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FEATURED Q&A

Will Argentina's Economy Determine the Next Election?



Argentine President Mauricio Macri (L) was in India this week in a bid to strengthen commercial ties with the rising economic power. // Photo: Argentine Government.

Q Argentina's industrial output decreased by 14.7 percent in December, as compared to the same month a year earlier, marking the eighth consecutive month of decline, according to data from state statistics agency Indec. What factors are influencing industrial production in Argentina, and how might these trends shape a broader economic recovery from last year's recession? How big of a role will the country's economy play in the presidential elections scheduled for October, and to what extent are the elections influencing the government's economic policy decisions now?

A Sergio Doval, managing partner at Taquion Research & Strategy: "Industrial production in Argentina is in a tailspin, and in this electoral year, it is fundamental to analyze what the causes are. The factors that influence the decline in industrial production are related to a sudden drop in consumption, given the base imbalance between prices and wage and the extremely high tax burden that exists (one of the world's highest). Other factors include the excessive increases in prices and costs for public services, which have become unpayable; high interest rates that make financing difficult; and a lack of both national and international investment and capital. According to Taquion's latest survey, Argentines perceive that the country's main problem is the economy at national, local and family levels. The fear of losing their jobs, the constant economic instability, the lack of certainty and the unmeasured price increases have made the economic factor a decisive one in the upcoming 2018 presidential elections. The possibility of the government's reelection depends—almost 90 percent—on whether

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TODAY'S NEWS

POLITICAL

Trump Calls on Venezuela Military to Stand Down

U.S. President Donald Trump warned Venezuela's military leaders they would "lose everything" by remaining loyal to President Nicolás Maduro and refusing to allow in emergency aid stockpiled on the border.

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ECONOMIC

Mexican Business Group Says Strikes Costing \$1 Billion

Alejandro Ramírez, president of the Mexican Business Council, said that politicians should resist "extortion" by labor unions.

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POLITICAL

Bolsonaro Fires Senior Aide Over Corruption Report

Gustavo Bebianno, who has been a close ally of Brazilian President Jair Bolsonaro and chaired the far-right Social Liberal Party during last year's successful election, is the first high-level figure to fall in Bolsonaro's young government.

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Bebianno // File Photo: Brazilian Government.

POLITICAL NEWS

Trump Calls on Venezuela Military to Break With Maduro

U.S. President Donald Trump on Monday warned Venezuela's military leaders they would "lose everything" by remaining loyal to President Nicolás Maduro and refusing to allow in emergency aid stockpiled on the border, The New York Times reported. In a speech to a crowd in Miami that included many Venezuelan expats and migrants, Trump advised the country's military to accept the opposition's offer of amnesty or they will find "no safe harbor, no easy exit, and no way out." "You will lose everything," Trump said. Opposition leader Juan Guaidó, 35, who has claimed the title of interim president under the constitution, has given the Maduro government until Saturday to



Trump // Photo: U.S. Government.

allow international aid being stockpiled in Colombia, Brazil and Curaçao to enter the country. Maduro responded to Trump's speech on state television Monday by suggesting the U.S. president spoke in an "almost Nazi style" and mocked him for thinking he can give orders to Venezuela's military, The Independent reported. "Who is the commander of the armed forces, Donald Trump from Miami?" Maduro said. "They think they're the owners of the country." Maduro blames U.S.-led sanctions for the country's lack of food and medicine, dismissing the humanitarian aid shipments as "crumbs" and a pretext for foreign intervention. U.S. Sen. Marco Rubio (R-Fla.) has been taking a lead role in the U.S. effort to unseat Maduro. Speaking to reporters in the Colombian border city of Cúcu-

ta Monday, the focal point of the aid impasse, Rubio said that "some people in the regime will have to make a life-defining decision ... Either they stick with this dictator, who is illegitimate and whose days are numbered, and deny your people food and medicine. Or is this the time to say, 'this is as far as we will go'?" Maduro also announced Monday that his supporters will hold their own concert on the opposite side of the border in Cúcuta to rival one being organized Friday by billionaire British businessman Richard Branson, who hopes to raise \$100 million for humanitarian relief.

