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FEATURED Q&A

What More Can Latin America Do to Reduce Poverty?



Poverty is on the rise in countries facing economic recession such as Argentina, Brazil and Venezuela, Nora Lustig writes below. // File Photo: Argentine Government.

Q Due largely to Brazil's historic recession, more than 10 percent of Latin Americans, or 62 million people, are living in extreme poverty, the highest percentage since 2008, according to a report recently released by the U.N. Economic Commission for Latin America and the Caribbean, or ECLAC. What factors are shaping extreme poverty rates in the region, and how should governments confront this challenge? Which countries have the best economic and social policies to fight extreme poverty, and can such measures be replicated elsewhere? What influence, if any, has extreme poverty had on politics in Latin America?

A Jaana Remes, member of the Latin America Advisor's board, economist and partner at McKinsey Global Institute: "Latin America's success since the early 2000s in using conditional cash transfer and other targeted policies to reduce absolute poverty captured public attention around the world. Yet the gains have not proved durable: latest data show that the trend went into reverse in 2015. At the same time, a new 'vulnerable' class has emerged of people who are no longer technically poor, but who nonetheless struggle to meet basic household needs, and the middle class is being squeezed. Latin America's dual challenge is that economic growth has been too weak, and the gains of that growth have been distributed unequally. Overall, people in the bottom 90 percent of the income distribution account for less than two-thirds of total consumption—the lowest share of any region in the world. The path forward requires restarting the 'virtuous growth cycle,' in which increased labor productivity gains translate into higher wages for

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TODAY'S NEWS

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Tensions Build Over Venezuela Aid Shipments

U.S. Secretary of State Mike Pompeo has demanded Venezuela reopen a bridge on the Colombian border to allow in an aid shipment of food and medicine organized by the opposition.

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ECONOMIC

Mexico Consumer Confidence Picks Up Sharply

A key measure of consumer confidence in Mexico rose in January to its highest level since 2001. Polling firm Ipsos noted that such spikes typically follow the election of a new president.

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POLITICAL

Brazil's Lula Receives 13 More Years in Jail

Former Brazilian President Luiz Inácio Lula da Silva, who was jailed last April on a corruption conviction, was sentenced on Wednesday to nearly 13 more years in a new graft case. He denies the charges.

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Lula // File Photo: World Economic Forum.

POLITICAL NEWS

Tensions Build Over Venezuela Aid Shipments

U.S. Secretary of State Mike Pompeo on Wednesday demanded Venezuela reopen a bridge on the Colombian border to allow in an aid shipment of food and medicine organized by the opposition, BBC News reported. Venezuela's military in recent days used semi tractor trailers to block the crossing, which links Cúcuta, Colombia, to Ureña, Venezuela, in a bid to thwart aid deliveries arranged by opposition leader Juan Guaidó. Guaidó has created a shadow government as interim president until elections are held. President Nicolás Maduro, whose grip on power hinges on the continued support of the army, has rejected letting the aid into the country, comparing it to an invasion. In a tweet, Pompeo demanded that Maduro's forces remove the barricades. "The Maduro regime must LET THE AID REACH THE STARVING PEOPLE," the post reads. Guaidó, who interna-



Pompeo // File Photo: U.S. Government.

tional aid groups have hesitated to embrace in his effort, saying they fear setting a precedent by taking sides in a political maneuver. He has been appealing to the conscience of Venezuela's military to permit the supplies across the border. "Brother, let the aid in. Do not stop it," Guaidó said Wednesday, appealing to members of the country's armed forces while speaking at a meeting with farmers in Caracas, CNN reported. In related news, U.S. Senator Marco Rubio (R-Fla.) told The Wall Street Journal on Wednesday that Guaidó will name a new board for Citgo Petroleum Corp this week. The United

States has imposed sanctions on Venezuelan state oil company PDVSA, which owns Citgo. "The interim president is going to name a new governance board very soon here, probably as early as today or tomorrow and that'll be recognized under U.S. law," Rubio said in an interview with the newspaper. Rubio added that the United States would then recognize that board as the legal entity controlling Citgo. The sanctions have led to significant disruptions to traditional oil trade flows. On Wednesday, Ronny Romero, Venezuela's representative to the Organization of the Petroleum Exporting Countries, told Russian news agency Sputnik that Caracas will do everything possible to minimize the effects of U.S. sanctions. "We were exporting about 500,000 barrels per day to the U.S. ... PDVSA will redirect exports to other customers in Europe and Asia," he told Sputnik. Romero said that European and Asian customers should not be afraid to buy oil from the country because Washington's sanctions apply only to U.S. entities.

