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FEATURED Q&A

What Will Be Latin America's Biggest Hotspots in 2017?

Among the biggest news stories of 2016 was the signing of Colombia's peace accord by President Juan Manuel Santos and FARC leader Rodrigo Londoño, also known as Timochenko, on Nov. 24. // File Photo: Colombian Government.

Q The past year in Latin America was marked by events including the impeachment of Brazil's president, Dilma Rousseff, along with corruption accusations against numerous politicians at the highest levels in that country, as well as a plunging peso and other economic jitters in Mexico following Donald Trump's election as U.S. president. Meantime, Venezuela has been designated as a hyperinflationary economy amid political gridlock, and Colombia signed peace accords ending five decades of civil war and saw its president, Juan Manuel Santos, named the year's Nobel Peace Prize winner. Which countries will be the region's major hotspots in 2017? What trends in the region could be the most beneficial, and which could be the most destabilizing, for businesses in the year ahead? What are the biggest internal or external forces that will affect the region's politics and economies in the coming year?

A Adam Isacson, senior associate for defense oversight at the Washington Office on Latin America: "Most Latin American economies are commodity-dependent. As long as commodity prices remain low, much of the region will be condemned to muddling through in 2017. Among the majority muddling through is post-FARC Colombia, which has positive growth and an improved security outlook, but will be implementing a costly new peace accord despite a budget deficit nearing 4 percent of GDP. Some won't be able to muddle through. The hyperinflationary curve illustrates how intolerable life is becoming in Venezuela, and with agony increasing at a steeper rate, it is the Latin American nation most likely to experience a security and

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Illegal Border Crossings Surge Ahead of Trump's Inauguration

Illegal crossings at the southwestern U.S. border have surged since the election of Donald Trump, who has promised tighter border security as U.S. president.

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Brazilian Gov't Unveils Plan to Cut Credit Card Rates

The average annual interest rate on credit cards in Brazil has risen above 450 percent. The plan would cut rates by more than half.

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Peruvian President Denies Involvement in Bribery Case

President Pedro Pablo Kuczynski denied receiving bribes from Brazilian construction company Odebrecht, which said it paid bribes to unnamed Peruvian officials, including when Kuczynski was prime minister.

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Kuczynski. // File Photo: Peruvian Government.

POLITICAL NEWS

Illegal U.S. Border Crossings Surge Before Inauguration

Illegal border crossings into the United States by Central American migrants have surged since Donald Trump's election as U.S. president, The Wall Street Journal reported today. In November, the U.S. Border Patrol apprehended 47,214 migrants along the United States' southwest border, a 44 percent increase as compared to the same month last year. It was the busiest month for the Border Patrol since a spike in illegal immigration from Central America in June 2014. In the past six months, agents of the Border Patrol have apprehended almost 240,000 migrants, more than 1,300 a day on average, a 30 percent increase from the same period in 2015. "Right now we're trending toward 2014 numbers, which was our high-water mark," José Villareal, the chief of operations for the Border Patrol's Rio Grande Valley sector, told The Wall Street Journal. Last month's election of Trump, who has promised tougher border security including a wall along the U.S.-Mexico border, appears to have led to a surge in illegal border crossings. "Some migrants have talked about how President Trump is going to seal off the border," said Villareal. "There's definitely a percentage of folks who believed that they can beat the clock." The increase in migrants has strained the resources of the Border Patrol. Last month, the Department of Homeland Security assigned 150 additional agents from other sectors to work in the area of McAllen, Tex., on shifts lasting a month. Also, earlier this month, the Border Patrol set up a tent facility with 500 beds in Donna, Tex., to house detainees, which the Immigration and Customs Enforcement agency typically handles. [Editor's note: See **Q&A** on retired Gen. John F. Kelly, Trump's selection for secretary of homeland security, in the Dec. 16 issue of the Advisor.]

"Some migrants have talked about how President Trump is going to seal off the border."

— José Villareal of the Border Patrol

SUBSCRIBER NOTICE

In observance of the Christmas and New Year's holidays, the Latin America Advisor will next be published on Jan. 3, 2017. We wish our readers a happy holiday season and a prosperous new year.

