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## FEATURED Q&A

### What Do the PRI's Gains and PAN's Losses Mean for Mexico?

**Q** The ruling National Action Party (PAN) suffered a setback in Mexico's July 5 legislative and local elections, losing its position as the party with most seats in Mexico's lower house. The longtime former ruling Institutional Revolutionary Party garnered a simple majority in the lower chamber, while the left-of-center PRD came in a distant third. To what do you attribute the PAN's losses and the PRI's gains? Has the PRI changed since it lost Mexico's presidency in 2000 for the first time in 71 years? What do the election results mean for President Felipe Calderon's agenda?

**A** **Guest Comment: Jesús Silva-Herzog:** "The election results were expected, but the numbers exceeded expectations. The big loser is President Calderon, the leader of the PAN (who just resigned) and his party. The big winner is the PRI, which has become the largest force in the Chamber of Deputies, with more than 230 deputies, more than twice what it has today. Also, the PRI won five of six governorships. The PRD has fallen to third place, far behind the other major parties. The campaign was covered by marketing and a notable absence of an open, serious discussion of the challenges facing Mexico. Despite President Calderon's high approval rating, his party lost ground for three main reasons: the economic crisis and unemployment that accompanies it, the problem of

violence and a lack of security, and a negative campaign against the PRI that produced counterproductive results. The PRI, for its part, did not respond to the provocations and maintained an image of unity, emphasized by a 'new attitude,' which has not yet been defined. The next challenge is to see whether the PRI has the capacity to face up to its new responsibility in the coming years and contribute to the executive and the other political forces to achieve fundamental accords that the country needs. The political terrain will be more

*Continued on page 2*



### Costa Rican President Agrees to Mediate Honduran Talks

Oscar Arias, the President of Costa Rica and a Nobel Peace laureate, has agreed to mediate talks between ousted Honduran President Manuel Zelaya and the interim government, US Secretary of State Hillary Clinton announced Tuesday. See story on page 2.

*File Photo: Costa Rican Government.*

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## NEWS BRIEFS

**Swine Flu Leads Argentina to Declare Holiday for Gov't Workers**

Argentina's government on Tuesday declared that Friday will be a special holiday for federal government workers in an effort to slow the spread of the swine flu pandemic, local daily newspaper *Clarín* reported. The government also "invited" private enterprises to take the same step. The Friday holiday comes after Thursday's July 9 Independence Day holiday, giving workers a four-day weekend. The official death toll in Argentina from swine flu has reached 60, Dow Jones reported. [Editor's note: see related Q&A in the June 18 [issue](#) of the *Advisor*.]

**Brazilian Finance Ministry Approves Brasil Telecom Deal**

Brazil's Finance Ministry gave its nod yesterday to the proposed \$2.7 billion purchase of **Brasil Telecom Participacoes**, one of the country's main carriers, by local rival **Tele Norte Leste Participacoes**, known by the Oi brand, Dow Jones reported. Antitrust authorities have been concerned that the telecom sector, which was liberalized in 1998 with the breakup of **Telebras**, has been reconsolidating too much. The deal still faces regulatory approval.

**Panama's Multibank Joins IFC Trade Finance Program**

The International Finance Corporation (IFC) announced Tuesday that **Multibank** became the first issuing bank in Panama to join IFC's Global Trade Finance Program, which promotes emerging markets trade with the IFC providing guarantees that help banks mitigate risks in emerging markets, according to a company press release. Multibank says it saw more than 100 percent growth in its international trade operations in 2008.

## Political News

**Costa Rican President Agrees to Mediate Honduran Talks**

Oscar Arias, the president of Costa Rica and a Nobel Peace Prize laureate, has agreed to mediate talks between ousted Honduran President Manuel Zelaya and the interim government that exiled him, US Secretary of State Hillary Clinton announced Tuesday. Arias won the prize for his efforts to resolve Central American conflict, notably in El Salvador, in the 1980s. The *de facto* caretaker president of Honduras, Roberto Micheletti, has agreed to Arias serving as mediator, Clinton said. "Our goal has been to get the parties talking to each other ... I believe we are on the brink of that happening ... Instead of another confrontation that might result in the loss of life, let's try the dialogue process," Clinton stated after meeting with Zelaya in Washington. Clinton reportedly also met Tuesday with entities generally opposed to Zelaya, such as the CEO of Globovision, a Venezuelan network that President Hugo Chavez has sin-

gled out for its criticism of his government. While Honduras is a small country of only 7.6 million inhabitants, analysts point out that the US, Organization of American States and other regional actors need to consider the bigger implications of resolving the current crisis. Writing in *Foreign Policy* magazine on Monday, Inter-American Dialogue analyst Manuel

“There are countless more 'Zelayas' across Central America.”

