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FEATURED Q&A

Can AMLO Strike a Balance Between Saving & Spending?



Mexican President-elect Andrés Manuel López Obrador has vowed to push a government austerity plan. // File Photo: López Obrador Campaign.

Q Mexican President-elect Andrés Manuel López Obrador has said he will push government austerity measures early in his term, pledging to cut his own presidential salary by more than half, end pensions for former presidents, eliminate perks such as chauffeurs and bodyguards for high-ranking government officials and eliminate private health insurance that is offered to some public employees. What are the most important parts of López Obrador's austerity plans, and how much resistance will he face in implementing them? What segments of the economy and businesses would be most affected by the measures? Would the cost savings translate to significant sums that could be budgeted elsewhere?

A Alma Caballero, director at McLarty Associates: "President-elect Andres Manuel López Obrador's 'republican austerity government plan' is intended to reduce excessive government spending while serving as a tool to attack corruption. One of AMLO's main promises throughout his campaign was to end the privileges of those involved in the 'mafia of power.' However, even though AMLO has yet to reveal a specific plan as to how his administration will attack corruption, he has been detailed in outlining how the benefits of reducing corruption will be used to fund his priority project initiatives. Those priorities include the economic developments of the country's southern states, the construction of two new oil refineries, the development of a new railway line across the Tehuantepec isthmus and the construction of a 'Maya' trainline extending from Quintana Roo to Chiapas, among others. Consolidated purchases as well as salary cuts

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Brazilian Official Vows to Keep Border Open

Brazil's institutional security minister said Brazil's border with Venezuela would remain open despite violence in areas where Venezuelan migrants have poured in.

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PDVSA Agrees to Pay \$2 Billion to ConocoPhillips

The Venezuelan state oil company agreed to pay the settlement over the country's seizure of some of the oil company's projects.

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POLITICAL

Costa Rican President Calls for Calm Following Protests

Costa Rican President Carlos Alvarado called for calm following violent anti-immigration demonstrations. Protesters surrounded a park where Nicaraguans fleeing violence in their home country have camped out.

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Alvarado // Photo: Costa Rican Government.

POLITICAL NEWS

Brazil Vows to Keep Border Open as Venezuelans Pour in

A top Brazilian official said Monday that the country will not close its border as Venezuelan migrants pour in and tensions rise in towns along the border, O Estado de S.Paulo reported. "Closing the border is unthinkable, because it is illegal," Institutional Security Minister Gen. Sérgio Etchegoyen told reporters. "The law determines the reception of refugees and immigrants in this situation." Closing the border is



Closing the border is unthinkable, because it is illegal."

— Sérgio Etchegoyen

"a solution that does not help the humanitarian issue at all," he added. Etchegoyen's comments came two days after residents of the Brazilian border town of Pacaraima attacked Venezuelan migrants after the robbery, stabbing and beating of a local store owner on Saturday, the Associated Press reported. Brazilians blamed the attack on four immigrants. The 55-year-old store owner was released from the hospital on Sunday. Tensions have calmed in Pacaraima since Saturday, but authorities have not made any arrests in the wake of Saturday's violence, Etchegoyen said. Brazil's government is sending 120 members of a military-style police unit to Pacaraima, which is in Roraima State. Half of that force has arrived in Roraima's state capital, Boa Vista, while the other half does not yet have an arrival date set, the AP reported. Approximately 12,000 Brazilians live in Pacaraima, and five times that number of Venezuelans has flooded into the town. Some 2.3 million Venezuelans have fled the economic and political crises in their home country since 2014, according to the United Nations. Roraima's governor, Suely Campos, has requested that Brazil close its border with Venezuela or send

more help to the state. On Sunday, she sought an order from Brazil's highest court to temporarily halt Venezuelan immigration into Brazil. The court has not set a date to decide on the case, but a similar request was turned down in April. "Unfortunately, it took a violent episode for the federal government to understand it needs to face this issue in an effective way," Campos said in a statement Monday. Campos has asked Brazilian officials for \$45 million to compensate for expenditures the state has made since 2016 to address a growing influx of migrants. Venezuelan migrants have also streamed into other countries, including Colombia. More than one million Venezuelan migrants have entered the neighboring Andean nation, which U.S. Defense Secretary James Mattis said has had a "destabilizing impact" on Colombia, ABC News reported. On Friday, after a visit to Bogotá, Mattis announced that the United States would send the USNS Comfort, a Navy hospital ship, to Colombia to provide urgent medical care to Venezuelan refugees.

