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FEATURED Q&A

Will Investors Soon Sour on Mexico's López Obrador?



Mexico City's ambitious new airport had the backing of business leaders, but voters became convinced the project was wasteful and would not benefit them, derailing its construction indefinitely. // File Photo: Mexican Government.

Q Mexican citizens last month voted down the construction of a massive new airport underway in Mexico City in a referendum proposed by President-elect Andrés Manuel López Obrador. Days later, Fitch Ratings lowered its outlook on Mexico's debt ratings, citing the airport decision and potential for López Obrador to unravel past reforms aimed at liberalizing stagnant sectors of Mexico's economy. How much has López Obrador's call to halt the airport's construction weakened investor confidence in Mexico? How likely are López Obrador and his allies in Congress to roll back reforms in the energy sector? How is the private sector reacting to López Obrador's election, and what is Mexico's outlook for key economic indicators in the year ahead?

A Tapen Sinha, professor of risk management at the Instituto Tecnológico de México and professor at the University of Nottingham Business School: "It is clear that both domestic and international investors are nervously watching what is going to happen in terms of economic policies in the new administration. Unlike the monolithic PRI that governed Mexico for eight decades, and 12 years of PAN, left-wing parties (either PRD or Morena) have never been in power. Over the past decade, as a candidate, AMLO has made a lot of noise about how the 'power mafia' (la mafia del poder) would be broken down in his administration. Since AMLO and his associates have won a thumping majority, there is a lot of expectation riding on him. The cancellation of the airport project has to be seen in that light. It was not so much on what was done, but how it was done. It was supposed to be a referen-

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TODAY'S NEWS

POLITICAL

'El Chapo' Accuses Two Presidents of Taking Bribes

The defense team for alleged drug kingpin Joaquín "El Chapo" Guzmán said Tuesday that Mexican President Peña Nieto and former President Felipe Calderón took bribes from the Sinaloa drug cartel. Both denied the accusation.

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ECONOMIC

Brazil Retail Sales Fall More Than Analysts Expected

Retail sales in Brazil fell by 1.3 percent in September as compared to the month before, when sales grew 2 percent. The decline surprised analysts, who had expected stronger figures.

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POLITICAL

Bogotá Builds First Camp for Venez. Migrants

Colombia has constructed the first camp for migrant Venezuelans in the capital of Bogotá, filling a soccer field with yellow tents and cots that will house homeless migrants for up to three months.

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Bogotá's new migrant tent shelters
// Photo: Colombian Government.

POLITICAL NEWS

‘El Chapo’ Accuses Mexican Presidents of Taking Bribes

The defense team for Joaquín “El Chapo” Guzmán, whose trial began Tuesday in a Brooklyn court where he stands accused as one of the most notorious drug kingpins of the modern era, said that Mexican President Enrique Peña Nieto and former President Felipe Calderón took bribes from the Sinaloa drug cartel, the Associated Press reported. The two leaders immediately rejected the accusation, with a spokesman for the current president, Eduardo Sánchez, calling it “false and defamatory” in a tweet. Calderón, who declared war on drug gangs when he was president from 2006 to



Calderón // File Photo: Via Twitter @FelipeCalderon.

2012, also denied the allegation. “Neither he nor the Sinaloa cartel nor any other made payments to me,” Calderón said in a posting on Twitter. During the first day of statements in the trial, the defense claimed Guzmán was a scapegoat for the real leader of western Mexico’s Sinaloa cartel, Ismael “El Mayo” Zambada, the man they claimed had bribed Peña Nieto. “He’s blamed for being the leader while the real leaders are living freely and openly in Mexico,” attorney Jeffrey Lichtman told the federal courtroom. “In truth, he controlled nothing. Mayo Zambada did.” Mayo Zambada remains at large. Prosecutors say the Sinaloa cartel is the biggest supplier of drugs to the United States. Opening statements were delayed for two hours when two of the jurors chosen last week dropped out of the case, with one saying the trial had left her “too anxious and

too upset” to serve on such an important jury. U.S. District Judge Brian Cogan has kept the identities of jurors secret and barred courtroom sketch artists from drawing them. Opening statements will continue today in the trial, which is expected to extend into next year. Guzmán, 61, faces 17 federal charges and life in jail if convicted.