— Manuel Orozco

Orozco noted that failure to address Central America's democratic failings created not only the Honduran *coup*, but an entire region of "polarized societies unable or unwilling to confront poverty and crime or promote economic development." "Meeting such challenges will involve facing down and refreshing the region's entrenched power structures. There are countless more 'Zelayas' across

**Featured Q&A**

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complicated in the second half of Calderon's term."

**A Guest Comment: Rogelio Ramírez de la O:** "The PAN lost this election because of the bad economy and massive job losses. On the qualitative side, voters found increasing evidence that the government's rhetoric of its support to industries or the unemployed was not so in reality. And another factor was disaffection against the government making deals with corrupt union leaders and PRI governors who violate human rights. In this broader view, the loss was to the PAN as much as to Calderon's excessive reliance on the media to advertise achievements that were not true. The PRI gains are owed mainly to party unity and its pragmatic support to the government or opposition to it according to cir-

cumstances. But of at least equal importance was its high-profile rejection of the proposed energy reform led by the long absent (since Zedillo's presidency) PRI's nationalistic wing. The PRI has not changed in character, but it changed in its internal balance of forces, with the nationalistic and more socially progressive group becoming more relevant at this time. To the Calderon government this means that his reform agenda is almost dead. The PRI would agree to some compromises at the margin if these are essential for stability. The PRI's stance would help Calderon navigate to 2012 as a lame-duck president."

**A Board Comment: Andrés Rozental:** "These mid-term elections were more than anything else a referendum on Felipe Calderon's first three years in office. Mexicans have spoken clearly through the ballot boxes and have given

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Central America who will have to come to terms with their inability to achieve true democracy—and the backlash that may be headed their way," Orozco stated.

## Economic News

### Calderon: Mexico's Recession Ending as Tourism Industry Recovers

Mexican President Felipe Calderon said Tuesday there are signs the country's deep recession is turning around, wire services reported. Speaking at a conference in Mexico City, Calderon said foreign tourism has returned to last year's levels and hotel occupancy has almost recovered after the swine flu outbreak in April and May shook the industry, Bloomberg News reported. Mexican Finance Minister Agustin Carstens said Tuesday at the same event that gross domestic product could



Calderon Tuesday in Mexico City.

Photo: US Government.

grow nearly 3 percent next year thanks to a recovery in the global economy, after plummeting 6 percent this year, according to forecasts. Wall Street analysts suggested Monday that Mexico's mid-term elections last weekend, which dealt a blow to the pro-business ruling PAN party, will have some implications for pending legislation that affects the country's economic outlook, but that the results at the polls did not necessarily derail the reform agenda. "We believe that better-than-expected performance of the PRI in the mid-term elections may actually help to pass the fiscal reform by year-end; obviously, the risk is that the reform that gets approved is too mild and that it falls short of addressing the fiscal concerns of rating agencies," JPMorgan analysts said in a research note Monday.

## Legal Briefs

### Former US Ambassador Garza Joining White & Case in Mexico City

Antonio O. Garza, who served as US ambassador to Mexico from 2002 to 2009, is joining **White & Case** as counsel in Mexico City, the law firm announced last month. In a statement, Garza said that in his new role he will "provide comprehensive multidimensional, multijurisdictional strategy and counsel" to clients in Latin America and the United States. Prior to his appointment as US ambassador to Mexico, Garza held statewide and local offices in Texas, where he also practiced law.

### Sherman & Sterling Represents Parties in Brazil's BNDES, Pao de Acucar Deals

**Sherman & Sterling** was involved in two major deals earlier this year in Brazil. The firm represented the underwriters in Brazilian development bank BNDES' \$1 billion bond issue. Three of Sherman & Sterling's offices—in Sao Paulo, New York and London—were involved. The bank launched the sale of the 10-year bonds last month. The underwriters in the deal were led by **HSBC Securities** and **Goldman Sachs**. BNDES is using the proceeds for its long-term financing projects for industries in the South American country. Sherman & Sterling also represented Brazilian retailer **Pao de Acucar** in its \$422 million acquisition of electronics and household appliance retailer **Ponto Frio**. The deal is expected to result in Pao de Acucar becoming Brazil's largest retailer, with \$13 billion in annual revenues from 1,200 stores, the law firm said.

### Diaz Reus & Targ Partners With Brazil's Guimaraes & Vieira de Mello

Miami-based law firm **Diaz Reus & Targ** announced last month that it has partnered with Sao Paulo-based **Guimaraes & Vieira de Mello Advogados**. The association will allow Diaz Reus to expand its operations in Latin America. Currently, the firm operates an office in Caracas as well as a joint venture in Bogota. "We believe that investment opportunities in Brazil will occupy a great deal of our time," said Michael Diaz, the firm's managing partner. "[Diaz Reus'] Dubai office is already seeking investors for a company in the Brazilian agro industrial sector. Also, the firm's Shanghai and Dubai offices are in discussions with potential investors to explore oil in marginal fields with a Brazilian company." The firm also announced Monday that it has opened a new full-service office in Shanghai, the *South Florida Business Journal* reported.

