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## FEATURED Q&A

# Is the Left Fading Across Latin America?



The party of Venezuelan President Nicolás Maduro, pictured in front of a photo of his predecessor, the late Hugo Chávez, suffered a major defeat earlier this month in the country's legislative elections. // File Photo: Venezuelan Government.

**Q** Leftist governments in Latin America have suffered a series of setbacks in recent weeks. In Venezuela, the opposition trounced President Nicolás Maduro's party in this month's legislative election. In Argentina, business-friendly Mauricio Macri took office as president after defeating his ruling-party opponent. Chile's president has seen her approval rating sink, and Brazil's president is facing an impeachment attempt. Do these developments have enough in common to signal a political shift in the region? Or are these countries' political changes just a result of a downturn in the economic cycle caused by the boom, and then bust, of commodity prices? Are the leftist politicians who have taken a hit merely victims of external economic factors, or are their own policies to blame?

**A** Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "The populist left is badly damaged, but it is not dead. It is perhaps the end of a cycle, but it is hardly the end of an era. Elections in Venezuela and Argentina could be viewed as evidence of the continuing strength of leftist populism in Latin America. In Argentina, after 12 years of Kirchnerism, four years of declining growth, high inflation and tight currency restrictions, the government's candidate lost by less than three percentage points. Yes, the Venezuelan government lost in a landslide. But, despite suffering the world's worst economic performance and highest inflation, the government still won 41 percent of the vote with a bland and clumsy president in charge. Remember, too, that it was only a year ago that left-wing President Rousseff was re-elected in Brazil. Now most Brazilians

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## TODAY'S NEWS

### ECONOMIC

## Fitch Strips Brazil of Investment- Grade Status

Fitch Ratings downgraded Brazil to junk status, becoming the second of the three major ratings agencies to do so this year.

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### ECONOMIC

## Puerto Rico Will Default in January or May: Governor

It is not a question of if, but rather when the island will be unable to pay its creditors, said Governor Alejandro García Padilla.

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### ECONOMIC

## Argentina's New Government Lifts Currency Controls

Argentina's new government lifted the country's currency controls, a move that economists expect to lead to a sharp devaluation of the peso, but one that could also lead to more investment. Finance Minister Alfonso Prat-Gay said the move is needed to revive the economy.

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Prat-Gay // File Photo: Argentine Government.

## ECONOMIC NEWS

## Fitch Downgrades Brazil to Junk Status

Fitch Ratings on Wednesday lowered its credit rating for Brazil to junk status, making it the second of the three major ratings agencies to strip Latin America's largest economy of its investment-grade status. Fitch lowered its long-term foreign and local currency ratings to BB+ with a negative outlook, saying the country's recession is worse than previously anticipated and that increased political uncertainty could "further undermine the government's capacity to effectively implement fiscal measures to stabilize the growing debt burden." In August, Standard & Poor's lowered its rating for Brazil to junk status. Now that a second ratings agency has taken similar action, analysts expect large sums of money to be pulled from Brazil as many global funds require investments to be in countries rated investment-grade by two of the three ratings agencies. Fitch's action Wednesday leaves only Moody's Investors Service with an investment-grade rating for Brazil, and that agency last week warned that it was placing its rating for Brazil on review for a downgrade to junk status. [Editor's note: See [Q&A](#) on Brazil's economy in the Dec. 11 issue of the Advisor.]

## Argentina's New Government Lifts Currency Controls

The government of new Argentine President Mauricio Macri lifted the country's currency controls, removing restrictions to Argentines' purchases of dollars for the first time in four years. "Ending the currency controls is the starting point for getting the economy back on its feet," Finance Minister Alfonso Prat-Gay told reporters in Buenos Aires, The Wall Street Journal reported. The decision marked a major shift from the policies of former President Cristina Fernández de Kirchner and her late husband and predecessor, Néstor Kirchner. In the short-

term, removing the currency controls is likely to lead to Argentina's largest currency depreciation since the country's economic crisis in 2001 and 2002. Economists believe the peso will fall from its current official rate of 9.8 per dollar to between 14 and 15 per dollar, which is its trading level on the black market. However, in the long-term, the move could bring rewards to the country's economy if it leads to more investment and boosts Argentina's export sector, The Wall Street Journal reported. A weaker peso is also expected to put upward pressure on inflation, which is currently believed to be about 25 percent. On Tuesday, the central bank hiked interest rates in an effort to hold down inflation and attract investment.

