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## FEATURED Q&A

### Are Raúl Castro's Reforms Helping Cuba's Economy?

**Q** In late September, Cuba's government announced the legalization of 18 new categories of private employment, including real estate agents, bringing the total number of approved types of independent employment to 199. While Raúl Castro's government has issued more than 430,000 private employment licenses since 2010, the latest employment legalization effort also included bans on certain economic activities, including the reselling of imported goods. Are Cuba's newest economic reforms likely to bear fruit? How much has the state ceded control of the economy to market forces in recent years? What surprises might lie in store for Cuba's economy and its business climate?

**A** Matthew Aho, consultant in the corporate practice group of Akerman Senterfitt in New York: "The decision to legalize new categories of private employment is yet another incremental step that—combined with other changes since 2010—clearly indicates a shift away from total state control and toward a 21st-century mixed market economy. Other recent examples include the September publication of new rules governing foreign investment at the Mariel Export Processing Zone and the Oct. 9 decision to allow state tourism agencies to do business with private enterprises, such as bed and breakfasts and restaurants. The Cuban state will remain the economy's dominant player, but the space it has yield-

ed so far was inconceivable five years ago. And it's paying off: visitors to Havana report a never-before-seen economic vibrancy transforming the urban landscape, as black-market businesses leave the shadows and new, remittance-fueled ventures arise. What's more, the recent loosening of migration restrictions and the passage (likely in 2014) of new foreign investment laws signal that policymakers are preparing for infusions of foreign investment and remittance capital in the medium-to-long terms. There is a bevy of

*Continued on page 3*



### Brazil's Rousseff Confirms Plans to Create Secure E-Mail System

In a series of tweets, Brazilian President Dilma Rousseff confirmed the government's plans to create a secure e-mail system. The move comes after several weeks of revelations about U.S. spying in Latin America and elsewhere. See story on page 2.

*File Photo: Brazilian Government.*

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## NEWS BRIEFS

**Plane With 14 Onboard Goes Missing in Mexico**

A small plane with at least 14 passengers onboard went missing Monday after taking off from Loreta in Baja California, according to Mexican authorities, BBC News reported. The plane's destination was Ciudad Constitución, about 97 kilometers (60 miles) south of Loreta. Efforts to contact the pilot were not successful, but the approach of Tropical Storm Octave to the Mexican coast has halted search efforts, which are suspended until the weather conditions change.

**Costa Rica Asks World Court to Halt Nicaragua Canal Dredging**

Costa Rica's government on Monday asked the United Nations' International Court of Justice to halt Nicaragua's construction of two canals from the Caribbean Sea to the San Juan River, which forms part of the border between the Central American countries, the Associated Press reported. Edgar Ugalde Álvarez, who represented Costa Rica in the argument, asked the court to stop Nicaragua's dredging of new canals and order it to remove Nicaraguan personnel from the area. Nicaragua is expected to address the court today.

**Cholera Outbreak Kills One, Sickens at Least 159 in Mexico**

Mexican officials said Monday that an outbreak of cholera has caused at least 159 people to fall ill and caused one death, the Associated Press reported. The outbreak, whose source seems to be a river in Hidalgo into which sewage drains, has spread to four states and the capital and is the first local transmission in Mexico since an outbreak in 2001. The death and 145 of the cases were reported in Hidalgo state.

## Political News

**Brazil's Rousseff Confirms Plans to Establish Secure E-Mail Service**

Brazilian President Dilma Rousseff confirmed over the weekend in a series of postings on Twitter that the country will create a secure e-mail service. The decision comes after revelations in recent months that the United States and

*Brazil's Federal Data Processing Service, known as Serpro, will be tasked with creating the system, said Rousseff.*

Canada have spied on electronic communications in Brazil and other Latin American countries. The U.S. National Security Agency spied on e-mails, phone calls and Internet pages Rousseff herself visited, according to documents released by former NSA contractor Edward Snowden. In addition, *The Washington Post* reported Monday that the NSA has collected hundreds of millions of contact lists from personal e-mail accounts and instant messaging applications globally, including from many Americans. Rousseff said in a tweet that a secure e-mail system for Brazil is needed to "prevent possible espionage." Brazil's Federal Data Processing Service, known as Serpro, will be tasked with creating the system, said Rousseff. Ross Anderson, head of the security research group at the computer laboratory at the University of Cambridge, told BBC News that technology needed for Brazil to establish the e-mail system has precedent, but would be complicated. "There's a good precedent for this with the German provider **Gmx.de**," said Anderson. "They just need to tell a company to keep the servers in Brazil, encrypt all the traffic inside or outside the country, and only give access to Brazilian police and intelligence services." Brazil could create a system that would shut the NSA and other government spy agencies out from collecting data unless