Costa Rica's Alvarado Calls for Calm After Violent Protests

Costa Rican President Carlos Alvarado called for "calm" and "peace" in a national television address Sunday night following violent anti-immigration demonstrations in San José on Saturday. Marchers took the streets around La Merced Park in the capital, where Nicaraguan migrants fleeing months of violence in their home country have been camping out, La Nación reported. Demonstrators also gathered at several other parks in the capital to protest the increased influx of Nicaraguans in recent months. Some demonstrations turned violent, with police arresting 44 individuals, many with criminal records. In his address, Alvarado said his administration has budgeted the "necessary resources for migratory control that is safe, organized and registered," with measures that include increased police presence at border towns and health monitoring of Nicaraguans arriving there. He also called for Costa Ricans not to give in to provocations of hate. Several

NEWS BRIEFS

Mexico's President, President-elect Pledge Cooperation

Mexican President Enrique Peña Nieto and President-elect Andrés Manuel López Obrador on Monday agreed to work together going forward despite substantial differences on many issues, including education reform and an airport infrastructure project, Los Angeles Times reported. "It is an institutional transition but it is also a respectful transition because we have received help without conditions from the constitutional president," said López Obrador. Peña Nieto, in turn, said he would do all he could to make sure López Obrador begins his term successfully. The men appeared together at the National Palace in Mexico City.

PDVSA Agrees to Pay \$2 Billion Settlement to ConocoPhillips

U.S.-based energy company ConocoPhillips announced on Monday that Venezuelan state oil company PDVSA agreed to pay a \$2 billion settlement agreement over nearly five years regarding a decade-long legal dispute after Venezuela seized ConocoPhillips' projects without compensation, The New York Times reported. ConocoPhillips had won the arbitration ruling in April and seized PDVSA's assets in the Caribbean, squeezing the cash-strapped company's ability to export oil to the United States and Asia.

Millennium Management Increases Stake in Banco de Chile

Millennium Management during this year's first quarter boosted its stake in Banco de Chile by 57.5 percent, the Fairfield Current reported Monday. The New York-based hedge fund bought an additional 10,495 shares of the Chilean bank during the first quarter, bringing its total stake to 28,756 shares.

false news articles circulated online before the protests took place, including untrue posts on social media that claimed Nicaraguans were burning Costa Rican flags and that a Nicaraguan military invasion was imminent, La Nación reported. Some 23,000 Nicaraguans have applied for asylum in Costa Rica since June, according to the Costa Rican government, although some of them had been living there already and thus are not considered refugees, the Voice of America reported. Professors at the University of Costa Rica are seeking to organize a counter-demonstration “for peace” this Saturday, Carlos Sandoval, a professor and researcher at the university, told the Advisor.

BUSINESS NEWS

Caixa Econômica Federal Eyeing Loan Book Growth in 2019

Brazilian state bank Caixa Econômica Federal will restart loan book growth next year, Chief Financial Officer Arno Meyer told journalists on Monday, Reuters reported. Caixa has been focusing on strengthening its Tier 1 capital ratio this year, while holding off the bank’s growth. The ratio reached 12.49 percent in the first



Meyer // File Photo: Caixa Econômica Federal.

half of 2018, while its total loan book shrank by 0.7 percentage points in the second quarter to 695.3 billion reais, as both corporate and individual credits contracted. Caixa reined in growth as its asset quality dropped after lending significantly under Brazil’s Workers’ Party in the previous presidential administrations, Reuters reported. Moreover, the bank, which

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for government officials are part of AMLO’s austerity plan. Skepticism exists, however, regarding the prospects that such cost saving initiatives will generate the substantial \$26 billion estimated to achieve AMLO’s priority initiatives. Finally, the political difficulty is that many anti-corruption policies take years to bear fruit, and AMLO will be under immense pressure by the Mexican electorate to present ‘wins’ quickly to demonstrate that he is delivering on his campaign promises of ending corruption while achieving the ‘fourth transformation’ of Mexico.”

