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FEATURED Q&A

Will Castillo's New Cabinet Inspire Confidence in Peru?



Peruvian President Pedro Castillo on Oct. 6 swore in his new prime minister, Mirtha Vásquez, who took office amid a broader cabinet shuffle. // Photo: Peruvian Government.

Q Leftist Peruvian President Pedro Castillo on Oct. 6 dismissed his controversial prime minister, Guido Bellido, replacing him with Mirtha Vásquez, a moderate leftist and former interim president of Congress. Bellido's ouster came amid a cabinet shuffle in which Castillo also replaced his ministers of mining and labor but left other officials, including Finance Minister Pedro Francke, in place. What do the changes show about the direction of Castillo's government? Does replacing Bellido and others mean that moderates have won out against far leftists in Castillo's cabinet, and will the changes reassure investors in Peru? What actions can Vásquez be expected to take as prime minister?

A Carlos Arata, partner at Rubio Leguía Normand in Lima: "Pedro Castillo is showing intentions of shifting to more moderate positions. First, he ratified Jorge Velarde as president of the central bank. During his tenure at the central bank, Velarde has shown himself to be a strong defender of a conservative approach to the country's finances. Also, Bellido's replacement was a necessary move by Castillo in order to give the markets certain tranquility that Bellido's and Perú Libre's agenda will not be pursued as a priority. It is clear that Bellido's manners and intentions were creating a lot of instability in the country. The last straw was his statements on the renegotiation of the Camisea gas concession agreement (we renegotiate or we expropriate). Castillo had to ask for his resignation; otherwise, Congress was going to demand an explanation from Bellido (and Íber Maraví, the labor minister, who was accused of being a former member of the Shining Path

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The United States will allow fully vaccinated visitors coming from Mexico and Canada to cross its land borders.

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Most Brazilian consumers are reluctant to share data in exchange for better deals on financial products, according to a survey.

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Mexican President Andrés Manuel López Obrador is seeking to close hundreds of private power plants and guarantee the state utility "at least" 54 percent of the power market.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

U.S. Opening Land Borders to Visitors From Mexico, Canada

The United States announced Tuesday it will open its borders with Canada and Mexico to fully vaccinated travelers in early November, nearly 19 months after they were closed due to the coronavirus pandemic. "Cross-border travel creates significant economic activity in our border communities and benefits our broader economy," Homeland Security Secretary Alejandro Mayorkas said in a statement. "We are pleased to be taking steps to resume regular travel in a safe and sustainable manner." The modifications to regulations will occur in two phases over the next few months. First, in early November, U.S. Customs and Border Protection (CBP) will begin allowing fully vaccinated travelers from Mexico or Canada to enter the United States at land and ferry points of entry for non-essential reasons. Travelers will be required provide proof of vaccination. Beginning in early January, CBP will require that all inbound foreign national travelers crossing U.S. land borders for essential or non-essential reasons to be fully vaccinated for Covid-19 and provide proof of vaccination. "This approach will provide ample time for essential travelers such as truckers, students, and healthcare workers to get vaccinated," the statement said. [Editor's note: See related [Q&A](#) in the Aug. 6 edition of the Advisor.]

ECONOMIC NEWS

Mexico's López Obrador Eyes Closing Private Power Plants

Mexican President Andrés Manuel López Obrador on Monday presented the details of his plan to close hundreds of private power plants and also cancel several long-term contracts

for the supply of energy and clean-energy preferential purchase arrangements, the Associated Press reported. The constitutional reform, which López Obrador sent Congress earlier in October, would cancel contracts that govern the sale of electricity from 34 private power plants to the national grid, and it would declare illegal 239 other private power plants that sell energy directly to corporate customers in Mexico, the AP reported. The measure also guarantees the state power utility, the Federal Electricity Commission, or CFE, a share of "at least" 54 percent of the market. López Obrador's government had previously promised that it would reserve 46 percent of the market for private companies. The legislation would allow the CFE to determine for itself whether it wanted to exceed the 54 percent market share, the wire service reported. The measure would need a two-thirds majority to pass in Congress. However, the ruling Morena party's loss of its supermajority in the lower chamber of Congress in last June's midterm elections puts the passage of such a plan in doubt, Gonzalo Monroy, managing director of consultancy GMEC, told the weekly Energy Advisor in a [Q&A](#) published June 25. "Given the loss of a qualified two-thirds majority in the lower house, the probability of passing a significant reform is close to zero," said Monroy. "Even though President López Obrador has opened the possibility of negotiating with opposition parties, it is a futile attempt," he added. However, in the same issue, Fluvio Ruiz Alarcón, a Mexico-based oil and gas analyst, said such a reform has "some chance of being approved" in Congress. "President López Obrador has as a main goal for the CFE not to continue to lose participation in electricity generation.," Ruiz Alarcón told the Energy Advisor. López Obrador's plans could run afoul of the U.S.-Mexico-Canada Agreement, or USMCA, however. Foreign investors built many of the private power plants that would be shut down under the measure, the AP reported. The plants were built in accordance with Mexico's 2013 energy reform, which López Obrador wants to roll back. However, the foreign owners of those plans could lodge complaints under provisions of the USMCA that guarantee equal treatment for foreign entities and bar preferential treatment for state-run or local firms, the AP reported.