ECONOMIC NEWS

Brazilian Gov't Unveils Plan to Cut Card Interest Rates

The administration of Brazilian President Michel Temer on Thursday revealed details of plans to cut credit card interest rates for consumers, as well as new measures to get employment figures up, Reuters reported. The employment aspect of the initiative offers subsidies to companies that retain workers, with new rules to make hiring on temporary contracts easier. In laying out the measures, Temer's chief of staff, Eliseu Padilha, said subsidies to companies that reduce working hours instead of firing employees could preserve 200,000 jobs over the next four years. The plan will also allow some workers to draw on severance fund accounts, known as FGTS, a step which could inject roughly $9 billion into the economy. As for credit card debt, Temer's plan would cut interest rates on revolving credit cards of up to 30 days by more than half. For longer periods, banks would allow consumers to pay their debt in installments with reduced rates compared with today, according to Reuters. Brazil's benchmark Selic rate currently stands at 13.75 percent, while the average annual interest on credit cards has risen above

NEWS BRIEFS

Peña Nieto Vows to Rebuild Destroyed Fireworks Market

Mexican President Enrique Peña Nieto vowed Thursday to rebuild the open-air fireworks market north of Mexico City that was destroyed on Tuesday in a series of explosions, an incident that left 35 people dead and 70 injured, BBC News reported. Peña Nieto said market would be rebuilt to help the 300 artisans who had stalls in the San Pablito market in Tultepec. This week's destruction of the market was the third time since 2005 that it had burned down.

Chile Resumes Coal Exports to India

Chilean coal producer Mina Invierno resumed coal exports in October after a four-month break, Platts reported Thursday. Chile exported 165,000 metric tons of coal to India in October, the first shipment since June, according to energy ministry data. A drop in the price of coal has prompted Mina Invierno to cut production in recent years, with production expected at 2.3 million metric tons in 2016, down from 4 million in 2014. Meanwhile, Chile had to import coal in October and November to fuel power plants to compensate for restricted hydropower supplies.

Jamaica Power Distributor Gets $100 Million Loan

The state-run Jamaica Public Service Company, the island's sole distributor of electricity, has been granted a $100 million loan aimed at financing measures to curtail energy losses and theft from the utility, the Jamaica Gleaner reported today. The three-year project will include normalizing 31,000 illegal connections and converting all the island's street lights to efficient LED bulbs. The Washington-based Overseas Private Investment Corporation will lend the funds, with Citibank as the company's banking sponsor.

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humanitarian emergency in 2017. Brazil will be on a knife's edge as new austerity measures force back into poverty millions who only just emerged from it. After an anti-corruption push forced a president from power in 2015, Guatemala is experiencing a steady backlash by what analysts like Steven Dudley call the 'mafia state.' Even if violent crime rates recede somewhat in El Salvador and Honduras, the institutional failure and corruption that enabled them will continue, and hundreds of thousands will again seek refuge elsewhere. Mexico will also have a rough year. Not because of commodities, but because violent crime is rising again, and because of a huge external factor: Donald Trump. Souring relations with the United States, and a possible push to renegotiate trade deals, could cause Mexico's foreign investment to slump."

A **Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House:** "The year 2016 was indeed remarkable for Latin America, both in positive as well as negative terms. The spread of accountability and rule of law in Brazil and several of the Central and South American countries has shown that in spite of a history of corruption and impunity in most parts of the region, progress is possible in bringing governments and officials to account for their actions and for the financial resources at their disposal. Mexico has taken some—although totally insufficient—steps in this direction although vested interests still keep those found guilty of misdeeds from being tried and jailed. Colombia's peace accord brought an effective end to a half-century of civil war, and President Santos' Nobel Peace Prize was well-deserved. Argentina rid itself of the Kirchner dynasty—at least for now—and is much better off for it. Venezuela is a tragedy that no one seems to know how to tackle. Latin American efforts to mediate and try to end the suffering imposed on its people by the Maduro regime have failed miserably. Hunger, disease, civil disturbances are the order of the day with no immediate end in sight. Finally, Donald Trump's election will have profound negative effects on Mexico and the bilateral relationship with the United States. Although it's too early to gauge the depth and complexity of those effects, it would seem inevitable that economic growth, monetary stability and foreign investment flows will be damaged. Other countries in the region that have important American manufacturing presences or that trade heavily with the United States may also be badly affected."

A **Peter M. Siavelis, professor of politics and international affairs and director of the Latin American and Latino Studies Program at Wake Forest University:** "After decades of economic growth and widespread progress in democratization, Latin America is at a crossroads, one reflecting global trends, and another that grows from its unique context. These trends will largely shape how the region looks over the next year and beyond. In terms of global trends, Latin America mirrors Europe and the United States with the widespread disgust with political institutions and political elites. In this sense, the region is facing a serious crisis of representation that, while not threating the existence of democracy, poses potential threats to its quality and vitality. Ironically, the United States and Europe are experiencing a surge of right-wing populism precisely when the curtain is falling on the era of left-wing populism in Latin America. So while Latin American governments might be amenable to expanding trade agreements with the United States, a Donald Trump presidency poses serious threats to an open-trading agenda. A likely expansionary fiscal policy under Trump will also strengthen the dollar, which is bad news for Latin America. Despite Trump's ugly rhetoric with regard to Mexico, Latin America will largely

