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FEATURED Q&A

What Factors Are Holding Back Brazil's Economy?



Brazilian President Jair Bolsonaro is seeing his landmark pension reform advance, but the country is still mired in sluggish growth. // File Photo: Brazilian Government.

Q The lower house of Brazil's Congress on July 10 advanced legislation to overhaul the country's pension system, with a final vote in the chamber expected in August. Lawmakers estimate that the overhaul could save the government \$265 billion over 10 years. Just days later, economists in a central bank survey cut their forecast for the country's economic growth next year to a new low of 2.10 percent, with anemic growth of 0.81 percent expected this year. Why are expectations for growth ebbing as the pension reform is advancing? What factors are still holding back Brazil's economy? Which industries will struggle most in coming months, and which will gain strength?

A Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue: "The overwhelming support of pension reform in Brazil's lower house was a critical victory for both the Bolsonaro government and the nation's economic prospects. Aside from Dilma Rousseff's impeachment in 2016, no legislative action has gotten more attention in recent years. This was a must-win for the government. Defeat would have signaled to markets worldwide that Bolsonaro's plans to revamp the country's unproductive economic policies were dead in the water and that the recharging of the economy, after a half dozen years of virtually no growth, would again be postponed. Brazilian business leaders along with foreign investors view pension overhaul as a bellwether of the country's economic future. Although three additional congressional votes are needed for

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TODAY'S NEWS

POLITICAL

Trump Threatens Guatemala With Tariffs, Fees on Remittances

U.S. President Donald Trump threatened to take action against Guatemala, saying its leaders went back on their word to agree to become a "safe third country," which could block many migrants from traveling to the United States.

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BUSINESS

Colombia Calls on Uber to Boost Data Security

The demand followed a 2016 worldwide data breach that affected 267,000 Colombians.

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ECONOMIC

IMF Cuts Growth Forecasts for Brazil, Mexico

Latin America's two largest economies will see economic growth of less than 1 percent this year, the lender said. Mexican President Andrés Manuel López Obrador blasted the move.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

Trump Threatens to Punish Guatemala Over Migration

U.S. President Donald Trump on Tuesday threatened to punish Guatemala over its Constitutional Court's ruling to block the Central American country's government from signing a "safe third country" agreement, which would require migrants transiting through Guatemala to apply for asylum there rather than continuing to the United States. "Guatemala, which has been forming Caravans and sending large numbers of people, some with criminal records, to the United States, has decided to break the deal they had with us on signing a necessary Safe Third Agreement. We were ready to go. Now we are looking at the 'BAN' ... Tariffs, Remittance Fees, or all of the above. Guatemala has not been good. Big U.S. taxpayer dollars going to them was cut off by me 9 months ago," Trump said in a tweet. Trump did not say what he meant by a "ban." Guatemala's Constitutional Court on July 14 barred President Jimmy Morales from signing such an agreement with the United States, a ruling that came just hours after Morales postponed a trip to Washington that had been scheduled for the following day. On Tuesday, Trump portrayed

the court's ruling as a convenient excuse for the Central American country, the Associated Press reported. "In other words, they didn't want to sign it," said Trump. In a statement posted on Facebook, Morales blamed the Constitutional Court for angering Trump. "The repercussions of the Government of the United States of America toward Guatemala derive from a series of counterproductive actions by the Constitutional Court, which on repeated occasions has ruled against the content and spirit of our Constitution," said Morales, who added that most of the court's justices "identified as having personal political interests," and "have used their investment to meddle in the foreign policy of the Guatemalan state." Later on Tuesday, Morales asked the Constitutional Court to reverse its ban on a safe third country deal. In a statement, Guatemala's government said the Foreign Ministry had been directed "to exhaust all diplomatic resources available to avoid possible sanctions that could have negative repercussions for the nation's economy," the AP reported. Still, in a speech to a summit of conservative teenagers, Trump accused Guatemala's leaders of having gone "back on their word to us." Trump has been pressuring Latin American countries to do more to stem the flow of Central American migrants who have been overwhelming agents at the U.S.-Mexico border. The United States is Guatemala's top trading partner, but Guatemala ranks 46th among U.S. trade partners, according to the AP.

