

# INTER-AMERICAN DIALOGUE'S

## LATIN AMERICA ADVISOR

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### FEATURED Q&A

#### Will Latin America Be Getting More Involved in the Middle East?

**Q** Leaders gathered in Lima earlier this month for the third summit of South American and Arab countries, which brought together the Union of South American Nations and the Arab League. Delegates agreed to form a joint investment bank, expressed support for Palestine and urged the resolution of the conflict in Syria. What is the current state of economic and political relations between the two regions? Will Latin American countries play a larger role in the Middle East's geopolitical affairs in the future? What do Arab states and Latin American nations stand to gain from closer ties?

**A** Sergio I. Moya Mena, coordinator of the Center for Middle East and North Africa Studies at the Universidad Nacional in Costa Rica: "Although ongoing turmoil in the Middle East prevented a significant presence of Arab heads of state at the third ASPA Summit, the diplomatic meeting represents significant progress for the increasingly strong ties between Latin America and the Middle East. The ASPA Summit is an expression, at the highest political level, of a growing trend, evidenced by the deepening of economic ties, the opening of new embassies and even the call to build alternative axes of power between the two regions. At the moment the most promising area of cooperation is trade. Although Latin American and Caribbean countries' exports to the Middle

East account for only 2.91 percent of their global exports, a recent study by the Latin American Economic System (SELA) finds ample opportunities for new business. The key element would be exploiting the complementarity of the regions' economies and especially the growing need for food and agricultural products for many countries in the Middle East. An example of this is the increase in purchases of Brazilian meat, corn and wheat by some countries that have been shaken by the Arab Spring, such as Egypt and Libya. The latter country

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#### More Than 800 Police Move Into Two Rio Favelas

Police officers in Rio de Janeiro swarmed into two crime-ridden favelas Sunday, taking control of territory governed largely by drug gangs that have in the past clashed violently with police attempting to establish control there. See story on page 2.

*Photo: Agência Brasil.*

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## NEWS BRIEFS

**Colombia Shifts from Brazil to Mexico-Led Bloc in IMF**

Colombia is leaving a governing group within the International Monetary Fund led by Brazil, Bloomberg News reported Sunday. Instead of Brazil's nine-nation constituency on the IMF's 24-member executive board, the Andean nation will join forces with a group led by Mexico, Colombian central bank chief Jose Dario Uribe told Bloomberg News. The move is part of the IMF's biggest board reshuffle in two decades and signals alienation among Spanish-speaking countries over Brazil's efforts to gain influence globally, according to the report.

**Hillary Clinton Visits Peru to Discuss Ties, Social Inclusion**

U.S. Secretary of State Hillary Clinton is scheduled to arrive in Lima, Peru today for a two-day visit, EFE reported Sunday. Plans include a meeting with President Ollanta Humala and Foreign Minister Rafael Roncagliolo. She is also planning to address a conference on women empowerment for Social Inclusion Week.

**Ecuador Will Fight Not to Pay Court Judgment to Occidental**

Ecuador's president, Rafael Correa, said over the weekend that his government will fight a ruling to pay **Occidental Petroleum** some \$1.8 billion in compensation that was ordered by an international tribunal for canceling a contract in 2006, Dow Jones reported. "We will continue fighting to not pay a penny from the Ecuadorean people to this abusive transnational company that tried to defraud the country," Correa said during his weekly media address. Last week Ecuador filed an appeal to overturn the ruling.

**Political News****Brazil: More Than 800 Police Move Into Two Rio Favelas**

More than 800 police officers and 13 armored vehicles on Sunday took control of two Rio de Janeiro favelas, or slums, in a bid to establish law and order, Agence France-Presse reported. The Jacarezinho and Manguinhos neighborhoods are controlled by drug gangs that have in the past clashed violently with police attempting

“There have been no incidents, but we are prepared for any possible development.”

— *Federico Caldas*

to establish control there. "The situation is calm," police spokesman Colonel Federico Caldas told local television. "There have been no incidents, but we are prepared for any possible development." After decades of lawlessness and neglect, authorities in Brazil are trying to take control of and clean up some of the most dangerous areas of the country in preparation for the 2014 Soccer World Cup and the Olympic Games of 2016.

**Negotiators Delay Departure for Colombian FARC Peace Talks**

Colombian government negotiators and FARC rebels have delayed their departure for peace talks in Norway, Reuters reported today. Colombian government officials were expected to have arrived in Norway over the weekend, but now will not depart until Tuesday because of "logistical difficulties," a government spokeswoman said. It is also unclear when the FARC negotiators would arrive. The two sides agreed in August to start talks in the first two weeks of October. Norway has declined to discuss the delay. A foreign ministry spokesperson said the sides still plan to attend a press conference on Wednesday, their only public event, according to Reuters.