ECONOMIC NEWS

Brazil Retail Sales Fall More Than Analysts Expected

Retail sales in Brazil fell by 1.3 percent in September as compared to the month before, when sales grew 2 percent, state statistics agency IBGE said Tuesday. The decline was broad-based, with a fall in sales noted in six of the eight categories of sales the agency tracks. The biggest impact came from the 1.2 percent drop in sales of hypermarkets, supermarkets, food, beverages and tobacco, driven largely by the end of a deflationary period, according to IBGE research manager Isabella Nunes. “Inflation was at -0.7 percent in July, -0.6 percent in August, and in September it stabilized at zero,” she explained. On the positive side, sales of furniture and appliances were up 2 percent in September. Brazil has struggled this year to recover from its deepest recession in history, and September’s slack sales report surprised market analysts. “Going forward, the retail sector should be supported by the low inflation environment (which is buttressing real wage income), employment growth, and firming credit flows, but still significant slack in the labor market may limit the buoyancy of private consumption and retail sales,” Goldman Sachs economist Alberto Ramos told clients in a research note. Broad retail sales are still 11.4 percent below the cyclical peak reached in August 2012, he added. Some retailers have done better than others to adjust to the country’s volatile economy. Carrefour Brasil, Brazil’s largest retailer, announced last week it had beat quarterly profit estimates, Reuters re-

NEWS BRIEFS

Brazil’s Bolsonaro Names a Former General as Defense Minister

Brazilian President-elect Jair Bolsonaro on Tuesday appointed his third cabinet member from a military background, naming reservist general Fernando Azevedo e Silva to the post of defense minister, Agence France-Presse reported. Defense ministers in recent decades has been civilians in Brazil. Azevedo e Silva was trained at the same military academy as Bolsonaro, and both served during Brazil’s 1964-85 military dictatorship.

Ecuador, U.S. Renew Trade Talks After Long Hiatus

Ecuador and the United States today will restart talks on trade, convening a meeting of the U.S.-Ecuador Trade and Investment Council, or TIC, after a nine-year pause, La República reported. Ecuador’s trade minister, Pablo Campana, is in Washington with some 20 Ecuadorean businessmen to meet with U.S. Trade Representative Robert Lighthizer with the aim of boosting the South American country’s exports to the United States, a high priority for President Lenín Moreno.

Colombia Creates First Camp in Capital City for Migrants From Venezuela

Colombian authorities on Tuesday constructed the first camp for migrant Venezuelans in the capital of Bogotá, the Associated Press reported. Cristina Vélez, Bogotá’s secretary for social integration, said the plan for moving homeless Venezuelan migrants to a soccer field, now filled with yellow tents and cots, came out of discussions with counterparts in Paris, where officials have similarly dealt with migrants from Syria. Migrant families will be kept together and allowed to stay at the camp for up to three months and will be given information on accessing education and health care.

ported. The company said net income came to 391 million reais (\$105 million), up 67 percent from the same period a year ago.

BUSINESS NEWS

Colombia Oil Pipeline Bombings Damage Waterways

Colombian state oil company Ecopetrol said on Tuesday that three new bombings of the Caño Limón pipeline have contaminated several waterways in the country's northeastern Arauca province, Reuters reported. The latest attacks, which occurred over the weekend, would have caused more damage, but the pipeline was not operating at the time of the attacks, according to the report. Military sources told Reuters that fighters from the National Liberation Army (ELN) rebel group were behind the latest attacks. The Caño Limón-Covenas pipeline has been attacked on average every one out of four days this year, according to analysis of Ecopetrol data by Argus Media. The data does not include numerous illegal valves in remote places on the line that have been put in place by drug traffickers that use the stolen oil to process coca. The ELN has also become more active in neighboring Venezuela, taking advantage of economic turmoil to infiltrate well beyond border areas, InsightCrime reported this week. Caño Limón has been a common target of the ELN, even during periods of cease-fire. The pipeline has been bombed more than 1,400 times since it was opened in 1986, and combined damages have amounted to two million barrels of spilled crude and a total of 11 years of paused operations, Reuters reported. The bombing of pipelines "is the only of show of force available to the ELN," Alfonso Cuéllar, president of Hill+Knowlton Strategies in Colombia, told the Advisor recently. "If there is no cease-fire, it will remain the terrorist weapon of choice for this guerrilla group, and Caño Limón is an attractive target," he added. [Editor's note: See related Q&A in the Sept. 7 issue of the weekly Energy Advisor.]

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dum in which less than one million people voted. Moreover, there were lots of irregularities in that voting process. Following on the heels of the airport project cancelation, one member of the Lower House has floated a new set of banking regulations. This action not only surprised outsiders, but also even took AMLO by surprise. The transition team no longer seems to be a team, but rather a group of bickering politicians jostling for more power and undermining each other. Both of these actions have spooked the stock market and the markets for exchange rates—and not for the better. Unless AMLO can reign in his party to follow his lead, he risks the possibility of descending into complete chaos. Given that Morena senators are already threatening to defy AMLO, the future is not looking good."