Brazil's Lula Receives 13 More Years in Jail

Former Brazilian President Luiz Inácio Lula da Silva, who was jailed last April on a corruption conviction, was sentenced on Wednesday to nearly 13 more years in a new graft case, The New York Times reported. Lula, the founder of the leftist Workers' Party, was leading in the polls last year to win another term even after he went to jail. But less than a month before the vote, electoral authorities barred him from running because of the corruption conviction. In the new ruling on Wednesday, Judge Gabriela Hardt found Lula guilty of passive corruption and accepting bribes from construction companies in the form of a \$235,000 renovation of a country house. She sentenced him to 12 years and 11 months in prison. Attorneys for Lula noted that his name was not on the title of the home, but prosecutors presented evidence that he and his family had occupied it. Ten other people were convicted, including top executives at the construction companies. Lula's supporters say he is being persecuted by political opponents in order to keep him out of

NEWS BRIEFS

L Catterton Invests in Mexico's MYT

Connecticut-based private equity firm L Catterton said Wednesday it had made a "significant investment" in Grupo MYT, the owner of a number of restaurant brands in Mexico. Founded in 2003 by the Mier y Terán family, the company operates primarily casual food restaurants including Moshi Moshi and La Imperial. No financial details were disclosed. Elsewhere in Latin America, L Catterton has invested in Cholula and Rapsodia, among other consumer brands. The company has over \$15 billion of equity capital and 17 offices globally.

United States Asks Brazil to Lift Ethanol Tariff

The United States on Wednesday asked Brazil to consider lifting the 20 percent tariff imposed on its ethanol exports, Reuters reported. Ted McKinney, an official at the U.S. Department of Agriculture, said Brazil had previously said it would reassess the tariffs two years from the September 2017 date on which they were imposed. Brazil levies the tariff on ethanol imports surpassing 150 million liters a quarter in an effort to shield local ethanol producers from foreign competition. U.S. ethanol exports last October shot up 67 percent as compared to the same month in 2017, reaching 668 million liters. Of that total, nearly 200 million liters were shipped to Brazil, Agra-Net reported.

Smurfit Kappa Opens New Packaging Plant in Mexico

Ireland-based packaging company Smurfit Kappa said Wednesday it has opened a new plant in Tijuana, Mexico. The new folding carton plant will produce products for the Baja California region and neighboring states in northern Mexico. The new Tijuana plant is the third of its type in Mexico, where Smurfit Kappa already operates one folding plant in Cerro Gordo and another in Naucalpan.

power. Lula's incarceration marks a remarkable fall from grace. Growing up in poverty, Lula became a union activist and ran unsuccessfully for president three times before achieving victory in 2002 and then again in 2006. He played a prominent role on the international stage. Time Magazine in 2010 declared Lula one of its "100 most influential people in the world."

ECONOMIC NEWS

Mexico Consumer Confidence Picks Up

A key measure of consumer confidence in Mexico rose 11.1 points in January as compared to the same month last year to 112, its highest level since January 2001, state statistics agency INEGI said Wednesday. The Consumer Confidence Indicator, prepared jointly by INEGI and the Bank of Mexico, recorded monthly growth of 1.9 points in January over last December, in seasonally adjusted terms. Mexicans felt better about the present economic situation of members of their households, the current and future economic situation of the country, as well as the possibility that members of their households can currently make purchases of durable goods. The jump was higher than most market analysts expected. "The significant improvement in the consumer confidence in December-January is hard to square with the weakness in leading indicators of activity and the recent tightening of financial conditions," Goldman Sachs analyst Alberto Ramos told clients. According to another measure of consumer confidence, Ipsos' Global Consumer Confidence Index, Mexico increased 4.4 points in January as compared to the same month last year. The polling company noted that the increase is typical of countries that recently elected a new president. Brazil, which swore in a new president last month, rose 8.7 points over the past three months. Overall, since the election of President Andrés Manuel López Obrador last July, consumer confidence in Mexico has strengthened 25 percent, according to Goldman Sachs.

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the broad base of the population, which, in turn, lead to higher domestic demand and investment. Governments will need to put in place conditions that incentivize firms and entrepreneurs, reduce incentives for informality and reduce costs through more efficient public services and less regressive taxes. Business leaders, too, have a role to play. They must prepare for a more competitive environment, invest in the talent and capital to raise productivity, and share gains through worker wages. This holistic approach, which tackles both demand and supply issues, will be challenging. But if Latin American economies are to become more dynamic and more inclusive, it is essential."