**Economic News****Peru Posts Trade Deficits as Demand for Minerals Continues to Fall**

Peru's central bank said Friday the country posted a trade deficit of \$52 million in August, Reuters reported. Lower demand for minerals abroad have shrunk exports dramatically this year. The central bank now expects the 2012 trade surplus to fall to \$2.2 billion from an estimate of \$6.7 billion earlier this year. Sales of minerals like gold, silver, copper and zinc make up 60 percent of export earnings. But its traditional exports have suffered this year from weaker demand from abroad. The Andean nation continues to post strong growth rates and low inflation figures, however, based largely on domestic demand. The central bank said Friday it will hold its benchmark interest rate steady at 4.25 percent, state news agency Andina reported. The bank has kept rates unchanged since April 2011. Peru's GDP expanded by an annual rate of 6.1 percent in the second quarter this year, the same rate as in the first, among the fastest growth rates in the Americas. The inflation rate in September rose 0.54 percent from the previous month for an annual rate of 3.7 percent, up from 3.5 percent in August, with the cost of perishable items, such as potatoes, driving up prices.

**Brazil Will Defend Itself Against Capital Flows: Tombini**

Brazilian central bank president Alexandre Tombini said today his country will continue to defend itself from short-term capital flows that threaten to bring financial instability and inflation, Bloomberg News reported. Monetary easing in industrialized economies have increased inflows of short-term capital to Brazil that have undermined efforts to keep inflation down, Tombini told reporters in Tokyo today. Yesterday, U.S. Federal Reserve Chairman Ben Bernanke rejected the view that U.S. stimulus policies are hurting emerging markets, but Tombini countered that statement, saying today that "We don't want Brazil to be a marketplace for other countries' devalued

currencies," according to the report. President Dilma Rousseff's government has imposed barriers on capital inflows and purchased dollars in the spot and futures markets to weaken the real currency and help the country's manufacturers. Interest rate cuts have also helped make Brazil less attractive to short-term foreign capital compared with last year, but inflation has climbed as a result. [Editor's Note: See related [Q&A](#) in the Oct. 4 issue of the *Advisor*.]

## Company News

### Telefónica Plans to Sell CRM Unit to Bain Capital for \$1.3 Billion

Spain's **Telefónica**, a major player in Latin America's telecommunications market, is selling its **Atento** call center business to **Bain Capital** for about \$1.3 billion, Reuters reported Friday. The deal includes debt that Telefónica is trying to shed in order to preserve its investment grade credit rating, according to the report. Overall, Telefónica has some \$74 billion in debt. Atento runs more than 165 contact centers in 17 countries, with approximately 156,000 employees and \$2.3 billion in revenue last year, according to information on its Web site. Its customer relationship management business is especially strong in Latin America, a

*Atento had \$2.3 billion in revenue last year.*

market Bain sees as having growth potential. The deal, which is Bain Capital's first in Spain, is expected to close before the end of this year. The transaction includes \$141 million in financing from Telefónica and stipulates a nine-year agreement for the call centers to continue providing services to Telefónica. More than 50 percent of Atento's business is with Telefónica and another 9 percent comes from Spain's second-largest bank, **BBVA**. Telefónica had hoped to raise up to \$980 million in a public listing of Atento last year, but it scrapped the sale as market appetite waned.

### Featured Q&A

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increased its purchases from the South American nation by 170 percent in the first six months of 2012."

**A Sergio Widder, director for Latin America at the Simon Wiesenthal Center:** "Our focus regarding the South American–Arab Countries Summit (ASPA) was mainly about the political agenda and, especially, its implications for Latin America. We were alarmed that a condemnation of the current massacre committed by the Syrian tyrant Bashar al-Assad did not reach consensus due, reportedly, to the refusal of some of the South American countries (those of the ALBA bloc). South America has a dark history regarding countries using their military forces against their own people, and the weak position vis-a-vis what is happening in Syria was disappointing. Regarding the South American countries advocating for Palestinian statehood, we regret that they completely ignored an explicit recognition of Israel's right to exist within secure borders. Promoting unilateral initiatives will not contribute to peace and stability. In the past, we also protested ambiguous language of ASPA addressing terrorism. There was a mix of condemnation and acceptance of the 'right to resistance,' a euphemism for groups like Hamas and Hizbollah to disguise their terrorist nature. We are also critical of this forum's defense of the right to 'peaceful nuclear development,' while it refuses to condemn the Iranian nuclear plan, which is genocidal."

