INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

FEATURED Q&A

Has the Government Shutdown Eroded U.S. Credibility?

Q Approximately 450,000 U.S. government employees remain furloughed as the U.S. government shutdown enters its tenth day amid Congress' failure to reach agreement on a spending bill. How might the shutdown affect trade and other cross-border transactions between the United States and Latin American countries? What types of U.S. negotiations, forums, visits or meetings with counterparts in Latin America will be disrupted? Has Washington's political paralysis eroded U.S. credibility among the Latin Americans who have looked to the United States as a model of democratic governance?

A Carlos Gutierrez, vice chair of Albright Stonebridge Group in Washington and former U.S. secretary of commerce: "As an American citizen, I am frustrated and disappointed by the government shutdown; it is a failure, and I blame both parties. I can only imagine the utter confusion among those who covet our system of government in countries around the world. The confusion regarding our system of government will hit hardest in Latin America where countries are divided as never before. The autocratic, anti-American far left (Cuba, Venezuela, Nicaragua, Ecuador and Bolivia) must be very pleased. They will use the shutdown to justify their system of repressive government. Our pro-American allies will have the difficult task of defending a government shutdown that is almost impossible to understand. This could not come at a worse time, amid the Brazil spying scandal, the embattled new government in Venezuela and the historic opportunity we have to build a stronger relationship with the new president of Mexico, Enrique Peña Nieto. As a Republican and former business leader before serving as secretary of commerce, I am alarmed by the lack of a coherent strategy by my party. No institution can be managed by emotion and tactics, let alone a $4 trillion federal government. However, this is precisely what is

Continued on page 3

Brazil Boosts Interest Rate for Fifth Consecutive Time

Brazil's central bank, led by Alexandre Tombini, on Wednesday raised its benchmark Selic interest rate to 9.5 percent. The decision marked the fifth consecutive time that policymakers have increased the interest rate. See story on page 2.

File Photo: Brazilian Government.

Inside This Issue

NEWS BRIEFS

Argentina's Fernández Recovering Without Complications: Official

Argentine President Cristina Fernández de Kirchner, who underwent surgery on Tuesday to remove a blood clot from her brain, is "recovering well and without complications," a presidential spokesman said Wednesday, according to BBC News. The blood clot was discovered last weekend and attributed to a head injury Fernández suffered two months ago. Before the clot was discovered, Fernández was told by doctors to rest for 30 days, which has left Vice President Amado Boudou in charge and forced her off the electoral campaign ahead of the country's Oct. 27 elections.

Pan-American Energy Seeking $1.49 Billion From Bolivia

Argentina-based **Pan American Energy** has asked Bolivia to pay it $1.49 billion for the January 2009 expropriation of its Bolivian subsidiary, natural gas producer **Chaco**, Reuters reported Wednesday. Pan American Energy filed a request for compensation with the World Bank's International Centre for Settlement on Investment Disputes in late September. Chaco is now a unit of Bolivia's state-owned **YPFB**.

Colombia to Consider State-Run Company to Manage Cell Towers

Colombia's Senate will consider a proposal to establish a state-run telecommunications company to manage the country's network of cellphone towers, Reuters reported Thursday. Sen. Juan Mario Laserna is planning to formally present legislation on the matter next week. Nationalizing Colombia's cell tower network would increase competition and improve mobile coverage, he said.

