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FEATURED Q&A

Will Cuba's Economic Reforms Continue in 2012?

Q Over the past year, the government of Raúl Castro has been leading an effort to reform the Cuban economy, taking unprecedented steps including contracting services to private businesses, legalizing the sale of private property and ending some state subsidies. Is the gradual pace of reform likely to continue or will it accelerate? What economic changes is the island likely to see in 2012? How will the reforms change Cuba's role in the hemisphere and its political and economic relations with other countries in Latin America and the Caribbean?

anything can (and usually does) happen over Cuba in election years. The battle lines on Cuba policy are already being drawn with the current congressional challenge to Obama's recent loosening of the travel restrictions presaging the debate that will overtake the presidential race in Florida. Cuba's role in the hemisphere is at the heart of the renewed efforts to integrate the economies of the region as a bulwark against the IFIs and Washington and the likelihood is that support for Havana is going to continue to grow."

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A Stephen Wilkinson, chairman of the International Institute for the Study of Cuba: "The economic transformation process in Cuba is going to continue, but the pace will slow as the most significant changes have already been announced. What will happen is that the changes are going to start to produce a positive effect on the economy and the government's fiscal position will improve. The most important thing to look out for in 2012 is the Communist Party conference in January when some kind of constitutional reform is likely to be announced. The expected change is the introduction of fixed terms for high political office, although Raúl Castro recently hinted that he would be shortly handing over his office so that is something that might also be in the cards. Remember, it is an election year in the United States and



Mercosur Nations Consider Protectionist Measures

Brazilian Finance Minister Guido Mantega said Monday at the opening of a two-day summit of Mercosur nations that his country and Argentina want to lengthen the list of goods subject to a common tariff when imported from outside the bloc. See story on page 2.

File Photo: Brazilian Government.

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NEWS BRIEFS

Obama Criticizes Venezuela's Record on Human Rights

In comments published Monday, U.S. President Barack Obama told a Venezuelan newspaper that he is concerned about the South American country's record on human rights and its relations with Iran and Cuba, the Associated Press reported. In written comments to *El Universal*, Obama expressed concern "about the government's actions, which have restricted the universal rights of the Venezuelan people, threatened basic democratic values and failed to contribute to the security in the region." Venezuelan President Hugo Chávez responded by calling Obama "a clown" and added, "Obama, take care of your own business, focus on governing your country, which you've turned into a disaster."

Cuba Declares Three Days of Mourning for Kim Jong-il

The Cuban government declared a three day mourning period for North Korean leader Kim Jong-il from today through Thursday, the Associated Press reported. Flags will be flown at half mast at military installations and public buildings. The governments of Venezuela and Nicaragua also sent condolences over Kim's death.

Peru's Agricultural Exports to Total \$4 Billion This Year

Peru's agricultural exports are expected to reach \$4 billion in 2011, state news agency Andina reported, citing the General Directorate for Agrarian Competitiveness (DGCA). The estimate is based on the \$3.6 billion in agricultural exports for the first 10 months of the year and expectations of strong results in November and December.

Economic News**Presidents, Finance Ministers Eye Protectionism at Mercosur Meeting**

Presidents and finance ministers from South America's Mercosur trade bloc began a two-day summit Monday in Montevideo to discuss ways to protect their economies from a slowdown in the global economy, Dow Jones reported. Argentine and Brazilian officials have recently voiced concerns that Asian companies may try to flood Latin America with cheap manufactured products in an effort to counter weak demand in the United States and Europe. On Monday, Brazilian Finance Minister Guido Mantega said Brazil and Argentina are seeking to broaden the types of goods that are subject to the common tariff that Mercosur imposes on imports that come from outside the trade bloc. Mercosur must boost its efforts "to defend the Latin American markets from this invasion of goods," Mantega told reporters in the Uruguayan capital after a meeting of central bankers and economy ministers. Brazil wants to increase the number of products subject to a 35-percent import tariff, said Mantega. Among the products being considered for higher tariffs are capital goods, chemicals and textiles, he said. Protectionist measures often cause friction within Mercosur. Industrial producers in Brazil and Argentina protested their nations' imposition of nonautomatic import licenses on several goods trades between the countries. In addition, businessmen in Uruguay have complained that Argentina is blocking imports from the neighboring country. South America escaped the worst of the 2008-09 global financial crisis due to strength of its banking systems, solid public finances and a short-lived decline in commodities prices. The region's economic footing during the crisis allowed governments to use countercyclical spending in order to boost their economies. However, Latin America's economic strength could decrease if economic slowdowns in the United States and Europe curb demand for raw materials from Latin America. Mercosur will work to bolster credit insti-

