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FEATURED Q&A

Will Less Tourism Mean Big Problems for Cuba's Economy?



Tighter U.S. travel restrictions have led to a drop in Cuba's tourist arrivals. // File Photo: Cuban Government.

Q Tourism to Cuba is expected to drop 8.5 percent this year in the wake of tighter U.S. travel restrictions to the Caribbean island, the Cuban government said in July. What are the most influential factors driving the drop in tourism? How likely is travel from the United States to be replaced by visitors from other countries? How important is the tourism sector to Cuba's economic performance, and what can the government do to offset expected losses?

A Richard Feinberg, nonresident senior fellow at the Brookings Institution and professor at the School of Global Policy and Strategy at the University of California, San Diego: "Cuban government statistics indicate that international tourism generates annual revenues of some \$3 billion and probably somewhat more if private sector revenues are fully captured. For a struggling economy where all merchandise exports generate less than \$3 billion, any significant drop in tourism revenues will hurt. There aren't any near-term substitutes for the anticipated reduction in U.S. visitors, as visitors from Canada—the leading sending country—are rather steady, and the reported drop-off in E.U. visitors has not been fully offset by the appearance of more Russians. Nor has the once much-heralded surge of tourists from China materialized. The anticipated decline in U.S. visitors should have little effect on the sun-and-surf all-inclusive resorts, which are already off limits to Americans by regulations left unchanged during the Obama years. More affected will be Havana—in particular, the newly renovated accommodations and handsome new five-star hotels owned by gov-

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TODAY'S NEWS

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Brazil Giving Workers \$8 Billion in Effort to Boost Economic Growth

Brazil will provide workers early access to as much as \$8 billion in funds usually intended for the unemployed.

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BUSINESS

Chile Moves to End Codelco's Military Financing

Chile's Congress approved a measure to scrap a longtime law under which state copper mining giant Codelco helped to finance the country's military. The company's financing of the military dates to the 1950s and was strengthened under Augusto Pinochet.

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POLITICAL

Puerto Rico's Governor Resigns, Effective Aug. 2

Following multiple days of protests, Puerto Rico Governor Ricardo Rosselló announced his resignation late Wednesday in a video posted online.

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Rosselló // Photo: Commonwealth of Puerto Rico.

POLITICAL NEWS

Governor of Puerto Rico Resigns, to Step Down Aug. 2

Puerto Rico Governor Ricardo Rosselló late on Wednesday bowed to several days of protests against his administration and calls from other politicians that he step down, announcing in a video posted online that he would resign, effective Aug. 2. "I was willing to face any challenge, fully understanding that I would prevail against any accusation or process," Rosselló said in the video posted on Facebook, The New York Times reported. However, the governor said he



I hope this decision serves as a call to citizen reconciliation."

— Ricardo Rosselló

had "heard the demand of the people," adding that continuing in office "would endanger the successes we have achieved." He added, "I hope this decision serves as a call to citizen reconciliation." Before Rosselló's message was broadcast, hundreds of protesters gathered outside the governor's official residence, La Fortaleza, but they suddenly went silent, gathering around cellphones to listen to it, the newspaper reported. The moment that Rosselló said he would step down, the demonstrators erupted into applause and waved Puerto Rican flags. In his resignation speech, Rosselló said the U.S. commonwealth's secretary of justice, Wanda Vázquez, would succeed him when he leaves office on Friday of next week. Vázquez was next in line constitutionally to succeed him because the secretary of state, who would have stepped in as governor, resigned last week due to his involvement in the governor's chat scandal. Rosselló left open the possibility that someone else could be in place to succeed him by the end of next week. In the chat scandal, hundreds of pages of messages between Rosselló and his top aides were leaked, in

which officials were seen making homophobic, misogynistic and other crass comments, including jokes about victims of Hurricane Maria, which killed nearly 3,000 people on the island in 2017. In recent weeks, federal authorities have also carried out raids targeting associates of the governor, CBS News reported. Even before those incidents, many Puerto Ricans had expressed frustration about ongoing problems, including years of economic weakness. Earlier this week, Rosselló announced that he would not seek re-election next year and that he would step down as the president of his political party. However, that proved not to satisfy protesters, who continued taking to the streets to call for his resignation. [Editor's note: See related [Q&A](#) in Tuesday's Advisor.]