they have the cooperation of the countries where servers are located, said Anderson. However, data still could be intercepted if spies installed malware on the computers of their targets or if e-mail users corresponded with people who had non-secure e-mail accounts. "From the point of view of people writing to each other in Brazil, they have some protection against foreign snooping, however more and more business these days is done internationally," he said. "With Gmail having something like a third of all e-mail traffic worldwide, that means the Americans will still be able to read an awful lot of messages." Rousseff called off a state visit to Washington that had been planned for this month after it was revealed that the United States had snooped on her and on Brazilian state oil company **Petrobras**. "Without respect for [a nation's] sovereignty, there is no basis for proper relations among nations," Rousseff said later in a speech to the United Nations.

## Economic News

**Brazil Bank Strike Comes to a Close as Workers Accept Offer**

A bank strike that began in Brazil on Sept. 19 came to a close Monday as labor unions agreed to banks' latest salary offer, Agência Brasil reported. The work stoppage was the longest bank strike in Brazil since 2004. Among the bank employees voting on the latest offer were workers in the states of São Paulo, Rio de Janeiro and Minas Gerais. Union leaders had sought a



Cordeiro pay increase of 11.93 percent, *The Wall Street Journal* reported. Banks responded by improving their offer for a 7.1 percent increase to an 8 percent offer, which unions recommended that workers accept. Unions that make up the National Confederation of Financial Sector Employees, or Contraf-Cut, have said they represent some 95 percent of Brazil's

490,000 bank employees. Contraf-Cut, which is led by Carlos Cordeiro, did not say exactly how many of its workers had joined the strike, but it did say last week that the work stoppage had forced the closure of more than half of Brazil's 20,000 bank branches. There was some data showing that the strike was starting to affect lending in Latin America's largest economy, but analysts are expecting that lending will bounce back quickly with the end of the strike. Rather than shunning new credit, Brazilian consumers will only postpone their applications for new loans, according to analysts, *The Wall Street Journal* reported.

### New Trade Agreement 'Depends on Mercosur': E.C. Official

A trade agreement between the European Union and the South American Mercosur bloc "depends on Mercosur," said a top official at the European Commission, MercoPress reported Monday. "Mercosur has its problems; we have been discussing the cooperation and trade agreement for

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“Brazil is too important, is full of opportunities for business and investments, and for the E.U., agreements are essential to continue developing and expanding.”

— Antonio Tajani

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over a decade, almost 15 years, and the issue is clearly in the hands of Mercosur," Antonio Tajani, the European Commission's vice president for industry and entrepreneurship, said following a two-day visit to Brasília. "Brazil is too important, is full of opportunities for business and investments, and for the E.U., agreements are essential to continue developing and expanding." Tajani said Mercosur has "problems," referring to Paraguay's suspension from the bloc and Venezuela's inclusion as a full member without Paraguay's participation.

### Featured Q&A

*Continued from page 1*

potential surprises, foreign and domestic. At home, the recent ban on reselling imported goods met swift and unusually vocal opposition from entrepreneurs vowing to disobey the rules. In the months ahead, the government must decide how to engage 430,000 private economic actors (and those dependent on them) as a rising political force on the island. Abroad, President Obama will decide whether to support the Cuban people in their pursuit of greater economic self-determination through proactive policies or do nothing—thereby clinging to decades of failed sanctions—because he sees no political upside. 2014 could be a real tipping point in U.S.–Cuba relations, but only if both sides seize the moment. That, unfortunately, would be the biggest surprise of all."

**A** **Collin Laverty, founder and president of Cuba Educational Travel:** "Time will tell how far and how fast the reforms go, which will determine their economic, political and social impact. Up until now, the government has been very cautious—prioritizing stability while also making drastic changes within the context of the last five decades of communist rule. Legalizing small-scale enterprise, expanding cooperatives and creating a housing market are important steps, affecting the psychology of Cubans and how they see and operate in the market. However, these important reforms will not result in significant improvements in the overall performance of the economy. Larger, more controversial and difficult reforms will need to be implemented in order to fundamentally change the makeup and output of the economy, such as currency reform, increased foreign investment, legalization of more private enterprises, including those of medium-scale, the organic creation of cooperatives, an end to excessive subsidies to inefficient state-owned enterprises and increased access to telecommunications. The government's decision in

late September to expand private enterprise but simultaneously restrict the sale of imported goods shows contradictions in the process. Official discourse is to remove the state from non-essential areas of the economy, but the forces that be are unwilling to relinquish their monopoly in the retail sector. A better approach would be to remove luxury taxes on goods sold at dollar stores and focus on currency reform and economy-wide pricing adjustments, which would allow it to compete with the private sector. Albeit slowly, the process continues to be two steps forward, a half step backwards, and demographics and economic necessity should keep it that way."