## Puerto Rico Will Default in January or May: Governor

Puerto Rico will default either on Jan. 1 or in May because it does not have enough cash to maintain essential government services and also pay its debts, the U.S. territory's governor, Alejandro García Padilla, said Wednesday in Washington. "I have no money to provide



García Padilla // Photo: National Press Club.

essential government services and to pay the creditors," García Padilla said in a luncheon speech at the National Press Club. "The time will come very soon, and it will probably be on Jan. 1, I'm trying to avoid that, but probably it will be on Jan. 1 that I will not have money to do both things, and if they make me choose between Puerto Ricans and creditors, I will choose Puerto Ricans—always. On the first of the year, Puerto Rico faces \$957 million of interest payments, including \$357 of general

## NEWS BRIEFS

## Brazil's Top Prosecutor Seeks Removal of Chamber Speaker

Brazilian Attorney General Rodrigo Janot on Wednesday asked the country's Supreme Court to remove Chamber of Deputies Speaker Eduardo Cunha from office, The Wall Street Journal reported. The embattled house speaker called the move a politically-motivated "smoke screen" to divert attention from his bid to impeach President Dilma Rousseff. However, Janot said the removal is necessary in order to ensure that the investigation into whether Cunha has used his position of power to obstruct a probe into the massive Petrobras "Car-wash" corruption scandal remains unimpeded. Cunha has denied all wrongdoing.

## Mexico Planning Deep-Water Auction of Oil Blocks

Mexico's Energy Ministry announced Wednesday that it plans to hold an auction on deep-water exploration blocks in the Gulf of Mexico, The Wall Street Journal reported. The ministry said the country's fourth oil auction since its 2013 energy reform will be announced by the third quarter of 2016 and will take place within 90 days of the announcement. Ten blocks will be offered.

## Chevron Wins \$28 Mn Judgment From Gibraltar Court

Gibraltar's highest court has awarded Chevron \$28 million after ruling against a company that had been established to receive and distribute money resulting from a court ruling against the oil major in Ecuador, Reuters reported Wednesday. U.S. lawyer Steven Donziger had set up the Gibraltar-based company, Amazonia Recovery, but Chevron has contested the \$9.5 billion judgment in Ecuador, arguing it resulted from fraud.

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want her impeached—but that shouldn't be a surprise given the nation's deep economic slump, the government's muddling response and the massive corruption scandals that have tarnished the government. But by now, almost every political party has lost a large measure of credibility. The opposition has been erratic and lacking in constructive alternatives. Sure, Latin American centrists and conservatives have gained ground, substantial ground, this year. But it is not because of their policies or programs—and certainly not because of their ideology. Rather, this has occurred because left-wing governments like those in Argentina, Brazil and Venezuela have made such a terrible mess of things. That's good news. It is also good news that the new leadership will have to do better than their conservative predecessors or they, too, will get the boot from increasingly pragmatic voters."

**A** **Mark Weisbrot, co-director of the Center for Economic and Policy Research:** "The recent setbacks for left governments do not represent a political shift in the region, but neither are they primarily the result of changes in the international economy. They have different causes in each case. In Brazil, the crisis is perhaps the most self-inflicted. Beginning in 2010, as world exports were slowing, the Brazilian government began to implement a series of pro-cyclical economic policies—including interest rate hikes, drastic cuts in public investment, targeting higher primary budget surpluses and other measures that reduced aggregate demand. President Dilma Rousseff doubled down on these policies after her re-election, appointing a right-wing finance minister, and the result was the current recession. In Venezuela, the biggest problem was the fixed, overvalued exchange rate, which combined with an artificially induced shortage of dollars in the fall of 2012 brought on an inflation-depreciation (in the black market for dollars) spiral that took the black market

dollar from 12 bolívars per dollar in October 2012 to more than 800 today, and inflation from 18 to more than 100 percent. Argentina also developed a black market for dollars beginning in 2011, but was on its way to

“**Latin America's second independence and overall leftward shift is not going to be reversed.**”

— Mark Weisbrot

returning to borrowing from international financial markets until a New York judge of questionable competence decided to take more than 90 percent of its creditors hostage on behalf of the vulture funds. But in none of these countries have voters opted to go back to the neoliberal past, which saw little or no growth of per capita income (and considerable negative growth in Venezuela) for two decades prior to the 21st century, and no poverty reduction (unlike the large 21st century declines in poverty). The current governments will have to resolve their economic problems, or they will lose power; but Latin America's second independence and overall leftward shift is not going to be reversed."

