?

A Iván C. Rebolledo, managing partner at TerraNova Strategic Partners LLC and president of the Bolivian-American Chamber of Commerce: "Morales' economic team, led by Economy Minister Luis Arce, has managed to steer the economy in the right direction, with growth that surpassed 6 percent last year, 6 percent annual inflation, \$14 billion in international reserves as of 2013 and more than \$1 billion in foreign direct investment in 2013. This is certainly impressive for a government that has been reactionary to international capital markets and critical of neoliberal macroeconomic policies, as well as one that forcefully renegotiated contracts with the oil and gas sector upon taking office and is currently dealing with over 12 arbitration cases levied by foreign investors. This contradiction is highlighted by what the Morales administration likes to often say—'we can have socialist policies with macroeconomic equilibrium.' In addition, the international financial institutions and

credit rating agencies are giving Bolivia high marks for the state of its economy and fiscal austerity. Much of this success has to do with the high price of raw commodities and natural gas which have driven economic growth—giving Morales the resources to pay for social programs (via conditional cash transfer programs) and infrastructure projects. However, FDI needs to exponentially improve and quickly. Bolivia has less than half the rate of private investment of most other nations in the region. There has been relatively sparse

Continued on page 4



Ecuador's Correa Touts Successes in Visit to U.S.

Rebuffing criticisms over press freedom, Ecuadorean President Rafael Correa told a capacity audience at Harvard University Wednesday that his country had achieved a "miracle" in advancing democracy and fighting poverty under his administration. See story on page 2.

Photo: Government of Ecuador.

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NEWS BRIEFS

Venezuela Invites Vatican to Mediate Talks With Opposition

Venezuela's government on Wednesday formally invited the Vatican's Secretary of State, Pietro Parolin, to mediate talks with opposition leaders that could begin as early as today, *El Universal* reported. Chilean Foreign Minister Heraldo Muñoz on Wednesday said the talks were "a huge step towards peace." Opposition leader Henrique Capriles described the talks as "a historic opportunity." Clashes between protesters and security forces that broke out in February have led to at least 39 deaths and hundreds of arrests.

Mexico Inflation Slows More Than Expected in March

Mexico's inflation rate slowed more than expected in March, falling below the central bank's limit of four percent, the national statistics institute said Wednesday, Reuters reported. Inflation for the 12 months through March was 3.76 percent, down from 4.23 percent in February. Lower inflation increases the likelihood that policymakers will maintain Mexico's interest rates at record lows this year to help drive the economy.

Praxair Starts Up New Air Separation Plant in Peru

Connecticut-based industrial gas company **Praxair** said Wednesday it is starting up a new air separation plant in Pisco, state news agency Andina reported. The new facility in Peru's southern region of Ica has an oxygen production capacity of 270 tons per day which will be supplied to **Aceros Arequipa**, Peru's largest long steel maker. Aceros Arequipa produces more than one million tons of steel products annually. Praxair had 2013 sales of \$12 billion.

Political News**Ecuador's Correa Touts Successes in Visit to Northeast U.S.**

Ecuadorean President Rafael Correa told a capacity audience at Harvard University Wednesday that his country had achieved a "miracle" in advancing democracy and fighting poverty under his administration, the *Harvard Crimson* reported. Citing the fact that Ecuador went through seven presidents in 10 years before he took office in 2007, Correa emphasized stability and gains in fighting poverty under his leadership. "Democracy has been freely established in Ecuador. Not



Rubio

File Photo: Office of Sen. Rubio.

only a democracy in the formal sense, but real democracy in terms of people's access to rights, equal opportunities, and dignified conditions," Correa said. "This is the so-called Ecuadorean miracle." He added that the countries of the region remain inhibited by inequality. This is Correa's first visit to the United States since 2011. An outspoken leftist aligned with the late firebrand President Hugo Chávez of Venezuela, Correa has locked horns with the United States since taking office over issues such as restrictions on the media in Ecuador and the Wikileaks revelations. The U.S. Agency for International Development has shuttered its office in the Andean nation after more than a half century of work there under pressure from the government. When a student in the audience during the Q&A portion of the event asked Correa about accusations over Ecuador's infringement on freedom of the press, Correa responded, "that is not true, I don't know who tells you that." Earlier this week, a bipartisan group of U.S. Senators, led by Senator Robert Menendez (D-N.J.) and Marco Rubio (R-Fla.) sent a letter to Correa, saying they were "deeply discouraged" by Ecuador's "decision to impede" USAID's work in Ecuador, and criticized the recent convic-

tions of opposition lawmakers and journalists on charges of "criminal defamation" against the government. Correa is scheduled to make an address at Yale University today and meet with university officials at the Massachusetts Institute of Technology. He is then scheduled to make a two-day visit to New York City, where he will have television appearances with PBS, MSNBC and Spanish-language media outlets, the government said in a press release. Correa is seeking to improve his country's image in the United States despite ongoing diplomatic tensions. Earlier this month, Correa announced the country will make its first international bond offering, of around \$700 million, since the government defaulted on its debt in 2008. Because of the default, the country has relied heavily on Chinese funding and loans.