A **Nora Lustig, Samuel Z. Stone professor of Latin American Economics and director of Commitment to Equity Institute**

at Tulane University: "While poverty is still declining (albeit at a slower pace) in most countries in Latin America, poverty is on the rise in countries facing economic recession such as Argentina, Brazil and Venezuela. We are observing the consequences of the end of the commodity boom. Countries that followed prudent macroeconomic policies during the boom (such as Chile and Peru)

“ We are observing the consequences of the end of the commodity boom.”

— Nora Lustig

have been able to cope with lower commodity prices without drama. In countries where the windfall led to large increases in government spending (such as Argentina under the Kirchners), adjusting to the new conditions took a more brutal turn. That economic crises cause poverty to increase

should not come as a surprise. Poverty increases because employment dwindles, wages plummet, subsidies are cut and consumption taxes are raised. Under the circumstances, governments should introduce policies to restore growth and protect government spending on basic education and health care, infrastructure in poor areas and cash transfers targeted to the poor. They should also seek help from international financial institutions to make the adjustment process less draconian. Luckily, and in contrast with the punishing role they played during the 1980s and the 2001 crisis in Argentina, these institutions have become more cooperative. A salient example is the large IMF program for Argentina approved last year and its special provisions to protect social spending and the poor. Whether these provisions will have the intended effect, it is still too early to tell. Although political dynamics in the region are driven by multiple factors with security concerns and anti-corruption sentiment leading the way, falling living standards for the poor and the lower middle classes must surely be playing a role. To varying degrees, their anger and disappointment must underlie the resurgence of Cristina Fernández in Argentina, the loss of the Workers' Party in Brazil and the weakening of Maduro's base in Venezuela."

A **Claudio Loser, former head of the Western Hemisphere Department at the IMF and founder and CEO of Centennial Latin America:**

"The information provided by ECLAC on poverty is concerning. The indicators of poverty and of extreme poverty increased starting in 2015, after having declined since early in the century. However, poverty levels, in percentage terms, have not reached the levels of earlier years. Progress was made during the high-growth commodity-boom years. The recent slowdown in economic activity was the main culprit in explaining the reversal. GDP growth declined from about 4.5 percent at the beginning

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of the decade to a negative 0.6 percent in 2016. As countries became poorer, poverty increased, even with antipoverty schemes in place. A ray of hope is on the horizon. In 2018, with higher growth, overall poverty declined, and extreme poverty remained unchanged in percentage terms. Even with a recession in Argentina, and not counting Venezuela, the numbers are likely to improve this year. Another interesting statistic—if it can be believed—is that inequality has continued to decline. A sobering note is that countries such as Brazil and Mexico have helped reduce extreme poverty. However, extreme poverty is mainly linked to average per-capita income. Chile and Uruguay lead in per-capita income and in terms of low extreme poverty, followed by Argentina and Costa Rica, in the range of less than five percent, followed by Brazil and Peru (two cases of success in combating poverty). The most likely conclusion is that the best policy to reduce poverty is to have pro-growth policies, supported by antipoverty programs. However, these fail when growth declines.”

A **Camilo Arriagada Luco, sociologist and associate professor in the architecture and urbanism department at Universidad de Chile:** “ECLAC’s poverty profiles since the 1990s indicate that a series of factors affect the likelihood of being poor: rural location, youth, lack of education or race. However, such factors operate within a context of opportunities that we should consider when looking at extreme poverty in the region. The weakness of massive job creation means income alternatives for the poor are a combination of informal activities with very low productivity and state subsidies. Meanwhile, the increase in the prices of food and fixed costs (health education, housing, transportation), combined with low salaries, is a phenomenon that aggravates the exclusion of the poor and extends the demand for subsidies and state programs to sectors beyond the poverty line and the minimum

wage. The Latin American public sector is facing a particularly complex moment right now. It must review its look toward globalization and private investment as the only engines for development—because they haven’t been—and it is obliged to build an alternative subregional or national development strategy to unbridled globalization and low-quality economic growth cycles. In particular, the implementation of social public

“**Social public spending through cash transfers has proved unsustainable, given its correlation with inflation and clientelism.**”

— Camilo Arriagada Luco

spending through cash transfers has proved unsustainable, given its correlation with inflation and clientelism. In countries where cash transfers concur with social services, nutrition has improved, but decades have passed without evidence of improvement in or expansion of public health services and education. There is space for innovation and investment in the territorial areas where poverty prevails: rural areas affected by droughts, urban slums, immigrant housing projects and municipalities with prevalence of women-led households with no day care, among others. It is possible to identify the subset of marginal sectors that need public health services and education the most. There is an unprecedented potential for information, and data that can be used for targeted public policy. Big data is seen as an opportunity for global business, but less as an opportunity to organize the social programs that are most urgent.”

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