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FEATURED Q&A

Are Chances Improving for Better Business Ties With Cuba?

Q U.S. and Cuban diplomats plan to resume bilateral talks on migration issues during a meeting in Washington on July 17. News of the migration talks came after the two countries held a round of discussions on resuming direct mail service. How much progress are the old Cold War foes making on rapprochement? Can any significant thaw happen while Alan Gross and four members of the "Cuban Five" remain in prison? What is at stake for businesses in the United States and elsewhere?

A Matthew Aho, consultant with Akerman Senterfitt LLP in New York: "It speaks volumes about the dismal state of U.S.-Cuba relations when, nearly a quarter century after the end of the Cold War, talks on the resumption of postal service is considered 'progress.' Yet the tone of June talks on precisely this issue was described as a 'sea change' by U.S. officials and appears to have laid groundwork for further discussions on more complicated issues. Talking about mail may not sound like much, but contact between similarly high-ranking officials hasn't occurred since before the 2009 arrest of Alan Gross when they were also discussing (you guessed it) mail. Since 2010, Cuba has insisted it will only release Mr. Gross via a quid pro quo exchange involving one or more of the 'Cuban Five', a prospect Washington has rejected, resulting in stalemate. So the scheduled talks are significant because they are happening at

all, and both parties appear to have concluded that three more years of non-dialogue is unacceptable, notwithstanding Mr. Gross. This is welcome news. But real progress will require political will at the White House, of which there is little evidence. Since 2009, Cuba has released political prisoners; granted its citizens greater freedom of movement; liberalized rules on car and home sales; allowed greater private economic activity; and announced term limits on political offices, including the presidency—all steps consistent with U.S.

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Chilean Student Protest Demonstrations Turn Violent

A peaceful nationwide demonstration by more than 100,000 students demanding education reform on Wednesday turned violent, with hooded protesters hurling Molotov cocktails at a police station in the capital city of Santiago. See brief on page 2.

Photo: AFP.

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NEWS BRIEFS

Chilean Student Protest Demonstrations Turn Violent

A peaceful nationwide demonstration by more than 100,000 Chilean students demanding education reform on Wednesday turned violent, with hooded protesters hurling Molotov cocktails at a police station in the capital city of Santiago and looting a restaurant, the Associated Press reported. Police in riot gear responded with water cannons and tear gas. Police arrested 102 people, while four officers were injured.

Brazilian Congress, Supreme Court Respond to Protests

Brazil's Congress and Supreme Court took new steps Wednesday to respond to the country's ongoing public demonstrations, *Folha de São Paulo* reported. The Supreme Court ordered the arrest of a congressman convicted of embezzlement in 2010, the first such arrest in decades. Meanwhile, the country's Senate passed a bill that increases the mandatory sentences for murder and corruption. The House of Representatives will now consider that bill, as well as a bill that would reduce the secrecy surrounding the impeachment of congressmen. [Editor's note: See [Q&A](#) on the protests in yesterday's *Advisor*.]

Chinese Firm to Double Investment in Peru Copper Project

Peru's minister of energy and mines, Jorge Merino, said Wednesday that China's **Chinalco** plans to double its investment in a copper project in the Andean country, state news agency Andina reported. The firm plans to increase its investment in the Toromocho copper project from \$2.05 billion to \$4.8 billion. The mine should produce about 300,000 tons of copper per year and employ 2,500 people.

Political News**U.S. Increases Pressure on Ecuador Over Snowden Asylum Case**

Ecuadorean government officials on Wednesday signaled to Washington that they may deliberate slowly on the asylum application from Edward J. Snowden, 30, the former security contractor wanted in the United States, *The New York Times* reported. Ricardo Patiño, Ecuador's foreign minister, suggested to reporters Wednesday at a news conference while traveling in Malaysia that his government could take "a day, a week, or, as with

“I urge President Correa to do the right thing by the United States and Ecuador.”

— Sen. Robert Menendez

Assange, it could take 2 months," to decide on the application. Patiño was comparing the Snowden case to that of Julian Assange, the founder of WikiLeaks, who has been given asylum in the Ecuadorean Embassy in London. He added that his country's relations with the United States would be one of the factors considered in the decision, according to the report. Wednesday was Snowden's fourth day holed up in a restricted international transit area of Moscow's Sheremetyevo airport, where he remains in diplomatic limbo. Meanwhile, some members of the U.S. Congress have stepped up pressure on Ecuador over the case. U.S. Sen. Robert Menendez (D-N.J.), Chairman of the Senate Foreign Relations Committee, issued a press release Wednesday afternoon calling on Russia to "cease sheltering international fugitive Edward Snowden and release him immediately into the custody of the United States." Menendez also warned Ecuador's government, led by leftist President Rafael Correa, not to grant Snowden asylum, adding that such a decision "would severely jeopardize the preferential trade access provided to goods from Ecuador

