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## FEATURED Q&A

# What Are Lula's Intentions for Brazil and Latin America?



Brazilian President Luiz Inácio Lula da Silva said he wanted Mercosur to advance trade negotiations with Canada, South Korea and Singapore, in addition to the European Union, and deepen trade relations in the region. // File Photo: Brazilian Government.

**Q Mercosur, the South American trade bloc made up of Brazil, Argentina, Paraguay and Uruguay, held a summit in Argentina on July 3-4 in an effort to reach a trade deal with the European Union. Brazilian President Luiz Inácio Lula da Silva also said he wanted Mercosur to advance trade negotiations with Canada, South Korea and Singapore, as well as deepen trade relations in the region. How successful was Mercosur's two-day summit earlier this month? What are Lula's intentions for Brazil's leadership in the region, and how effectively is he restoring the country's role in international affairs? How will Lula leverage his popularity on the global stage, notably with Venezuela, which Mercosur suspended in 2016?**

**A Peter Hakim, president emeritus and senior fellow at the Inter-American Dialogue:** "Not much could be expected from the recent Mercosur summit. Two of Mercosur's four presidents (of Argentina and Paraguay) will leave office this year and a third (of Uruguay) in 2024. It's not a good time to make any major decisions. Still, the Mercosur now confronts two big, intertwined issues. First, Lula, who recently assumed Mercosur's rotating chair, is aiming to restore Venezuela's full membership (seemingly regardless of the integrity of an upcoming election) and also incorporate Bolivia. The second is whether and how the Mercosur countries can finally reach agreement with the European Union on the terms of a trade pact that has been in negotiation for two decades. These two issues may clash. Surely, an agreement with the E.U., already a major economic partner with each member coun-

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## TODAY'S NEWS

### ECONOMIC

## Argentina's Foreign Bonds Soar Following Santa Fe Election

Argentina's foreign bonds jumped after the opposition coalition defeated the left-leaning incumbent in a primary gubernatorial election Sunday night.

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### BUSINESS

## Pemex Bonds Plunge After Cut in Credit Score

Mexican state-owned oil company Pemex's bonds plunged after Fitch Ratings cut its credit score to B+.

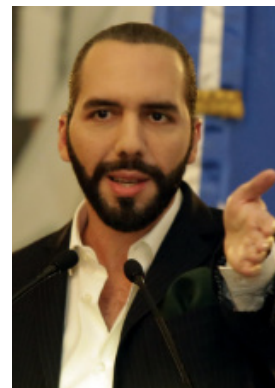
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### POLITICAL

## Salvadoran Police Arrest 100 Colombians Over Money Laundering

Salvadoran police arrested more than 100 Colombians for their alleged involvement in money laundering schemes from drug trafficking and gang activities. President Nayib Bukele has been cracking down on gangs since last year.

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Bukele // File Photo: European Union.

## ECONOMIC NEWS

## Argentina's Foreign Bonds Soar Following Santa Fe Election

Argentina's foreign bonds jumped after the opposition coalition defeated the left-leaning incumbent in a primary gubernatorial election Sunday night, Bloomberg News reported. Former provincial Security Minister Maximiliano Pullaro beat rival Carolina Losada to secure his place in the general elections. Securities due in 2030 reversed a three-day slump, adding almost 1 cent to nearly 34 cents on the U.S. dollar after voters in the third-biggest province, Santa Fe, sided with a gubernatorial candidate who is allies with center-right presidential contender Horacio Rodriguez Larreta. The results indicate high dissatisfaction for the incumbent Peronist coalition and signal voters are looking to elect the more business-friendly coalition, Juntos por el Cambio, in October's presidential elections. "To some extent the vote is a 'victory' for Larreta over Bullrich," Javier Casabal, a fixed income strategist at Adcap in Buenos Aires, told Bloomberg. "A Larreta versus Massa match-up in October is probably the preferred scenario for the market," he added. This week, government officials are also looking forward to the expected closing of an agreement to rework its \$44 billion lending program with the International Monetary Fund, Pilar Tavella, an economist at Barclays in New York, said to Bloomberg. Argentina's government owes the IMF some \$2.6 billion by the end of July or risks running into debt, which it avoided by making a similar-sized payment in June through a currency swap line with Beijing.