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450 percent, according to Bloomberg News. Earlier this week, Ilan Goldfajn, the president of the country's central bank, denied suggestions that state-run banks will be used to cut the cost of credit in Brazil, Folha de S.Paulo reported Thursday. "We will not make the same mistakes of the past," Goldfajn said, referring to the decision made during the administration of impeached President Dilma Rousseff to press for cutting interest rates at Banco do Brasil and Caixa Econômica Federal as a way of forcing a drop in the rates of private banks. Consumer confidence in Brazil fell in December for a second month, hitting its lowest since June, Reuters reported today. The private survey by the Getúlio Vargas Foundation found consumer confidence dropped to 73.3 in December from 79.1 in November, suggesting a quick exit from recession under Temer has not materialized. The consumer-confidence index polled 2,007 families in Brazil's seven largest cities, from Dec. 1 to Dec. 20. Temer has launched two rounds of stimulus measures in recent weeks.

BUSINESS NEWS

Peru's Kuczynski Denies Involvement in Odebrecht Bribery

Peruvian President Pedro Pablo Kuczynski on Thursday denied being involved in a $20 million bribery scheme that Brazilian construction firm Odebrecht claims it paid to an unnamed official to win a public works contract in 2005 when he was prime minister, Reuters reported. In a plea deal signed in the United States this week, Odebrecht said it distributed a total of $29 million in bribes to unnamed officials in Peru over 10 years. Kuczynski said Thursday that Odebrecht employees must be brought to Peru to explain the situation. "It clearly needs to be investigated," Kuczynski told reporters. "I can guarantee that I didn't receive anything or do anything." Since 2001, Odebrecht paid nearly $800 million in bribes in 12 countries, according to the settlement released by the U.S. Department of Justice, The Wall Street Journal reported.

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remain on the back burner. Though this has usually been the case for U.S. presidents, the president-elect has been mum on Latin America, suggesting it will not be a priority. In terms of region's unique context, the most important question is what global trends will mean for commodity prices. A resurgence in prices and improvements in the global economy can help stem the growing crisis of representation in the region. However, if commodity prices continue to sag, Latin America may see the worldwide contagion of right-wing populism and antipolitics reach its shores."

A **Jack Devine, president, and Amanda Mattingly, director for Latin America, at The Arkin Group:** "Venezuela will continue to stand out as the major political, economic and security hotspot in Latin America in 2017, with no signs that President Nicolás Maduro intends to give up control even amid a spiraling economic collapse and humanitarian crisis where average Venezuelans are growing poorer, hungrier and sicker by the day. Brazil will manage to emerge from the scandals and impeachment of Dilma Rousseff this past year, continuing the perpetual promise of being 'the once and future country' but still suffering from the lingering political ramifications and the economic malaise of a two-year-long recession that has left 12 million Brazilians unemployed. Argentina, Chile, Colombia and Peru appear to be brighter spots where economies are diversifying, politics appear stable, peace is seemingly within reach and sound macroeconomic policies have allowed for steadier growth and development. Economists expect Peru, for example, to grow by as much as 4 percent next year. Mexico, however, is another hotspot for 2017 with a lot of uncertainty about the new Trump era. Trump's plans to revamp NAFTA, deport illegal immigrants and build a border security wall between the United States and Mexico will almost certainly roil Mexico's economy and politics. Mexico is already enduring the Trump effect with the fall in the peso, and with presidential elections in Mexico slated for 2018, there will be much ado about President Enrique Peña Nieto and the ruling PRI party's handling of Trump and the economy and likely a multitude of candidates emerging in 2017 to tap into Mexican nationalism."

A **Jorge Lara Urbaneja, partner at Arciniegas, Lara, Briceño & Plana in Bogotá:** "Each country in Latin America will have its own tale in 2017, with no common interests uniting them regionally. Any regional association with Venezuela is set to rest for the foreseeable future. Mercosur and the Pacific Alliance will evolve very slowly amid the disparity in the development of the participant countries. The Chilean and Argentine presidents are impeded from working on a common future by their own political problems. It is very hard to believe that Venezuelans will peacefully resolve the country´s problems, because the common denominator is hunger. The intervention of important foreign political and religious figures in the Venezuelan conflict may have obstructed the political solution. Indeed, the people have had a marginal participation, although they are the main victims. Colombia's success in 2017 will depend on the evolution of the peace process with the FARC and its participation in the country's economic growth. Although Colombia has had an armed conflict with FARC for more than 50 years, it should not be characterized as a civil war. But, the peace process may imply a major change and setback for the business environment. Should this be the case, Colombia will decline in 2017, as it did in 2016 and 2015. President Trump's policies may force major changes in the region. Should corporate tax rates in the United States be drastically reduced, coupled with a selective international trade policy, the Latin American countries will have to implement major changes, or the international economic activity will vanish from the business sector."

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