Economic News

Brazil Boosts Key Interest Rate for Fifth Consecutive Time

Brazil's central bank on Wednesday hiked its benchmark interest rate for the fifth consecutive time, marking the world's longest current stretch of rate increases, Bloomberg News reported. The central bank's board, led by Alexandre Tombini, unanimously backed the increase of the Selic rate, raising it to 9.5 percent from 9 percent. All 49 economists in a recent Bloomberg survey had expected the move. The central bank said that boosting the interest rate will help curb inflation next year. Since April, the bank has increased the Selic by 225 basis points. From last October until April, the central bank had kept borrowing costs at a record low. Inflation in Latin America's largest economy has remained above 4.5 percent, the midpoint of policymakers' target, for the past three years. "Inflation is elevated and well above target," Luciano Rostango, chief strategist at **Banco Mizuho do Brasil**, told Bloomberg News. "There are still risks from a weaker real, which can pressure inflation in the next few months." Brazil's IPCA index, which measures consumer prices, increased 5.86 percent last month, the country's national statistics agency said Wednesday. That marked the slowest increase in nine months. The monthly inflation rate also accelerated to 0.35 percent, the sharpest increase in four months. The government of President Dilma Rousseff has proposed spending 1.04 trillion reais next year, a 12 percent increase from this year's budget. Brazil's level of economic growth exceeded expectations in the second quarter, but it appears that growth slowed in the third quarter. Industrial production was unchanged in August after a 2.4 percent decline in July. Also, Brazil's economic activity declined 0.3 percent in July. The International Monetary Fund this week lowered its 2014 growth outlook for Brazil to 2.5 percent from 3.2 percent, adding that it expects the country's economic growth to slow in this year's second half. [Editor's note: See related Q&A in Tuesday's *Advisor*.]

> "There are still risks from a weaker real, which can pressure inflation in the next few months."
>
> *— Luciano Rostango*

Political News

United Nations Sued Over Haiti Cholera Outbreak

Human rights lawyers on Wednesday filed a class action lawsuit in U.S federal court accusing the United Nations of "gross negligence and misconduct" on behalf of victims of a cholera outbreak in Haiti in 2010, CNN reported. The lethal strain of cholera bacteria, indigenous only to some parts of Asia, ultimately killed an estimated 8,300 people and sparked riots in several cities and towns. "The claims are that the U.N. engaged in reckless and gross negligence and misconduct bringing cholera to Haiti," said Ira Kurzban, a lawyer and board member with the Boston-based Institute for Justice and Development in Haiti. The group is demanding unspecified financial compensation for the Haitians who died as a result of the epidemic as well as some 650,000 more survivors. The lawsuit also seeks more than $1.25 billion for improvements to Haiti's water infrastructure, *The Guardian* reported. A U.N. official told CNN in response to the suit that "it is not the United Nations' practice to discuss in public claims filed against the organization." Earlier this year, however, Secretary General Ban Ki-moon argued that the organization had legal immunity in the case due to an international convention. An independent investigation has con-

Ban

File Photo: United Nations.

cluded that one of the likely sources of the outbreak was sewage leaking from a U.N. base housing Nepalese peacekeepers in Haiti to help with post-earthquake disaster relief efforts. At least 182 Haitians died of cholera between April and August 2013, according to World Health Organization data, CNN reported.

Company News

Mexico's Banco del Bajío Considering Initial Public Offering

Mexico's eighth-largest bank, **Banco del Bajío**, is considering an initial public offering, Bloomberg News reported Wednesday, citing two people familiar with the matter. The bank has requested that investment banks work on proposals for the offering, said the sources, who were unnamed because the deal is in preliminary stages. Also, details of the potential IPO, including its size and timing, have not yet been decided. An offering of Banco del Bajío stock would be the latest of several IPOs in Mexico's financial sector. **Grupo Financiero Santander Mexico**, a unit of Spain's **Banco Santander**, raised $4.1 billion in an offering last year. **Grupo Financiero Interacciones** is planning to offer shares worth about $350 million later this year. Also, **Banregio Grupo Financiero**, a small-business financier had its IPO two years ago and was included in September for the first time in Mexico's benchmark stock index. A representative for BanBajío, which is headquartered in the city of León, declined to comment to Bloomberg News on the possibility of an offering. The bank, which was established in 1994, focuses on providing loans to small- and medium-sized businesses. It also helps finance Mexico's agriculture industry. The bank has nearly 350,000 clients and 284 locations in 28 states, the bank said in June.

