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FEATURED Q&A

Does Latin America Need a New Model for Development?



Some academics and former government officials say the economic fallout of the coronavirus pandemic requires a new economic development model for Latin America. The favelas of Rio de Janeiro are pictured above. // File Photo: City of Rio de Janeiro.

Q A group of academics and former government officials are calling for a new economic development model for Latin America and the Caribbean in the face of the worst regional recession in modern history. The “Latin American Consensus,” as they have named it, would emphasize social development, push for productive and export diversification and strengthen public sector institutions, among other measures, José Antonio Ocampo, chair of the U.N. Committee for Development Policy, wrote in a recent blog. Does the region need a new economic development model in order to lift people out of poverty and reduce stubbornly high inequality? To what extent has the so-called Washington Consensus, a set of largely pro-market principles implemented over the past 20 years, succeeded in Latin America and the Caribbean, and in what ways has it failed? Would a new development model like the one being proposed imply significantly higher taxes on businesses and multinational companies operating in the region?

A Isabel Saint Malo, senior advisor to UNDP’s administrator and former vice president and foreign minister of Panama: “Latin America needs a new social contract that places citizens and their well-being at the center. The Latin American Consensus being called by José Antonio Ocampo and a group of academics includes recommendations geared toward inclusion and the fight against inequality, concentrating on social advances, the formalization of employment, inclusion of historically excluded groups and technology and innovation. I do believe that for this new model the region must move toward a more progressive tax system, the strengthening of institutions

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TODAY’S NEWS

ECONOMIC

Mexico, U.S. Reach Deal on Water Sharing

Mexico’s president said the country will honor its obligations under a water treaty with the United States by tapping international dams. A drought led to concerns Mexico would be unable to comply with its obligations.

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BUSINESS

Peru Rejects Deal for AstraZeneca’s Covid-19 Vaccine

Peru’s government rejected a deal to buy AstraZeneca’s potential Covid-19 vaccine, saying that minimal amounts of vaccines had been offered and that too little information had been provided about the inoculation’s studies.

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ECONOMIC

HOLDERS of Argentine Bonds Blast Fernández

Some of Argentina’s largest bondholders criticized the government of President Alberto Fernández, saying its plans “undermine” the country’s economic recovery.

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Fernández // File Photo: Argentine Government.

ECONOMIC NEWS

Holders of Argentine Bonds Blast Gov't Over Economic Plans

Some of Argentina's largest bondholders on Thursday slammed the government of President Alberto Fernández and its plans for the country's ravaged economy, several months after reaching a deal to restructure \$65 billion in foreign debt. Members of two creditor groups that participated in recent negotiations to resolve Argentina's unsustainable debt burden issued a statement accusing the government of implementing policies that "undermine" its own economic recovery. "Argentina's economic authorities have not only failed to restore confidence, but policy actions taken in the immediate aftermath of the debt restructuring have dramatically worsened the country's economic crisis," said members of the Ad Hoc Group of Argentina Exchange Bondholders and of the Argentina Creditor Committee. "Instead of heralding a reopening of access to markets to support Argentina's manifest investment needs, the aftermath of the debt restructuring is a virtual wasteland for Argentine credit," they added. Argentine bond prices have dropped into distressed territory since the restructuring process ended in early September, with the country's 2030 bond falling to 38 cents on the U.S. dollar after having debuted at more than 50 cents, the Financial Times reported. Meanwhile, the peso has sunk following a tightening of already-strict capital controls last month. [Editor's note: See related [Q&A](#) in the Oct. 6 issue of the Advisor.]

Mexico Reaches Deal With U.S. on Water-Sharing Agreement

President Andrés Manuel López Obrador announced Thursday that Mexico had reached a deal with the U.S. government to honor its water-sharing agreement with the United States

by tapping international dams in order to make up for a shortfall, Reuters reported. A drought in northern Mexico had led to doubts about the country's ability to honor the 1944 treaty in which the two countries send water to each other. Farmers in Mexico's Chihuahua state had protested the extraction of water from the La Boquilla dam and had won the support of the state government, whose leadership is in opposition to López Obrador. At the same time, farmers in the United States were pressing the administration of U.S. President Donald Trump to require Mexico to meet its obligations. "Indeed, the domestic politics are an important factor in both countries," former Mexican Ambassador to the United States Gerónimo Gutiérrez Fernández told the Advisor in a [Q&A](#) published Thursday. Areas along the U.S.-Mexico border "exhibit significant water stress due to natural conditions, rapid urbanization and the intensive water use of some agricultural products," Gutiérrez added. López Obrador thanked Trump on Thursday for showing "solidarity" on the issue, and he said the United States had agreed to help Mexico in the event of any emergencies arising because of inadequate water supplies. "We had a few difficulties to satisfy this accord, but they understood the special circumstances," said López Obrador.