## Colombia's Petro Backs Reforms Amid Stagnating Economy

Colombia's President Gustavo Petro is rejecting claims that his country's economy is stagnating because of his controversial reform

agenda, which includes his desire to end fossil fuels, the Financial Times reported today. Petro told the Financial Times that Colombia's economy, the region's fourth largest, has potential "aside from just oil: the development of a productive agriculture industry ... tourism ... the country's beauty, and the possible export of clean energies." He's also trying to push legislation promoting social reforms that is splitting his broad coalition. Last month, a bill reducing working hours failed to make it through congress, and another, expanding the state's role in healthcare and pensions, is pending approval. Experts fear Colombia risks falling foul of its own fiscal rules if it implements the spending increases needed to finance the reforms—a claim Petro counters by explaining the funding would come from "a substitution of costs." They believe these expensive and controversial reform policies will cause Petro—whose approval rating has dropped from 50 to 33 percent—to struggle to reassemble a coalition with partners, especially when oil and coal production constitute half of Colombia's exports. Colombia's challenge is next year, when "adverse political developments could dampen private investment and reduce the country's GDP growth rate, making it harder to meet fiscal targets and stabilize the burden of government debt," Joydeep Mukherji, managing director of sovereign ratings at S&P Global, told the Advisor in a [Q&A](#) published May 3. In 2022, Colombia was Latin America's fastest-growing economy, but its growth is forecast at just 1 percent in 2023, according to the International Monetary Fund.

## POLITICAL NEWS

## El Salvador Arrests Colombians Over Money Laundering

Salvadoran police arrested more than 100 Colombians for their alleged involvement in money laundering schemes from drug trafficking and gang activities, security officials said on Monday, Reuters reported. The criminal

## NEWS BRIEFS

## Most Peruvians Believe Economy Doing Worse Under Boluarte: Poll

A majority of Peruvians believe the economy is faring worse under President Dina Boluarte, a survey by local pollster CPI showed on Monday, Reuters reported. The survey followed a government announcement that the country's economy contracted 1.43 percent year-on-year in May, a larger decline than expected. Boluarte assumed the presidency seven months ago, after former President Pedro Castillo was ousted and arrested over his attempt to dissolve Congress and rule by decree.

## Brazil's Economic Activity Declines 2% in May

Brazil's economic activity slowed in May, according to a central bank index on Monday, Reuters reported. The IBC-BR economic activity index, a key indicator of the country's gross domestic product, declined by a seasonally adjusted 2 percent compared to April, a worse performance than expected by analysts in a Reuters poll, who predicted zero growth. It marks the most significant drop since March 2021. The central bank maintained interest rates at 13.75 percent since September in an effort to combat inflation.

## Pemex Bonds Plunge After Fitch Ratings Cuts Credit Score to B+

Mexican state-owned oil company Pemex's bonds plunged on Monday after Fitch Ratings kept a negative outlook on the company and cut its credit score to B+, Bloomberg News reported. Fitch said the company's oil production will not grow and recent incidents have generated uncertainty amid rising debt levels. The company owes \$107.4 billion, making it the most indebted oil major in the world. [Editor's note: See related [Q&A](#) on Pemex in the Feb. 17 issue of the weekly Energy Advisor.]

groups reportedly created loans using funds obtained illegally for individuals and small businesses, and charged a 20 percent interest rate on them. President Nayib Bukele has been cracking down on gangs since March last year, a policy that has resulted in some 70,000 incarcerations but a sharp decline in violent crime and a strong approval rating, Reuters reported. Thousands of innocent people are suspected to have been arrested since the offensive began, The Guardian reported. "The dismantling of gangs has enormous life-changing potential for the country," El Faro news outlet reported. "The mass arrests are political theater, covering up the failures of mano dura policing by successive administrations in El Salvador, the latest being that of President Bukele," Michael Paarlberg, an assistant professor of political science at Virginia Commonwealth University and associate fellow at the Institute for Policy Studies told the Advisor in a Q&A published last August. "At the same time that the government has been locking up ordinary citizens for such things as having tattoos, living in neighborhoods with gang presence or 'looking like criminals,' it has freed top leaders of MS-13, going so far as to escort one out of the country to avoid extradition to the United States," he added. Earlier this month, El Salvador's ruling New Ideas party nominated President Nayib Bukele as its candidate for next year's election, despite criticism from opposition members and legal experts who say the country's constitution prohibits presidential re-election, the Associated Press reported.

## BUSINESS NEWS

# Petrobras to Keep Investments in Line With Previous 5 Years

Brazil's state-owned company Petrobras will maintain total investments in its next five-year business plan in line with the last, CEO Jean Paul Prates said, Reuters reported on Monday. The announcement relieved market fears of heightened spending under President

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try, would energize Mercosur (which has negotiated only a handful of other trade pacts, all with a few small countries). But bringing Venezuela, an uncompromising, dictatorial regime, into Mercosur would almost certainly delay and could well end any prospect of an E.U.-Mercosur accord. And there are still other obstacles to overcome, including the continuing opposition of the E.U.'s agricultural producers, particularly in France and Ireland, concerning low-cost competition from Brazil and Argentina. Meanwhile, Lula has objected to several demands from the E.U. regarding the opening of Brazil's economy and supervision of environmental protections. Lula did receive a robust welcome across the globe following his election last year, and he has been warmly greeted in the many nations worldwide he has visited. But, so far he has not progressed much toward recouping the international stature of Brazil. There are good reasons for his insistence that Brazil remain non-aligned and seek relations with all nations. But non-alignment cannot mean that two warring countries—for example, Ukraine and Russia—bear equal responsibility for the conflict, as Lula claimed. Similarly, bringing Venezuela back to Mercosur and calling for reduced sanctions may help pave the way toward meaningful negotiations. But dismissing any criticism of Maduro's authoritarian rule in Venezuela was a mistake."