A Pamela Starr, senior advisor at Monarch Global Strategies and associate professor at the University of Southern California: “AMLO’s austerity plans focus on reducing the salaries and perks of politicians and high-ranking bureaucrats and ensuring that monies transferred to the states are not wasted or pilfered. While theoretically logical and politically popular, these plans come with some important risks. AMLO wants government officials to make no more than his much-reduced salary and to give up their perks. The sharp cuts for Mexico’s overpaid and pampered politicians seem overdue. Cutting bureaucratic salaries, however, is more problematic. In some cases, it is constitutionally impossible, such as with Supreme Court justices. In others, there is the risk that the best officials will find alternate sources of employment, leaving behind less well-trained and capable replacements that have a negative impact on governance. This is particularly true in Hacienda and Pemex, two entities that must run efficiently if AMLO is to achieve his lofty policy goals. Preventing waste and fraud in the states will

primarily provides mortgages for lower-income individuals, is reportedly eyeing a government capital injection totaling 872 million reais, or \$222.89 million, repaid out of funds the government had collected from the state bank as dividends, said Meyer. He also said Caixa

be the task of federal government representatives, the so-called super delegates. These actors, one for each state, will oversee state expenditures of federal monies. Since federal funds account for the majority of most state budgets, this will create a parallel power structure in each state. By thus undermining the power of the elected governor in favor of an unelected representative of AMLO’s government, the costs to democratic governance could be significant. And while the savings should be substantial, every independent analysis concludes they will be insufficient to finance AMLO’s very long list of spending priorities.”

A Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach: “Fiscal balance is key to a healthy economy. Fighting deficits is thus a sound game plan. But for this public policy to truly work over the long run, López Obrador needs to see beyond the press headlines. He needs to create a budget generating method that punishes deficits and encourages revenue growth. This is not achieved by reducing the salary and pensions of heads of state or doing away with the army of bodyguards and security details that surround Mexican public servants up to the fourth circle of significance. What really needs to be done is to create compensation incentives that favor balanced budgets through bonuses for government managers. It is also fundamental to develop more efficient processing methods for all matters conducted by government while enhancing the speed of digitalization to affect productivity. On the revenue side, better and more efficient services can generate

Continued on page 4

was considering issuing a bond in the coming months to further raising the Tier 1 capital ratio. Also on Monday, Caixa said its net income rose to 3.63 billion reais, or \$885.44 million, in the second quarter, a 34 percentage increase year-on-year, Folha de S.Paulo reported.

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significant income flows. López Obrador is right in demanding and imposing austerity to the Mexican public sector. I however doubt that savings in the budget items he has targeted will significantly reduce the deficit. He definitely needs to do more in terms of penalizing budget deficits and stimulating growth in revenues."

A Rubén Olmos, president of Global Nexus in Washington: "The landslide victory of Andrés Manuel López Obrador was in large part due to the extreme levels of corruption shown in recent decades, peaking during the Peña Nieto administration. The people not only voted for a strong presidency, but gave López Obrador's 'Juntos Haremos Historia' movement the power in Congress to conduct major changes that will include deep austerity measures across all three branches of government. In fact, his 'fourth transformation' plan is based on cleaning the house and making sure public officials are effective and honest. The president-elect has said that he hopes to save around 500 billion pesos (\$26 billion) through his austerity measures, money that would be redirected to social and economic development spending. AMLO has affirmed

that he has received 'displays of support' for his austerity plan. However, it could still be rejected in Congress or at other levels of government that have budgetary autonomy, such as the judicial branch. Still, AMLO's popularity gives him a great deal of political capital to push through this type of measure,

“AMLO's popularity gives him a great deal of political capital to push through this type of measure, even if he faces opposition.”

— Rubén Olmos

even if he faces opposition. By early 2019, we will likely see several businesses affected by these measures including those that sell and provide services across government agencies such as financial and insurance, vehicles, consulting, construction and remodeling, and travel, among others."

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

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Advisor Video

The Many Faces of Venezuelan Migration: Challenges and Solutions

An Inter-American Dialogue Discussion with Pedro Leyva, Assembly of Cucuta, Colombia
Francisco Márquez, Visión Democrática
Miryam Hazan, Organization of American States

View a webcast of the Aug. 1 discussion.

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