NEWS BRIEFS

IMF Expects 6.3% Growth in Region By Year's End

The International Monetary Fund on Tuesday raised its growth forecast for Latin America and the Caribbean this year but lowered it for 2022 as compared to estimates made in July. The lender said in its latest World Economic Outlook report that it expects 6.3 percent growth in the region by the end 2021, up 0.5 percent from July estimates. However, the IMF expects 2.5 percent growth in the region for 2022, 0.2 percent less than July forecasts. The IMF expects Brazil and Mexico, the two largest economies in the region, will grow next year by 1.5 percent and 4 percent, respectively.

E.U. Diplomat Sending Observers to Venezuela Despite Staff Objections

Josep Borrell, the head of the European External Action Service, is sending observers to Venezuela's regional and municipal elections next month over the objections of his own staff, the Financial Times reported. Staff members sent to Venezuela in July warned that sending observers may "indirectly legitimize Venezuela's electoral process," according to an internal document, the newspaper reported.

Chile's Piñera Declares State of Emergency Amid Unrest Involving Mapuche

Chilean President Sebastián Piñera on Tuesday declared a state of emergency in two regions of southern Chile amid violent unrest blamed on Indigenous Mapuche groups demanding the return of their ancestral lands, the Associated Press reported. The army has deployed three helicopters, 10 tanks and doubled its troop presence in the Macrozona Sur area to 900, La Tercera reported. Some Mapuche leaders claim Piñera was using unrest in the region to distract from political fallout over his ties to the Pandora Papers scandal.

BUSINESS NEWS

Brazilians Reluctant to Share Data Under Open Banking Rules

Most Brazilian consumers are reluctant to share banking data in exchange for personalized offers and better deals on financial products under the country's open banking regulations, according to a study that NPS Prism carried out with Bain & Company, ZDNet reported Monday. Fifty-nine percent of respondents in the survey said they were not planning to share data with financial services companies under open banking, which allows third-party financial services companies to access consumers' banking data with their consent through application programming interfaces, or APIs. Brazil is currently phasing in the open banking practices. Among those reluctant to share banking data, 35 percent said they were unwilling to share their data with businesses, 34 percent said they doubted the protocols in place to keep their data secure, and 33 percent said they feared receiving too many cold calls or other solicitations from companies. Among those in the study who said they would agree to share their data, 59 percent cited the reputation of the business with which they were interacting, 57 percent said they were satisfied with the clarity over how their data would be used, 43 percent cited the level of customer service provided to clients, 38 percent referred to the benefits that would be extended to them and 23 percent cited recommendations from family or friends. The study surveyed 3,500 people across Brazil between Aug. 21 and Sept. 10. A separate study published last May and released by Brazilian digital bank C6 showed that 43 percent of the respondents in the 2,000-person survey did not want to share their data, ZDNet reported. Women and people 55 or older were the most hesitant in that group, the survey found. Brazil's central bank approved the open banking regulations in early 2019 as part of a financial system modernization program. Brazilian officials are expecting to fully roll out the regulations by next September.

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terrorist group). This does not mean that the government is moderating, as certain new members of the cabinet are still on the far left end of the political spectrum. However, these moves do show, on one hand, that the friction inside the two factions is real and the moderates are winning. On the other hand, they show that the government is making efforts to move toward less radical approaches. Although we still need to be vigilant and cautious, it seems that economic policies will be more investor friendly and are looking for a more social approach to the country's growth."