tutions working in the region, including the CAF regional development bank and the Inter-American Development Bank, said Mantega. During the gathering in Montevideo, Mercosur members are also expected to discuss Venezuela's stalled bid to join the bloc. Venezuela has sought to join since 2006, but Paraguayan legislators

Among the items up for discussion is Venezuela's stalled bid to join the bloc.

have refused to ratify the Andean country's membership amid arguments from some Paraguayan lawmakers that Venezuelan President Hugo Chávez lacks the democratic credentials to be part of the grouping. Chávez is expected to attend the meeting in Uruguay today. Apart from medical treatment received in Cuba, he has not been out of Venezuela since announcing his cancer diagnosis in June.

Brazil to Exceed Upper Limit of Inflation Target: Survey

For the first time in eight years, Brazil's rate of inflation will exceed the upper limit of the central bank's target this year, according to a survey that the bank released Monday, Bloomberg News reported. The median forecast in the survey of about 100 economists, which was conducted last Friday, was for consumer prices to rise 6.52 percent this year. The central bank has targeted inflation for this year at 2.5 percent to 6.5 percent. The median forecast in the central bank survey a week earlier was for inflation in 2011 at 6.5 percent. The central bank, led by Alexandre Tombini, last month lowered its benchmark interest rate for the third consecutive meeting, to 11 percent. The bank took the action in an effort to boost economic growth despite concerns about inflation.



Tombini

File Photo: Brazilian Government.

"It's very bad news for the central bank," Marilia Taveira, chief economist at **Icatu Vanguarda Administração**, told Bloomberg News in a phone interview. "We've seen a strong will by the government to make the economy grow. Obviously that will generate inflationary pressure." The administration of President Dilma Rousseff has targeted growth of 5 percent next year and has cut taxes on consumer goods and foreign capital. Her government also has relaxed curbs on the expansion of credit. The survey released Monday also shows that Tombini will not be able to meet the central bank's goal of reducing inflation to the midpoint of its targeted range, 4.5 percent. For next year, economists are expecting Latin America's largest economy to record inflation of 5.39 percent, a slower rate than the previous forecast of 5.42 percent. For the first two weeks of December, personal expenses and clothing experienced the largest price increases in São Paulo, according to the FIPE economic research institute's price index.

Company News

Peru Mining Talks Break Down Over Activists' Exclusion

A round of talks about the controversial Conga gold project in Peru broke down Monday over the government's exclusion of environmental activists from the discussion, Reuters reported. The Cajamarca region's governor and local mayors criticized Prime Minister Oscar Valdés' decision to refuse to allow Wilfredo Saavedra and other Environmental Defense Front of Cajamarca members to participate in the discussions about the \$4.8 billion project of U.S.-based **Newmont Mining**. "What happened is that Valdés wouldn't tolerate more participation," said Gregorio Santos, the Cajamarca region's governor. "He doesn't want to listen to anybody." Protesters fear that building the mine would threaten their water supply. The controversy led Newmont and its Peru-based partner, **Buenaventura**, to temporarily stop work on the mine early last month. [Editor's note: See related Q&A in Monday's [issue](#) of the *Advisor*.]

Featured Q&A

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A Jaime Suchlicki, professor and director of the Institute for Cuban and Cuban American Studies at the University of Miami: "The end of 2011 may mark the end of major economic changes in Cuba. Gen. Raúl Castro's regime is bewildered by Cubans' reactions to the changes introduced this year. Growing opposition to the 50-year-old regime among the population and increased criticism within the government may lead to a re-examination of policy and to a slowing

“The divisions being created are not only economic but racial and social, an ominous trend for Cuba's future.”