Brazil's Bolsonaro Fires Close Aide Over Corruption Reports

Brazilian President Jair Bolsonaro on Monday dismissed a key aide just days after reporters linked him to a corruption scandal involving phony candidates and the misuse of campaign funds, Folha de S.Paulo reported. Gustavo Bebianno, who has been a close ally of Bolsonaro and ran Brazil's far-right Social Liberal Party (PSL) during last year's election, is the first high-level figure to fall in Bolsonaro's young government, which took office last month. The scandal has thrown light on a suspected campaign financing tactic by some parties in Brazil to divert government-allocated funds to fake candidates, Agence France-Presse reported. Bolsonaro's tourism minister, Marcelo Álvaro Antônio, a fellow PSL member, is also suspected of being involved with the practice. Although both Bebianno and Antônio deny wrongdoing, the scandal has brought to light bitter in-fighting between cabinet members and Bolsonaro's sons, who have taken on increasingly public roles since their father's rise to power last year. Bolsonaro ran his campaign on the promise that he would tackle corruption, and the improper campaign revelations, along with a longer-than-expected hospital stay after surgery last month, have distracted from Bolsonaro's legislative agenda, which seeks to advance controversial pension reforms in the months ahead. In related news, activists organized marches in six Brazilian cities Sunday to

NEWS BRIEFS

Judge Sentences Activist to 216 Years in Prison

An activist who led protests last year against Nicaraguan President Daniel Ortega was sentenced on Monday to 216 years in prison, Reuters reported. A judge sentenced Medardo Mairena after he was convicted last December of terrorism, murder and organized crime, charges he denied. More than 300 people died last year in the protests against Ortega. Over the weekend, the government and influential business groups met in an attempt to restart talks to end the impasse. The business groups demanded the release of more than 600 people they consider to be political prisoners.

Mexican Business Group Says Strikes Costing \$1 Billion in Losses

One of Mexico's most influential business groups told President Andrés Manuel López Obrador on Monday that worker strikes at factories in the northern state of Tamaulipas and blockades of railways by a teachers' union had caused more than a billion dollars in losses and could cause businesses to close, Reuters reported. Alejandro Ramírez, president of the Mexican Business Council, said that politicians should resist "extortion" by labor unions.

Majority of Jamaican Autos Uninsured: Study

More than half the vehicles in Jamaica are likely uninsured, according to a study by Jamaica National Group, The Gleaner reported Monday. Researchers compared data from tax authorities and the Insurance Association of Jamaica (IAJ), which revealed up to 57 percent of vehicles were not covered by an insurer in 2016. However, the IAJ estimates 30 percent of vehicles are uninsured. Jamaica lacks a database of the country's vehicle inventory, according to the study, which makes obtaining accurate figures difficult.

protest the death of a 19-year-old black man inside a major store chain in Rio de Janeiro. Pedro Henrique Gonzaga died in an altercation with a security guard, who has been arrested. Campaigners said the protests are feeding a Black Lives Matter movement in Brazil, where nearly three-quarters of all homicide victims are black, The Guardian reported.

Haiti Makes Arrests Amid Unrest

Haitian Foreign Minister Bocchit Edmond confirmed Monday that five U.S. citizens were among a group of foreigners that has been arrested on the island as protests to unseat President Jovenel Moïse have left his administration struggling to establish law and order, CNN reported. The identities of the people taken into custody were not immediately avail-

“Protests, tire burning and road blockages are frequent and unpredictable.”

— U.S. Department of State

able. Haiti's police chief, Michel-Ange Gédéon, told CNN that eight individuals are being held for what he described as possession of illegal weapons, satellite phones and drones, while other authorities said they were being held on conspiracy charges. Deadly protests broke out Feb. 7 initially over corruption allegations against the government. They paralyzed much of the nation for 10 days before the situation calmed over the weekend and citizens ventured out to procure water and food. On Saturday evening, Haitian Prime Minister Jean-Henry Céant took to the airwaves, calling for calm and promising to uncover corruption. The U.S. State Department has ordered non-emergency U.S. personnel and their families to leave Haiti. “Protests, tire burning and road blockages are frequent and unpredictable,” the advisory stated. At least seven people have died as a consequence of the unrest this month.

BUSINESS NEWS

Brazil Authorities Ban Upstream Mining Dams

Brazilian authorities on Monday banned new upstream mining dams and ordered the decommissioning of all such dams by 2021, Reuters reported. The announcement came as news of the recovery of the 169th body in the wake of last month's massive tailings dam collapse in the town of Brumadinho. More than 100 others remain missing. Several mid-level

company executives at iron ore miner Vale and a German contractor have been arrested in the wake of the disaster. Vale has said it will spend 5 billion reais (\$1.4 billion) to decommission its 10 upstream dams in the next three years, Bloomberg News reported. The new policy by Brazil's mining regulator would affect about 50 upstream mining dams in Minas Gerais State alone, according to the report, and force companies to use more expensive ways to store waste. In related news, around 200 residents were evacuated from an area near another dam operated by Vale late on Saturday amid fears that it was weak and could also collapse, according to Reuters. [Editor's Note: See related Q&A in the Feb. 12 issue of the Advisor.]