A **Cynthia McClintock, professor of political science and international affairs at The George Washington University:** "Castillo's new cabinet represents an important shift away from the far-left faction of Perú Libre, led by the party's founder, Vladimir Cerrón. Yet, since his July inauguration, Castillo has sent mixed messages; fears both that he is extremely unprepared for the presidency and that he secretly harbors a radical agenda are widespread. Given that Perú Libre and Verónica Mendoza's moderate left party hold approximately one-third of the congressional seats, with parties at the center about one-third and parties at the right about one-third, the expectation at Castillo's inauguration was that he would marginalize Cerrón—an unreconstructed, Cuba-educated Marxist (who was convicted of corruption in Peru). However, Castillo's first cabinet included not only Bellido, a close ally of Cerrón under investigation for 'apology for terrorism,' but far-leftists at the helm of the ministries of culture, energy and mining, the environment, foreign affairs and labor (plus other ministers widely deemed unqualified for their posts). The new cabinet is more broadly based, including not only Prime Minister Vásquez, an environmentalist from a small leftist party and a diplomatic and disciplined former Congress speaker, but also moderates at energy and mining

and at production; it retains three ministers close to Mendoza's party (most importantly, Francke). However, the new interior minister is Cerrón's lawyer and, as in Castillo's first cabinet, no minister represents a centrist

“ Investors will not be confident unless Castillo's words and deeds are consistently more moderate.”

— Cynthia McClintock

party. Investors will not be confident unless Castillo's words and deeds are consistently more moderate. His proclamation of a 'second agrarian reform' in Cusco on Oct. 3—the anniversary of the leftist military coup by General Juan Velasco—was not helpful to this end. However, with Castillo's bold promises, his approval rating in Peru's interior is in the range of 50 percent—not shabby for a president who tallied only 19 percent of the first-round vote."

A **Julio Carrión, associate professor of political science and international relations at the University of Delaware:** "The first two months of the Castillo administration were an unqualified political disaster. The perception that Castillo was beholden to Vladimir Cerrón, Perú Libre's general secretary, undermined his leadership. Moreover, Guido Bellido's loquacity and penchant for controversy fueled this perception. Castillo started as a weak president, and Bellido dragged him down further. The latest IEP poll showed that only 33 percent of respondents approved of Bellido, and in removing him, Castillo has reasserted his power. The new cabinet gives Perú Libre fewer seats, but it retains some important ones. In Mirtha Vásquez, Castillo has tapped a well-respected politician to reinvent his government. Yet not all his cabinet appoint-

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ments are beyond dispute. The selection of Luis Barranzuela, Cerrón's lawyer, as interior minister is highly problematic. His position of influence in the investigation into Cerrón and other Perú Libre leaders for money laundering and illegal campaign financing represents a significant conflict of interest. Only a naïve observer would believe this appointment was accidental and not indicative of Castillo's unwillingness to break ties with Cerrón and his party. However, it is likely that the new prime minister will adopt a more moderate stance than her predecessor. Mirtha Vásquez already announced that the pursuit of a constituent assembly is not a political priority. The reappointment of Francke as finance minister and Julio Velarde as president of the central bank signals that fiscal and monetary policies will be handled responsibly. Where Bellido was comfortable antagonizing Congress, hoping to 'exacerbate the contradictions,' Vásquez will instead seek to build political coalitions in Congress to pursue her agenda. It will not be easy because the radical right has significant representation, but there is a pragmatic center that could strike partial agreements with her and Castillo."

A **Ursula Indacochea, director of the Judicial Independence Program at the Due Process of Law Foundation (DPLF):** "Undoubtedly, the changes in the cabinet are a clear sign of the government's willingness to start a dialogue with Congress to seek a minimum consensus that will make the country governable. Mirtha Vásquez is a key piece of this strategy, as she managed to stay afloat as president of Congress at the time of great political instability, at the end of 2019 and throughout the government of former President Sagasti. But in addition, these changes

seek to overcome the internal struggle within the executive branch between three groups: the circle of confidants of President Castillo, the Perú Libre party (led by radical leftist Vladimir Cerrón), and sectors of the

“These changes seek to overcome the internal struggle within the executive branch...”

— Ursula Indacochea

moderate left, all of which are represented in the cabinet. The evident tensions were proven by investigative journalism, in a report that showed former Prime Minister Bellido boycotting other members of his own cabinet. Vásquez has said the executive branch will reorganize in order to reaffirm the government's core priorities, which are education, health and housing. However, the president has sent several messages that may upset investors. The first is the idea that promoting a new Constitution is not an immediate priority, but rather a long process, which the government will pursue but on the basis of consensus. The second is that the government will promote a responsible economic policy, which has been confirmed by the permanence of Pedro Francke in charge of the economy. The third is that the government will facilitate environmentally responsible extractive industries and affected communities, which is an important message given Vásquez's background as an environmental activist."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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