Economic News**Brazil March Inflation Rises to Most in More Than a Decade**

Inflation in Brazil surged in March to the highest level for that month in 11 years, the *Financial Times* reported Wednesday. A severe drought across Brazil's agricultural states earlier this year has led to a spike in the cost of basic food items as well as pressure on electricity costs, which depend largely upon depleted hydroelectric reservoirs or more expensive hydro-

“Calls for former president Lula to replace Rousseff will grow, but we consider such an outcome unlikely.”

— Eurasia Group

carbon replacement fuels. Beyond those unusual circumstances, however, core inflation accelerated to 6.34 percent, the highest level since June 2013, and services inflation to 9.1 percent compared to last year, the highest level since January 2012, **Goldman Sachs** analyst Alberto Ramos

told clients in a research note circulated Wednesday. "We highlight that the inflationary pressures are quite generalized and disseminated throughout the economy," Ramos said. March's high inflation figure, the latest a string of difficult data for the administration of President Dilma Rousseff, comes six months ahead of her October presidential election run. Some Brazil observers have said local discontents in Brazil's Workers' Party (PT) have



Rousseff

File Photo: Brazilian Government.

suggested former President Luiz Inácio Lula da Silva might be enticed to run instead of Rousseff for the party. A poll published by local polling firm Datafolha last weekend suggested Rousseff's support has been waning.

Measuring approval ratings on a five-point scale, support for the government dropped from 41 percent to 36 percent, according to the newest poll. Analysts at **Eurasia Group**, an intelligence firm, said the figures may not portend the demise of Rousseff's administration, however. "We continue to assess Rousseff's odds of winning at 70 percent, but also expect the election to go to a second-round runoff and tighten as opposition candidates become well known," the firm said, adding, "Calls for former president Lula to replace Rousseff will grow, but we consider such an outcome unlikely."

Company News

Altice Acquires Orange Dominicana Wireless Assets for \$1.4 Billion

Luxembourg-based multinational cable group **Altice** said Wednesday it had closed on its purchase of French telecom service provider **Orange's** assets in the Dominican Republic for \$1.4 billion. **Orange Dominicana** had 3.3 million mobile subscribers and revenues of about \$615 million in 2013, Altice said in a press release. The deal was announced in November. Last month Altice acquired

The Dialogue Continues

Is Brazil's Petrobras on the Right Track?

Q Despite profits up 11 percent last year, Brazilian state oil company Petrobras reported in February that its fourth quarter net profit was down 19 percent year-on-year, adding that it will cut its investment plan through 2018 by 7 percent. More bad news came last month when lawmakers decided to install a special congressional committee to probe allegations of bribery involving Petrobras employees and a foreign company. How bad is Petrobras' situation today, and what bright spots are on the horizon? How big of a role is the government and politics playing in the company's present circumstances, and what policy changes would improve the outlook for Petrobras moving forward?

A Peter Sufrin, independent Washington-based analyst: "Recent developments indicate that Brazil's oil and gas giant Petrobras continues to face considerable challenges to enhancing productivity. The obstacles are numerous. A dicey and often antagonistic relationship with the Brazilian government, a weakened real, an ongoing cap on fuel prices, a lack of investment beyond the pre-salt, a ques-

tionable oil refinery purchase in Texas in 2006, chronic indebtedness and competition with the United States and Mexico are all prime examples. With a recent drought and an approaching election, the Rousseff administration may be reluctant to bolster the company. But Aécio Neves, one of President Rousseff's primary political opponents, asserts that Petrobras can and should expand production. Certainly, the situation is not entirely bleak—despite Standard and Poor's recent downgrade, Petrobras' ample oil reserves reflect the considerable potential for expansion and profitability. The keys to restoring Petrobras' vitality may well be based on two primary factors: the reduction of governmental interference (particularly with the cap on fuel prices which mitigates inflation) and the fundamental expansion of oil exploration beyond the pre-salt. While such reforms seem unlikely during an election year, the challenges for Petrobras' profitability remain considerable, but not insurmountable."