**A** **Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House:** "The electoral changes in several Latin American countries over the past few months have as much to do with citizen disaffection with incumbent politicians as with economic policies that have driven some countries to the brink of bankruptcy. Certainly in the cases of Venezuela and Argentina, the ongoing factors of high inflation, currency devaluations and

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obligations, that come due. García Padilla blasted Congress for leaving out of an omnibus spending bill a provision that would allow Puerto Rico to restructure under Chapter 9 bankruptcy protection, which it lacks as a U.S. territory. Many congressional Republicans have said such a move would amount to a bailout, but García Padilla angrily disputed that assessment. "We are not asking for a bailout. We are asking for fairness. Fairness has been denied." Puerto Rico, which has some \$72 billion in debt, did receive some good news earlier this week in the congressional spending bill, which included enhanced Medicare reimbursement rates that are expected to bring the commonwealth more than \$900 million over the next decade. However, García Padilla likened that move to a stroke victim arriving at the hospital and being told to go on a diet. If Congress does not allow the island to restructure under Chapter 9, Puerto Rico's default will be chaotic rather than orderly, said García Padilla. "This will be a real crisis," he said. [Editor's note: See [Q&A](#) in Monday's Advisor about Puerto Rico's debt crisis.]

## POLITICAL NEWS

## U.S. Cuba Reach 'Understanding' on Commercial Flights

The United States and Cuba have reached an "understanding" on resuming commercial flights between the two countries, and an official announcement is imminent, according to unnamed officials in both countries, BBC News reported Wednesday. It is not yet clear when the flights between the two countries would resume, as negotiations between the two countries are expected to take months. A U.S. State Department official said Washington and Havana "are making progress but still negotiating" on resuming flights. Travel between the United States and Cuba has risen 50 percent in the past year as the two countries mark one year since the announcement that they would re-establish diplomatic relations.

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scarcity of consumer goods led electorates to choose change over continuity. Unfortunately, in the case of Maduro and his 'chavista' government, the defeat he suffered will not lead to any significant improvement in the lives of Venezuelans, at least not for the time being. The unending drop in the price of oil and difficulties in obtaining foreign currency will mean that the economic situation will get much worse. It remains to be seen how both Maduro and Macri can govern with opposition majorities in their legislatures and whether there is any improvement in the global economic scene. Brazil is a different case: the far-reaching Petrobras corruption scandal, together with the precipitous drop in commodity prices and wavering economic policies of the Rousseff administration mean that the country's GDP will probably lose close to 4 percent this year. Growing dissatisfaction with Dilma and the politicians who are being investigated for serious corruption has led to an impeachment effort, which is likely to destabilize her government for the next six months at least. While external factors are important in explaining the current situation in these countries, domestic policy decisions, corrupt politicians and leaders serving for lengthy and multiple terms are certainly part of the problem."

**A** **Maria Velez de Berliner, president of Latin Intelligence Corporation:** "Venezuelans voted against scarcities in food, medicines, legal, viable employment and security, all fueled by the disastrous policies of a socialist government. Argentines voted against a lack of domestic and international faith and trust in Kirchnerism. Chileans are taking to the streets to protest against favoritism and perceived lack of opportunity for the majority. Brazilians are threatening to impeach their president because they are fed up with structural and institutional weak-

nesses that facilitate corruption at the highest levels of industry and government while a once-buoyant economy falters. To say this augurs a turn to the right is premature, for it ignores the fact that the expectations

“**The expectations revolution created by the commodities boom has hit reality's wall.**”

— **Maria Velez de Berliner**

revolution created by the commodities boom has hit reality's wall: whether on the right or the left, governments no longer have the revenues that enabled them to implement distributive policies that raised millions out of poverty and helped build emergent middle classes across the region. While expectations remain high, governments' revenues stagnate or decrease. It is within this gap that discontent over and rebellion against those in power translate into change at the polls. If the newly elected, working with diminished resources, fail to deliver quickly on their promises of 'a better tomorrow,' they will soon find themselves victims of the same 'vote them out' syndrome that prevails today. Those who applaud the demise of the left cannot forget that governments of the left and of the right have been equally responsible for the disastrous, often murderous, personal and collective havoc their abuses of power and misguided policies have bestowed upon their citizens."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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