Cuba Says it Has Lost \$5.6 Bn in a Year Due to U.S. Sanctions

Cuba's government said Thursday that the country has lost almost \$5.6 billion in a one-year period due to U.S. sanctions, the Associated Press reported. Cuban Foreign Minister Bruno Rodríguez said a growing number of sanctions imposed by U.S. President Donald Trump's administration have been suffocating the country. Rodríguez called the blockade "an increasingly cruel attempt to deprive our people of basic goods for their survival." Political hostility has grown to "feverish levels," he added. The loss that the government announced on Thursday was for the 12-month period from April 2019 to March 2020. For the previous year, Cuba's government said the U.S.

NEWS BRIEFS

Chileans Head to Polls Sunday to Decide on Constitutional Rewrite

Chileans will head to the polls on Sunday to vote on whether to rewrite the country's dictatorship-era constitution, and on how that process should unfold, Reuters reported. Those in favor of a new constitution argue that the current one privileges private interests as well as access to health, education and pensions by income. Those opposed claim that modifying a text that has helped Chile become one of the region's most stable free-market economies would be a "leap into the void," Reuters reported. [Editor's note: See related [Q&A](#) in the Oct. 9 issue of the Advisor.]

Venezuela's PDVSA Expects Oil Export Prices of \$35 Per Barrel

Venezuelan state oil company PDVSA projects oil export prices of just \$35 per barrel next year, down from the \$60 it estimated for this year, Reuters reported Thursday, citing a copy of the company's 2021 budget. The drop in expected prices comes as international oil prices have declined this year due to the Covid-19 pandemic and the slowdown of economic activity and as Venezuela struggles to sell its oil amid U.S. sanctions. The projection is for a basket of Venezuelan crudes.

Arby's Returning to Mexico, Planning to Open Hundreds of Restaurants

U.S.-based sandwich chain Arby's is returning to Mexico, saying it plans to open "several hundred" restaurants there, The Atlanta Journal-Constitution reported Thursday. The chain, based in Sandy Springs, Ga., previously operated in Mexico. However, those operations ended, reportedly due to management problems and a poor economy in the 1990s, according to Mexican newspaper El Financiero.

sanctions cost it \$4.3 billion. In addition to the sanctions, a struggling economy, an active hurricane season and the pandemic have led to food and fuel shortages in the Caribbean island nation, the AP reported. Trump recently toughened restrictions on U.S. travelers to Cuba by prohibiting them from bringing Cuban cigars and liquor back to the United States or staying in government-owned hotels in Cuba. Trump has said the U.S. sanctions will remain in place until Cuba releases all of its political prisoners, legalizes political parties, respects the rights of free expression and free assembly, and holds free elections, the AP reported. Cuba says the United States is meddling in its internal affairs. Angela Mariana Freyre, a former special advisor for Cuba policy at the U.S. National Security Council, told the Advisor in a **Q&A** published Oct. 1 that Trump's latest restrictions related to Cuba "are the continuation of an electoral strategy to win Florida" ahead of the U.S. presidential election on Nov. 3. "Given that there is no travel to Cuba during this pandemic, the significance of the hotel/rum/cigar/travel prohibitions is primarily symbolic and calculated for domestic political effect," said Freyre, a principal at law firm Squire Patton Boggs.

BUSINESS NEWS

Peru Rejects Deal to Buy AstraZeneca's Covid-19 Vaccine

The government of Peruvian President Martín Vizcarra on Thursday rejected a deal to purchase a potential Covid-19 vaccine from AstraZeneca, saying the company did not provide enough information from its studies and offered minimal amounts of inoculations, Reuters reported. Prime Minister Walter Martos said that the U.K.-based pharmaceutical company had not submitted data from its vaccine studies even though the government had asked for it. "The other labs have caught up with us accordingly, however, AstraZeneca did not," Martos said, adding that they offered a "very low quantity of vaccines."