NEWS BRIEFS

Puerto Rico's Governor Reportedly Could Step Down Today

Puerto Rico Governor Ricardo Rosselló, who has faced several days of protests calling for his resignation, could step down today, El Nuevo Día reported. Rosselló may announce his departure in a noon farewell address, the daily newspaper reported. Rosselló, who is two and a half years into his four-year term, has been enmeshed in controversy, including because of the leak of hundreds of pages of messages that showed the governor and other top officials making homophobic, misogynistic and other crass statements.

Attempt to Grant TPS to Venezuelans Fails in U.S. House of Representatives

Bipartisan legislation to grant temporary protected status, or TPS, to Venezuelans failed in the U.S. House of Representatives on Tuesday, CBS News reported. The bill, which was introduced by Representatives Darren Soto (D-Fla.) and Mario Díaz-Balart (R-Fla.), would have given undocumented Venezuelans living in the United States temporary legal status, allowing them to legally work, among other benefits.

Mexico's Rate of Inflation Slows in Early July

Mexico's inflation slowed in early July, closer to the central bank's target, with consumer prices moderately higher as compared to the end of June, amid increases in food and transportation costs, the National Statistics Institute said Wednesday, The Wall Street Journal reported. The consumer price index rose 0.27 percent in the first half of the month, pushing annual inflation down to 3.84 percent from 3.95 percent at the end of June. Food and beverage prices were up 0.54 percent as compared to the end of June, and transportation costs rose 0.46 percent.

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this constitutional change, it is widely anticipated that final approval is just a matter of time and that the broader economic reforms essential for stable, long-run growth are now within reach. The immediate reaction to the legislative victory was a jump in the value of the Brazilian real and a new high for the stock exchange. Still, expectations should be held in check. Brazil's mediocre economic performance for much of the last three decades is reason enough for skepticism. The Brazilian Congress, despite its solid backing of the pension legislation, is an erratic institution that could readily change direction.

Public reactions to the loss of anticipated retirement benefits remain uncertain. The reform effort could also be upended by the Bolsonaro government's fading support, mostly reflecting the country's sluggish economy and elevated unemployment, but also driven by unpopular policies, offensive statements, questionable choices of senior officials and a few scandals. Nonetheless, the opening legislative success for pension reform should be welcomed, even by those strongly opposed to Bolsonaro and most of his agenda for Brazil."

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ECONOMIC NEWS

IMF Cuts Growth Forecasts for Brazil, Mexico

Brazil and Mexico, Latin America's two largest economies, will grow less than 1 percent this year amid lower confidence and policy uncertainty, according to the International Monetary Fund, Bloomberg News reported Tuesday. Brazil will grow 0.8 percent, and Mexico will grow 0.9 percent, according to a July update of the IMF's World Economic Outlook. The IMF's forecast two months ago expected Brazil's GDP to expand between 1 percent and 1.5 percent, while its outlook for Mexico in April was for economic growth of 1.6 percent. The cuts bring the IMF's growth forecast for Latin America from 1.4 percent down to 0.6 percent. "The sizable downward revision for 2019 reflects downgrades to Brazil, where sentiment has weakened considerably as uncertainty persists about the approval of pension and other structural reforms," the international lender said, Bloomberg News reported. In Mexico, "investment remains weak and private consumption has slowed, reflecting policy uncertainty, weakening confidence, and rising borrowing costs, which could climb further following the recent sovereign rating downgrade," the IMF said. Mexican President Andrés Manuel López Obrador responded by blasting the IMF, saying he doesn't have "much confidence in these organizations" for their encouragement of "neoliberal economics," Reuters reported. López Obrador said his government maintains a forecast of 2 percent growth for this year.

BUSINESS NEWS

Colombia Gives Uber Four Months to Boost Data Security

Uber has four months to improve its data security in Colombia, the country's commerce

THE DIALOGUE CONTINUES

Will Puerto Rico's Governor Soon Be Forced From Office?

Q **Protesters and police have clashed on multiple days in Puerto Rico as demonstrators called for the ouster of Governor Ricardo Rosselló. Protests followed the leak of hundreds of pages of messages containing misogynistic and homophobic statements between the governor and his closest aides, as well as the arrests of several former Puerto Rico officials in a corruption probe related to the alleged steering of several funds to politically connected, unqualified contractors. What are the underlying factors that led to protests against Rosselló, and how likely are they to succeed in pushing the governor to resign? If Rosselló steps down, who would replace him as governor? How could the controversy affect Rosselló's agenda, including the advancement of the island's debt restructuring deal? How significant is the graft case, and to what extent does it reflect general corruption in Puerto Rican politics?**