A **Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor**

at Chatham House: "Although Mexico's president-elect hasn't been inaugurated yet, several decisions have been announced that will profoundly affect the politics and economy of the country. Most of these decisions fulfill campaign promises made during his many years of running for the presidency, including holding a farcical 'consultation' on the future of Mexico City's new airport, stalling parts of the energy reform, canceling the education reform and several other actions to push his social agenda at the expense of economic and monetary stability. Although markets had been giving AMLO the benefit of doubt since the July election, the honeymoon is over, with the currency, stock market and investors showing clear signs of worry at some of the choices being made before the change in administrations. The 'consultation' on whether to continue building a 30 percent completed new airport or opting for a technically unproven alternative to add two runways and a terminal

building to a small, distant military facility, while keeping the current saturated airport, was clearly a mistake. Less than 1 percent of the country's eligible voters participated, the question was visibly skewed toward favoring AMLO's option, and there was no

“The honeymoon is over, with the currency, stock market and investors showing clear signs of worry.”

— Andrés Rozental

credible supervision of either the process or the results. Although AMLO promised current bondholders in the new airport that they would be compensated, and construction companies could participate in other infrastructure projects, investor confidence was badly shaken and rating agencies subsequently downgraded the country's outlook to negative. Together with a draft bill in the newly-elected Congress—dominated by AMLO's Morena legislators—to eliminate banking commissions and a veiled proposal to use the country's monetary reserves to fund social programs, the president-elect's actions so far have seriously eroded Mexico's reputation, led to a weakening of the peso and erased year-to-date gains in the stock market. Altogether a rather negative prospect for a new government that hasn't even taken office yet."

A **Rubén Olmos, president of Global Nexus in Washington:** "President-elect López Obrador's decision to cancel the construction of the airport may increase uncertainty and affect domestic and foreign investment. Recent anti-business-friendly decisions by his Morena party—which has a majority in the Senate and Chamber of Deputies—will

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put a pause on foreign direct investment until we get more clarity of his inauguration message and, most importantly, his first 100 days in office. Major infrastructure projects such as a touristic and cargo train announced for southern Mexico, among others,

“The oil and gas industry is likely to suffer.”

— Rubén Olmos

will likely receive significant state intervention, therefore putting the brakes on external investment. The oil and gas industry is likely to suffer as a result of López Obrador's efforts to clean up corruption in Pemex. He has announced increased scrutiny for contracts awarded on behalf of the outgoing government and will give preferential treatments to the state company, possibly at the expense of foreign companies that are willing to invest in the future of the country's energy sector. Mexico's real annual GDP growth will remain steady at 2.3 percent in 2018 and 2.5 percent in 2019.”

A **Wolfram F. Schaffler González,** director of the Texas Center for Border Economic and Enterprise Development at Texas A&M

International University: “Everything is possible with AMLO.’ At least that is what many Mexican businesspeople say, some out loud, some in ‘petit comité.’ Recent actions such as the airport ‘referendum’ and the proposal of a reduction of fees and commissions that international banks charge in Mexico have shaken the markets and the peso, and also resurfaced the populist worries that many felt when AMLO was elected. However, there is hope. The private sector in Mexico

is proactive and very well organized, as we saw during the NAFTA renegotiation when more than 300 business leaders worked very closely with government negotiators. This strength in numbers could also serve as a deterrent for future populist actions that AMLO might float or implement that could negatively affect the economy. AMLO has a vision for Mexico (and for his place in history) that demands results via a solid economy that increases jobs and reduces poverty. For that, he needs economic stability and the help of the private sector. However, he also needs to keep his promises to the majority of Mexicans who voted for a change, as well as to those who have followed him with deep loyalty—many of whom are now senators or federal representatives who can legally enable any of his initiatives or proposals, such as eliminating or changing the recent reforms. AMLO wants to leave his mark in the history of Mexico at the same

“AMLO has a vision for Mexico (and for his place in history) that demands results via a solid economy...”

— Wolfram Schaffler González

level as Miguel Hidalgo, Benito Juárez and Francisco I. Madero, national heroes and his role models for achieving a ‘fourth national transformation.’ To succeed in this objective, he has to deliver results, which he can only get with a strong economy and national and international trust in him and in Mexico.”

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