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and the commitment with the Sustainable Development Goals. The question is: why has this not happened already? If there's a widespread belief that social advance is necessary, and I believe there is, how come we have failed to achieve it? In my view, it is because we remain largely a region of privilege, where power is concentrated in all sectors—political, economic and even popular movements—and is impregnated by privilege and processes in which patronage is rampant. In a new social contract, all sectors of society must understand the sacrifices needed and share common objectives. Leadership must understand that short-term privileges for a few has represented long-term losses for all and cannot be sustained. Inclusion, social protection, job creation and formality are a few of those shared objectives that require broader agreements and consensus. The United Nations Development Program (UNDP) has stated that, for Latin America, Covid-19 is a governance crisis and that a new social contract is required. The ideas Ocampo includes for a new Latin American Consensus could well be at the core of that new social contract."

A Michael Reid, "Bello" columnist and senior editor for Latin America and Spain at The Economist: "As long as the pandemic lasts, Latin American governments must spend more on the urgent: strengthening health systems and aiding workers and businesses. When the pandemic eventually subsides, governments will face large deficits and debts that may be hard to finance. Meanwhile, economic structures are likely to change, requiring large investments in worker retraining. Then there is the important: the region has not grown significantly since 2013, while citizens are, rightly, increasingly intolerant of inequalities of all kinds. To describe what is needed as 'an alternative to the Washington Consensus' is otiose: since the end of the commodity boom, high-tax, low-productivity countries that strayed fur-

thest from the core tenets of the Washington Consensus, such as Brazil, Argentina and Venezuela, have seen the lowest growth and the largest rises in poverty. Yes, Latin America needs more effective states, as well as more competitive markets. It needs to invest more in its people, and that will require an increase in direct taxes in many countries. But it has to be done with careful regard for incentives for growth and in a forward-looking way. In Hegelian terms, there should be a new synthesis, not an old antithesis."

A Kenneth Maxwell, founding director of the Brazil studies program at Harvard University's David Rockefeller Center for Latin American Studies: "It is entirely admirable to seek a new Latin American consensus. Unfortunately, it is pie in the sky. For three reasons. First: The competition between China and the United States will become the preminent foreign policy dilemma for many Latin American governments. This competition will affect Chinese commodity purchases in Brazil and Argentina, Chinese fishing in the Pacific waters of Peru, Chile and Ecuador, infrastructure investment, banking, cybersecurity, telecommunications, military investment and modernization, as well as the overall relationship of the state and business. Second: The hidden economy of the clandestine drug trade and its links to powerful, ruthless and internationalized networks that link money laundering through Caribbean islands (mainly British overseas territories) to local crime syndicates, urban militias and 'traficantes,' as well as politicians and military and police officials in many parts of Latin America, has been aggravated by the coronavirus crisis. Here the United States is involved at all levels: in law enforcement and prosecution on one level, and as a major customer on the other. As is Europe, where London in particular is a paradise for disguising, transferring and the moving of the billions of dollars in ill-gotten gains. Third: The intractable and resilient

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regimes remain in Cuba and in Venezuela. And the intractable and resilient opposition to them remains entrenched and resilient within the American political system. This will not change soon. It would be very nice to see a new positive consensus emerge in Latin America from out of the Covid-19 pandemic. But this is the stuff of think tanks. I suspect it would produce little beyond yet more hot air."

A Ramón Casilda Béjar, professor at the University Research Institute of Latin American Studies of Universidad de Alcalá in Madrid and strategic consultant: "The nature of the economic problems facing society requires policies that can and should be more efficient in dealing with them. The '2020 Latin American Consensus: A new vision for the post-Covid-19 era' represents a 'new model of economic development' capable of addressing the structural deficiencies of the Latin American economy, which the Covid-19 crisis has accentuated. As a new economic development model, its goal is to establish a new productive capacity and to raise the quality of capital and jobs, in order to generate more wealth and avoid the widening of poverty and inequality. The relationships between education, occupation, productivity

and competitiveness are the fundamental bases for consolidating development that's capable of achieving greater equity and successfully combating poverty and inequality.

“The longer it takes to act, the greater the decline in the business fabric, and the greater the economic and social costs.”

— Ramón Casilda Béjar

Today, the most relevant thing for governments and businesses is to work together to try by all means to stop the destruction of the business fabric, mainly made up of small and medium-sized companies, and with this, avoid the fall in employment and loss of income. The 2020 Latin American Consensus specifically addresses this in points 11, 12, 13 and 14. Action must be taken. The longer it takes to act, the greater the decline in the business fabric, and the greater the economic and social costs."

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

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What's Keeping You Up at Night?

LATIN AMERICA ADVISOR

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