**A** **Kirby Jones, president of Alamar Associates in Arizona:** "The numbers speak for themselves: the reforms in Cuba are real, will continue and have already changed the face of Cuba. If you had asked me just a few years ago whether I would expect what is going on in Cuba today, I would say a resounding no. But the reforms have already borne fruit. The Batistianos like Rep. Ileana Ros-Lehtinen and Sen. Robert Menendez can question the reforms all they want, but their criticisms do not change the reality on the ground. And now we hear of pilot projects with only one currency. Facts speak for themselves. And through all of this, the United States is on the outside clinging to a policy rooted in the last century. The Cuban government has ceded some control on economic matters, and true market forces are at work. Is that not what the United States wants? These reforms are like toothpaste that cannot be put back into the tube. There will be problems as well as starts and stops along the way. The United States could be helping this process instead of trying to stop it. Meanwhile Brazil, China and many others are part of the change, realize that it is real, are investing in Cuba and are making money in the process. The United States should do the same."

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**Featured Q&A***Continued from page 3*

**A Carmelo Mesa-Lago, professor emeritus of economics and Latin American studies at the University of Pittsburgh:** "The re-authorization/extension of self-employment is a key of Raúl's reform to enlarge the private sector and dismiss 1.8 million workers unneeded in the state sector. Currently, 22 percent of the labor force is in the non-state sector. It should jump to around 40 percent by 2015 and account for a rising percentage of GDP. But self-employment is obstructed by several constraints: 1.) The large majority of occupations are unskilled or require little skills, whereas most of the state employees to be fired are professionals or skilled workers. 2.) University graduates (badly needed in the private sector, such as managers, engineers and architects) can't practice as self-employed, hence they may work as taxi drivers or food sellers but not in their professions. 3.) Taxes are quite a burden. For instance, the tax rates on the labor force gradually increase with the number of employees hired, therefore penalizing those self-employed that hire more employees, which is a disincentive for the self-employed and counterproductive in the state quest to get rid of surplus labor. 4.) The government sends contradictory signals, such as raids to shut down self-employed Cubans who have stands under Havana porches, or the government first taxes and then bans the sale of imported goods. Currently the reforms are insufficient to solve the many economic and social problems accumulated under half a century of centralized, inefficient socialism. There is a wide consensus inside and outside Cuba that they must be deepened and accelerated to accomplish that task, but Raúl has little time left to do so before he retires in 2018."

**A Archibald Ritter, distinguished research professor emeritus of economics and international affairs at Carleton University:** "Major changes have been implemented already, and further reforms are in the works or on the horizon. The reforms will continue to orient economic policy and

lead to substantial improvements in the Cuban economy and in citizens' living standards. The market-oriented component of the Cuban economy has expanded and now includes about 27.5 percent of the employed labor force. It will expand dramatically if the pseudo-cooperative state farms and non-agricultural state enterprises become authentic cooperatives. Registered micro-enterprises now include 430,000 people, 8.6 percent of the employed labor force. The market-oriented joint foreign/state enterprises employ about 1 percent of the labor force. The market-oriented underground economy provides full- or part-time first or second jobs for maybe 10 percent of the labor force. Under September 2012 legislation, the Unidades Básicas de Producción Cooperativa should become real cooperatives, increasing the mainly private sector in agriculture to approximately 11.6 percent of the labor force. Non-agricultural cooperatives in time should include most of the goods- and services-producing state sector. They are to be worker-managed and under the forces of supply and demand. The new Mariel Export Processing Zone may attract major investments, especially from China and Brazil, and provide a strong market-propelled stimulus. The transformation of state enterprises into authentic market-oriented cooperatives would constitute a change and improvement of historic dimension. Cuba could become a country of 'worker ownership and management' and continue to be unique in the world. In contrast to the ideology-based policy impetuosity and vacillation of President Fidel Castro over 47 years, the approach of President Raúl Castro has been cautious, gradual, pragmatic, stable and 'evidence-based.' There are downside risks. Bureaucratic foot-dragging may slow the reforms. The 'special relationship' with Venezuela may falter with political change and changed economic priorities in that country. But the economic surprises are more likely to be positive, and there may even be some positive political surprises—I never cease to hope. A most welcome surprise would be a normalization of U.S.-Cuba relations during the presidency of Barack Obama."

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