under the Generalized System of Preferences which is presently before the Congress for renewal." "Trade preferences are a privilege granted to nations, not a right," Menendez said. "I urge President Correa to do the right thing by the United States and Ecuador, and deny Snowden's request for asylum." Even before the Snowden controversy, however, some analysts expressed doubt that the preferences would be renewed next month. [Editor's note: See [Q&A](#) on the Ecuador's trade preferences renewal in the June 13 issue of the *Advisor*.] Meanwhile, Efraín Baus, the deputy chief of mission at Ecuador's Embassy in Washington, on Wednesday asked the United States for information in writing about the asylum application, the Associated Press reported. "The government of Ecuador has requested that the U.S. submit its position regarding this applicant in writing so that it can be taken into consideration as part of our thorough review process." Other left-leaning leaders in Latin America have expressed support for the fugitive. On Tuesday, Venezuela's President, Nicolas Maduro, said his country would consider an asylum application from Snowden if it receives one.

Company News**Repsol Board Rejects \$5 Billion Offer From Argentina for YPF Seizure**

The board of Spain-based oil company **Repsol** on Wednesday unanimously rejected Argentina's offer of compensation for the 2011 expropriation of 51 percent of its shares in **YPF**, *Clarín* reported. In a press release, the board stated that the offer, which the Argentine government valued at about \$5 billion, was "unsatisfactory for the interests of the company" and "does not have the minimum necessary legal and economic guarantees." The proposal would have given Repsol 47 percent ownership in a new company with drilling rights to 6.4 percent of Argentina's Vaca Muerta shale-gas field and \$1.5 billion in cash and bonds that can only be invested in the project, Dow Jones reported. Repsol, which has estimated the value of the seized assets at

more than \$10 billion, has threatened legal action against companies that seek to invest in any of YPF's assets. The dispute has also tainted Argentine relations with the European Union over biofuels imports.

General Motors to Invest \$691 Million in Mexico Plant Upgrades

Michigan-based **General Motors** on Wednesday announced it will invest \$691 million to upgrade some of its Mexican manufacturing operations. In a press release, the automaker said it is targeting the investments in its Silao, San Luis Potosí and Toluca facilities. Most of the funds will go into technology needed to build higher performing, more fuel-efficient powertrains. Mexican President Enrique Peña Nieto joined company executives in Mexico City to mark the announcement. The Silao and San Luis Potosí investments total \$480 million, with the remaining funds slated for Toluca. The automotive sector makes up more than 20 percent of manufacturing gross domestic product in Mexico, according to Reuters.

Economic News

Uruguay Teachers Vote for National Strike on Friday

Teacher strikes and school occupations that sprouted up across Uruguay earlier this month appear headed to accelerate in the coming days and could affect the most important exam period of the year for the country's secondary students. A main teachers' union, Ademu, in the capital city of Montevideo on Wednesday voted to call a strike of public secondary schools be extended through this Friday, *El País* reported. More than 1,000 union members turned out for the meeting, the largest since a major education sector strike in 1989. Union leaders called for a "massive occupation" of schools starting Friday. They also called a new meeting on Saturday to discuss whether to extend the strikes and protests through the two-week vacation starting July 1, when the main examination period of the year for high

school students begins. The unions, which are demanding higher wages, better infrastructure and more support and administrative staff, are putting unusually strong pressure on the government of left-leaning President José Mujica, which is scheduled to submit its budget to Congress on June 30. The budget is currently slating a 3 percent wage increase for teachers in 2015. Union leaders told local media that they cannot recall previous labor actions that involved occupying schools. President Mujica is facing hard choices in fighting inflation however. Uruguay is likely to be the only country in Latin America with a central bank that sets inflation targets that will miss its target in 2013, according to **JP Morgan**.

Investment Flows to Latin America Remain High But Weaken in 2012

Latin America and the Caribbean saw foreign direct investment remain near his-

toric highs last year, falling just 2 percent to \$244 billion, the United Nations Conference on Trade and Investment, or UNCTAD, said in a report released Wednesday. The drop was due to a decline of flows to Central America and the Caribbean that was masked by an increase of 12 percent in South America, where FDI inflows of \$144 billion were a mix of natural-resource-seeking and market-seeking activity, such as automotive sector investments in Brazil. In 2012, for the first time ever, developing economies absorbed more FDI than developed countries, accounting for 52 percent of global FDI flows, the report stated. Developing economies also generated almost one third of global FDI outflows, continuing a steady upward trend. The BRICS countries (Brazil, Russia, India, China and South Africa) continued to be the leading sources of FDI among emerging investor countries, rising from \$7 billion in 2000 to \$145 billion in 2012.