Brazil's Insurance Industry Expands 16.5 Percent Annually From 2001-12

Brazil's insurance industry expanded at a compound annual growth rate of 16.5 percent between 2001 and 2012, *Business Insurance* reported Wednesday, citing a study from the country's insurance regulator, SUSEP. Premiums during the period grew even faster during the first half of 2013, at a rate of 19.5 percent to $33.29 billion, according to the report. Along with that growth the sector has consolidated somewhat, however. The top 10 insurers made up 67 percent of the market in 2012, up from 60 percent in 2001. The market has also diversified its product offerings. Earlier this week, Brazilian insurer **SulAmérica** said it had launched a new plan to offer art insurance products and related services to insure the collections of a growing Brazilian art market. The company is working with New York-based **AXA Art** on the product. "It's booming. Brazilian art is booming," Brazilian photographer Claudio Edinger told National Public Radio last month for a story about the country's art scene. Despite a slower economy since 2012, a burgeoning middle class and easier access to credit continues to fuel record prices for artwork in the South American nation, according to the report.

Featured Q&A

Continued from page 1

happening: attack and threaten—a few days before a deadline—and figure out the endgame later. This could have been a moment of Republican wisdom and foresight. Instead, we have made the 'Republican shutdown' the issue, not Obamacare. I agree that the Affordable Care Act is bad policy. It will hurt the quality of our health care, and it will hurt our economy. As often happens with far left policies, those with the least resources will be hurt the most. However, to go to war over an impossible objective—the repeal of Obamacare—is not only woefully ineffective, it is political suicide."

> "I can only imagine the utter confusion among those who covet our system of government in countries around the world."
>
> — *Carlos Gutierrez*

A **Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama:** "The political impasse in the United States that caused the government shutdown will have a negative impact in many areas of trade, especially ones that involve health and food inspections, further delaying the free flow of goods and services. Most areas of the economy in one way or another will be negatively affected by this situation. The shutdown will not only affect U.S. trade with Latin America, but all U.S. trading partners around the world, putting additional pressure on a weak economic recovery under way in the United States. In addition to the economic impact of the shutdown, more important is the message that this situation sends to the rest of the world, which until now has looked up to the United States as a key trading partner and beacon of hope. Just this week, Japan and China were expressing their views about this unfortunate situation and how it would affect their investments in the United States and exchange rates, respectively. It's important for the ruling political elites not only in the United States, but also around the world, to be aware that the population no longer tolerates such behavior. I hope that this situation and the debt limit debate reach a satisfactory conclusion very soon. If not, they could have devastating consequences to the already fragile world economy."

A **Christopher Sabatini, editor-in-chief of *Americas Quarterly* and senior director of policy for the Americas Society and Council of the Americas:** "Just as it's difficult to quantify the impact of the shutdown on the economy—particularly for families who indirectly rely on the government—it's impossible to measure and evaluate the impact on U.S. diplomacy and leadership in the region. At

Continued on page 4

Featured Q&A

Continued from page 3

best, it's just embarrassing. At worst, it will undermine U.S. status and power—symbolic and real—not just in these weeks, but for years to come. The ability of the United States to project its economic, political, moral and symbolic leadership in the region has taken a serious hit; the reckless game of chicken only makes other countries (oddly, such as China) look more like the world's economic future. At the same time, the political dysfunction that has prevented the U.S. Congress from passing anything as basic as a budget undermines U.S. authority to speak out over the troubling levels of political polarization in countries like Venezuela and Ecuador and the threat to democratic norms and institutions. Even at the level of policy, the demands of the House Republicans to roll back efforts to extend health care to the working poor stand in sad contrast to efforts in Colombia, Chile, Costa Rica and Mexico to establish universal health care. As imperfect as these efforts may be, they are an unfortunate contrast to the polarized, prolonged blood sport that has become the discussion of extending health care in the United States. President Ronald Reagan's 'shining city on a hill' has become the butt of jokes south of the border. With deteriorating human rights conditions and the rise of social protests in several countries in the region, there is a real need for someone to defend democratic norms and social inclusion. But right now, that ain't coming from the United States. Let's hope this will just be an embarrassing road bump."

"The ability of the United States to project its economic, political, moral and symbolic leadership in the region has taken a serious hit."

— *Christopher Sabatini*

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2013

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org