## Company News

### Chile's Sonda Makes \$43 Million Offer for Santiago-Based Quintec

Chilean information technology firm **Sonda** on Tuesday announced a \$43.3 million offer for 100 percent control of technology holding company **Quintec**, based in Santiago. Quintec holds five companies, among them **Quintec**

**Distribucion**, which is **Apple Computer's** representative in Latin America (with the exception of Brazil and Mexico). Sonda said the acquisition will increase its market share in Chile and Colombia, wire services reported. Founded in 1974, Sonda currently has operations in nine countries in Latin America including Chile, Brazil, Mexico and Colombia. In fiscal year 2008, Sonda reported consolidated revenue of \$671.3 million.

**Featured Q&A***Continued from page 2*

this administration a huge failing grade. Although a PRI comeback was foretold and expected, the magnitude of its win, both in the lower house of Congress where preliminary results show that it more than doubled the number of seats held after the 2006 elections, as well as in capturing five of six gubernatorial races, is overwhelming. Together with its coalition Green party, the PRI will have a majority in Congress and Calderon will have to govern during his remaining three years with their acquiescence on almost every issue. The PRD, as expected, fell below its historical level of 17 percent of the vote, with early returns giving it only 72 seats, a loss of 55 deputies from the previous election. Even in Mexico City, the PRD's main stronghold, its candidates lost to the PAN in several key races and in some of the capital's Legislative Assembly. Sunday's vote was also a key defeat for the leader of the PAN, German Martinez, who resigned on Monday and called for a meeting of the party's executive to select a new president, someone better able to co-exist with the winning PRI-PVEM coalition. My own prediction is that important legislative initiatives still to be considered—fiscal, labor, energy and state reforms—will probably be even more difficult to get through Congress, with a newly revitalized PRI showing its muscle and creating obstacles to most if not all of Calderon's proposals. However, if the PRI leadership takes good advantage of its newly acquired strength and majority, some of the economic and political reforms that Mexico so desperately needs could be passed in the next two years so that Calderon and the PAN pay their political price and pave the way for a PRI presidency in 2012."

**A Board Comment: James R. Jones:** "One reason for the good showing by the PRI was the perception that the PRI was a more constructive opposition than it was during the Fox administration.

Additionally, the PRI seems to have rebuilt its grassroots political machinery to turn out the vote. Mexico's prolonged and deep economic downturn also played against the party in power, the PAN of President Calderon. The internal squabbles of the PRD and the perceived obstructionist actions of Lopez Obrador, clearly cost the left wing. Going forward, all major political parties must be careful because my sense is that the Mexican electorate is quite negative on politicians of every party. The challenge for the PRI is to stake out a few issues that will differentiate it from the PAN and PRD while selecting other issues important to Mexico's future on which the PRI can cooperate with President Calderon and the PAN in Congress to show that it has the maturity to govern and put politics as usual aside. President Calderon will need to do what he does well, retail politics working with the congressional opposition and the PAN behind the scenes to select those issues which show that he can govern in a bipartisan fashion for the benefit of all Mexicans. Looking at the 2012 elections, the losers will be those parties or politicians who are perceived to ignore the reforms needed to secure a better future for Mexico in order to practice petty politics."

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**Jesús Silva-Herzog** was Mexico's ambassador to the United States and Mexico's secretary of finance.

**Rogelio Ramírez de la O** is director of Ecanal in Mexico City

**Andrés Rozental** is a member of the Advisor board, president of *Rozental & Asociados* in Mexico City and was deputy foreign minister of Mexico.

**James R. Jones** is a member of the Advisor board, co-chair of *Manatt Jones Global Strategies* and former US ambassador to Mexico.

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**Erik Brand,**  
General Manager, Publishing  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta,**  
Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Matthew Schewel,**  
Reporter, Assistant Editor  
[mschewel@thedialogue.org](mailto:mschewel@thedialogue.org)

**Inter-American Dialogue:**

**Peter Hakim,**  
President

**Michael Shifter,**  
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**Marifeli Pérez-Stable,**  
Vice President, Democratic Governance

**Jeffrey M. Puryear,**  
Vice President, Social Policy

**Viron Vaky,**  
Senior Fellow

**Subscription Inquiries** are welcomed at  
[freetrial@thedialogue.org](mailto:freetrial@thedialogue.org)

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1211 Connecticut Avenue, Suite 510  
Washington, DC 20036  
Phone: 202-822-9002 Fax: 202-822-9553

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