Luis Inácio Lula da Silva's leftist government. Petrobras is looking to preview its 2024-2028 business plan next month, Prates said, ahead of its final approval at the end of the month. The capital expenditure will be similar to the \$78 billion outlined in a 2023-2027 plan approved in December, before Lula took office. "One of the concerns we've seen from investors was related to a potential capex increase in the company's upcoming strategic plan," Goldman Sachs analysts wrote in a note on Monday evening. "As such, we believe today's comments should be well-received by the market," they added. Prates also said Petrobras' dividend

**A** **Allison Fedirka, director of analysis at Geopolitical Futures:** "At the summit, Lula established red lines over environmental practices Brazil will accept from the European Union and what parts of the Brazilian economy needed to be protected by a free trade agreement with the E.U. The summit was successful for setting perimeters for

“**Brazil's potential to assume a greater role in international affairs is due to the increased importance of the Global South, the Ukraine war and the size of the Brazilian economy—not Lula.**”

— Allison Fedirka

continuing negotiations but not imminently signing a deal. Brazil's potential to assume a greater role in international affairs is due to the increased importance of the Global South because of the global economic restructuring, the Ukraine war and the size of the Brazilian economy—not Lula. Brazil

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policy will be "adjusted" to the ambitions of a company moving toward green energy with a new emphasis placed on renewable energy, despite its continued focus on its offshore oil exploration. "Of course we will have an important investment plan with pre-salt being very important. This is a pre-salt, offshore oil company, but it will gradually transform itself," he said. Petrobras is still committed to exploration in the Amazon basin, and would consider expanding exploration abroad into neighboring Guyana and Suriname in the Equatorial Margin, following Brazil's northern coastline, Prates said, Reuters reported.

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has had opportunities to assume regional leadership prior to Lula. However, Brasília shied away from such a role because of the additional responsibilities it would need to assume toward its neighbors. Ultimately, the Brazilian government will act first in the best interest of the country and then the region. This can be observed through trade talks with Canada and Japan in which bilateral economic agendas were discussed at length in addition to Mercosur matters. Lula tries to capitalize on political alignment with countries in the region as grounds for leadership rather than committing substantial physical or financial resources. This is one of several reasons why Brazil will likely not play any major role in the future of Venezuela. Additionally, Colombia is better positioned to support regime transition when the time comes. The United States is already easing sanctions against Venezuela. Both the United States and European Union have companies in position to take advantage of the Venezuelan markets in the reconstruction phase.”

**A** **Lucas Mandelbaum Bianchini, senior associate at Azevedo Sette Lawyers in São Paulo:** “The recent Mercosur summit ended with the signature of a joint communiqué between the presidents of Brazil, Argentina and Paraguay. The document reaffirms Mercosur’s social agenda, its commitment to democracy and the importance of modernizing the bloc, but it does not promise any great revolution. The tough state of negotiations with the European Union was not explicitly mentioned in the communiqué. The document was not signed by Uruguay’s president, over the lack of a more ambitious commitment to making the block’s rules more flexible. Uruguay is currently negotiating its accession to the Trans-Pacific Partnership and trying to broker a trade deal

with China. Brazil assumed the temporary presidency of Mercosur on July 4. During the summit, Lula’s speech gave some indication of where his external policy might be heading. The president highlighted the need

“**It seems difficult to envision Venezuela’s return as an associate state of Mercosur.”**

—Lucas Mandelbaum Bianchini

to increase intra-Mercosur trade and the need to liberalize trade in services. He also reinforced the idea of adopting a common currency to carry out a clearing operation between Mercosur countries, an issue he has been pushing lately. Lula also spoke harshly about the European Union’s demand for an additional instrument regarding environmental matters as a condition to the trade deal. He also criticized the imposition of a public procurement clause which would allow European companies to compete equally for government purchases. At this point, it seems difficult to envision Venezuela’s return as an associate state of Mercosur. During the summit, both Paraguay and Uruguay’s presidents criticized Venezuela’s recent decision to declare an opposition leader ineligible, allegedly due to political reasons. Lula is not usually shy about expressing praise for the government in Caracas, but limited himself to suggesting confronting democratic problems with dialogue. Lula participated in the third E.U.-CELAC summit that took place July 17-18. The event may have provided him with an opportunity to reinforce Brazil’s position regarding the E.U.-Mercosur deal.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.*

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