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FEATURED Q&A

Is Brazil's Pension Reform Proposal Doomed to Fail?



Prison guards protested the reforms to Brazil's social security system this month in Brasilia. // Photo: Agência Brasil.

Q A special committee in Brazil's lower chamber of Congress on May 3 passed a measure to reform the country's politically sensitive pension system, leading dozens of prison guards protesting the new retirement rules to storm the committee room after the vote. They were deterred by police using pepper spray, and lawmakers were forced to adjourn the session. More than 70 percent of Brazilians oppose the legislation, but economists have warned that Brazil's public pension system is one of the main weak spots as it struggles to emerge from its worst recession on record. Is the proposed pension reform indeed the best way forward as Brazil looks to reform its economy? Is the legislation doomed to always have such a low approval rating, or are there any compromises that could be made to make it palatable for more Brazilians? How will the legislation, if it passes, affect President Michel Temer's legacy, and how will it affect his party's performance at the polls in next year's elections?

A Monica de Bolle, nonresident senior fellow at the Peterson Institute for International Economics: "Social security reform has been on the agenda for at least two decades. Brazil has an overly generous pension system, no formal retirement age and an aging population, all of which means that pension spending has been growing substantially—it's expected to surpass 10 percent of GDP over the next five years in the absence of a significant overhaul. Because overhaul necessarily involves cutting back benefits and entitlements, social security reform is doomed to be unpopular. That said, the Temer government faces some additional hurdles related to the president's very

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Journalists Protest Killings in Mexico

Journalists demanded that the government step up efforts to investigate and bring to justice the killers of reporters in the wake of the slaying of an award-winning journalist in Sinaloa state.

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Mexico Expecting NAFTA Talks by Late August

Economy Minister Ildefonso Guajardo said he expects U.S. President Donald Trump's administration to soon formally notify Congress of its intention to renegotiate the North American Free Trade Agreement.

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POLITICAL

Brazil Electoral Court to Hear Case That Could Annul 2014 Vote

The case could threaten the presidency of Michel Temer, who was elected Brazil's vice president in 2014. At issue are alleged kickbacks from the wide-reaching Petrobras scandal.

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Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil Electoral Court to Hear Case That Could Annul '14 Vote

Brazil's electoral court will take up a case next month that could annul the results of the country's 2014 presidential election, which could potentially unseat President Michel Temer, the court's leader said Tuesday, Reuters reported. The trial would restart on June 6, said Judge Gilmar Mendes, who is also a member of the country's Supreme Court. The trial had been paused in early April so that the defense could present new testimony and arguments. Prosecutors in the case allege that former President Dilma Rousseff's Workers' Party received large amounts of illegal campaign contributions in connection with the far-reaching kickback scandal at state-run oil company Petrobras. Executives from construction conglomerate Odebrecht have testified that they made some 300 million reais (\$97 million) in illegal donations to Rousseff's 2014 presidential campaign. Rousseff has strongly denied the assertion. Temer was elected that year as Rousseff's vice president and took over as president last year after Rousseff was impeached. Prosecutors in the case have said that Temer did not request donations himself. Also, despite the potential threat against Temer stemming from the case, Mendes, who has links to a political party that is allied with Temer's, told Reuters in March that Temer would not necessarily be forced from office even if the election were annulled because he did not head the ticket.

Mexican Journalists Protest Killings

Journalists demonstrated Tuesday in Mexico and some media in Sinaloa state canceled their Tuesday editions in efforts to pressure authorities to act against a growing wave of murderous attacks on journalists in the country, Agence France-Presse reported. The demonstrations followed Monday's killing of

award-winning journalist Javier Valdez, 50, who covered the country's drug war and was fatally shot in broad daylight in Sinaloa's state capital, Culiacán, outside the offices of Riodoce, the weekly newspaper he founded. "How long will there be killings without pity and with impunity," Riodoce said on Tuesday. The headline of an editorial in La Jornada, the national daily where Valdez also worked as a correspondent, read "Murderous impunity." Journalist groups called for the government to increase its efforts to investigate and bring to justice the perpetrators of attacks against journalists. "This wave of violence shows the state of emergency in which Mexican journalists are living," said Emmanuel Colombie, the Latin America director of Reporters Without Borders. "The Mexican government must take action proportionate to the seriousness of the situation and strengthen protection for journalists as soon as possible." After Valdez's killing, Mexican President Enrique Peña Nieto vowed to defend press freedom and added that he had ordered "an investigation of this outrageous crime." Also on Monday, assailants killed a reporter at a small weekly newspaper in Jalisco state and critically wounded his mother, an executive at the publication.