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it succeeds in turning around the economic situation that has overwhelmed all social classes. Today, Mauricio Macri's government does not have a defined action plan. Inflation, the shuttering of businesses and small- and medium-sized enterprises, and the loss in productivity are all consequence of bad political and economic decisions that will be difficult to reverse, all of which are undoubtedly worrying the ruling party amid an electoral campaign.”

A **Agustín Crivelli, economist, professor at the Buenos Aires University:** “For Argentina, this year begins just as 2018 ended, with the real economy in a free fall, and an artificially stabilized exchange market. The numbers speak for themselves: industrial activity plummeted 14.7 percent last December as compared to the same month a year earlier, while construction fell 20.5 percent in that same period. It's the eighth consecutive month of decline for industrial activity. External policies of stabilization (abrupt devaluation, high interest rates and sharp increases in public service tariffs) brought a deep fall in the purchasing power of the population, combined with a strong disincentive to invest in productive activity. As if this

wasn't enough, the cuts to public spending, particularly for public works, was the 'coup de grace' for Argentina's economic activity. Considering that there will be no change in policies, it is not possible to forecast an economic recovery for Argentina in 2019. On the contrary, in the context of an election year, with precarious exchange-rate stability (and with clearly unsustainable post-2019 debt maturities on the horizon), it is expected that as the election date approaches, the immense stock of financial placements in pesos—which grows exponentially due to the high interest rates in pesos—will seek to dollarize, ending the already-fragile stability of the foreign-exchange market and opening the doors for a new economic and social crisis in Argentina.”

A **José Luis Lupo, manager of the Southern Cone department at the Inter-American Development Bank and the bank's country representative in Argentina:** “Argentina is undergoing necessary processes of price stabilization and of adjustment of its current account that are having a temporary cost in terms of economic activity, but which augur enhanced macroeconomic sustainability that in turn lay the foundations for durable eco-

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conomic recovery. External developments such as weak growth in Brazil (Argentina's main trading partner) and heightened global trade and financial tensions also had an impact in 2018, but their reversal in 2019 bodes well for economic recovery in Argentina in the next quarters. Other factors that will cement recovery include the rebound in agricultural output following last year's severe drought, the positive impact of the competitive real exchange rate on exports and regional economies, and the expected increase in real wages. The consolidation of this recovery will work in favor of improving the government's chances in the upcoming elections, but even if it is not strong enough, the government will remain committed to ensuring price and exchange rate stability, along with improved macroeconomic sustainability."

A **Carlos Fara, president of Carlos Fara & Asociados in Buenos Aires:** "Since Argentina's industry is globally uncompetitive, and it's very much oriented toward the domestic market, the high inflation of 2018 triggered a loss of wages' purchasing power. This, as a consequence, depressed overall consump-

tion. The outlook is negative at least until mid-year, although the recovery will be very slow. The economic situation will undoubtedly play an important role in the elections since, in this context, the previously high approval ratings of President Macri will be very difficult to regain. Nevertheless, the

“The economic situation will undoubtedly play an important role in the elections.”

— Carlos Fara

fear of a return of Cristina Fernández de Kirchner will work as a compensator for that economic factor. The proximity of the elections has played in favor of the government and its decision to pay the cost of a severe anti-inflationary plan while the price of the U.S. currency remains quite stable after last year's devaluation of the peso. With the exchange rate mostly stable for the foreseeable future, the electorate will lower its level of anguish, giving further chances to the ruling party."

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have listed recently.

Remitly, Director, Business Management for Latin America, Seattle

KPMG, Senior Associate, Global Trade Technology, Miami

IDB Invest, Counsel, Caribbean Country Department, Jamaica

Amazon Web Services, Latin America Business Development Manager, Miami

Philip Morris International, Director of Illicit Trade Prevention for Latin America and Canada

Visa, Vice President for Andean, Central America and Caribbean Marketing, Miami

International Republican Institute, Program Director for Latin America and the Caribbean

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