**A Cecilia Porras Eraso, president of the Colombian-Arab Chamber of Commerce:** "The economies of the 34 South American and Arab countries totaled \$5.2 trillion in 2010, representing 8.5 percent of the global economy, and there are complementarities between the two regions. Much of South

America's GDP is constituted by agribusiness. Meanwhile, Arab countries receive large portions of their revenues from oil exports, though they are currently investing in resources to diversify their economies. In 2010, the two regions' trade balance reached \$21.45 billion; South America exported \$13.42 billion, while Arab countries exported \$8.74 billion. The largest exporters were Saudi Arabia, the United Arab Emirates, Brazil and Argentina. It is also important to note that negotiations of free trade agreements are likely to come into force in 2012 or 2013. During a Mercosur summit at the end of 2010, Palestine and Egypt signed trade agreements with the bloc that are only pending congressional ratification, and the Gulf Cooperation Council (GCC) and Jordan are currently in negotiations. These countries' desire to negotiate economic agreements shows a growing mutual awareness. Political momentum is also mounting, with frequent visits of heads of state and other officials. At Brazil's initiative, the first ASPA Summit took place in 2005 in Brasília, where they defined important objectives for the next few years. In parallel, an economic forum was held, including around 500 businessmen from both blocks. The second summit took place in Doha in 2009, which also included an economic forum, and the Federation of Arab-South American Chambers of Commerce was launched with the goal of establishing chambers in every country in South America. The third ASPA Summit, which took place in Lima, gave entrepreneurs the opportunity to have one-on-one meetings and develop new relationships, which will result in successful business relations."

**A Johanna Mendelson Forman, senior associate in the Americas Program at the Center for Strategic and International Studies:** "The Third Arab–South American Summit (ASPA) held in Lima had something for everyone. Investment opportunities and polit-

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

ical dialogue dominated the meeting. As trade between Latin America and the Middle East continues to grow, \$30 billion and rising, it is no wonder that Peru rolled out the red carpet for guests from 22 Arab countries. Since the first Summit in 2005, the brainchild of former Brazilian President Lula da Silva, the emphasis has been on South-South engagement, promoting inter-regional economic and political ties. The reality, however, is that economic links between the two regions are still very modest in comparison to trade with the United States. Trade could grow substantially due to three factors. First, agricultural supplies from Brazil and Argentina are in great demand in the Middle East. Second, for wealthy investors from the Middle East, real estate is a relative bargain. A new hotel deal signed in Peru during the Summit underscores this trend. Arab states also offer venture capital, a factor not lost on the South American business community. Third, technology transfer

“Arab states also offer venture capital ...”

— *Johanna Mendelson Forman*

from Latin America to the Middle East will grow, given the strict rules that govern the transfer of technology from the United States. Brazil will be a major beneficiary. Speaking during the Summit, King Abdullah of Saudi Arabia noted both regions sought 'common ground in our view of terrorism and extremism in the promotion of a culture of peace.' Going beyond the banalities of Summit declarations, there was more troubling political language about support for Syrian sovereignty, a call for a two state solution to resolve the Israel-Palestine conflict and a commitment to work through the United Nations to end the political stalemate in the peace process. As South American leaders seek partners in a world where they no longer consider the United States to be the dominant global power in their future, this meeting

may be a portent of a more vibrant and competitive multilateralism that is surfacing in regional diplomacy."

**A** **Mustafa Abu Naba'a, director of Middle East programs at the Global Foundation for Democracy and Development in the Dominican Republic:**

"The third Arab-South American Summit (ASPA) consolidated an initiative started in 2005 under the leadership of Brazilian President Luiz Inácio Lula da Silva. Seven years is a short time to realize such unprecedented relations. Just a decade ago, political cooperation between the regions was almost non-existent and trade was even lower than 1970, when Latin America imported a large part of its oil from the Middle East. In this sense, the outcome is without a doubt positive. The ASPA process has created a mechanism that has allowed the regions to grow closer in political terms, like the increasingly strong South American commitment to the creation of a Palestinian state, as well as economic terms, thanks to the creation of new business networks between the two regions. The journey is just beginning. Much remains to be done given the important complementarities that remain untapped. Energy, food, mining and infrastructure are some of the sectors where there are business and investment opportunities. A greater push for academic exchanges and scientific cooperation would create synergies in the fields of biotechnology, water management and renewable energy. The development of social science networks between Arabs and Latin Americans would also enable a better mutual comprehension of the political and cultural traits of each region. If Brazil plays the role of a leader in South America, it's important not to neglect Mexico, Central America and the Caribbean in this process of regional cooperation. In those countries, there also exists a growing interest in expanding relations with Arab countries. The Arab-Latin American Forum, which was inaugurated by Leonel Fernández and whose next meeting will take place in December in Abu Dhabi, has the objective of integrating efforts at the civil society and NGO level on projects like cultural, academic and student exchanges."

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