Featured Q&A

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interests. The concurrent U.S. response has been chirping crickets. There are clear incentives to stop talking past each other during upcoming talks. The end of Cuban exit visas lends new urgency to migration issues; uncertainty regarding Venezuelan oil subsidies arose the same year that U.S.-Cuba remittance flows topped \$2 billion; Cuba bought \$476 million of U.S. farm exports in 2012, which could double amidst more normal relations. What's more, some confidence-building steps could finally remove the biggest stumbling block of the last few years: Mr. Gross' long-awaited release. But for now, it's 'Back to the Future' on postal talks."

A Christopher Sabatini, senior director of policy at the Americas Society and Council of the Americas: "When it comes to matters of policy change between Cuba and the United States, we should never be too optimistic. Normally these initiatives would not spark outrage; countries in conflict, even

in long-standing disputes, still manage to have postal relations and relations on protecting the lives of migrants. (Actually, people getting agitated about mail service in this day and age seems even more than misguided, it actually seems kind of quaint.) The question is why have these diplomatic efforts sparked opposition? Shouldn't promoting communication and contact with an island long isolated from its relatives and refugees in the U.S. be what policy should try to do? Shouldn't ensuring a rational system for immigration that helps guarantee the safety of those who want to leave Cuba be generally desirable? As they started to do last week, the U.S. and Cuba need to work in narrower parameters where there is a genuine mutual interest that transcends history and ideology. The sad thing is that legitimate practical, workaday relations between the countries have been held hostage to posturing and fear, real and imagined, and often upended by provocations by the Cuban regime (like the brutal 1996 shutdown of the Brothers

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to the Rescue planes and the 2009 arrest of Alan Gross). None of these diplomatic efforts, even if they should come to fruition, should be seen as negating the importance of human rights in Cuba. Quite the opposite. Where violations and repression continue to exist, as they do inside Cuba, the U.S. should continue to raise them. But it can and should be able to do so in the context of other much-needed and humane policies. Diplomacy, even over human rights, is not a zero-sum game."

A **Stephen Wilkinson, chairman of the International Institute for the Study of Cuba:** "There do seem to be incremental signs of a rapprochement between Washington and Havana. These latest talks come after a number of other cautious moves that point in a positive direction. They are also exactly the kind of exchanges, on mutually beneficial topics, that experts and diplomats on both sides have suggested as being the best way for the two countries to start to build trust. The analogy of porcupines making love carefully has been used to describe the way they should approach this process. It is a good one because both protagonists have a lot of thorny issues to deal with. The cases of Gross and the Cuban Five are the most prominent ones on a very long list and to some degree are less problematic in themselves than the greater problems they represent, namely the activities of U.S.-sponsored agents in Cuba trying to foment opposition and the activities of Cuban agents inside the U.S. trying to prevent extremists in Florida from carrying out various nefarious activities against Cuba, including terrorist attacks. It may be unpalatable to many in Washington and Florida but the Cuban side does have cause to regard any friendly moves by the U.S. with deep suspicion. I therefore do not see a huge change in the relationship as happening soon. As the Cuban side said after the recent mail talks, while the embargo remains it is difficult for them to see how a mail service could be resumed. Essentially, the Cubans

are asking that the United States admits it was wrong and unilaterally lifts its embargo, stops funding the internal opposition and undertakes to proactively restrain the extremist elements in Florida. This is a very high bar to jump over for Washington. What this means for U.S. business is that business will be as usual for the foreseeable future and that means very little business for them, which is a pity because they will be missing out on a lot of expansion activity, especially in the areas of tourism, real estate development, infrastructure renewal, biofuels and biotech."

A **Otto Reich, president of Otto Reich Associates LLC and former U.S. assistant secretary of state for Western Hemisphere Affairs:** "I haven't been commenting on Cuba much of late, mainly because there is no change and there will not be any until the two brothers are gone. Then there will be profound change, sooner rather than later, led by people that the American 'commentariat' has not even imagined. The current 'talks' are as lacking in long-term significance as all the previous ones. We've been hearing about reform and change in Cuba ever since the USSR ceased to exist in 1991. It is empty talk promoted by the Castros to obtain, at no political cost to them, the two things they erroneously believe will save the regime: American tourists and American credits (Cuba wants to buy American products on credit, not cash as currently required by U.S. law, which they can eventually refuse to pay back, as they have with all the other countries that have extended such credits to them.) First, that shows their ignorance of U.S. politics. Second, it shows their ignorance of development economics. But then, the entire island is an open air museum to the failure of their development model."

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

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