A **Luis Martínez-Fernández, professor of history at the University of Central Florida:** "Given his apparent alienation from reality, his stubbornness and ill advice from the sycophants who surround him, it is hard to tell whether or not Roselló will resign in the next few days. My historian's instinct tells me that he will have to. Whether through resignation or impeachment, he will not complete his term. We are witnessing

an unprecedented mass mobilization in terms of numbers of protesters and length of time. It is true that Puerto Ricans have staged mass protests in the past, but they were single-focused: against the Vietnam War in the 1970s and more recently against U.S. military presence in Vieques and the privatization of the telephone company. The ongoing protests are the 'Big One'—a social earthquake resulting from decades of increasing tectonic pressure along the fissures that divide society: rich vs. poor, men vs. women, light-skinned vs. darker-hued, the old vs. the young, and those in favor of and against gay rights. The triggering factor was, of course, the unveiling of those infamous chats. Puerto Ricans had long endured the corrupted abuse of leaders of the two main parties, but the chats were the let-them-eat-cake moment that fueled general indignation and the march against our tropical Bastille. The earthquake can have thunderous aftershocks: pressures to clean up government institutions, fights against the indignities perpetrated by Promesa, the auditing of the public debt and the abolition, for once and for all, of the fraud of the island's status-preference-based party system."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Tuesday's issue of the Advisor.

regulator said Tuesday, following a data breach in 2016 that affected more than 267,000 residents, El Tiempo reported. Last year, the ride-hailing app agreed to pay a fine of \$148 million in a settlement in the United States for not disclosing the massive breach, which leaked personal data from about 57 million accounts from around the world, Reuters report-

ed. Uber's Colombia unit said in a statement that it has "implemented various technological improvements to the security of our systems" in 2016 and after, Reuters reported. "We have implemented significant changes in our corporate structure, to ensure the respective transparency in front of regulators and users in the future," Uber Colombia added.

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A Joel Korn, president of WKI Brasil and senior international partner at UPITE Consulting Services: “The imminent approval of legislation for a new pension system is indeed a milestone in the country’s economic agenda and of foremost importance for the critically needed fiscal adjustment. It is a meaningful step toward a much-awaited economic turnaround and an overall improvement of confidence, strengthening expectations for a moderate recovery in the months ahead. However, the carryover effect of a very weak first half—actually, a contraction in the first quarter—makes it inevitable to project another year of mediocre GDP growth in 2019, below 1 percent. Assuming congressional approval within the next six months of the equally important and challenging tax reform, along with the implementation of privatization programs and microeconomic/deregulation measures targeting enhanced productivity and competitiveness, it is reasonable to expect that a surge in investment and consumer demand will be the driving factors for stronger economic growth in 2020, within the range of 2 percent to 2.3 percent. Overdue infrastructure projects, along with oil and gas exploration and production activities, should lead to renewed impetus in heavy construction and extraction sectors, enabling a gradual and positive impact on new jobs and a lower unemployment level. Moreover, stronger domestic demand for industrial and consumer products will play an important role in the much-needed recovery of the manufacturing sector. The planned sound liberalization policies along with specific actions oriented to reduce the ‘Brazil cost’ should go a long way in restoring investor and consumer confidence, paving the way for a renewed investment cycle, strengthening of export capacity while shifting the country away from an excessive-

ly protected and domestic-oriented economy to become an active player within the contemplated new foreign trade agreements and alliances.”

A Gary Hufbauer, senior fellow at the Peterson Institute for International Economics: “The stock market welcomes Brazil’s progress toward pension reform: EWZ, an exchange-traded fund that tracks the market, is up about 20 percent in dollar terms since the legislation got underway in late May. The prospect of slow GDP growth doesn’t bother investors because they hope for continued low inflation (now under 4 percent) and relaxation of Brazilian interest rates (still

“The prospect of slow GDP growth doesn’t bother investors...”

— Gary Hufbauer

above 6 percent). But slow GDP growth—not much better than 2 percent in 2020—can’t be good for Brazilian households. What’s the problem? A highly protected economy, with average tariffs above 13 percent, coupled with all sorts of regulation that puts Brazil well behind China, Chile and Mexico in the World Bank’s Doing Business report. Brazil is a country where Joseph Schumpeter is taking a long nap, creative destruction and productivity growth are almost non-existent, and local monopolies flourish. Pension reform, while essential, at best offers a small start toward eradicating fundamental obstacles to growth.”

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

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