ECONOMIC NEWS

Venezuela to Support Plan to Extend Oil Output Limitation

The Venezuelan government on Tuesday confirmed it would support a plan to extend a deal between the Organization of the Petroleum Exporting Countries, or OPEC, and non-OPEC member states to limit the production of oil in a bid to "stabilize" the market, Reuters reported. "Venezuela believes that the agreement between OPEC and non-OPEC countries, which include the 24 largest oil producers in the world, has been successful in helping crude oil prices recover," the country's oil ministry said in a statement. The oil sector accounts for approximately 94 percent of Venezuela's export

NEWS BRIEFS

Honduras Transfers Gang Members to Maximum-Security Prison

The Honduran government said Tuesday it had transferred 773 gang members to a maximum-security prison as part of a plan to relocate approximately 2,000 inmates in order to prevent penitentiaries from becoming headquarters for criminal activities, Reuters reported. Hundreds Mara Salvatrucha, or MS-13, and Barrio 18 gang members were transferred from the overcrowded Marco Aurelio Soto prison to a high-security prison known as El Pozo II.

Head of Argentine Rights Group Charged With Misuse of Public Funds

The head of Argentine human rights organization the Mothers of Plaza de Mayo, Hebe de Bonafini, has been charged with misusing public funds allocated to a social housing project, BBC News reported Tuesday. The program was created under former President Cristina Fernández de Kirchner and was managed by de Bonafini's foundation, which is a collective of mothers looking for children who disappeared during the dictatorship under Jorge Rafael Videla from 1976 to 1981. De Bonafini denies wrongdoing, and says the accusations were politically motivated.

Avianca Begins Daily Flights Between Bogotá, Montevideo

Colombian airline Avianca on Tuesday began daily flights between Bogotá and Montevideo, making it the only carrier to operate nonstop flights between the Colombian and Uruguayan capitals, El Heraldo reported. The opening of the new route represents new opportunities for trade and tourism, said Natalia Abello Vives, Colombia's transportation minister. More than 20,000 passengers traveled between Colombia and Uruguay last year, the newspaper reported.

revenue. OPEC and non-OPEC member states including Russia agreed to cut output by 1.8 million barrels per day for the first half of this year, in order to boost global oil prices. Saudi Arabia and Russia also agreed on Monday to extend the agreement by another nine months until March of next year, in order to mitigate the current oil glut.

Mexico Expecting NAFTA Talks by Late August

Mexican Economy Minister Ildefonso Guajardo on Tuesday said he expects U.S. President Donald Trump's administration to inform Congress early next week of its intent to renegotiate the North American Free Trade Agreement, or NAFTA, which would lead to talks being held among the United States, Canada and Mexico by late August, Reuters reported. Guajardo added that he would have more information about the time line for renegotiation after



Guajardo // File Photo: Mexican Government.

meeting with U.S. Trade Representative Robert Lighthizer in Vietnam on Thursday during the Asia-Pacific Economic Cooperation, or APEC, meetings. "Probably the notification will be sent to Congress by the U.S. executive at some time early next week," he said the Tuesday after meeting with U.S. Commerce Secretary Wilbur Ross the day before. During his campaign, Trump had vowed to withdraw the United States from NAFTA if he could not renegotiate a better deal for the country. In Washington, Ross and Lighthizer said they would prefer to keep the current trilateral format in the NAFTA renegotiation talks. Guajardo also said on Tuesday that a dispute between the U.S. and

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low approval ratings, a perception by the population that what is being asked of them in this reform is unfair—indeed, much of the social security spending comes from excessive benefits paid to certain portions of Brazil's civil service, which have been left out of the current reform proposal—and pressure by specific interest groups that has served to dilute the reform effort. Therefore, even if Congress approves the current proposal, there is no guarantee that it will suffice to restore medium-term fiscal sustainability. Temer will claim victory if the reform passes, but the spoils of this effort will be left for the next government to deal with. Since the reform lacks popular support and has been the target of significant backlash, voter dissatisfaction will be a key issue in next year's presidential election. There is a real risk that an anti-reform candidate may yet win, due to such widespread discontent. Under such a scenario, the possibility of a serious fiscal crisis cannot be ruled out."