— *Jaime Suchlicki*

down of further reforms. There were two primary objectives for the changes: capitalize on remittances from abroad and appease an increasingly restless population. The first objective was achieved. The second one boomeranged. The changes were not aimed at moving Cuba to the market or dismantling communism. The past year has been marked by increased resistance, demonstrations and general unhappiness. Cubans don't believe that Gen. Castro's timid reforms are going to improve their livelihood or the economy in general. The unintended result of the changes is a deepening divide between the 'haves' and the 'have nots.' The 'haves' are the white Cubans with relatives abroad. They receive the dollars necessary to open small business, buy cars, etc. The 'have nots' are the blacks (more than 60 percent of the population) who do not receive remittances since there are very few Cuban blacks outside Cuba. The divisions being created are not only economic but racial and social, an ominous trend for Cuba's future. Raúl has also come

under increased criticism within his own government. Some old-guard leaders who cling to Marxist orthodoxy and see the changes as a betrayal of Fidel Castro's legacy are quietly but brazenly criticizing Raúl. Faced with these uncertainties, Raúl will concentrate on increasing discipline within his government and order within the population. Repression will increase and the Cubans will continue to suffer under a brutal military dictatorship."

A Kirby Jones, president of Alamar Associates in Bethesda, Md.: "I have been visiting Cuba regularly since 1974. If anyone had told me then or years after that I would see what I see happening in Cuba today, I would have said impossible. Make no mistake: the reforms and changes that have been made by the Cuban government are not only remarkable but indeed stunning. The entire world—or almost (a word about that later)—is participating in these changes in many ways and on many levels. Brazil, China, Russia, India, Canada and Spain are just a few of the countries whose companies have established long range joint ventures in Cuba. The Catholic Church has emerged from the shadows and become such a key player in the ongoing reforms that the pope will visit next year. Domestically, the question might better be: what hasn't changed? No Cuban now appears on the Amnesty International list and Cubans across the island are starting new businesses of every sort. Change is not just in the wind, but has enveloped the entire country. We can expect to see affirmation of these changes in 2012, corrections to what does not work and additional expansion and improvement. Only the United States is totally left out of what is happening. From President Obama to Mario Diaz-Balart, many U.S. heads are in the sand with the president refusing to recognize the very changes that he once said he was waiting for and Diaz-Balart still trying to bring back the Cuba which was led by his father and Fulgencio Batista. Cuba will continue despite that attitude."

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Featured Q&A*Continued from page 3*

A **Matthew Aho, manager of policy at the Americas Society and Council of the Americas:** "While there are inevitable obstacles to Cuba's economic reforms, we've seen over the past year that the changes are real, unprecedented and will—over time—transform Cuba's Soviet-style economy. 2012 will be a turning point in Cuba. Last year's reforms will lure many thousands into self-employment and small-scale private enterprise. New enterprises will emerge and businesses will begin to transform Cuba's labor market by hiring workers. Sales of cars and homes—despite restrictions—will create capital inflows as Cubans living abroad send money to relatives on the island; how much will end up in state coffers and how effectively the government will capture these flows remains to be seen. The pace of reform this year will be gradual, but wrenching. If the process is to be effective, it must also be far-reaching. Cuba will have to overhaul labor laws, banking regulations, contract dispute mechanisms and tax systems, while making significant investments in infrastructure and undertaking structural economic reforms such as the elimination of the dual currency and mass layoffs of state employees. The latter, if carried out, could have dramatic consequences for Cuban society and the fundamental

underpinnings of the Cuban socialist system. Undertaking these changes may serve to further integrate Cuba into the hemispheric community. U.S. remittance policies have changed, in part, to support private enterprise on the island; Mexico and Brazil have both pledged technical and financial support to the Cuban government and to entrepreneurs in Cuba. There is even talk in some circles of allowing representatives of the

“Last year's reforms will lure many thousands into self-employment and small-scale private enterprise.”

— *Matthew Aho*

International Monetary Fund and the World Bank to engage in preliminary, technical discussions with Cuba. Much will depend on the unknown: the U.S. and Venezuelan presidential elections, the health of the Castro brothers and the outcome of the January 2012 National Cuban Communist Party Conference, including the possible ascendancy of new, younger faces to positions of power in Cuba.”

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