Editor's note: The above is a continuation of a Q&A published in Monday's Advisor.

local cable operator **Tricom** in a move to offer quadruple-play services in the Dominican Republic. The Orange deal also strengthens Altice's presence in the Caribbean, where it already offers pay-TV, broadband and mobile services in Martinique, Guadeloupe and French Guyana, the company said in a press release. Altice also has a presence in Western Europe and Israel.

Petroperú Revenue Rises 14 Percent on Stronger Domestic Growth

Petroperú saw its revenue increase to 15.31 billion soles (\$5.49 billion) in 2013, up from 13.41 billion soles in 2012, a 14 percent increase year-on-year, state news agency Andina reported Tuesday. The state oil company said it expects revenue

to grow 18 percent this year to 17.99 billion soles. Petroperú also reported operating income in 2013 of 347 million soles and net income of 92 million soles, compared to 61 million and 66 million soles respectively in the previous year. The company ended 2013 with a 51 percent share of the domestic fuel market, supplying 4.6 million gallons per day of total internal market of 9.05 million gallons per day, which it said allowed it to cover its costs and investments despite facing weakening international fuel prices and increased taxes. "The company, which operates throughout the country in different stages of the industrialization and commercialization of hydrocarbons, has established itself as a leader in the marketing of fuels in the Peruvian market," Petroperú said in a statement.

Featured Q&A*Continued from page 1*

additional investments in exploration in the hydrocarbons and mining sectors over the past few years—which endanger Bolivia's ability to maintain future production levels. Also, if the price of natural gas were to drop significantly, this model could be compromised, as we are beginning to see on the mining side. Bolivia's neighbors are clearly on soft ground—Argentina has had its currency plunge, Venezuela has one of the world's highest inflation rates and Brazil is attempting to overcome years of slow growth."

A Roberto Laserna, director of the Center for the Study of Economic and Social Reality (CERES) in Cochabamba: "Even though the Bolivian statistical system still faces problems of credibility with its data, there is evidence of dynamic economic growth. It has not reached the levels of Paraguay or Peru in recent years, but it is quite high for Bolivia. However, it is not sustainable. The country's current economic growth is highly dependent on foreign trade and the export of raw materials, particularly natural gas and minerals, and extensive crops in the eastern lowlands. Therefore, the current bonanza is the result of a combination of international developments and long-term policies and actions that were constructed in the last 20 years. They have little relation to the policies of President Morales, whose economic focus has been on expanding fiscal revenues and expenditures and keeping monetary stability. The bonanza money flows toward all levels of government, feeding fiscal expenditures and public investments, but also keeping exchange rates that stimulate all sorts of imports. Unusually high levels of consumption are clearly visible: SUVs and luxury cars fill the streets, buildings rise in every city, supermarkets are full of products from all over the world and even street vendors are upscaling with Chinese imports. But the crucial variable is lagging behind: investments remain below recommended levels, particularly private and even more-so, foreign. These are important due to their demonstrated effi-

ciency and technological capabilities. To counter that, public investments reached high levels, but they are either in public works (road improvements more than new roads), social infrastructure (including soccer fields with plastic grass) or plants that are still in the process of installation and training. Therefore, it is unlikely they will have an impact on sustaining growth. The government surely knows this despite its self-congratulatory propaganda. After years of antagonism, it is trying to seduce private entrepreneurs with fiscal projects and new legislation that promises to stop expropriations. At this point, however, the business climate needs more functioning institutions than new norms to reestablish the rule of law, eroded by years of 'changes' driven by rent seekers."

A Richard Francis, director in the sovereign ratings group at Standard & Poor's: "Bolivia's economic growth has been propelled by both domestic demand and growing exports (primarily natural gas) over the last decade. Sound macroeconomic policies that have kept inflation in the single digits, lowered government debt levels and allowed international reserves to grow have underpinned domestic confidence. Better political stability has helped as well. These factors have supported a fall in poverty and a growing middle class. Natural gas production has increased as well over the last three years, associated to the natural gas contract with Argentina that called for hikes in gas exports (as well as a steady volume of exports to Brazil). Standard & Poor's considers Bolivia's potential GDP growth at between 4 and 5 percent. However, a more conducive policy framework for private sector investment would improve Bolivia's growth outlook. The World Bank's 'Doing Business' survey ranks the country at 162 out of 189 surveyed, indicating the myriad problems businesses face in the country. Going forward, this is likely to become an increasing constraint on the country's growth prospects."

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