A Robert Muggah, co-founder and research director at the Igarapé Institute in Brazil, and co-founder of the SecDev Group

in Canada: "The proposals for pension reform in Brazil are nothing short of breathtaking. The congressional committee tasked with setting out proposals has raised the minimum retirement age. What makes the proposed legislation especially controversial is that key sectors are exempted from entitlement reform, including members of the armed forces (who have their own system), federal, state and legislative police (who can retire at 55) and teachers (who can retire as early as their late 40s if they work for private schools). Penitentiary guards were excluded

from the list and are understandably upset. Though entitlement reform is necessary to strengthen Brazil's economy, such reforms cannot be limited to raising the retirement age. There must be vastly improved oversight when it comes to managing the country's federal pension fund. Recall that a major drain on the fund occurred when pension dollars were used to build Brasília in the 1960s. More recently, pension funds were used to finance the 2016 Olympic Games in Rio de Janeiro. The Lava Jato investigations are revealing that a considerable portion of these resources were diverted illegally into the pockets of politicians and the business elite. Put simply, pension reform is essential, but the government also needs to become much more fiscally responsible. Pension reform is not necessarily doomed in Brazil. Most Brazilians accept that some entitlement reform is necessary. Yet they are deeply frustrated with the country's political and business elite and evidence of unprecedented corruption. Adding insult to injury, Brazilians are being asked to give up entitlements, even as the government grants generous fiscal incentives to businesses to stimulate the economy. President Temer is among the most unpopular presidents in Brazil's modern history. He is not running in 2018, which means he can afford these low ratings. Yet it will take courageous leadership to pass the reforms, of which there is a short supply. The Temer administration has in fact proposed a package of reforms, not just to labor legislation. Indeed, the proposed political reforms will almost certainly affect the 2018 presidential elections, perhaps more profoundly than the proposed changes to pension laws."

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Mexican sugar industries could be resolved within the next two weeks, before a June 5 deadline. Late last year, the U.S. sugar industry lobbied for the U.S. Commerce Department to renegotiate or withdraw from a 2014 agreement that set prices and quotas for U.S.

imports of Mexican sugar. The U.S. sugar lobby wants Mexico to export less sugar. A spokesman from the U.S. Commerce Department said Ross and Guajardo had discussed possible solutions to the dispute and are continuing to work toward a settlement.

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A **Milko Matijascic, researcher at the Institute of Applied Economic Research (IPEA) in Brasília:** “Brazilian pension reform is necessary, since it represents a significant percentage of public expenditure and, more importantly, tends to favor the better off. Although reform is needed, this proposal introduces rules that are too severe for workers involved in precarious occupations. The proposal might be rejected because the potential winners from reform

“**These reforms would generate losses for many workers.”**

– **Milko Matijascic**

tend not to notice, while those whose benefits are affected perceive it immediately. These reforms would generate losses for many workers, which would tend to negatively affect the electoral competitiveness of the legislators who vote for it. However, if the alarming level of unemployment falls, the electoral impact could be mitigated. Much of the public rejection of this reform is related to widespread dissatisfaction with the quality of public services. Most Brazilians prefer a higher value for pensions because services like healthcare require high out-of-pocket expenses. If this situation improved, opposition to the reform would be smaller. In addition, with a minimum age of 65, it will no longer be possible to add pension income to work related ones for those who retired before that. Finally, the proposal requires a minimum time of contribution of 25 years (it is currently 15 years), and 15 years from rural workers (there is currently no contribution requirement) without any transition pe-

riod. This would have a devastating impact, since about 70 percent of workers would not meet these requirements. Public debate and reform proposals should be better adapted to the reality of Brazil’s labor market and economy.”

A **Pedro Rossi, professor at the State University of Campinas:** “Brazil is crossing a period of increasing authoritarianism, and the reform of the public pension system is part of this context. An illegitimate government—where the vice president comes to power conspiring openly against the president-elect—presented a set of reforms that are not only unpopular, but antidemocratic, since it dismantles the social pact signed in the 1988 Constitution. This set of reforms meets the demands of a minority of the population, whose interests are defended by the media and by a small group of economists who seek to create false consensuses. There are a number of studies that show that pension reform removes social rights and concentrates income in Brazil, one of the most unequal countries in the world. One of the rules of this reform is to raise the minimum contribution time from 15 years to 25 years, which will withdraw access to the public pension system from a large portion of the population that works part of their lifetime in the informal market. Finally, the reforms are not aimed at recovering the economy, but at transforming the Brazilian state by withdrawing its capacity to promote social policies and to induce growth. It is a new wave of neoliberalism, with the difference that the ‘neoliberal consensus’ is over, and the measures are now being imposed in an authoritarian way. If there are elections in 2018, these reforms will be defeated at the polls.”

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