ECONOMIC NEWS

Brazil Giving Workers \$8 Billion in Effort to Boost Growth

Brazil's government will give workers early access this year to as much as 30 billion reais (\$8 billion) in funds usually earmarked for the unemployed as it aims to resuscitate the country's sluggish economic growth, Economy Minister Paulo Guedes said on Wednesday, The Wall Street Journal reported. As of September, the measure will allow Brazilian workers to take as much as 500 reais of money currently in accounts known as FGTS that employers set up by law for workers who lose their jobs. Additionally, as much as 12 billion reais will be released from the funds in 2020, Guedes said. The government estimates the move could add 0.35 percentage point to GDP growth through next year and that GDP per capita will increase by 2.5 percentage points over 10 years, Reuters reported, citing the economy ministry. "It's a permanent pay rise if you are employed, fight to do your job well and stay employed," Guedes said during a ceremony at the Planalto presidential palace alongside President Jair Bolsonaro and his top economic team, Reuters reported. He refuted concerns that Brazilians

NEWS BRIEFS

Iran Could Reconsider Brazilian Imports Over Ship Refueling Spat: Envoy

Iran could rethink imports from Brazil if the South American country continues to refuse to refuel two Iranian vessels that have been stuck in Paraná State since early June, Iranian Ambassador to Brazil Seyed Ali Saqqayian said Wednesday, the Associated Press reported, citing Iran's semi-official Fars news agency. Brazilian state oil company Petrobras has declined to supply fuel for the vessels to avoid risking U.S. fines, saying the ships fall under U.S. sanctions against the Middle Eastern country, which Brazilian President Jair Bolsonaro has said he supports. Iran is the largest importer of Brazilian corn.

Cuba Dismisses Study on 'Sonic Attacks'

Cuba's government on Wednesday dismissed a U.S. academic study that showed physical changes in the brains of diplomats who experienced so-called "sonic attacks" while in Cuba, BBC News reported. The study was led by professors at the University of Pennsylvania and published in the Journal of the American Medical Association. Cuba has denied involvement in the incidents.

Venezuela's Maduro Blames U.S. for Blackout

Venezuelan President Nicolás Maduro on Wednesday blamed the United States for Monday's nearly nationwide blackout, which left millions without electricity in the South American country and paralyzed Caracas' metro system, the Associated Press reported. Maduro claimed the United States had carried out a "high-tech electromagnetic attack" to undermine his government, without providing details or evidence. Maduro's opponents say Venezuela's outages are a result of corruption and inadequate management.

won't use the funds wisely, saying, "We're giving citizens a choice." He said the initiative is a long-term measure and that individuals will know how best to use the money. The Brazilian economy is growing significantly more slowly than most analysts had forecast, with the International Monetary Fund expecting an expansion of just 0.8 percent this year, down from already slugging 1.1 percent growth in both 2017 and 2018, Reuters reported. [Editor's note: See related [Q&A](#) in Wednesday's issue of the Advisor.]

BUSINESS NEWS

Chilean Lawmakers Ending Codelco's Financing of Military

Chilean legislators on Wednesday passed a measure scrapping a longtime law under which state-run miner Codelco, the world's largest, helped finance the country's military, La Tercera reported. After nearly eight years under review, the approved bill establishes a new financing mechanism for the armed forces through a dedicated fund which Congress will oversee, according to a statement from the Chilean Congress, Reuters reported. Codelco's payments to state coffers will be gradually phased out over a period of more than 10 years. Under a 1958 law, which was strengthened during the dictatorship of Augusto Pinochet in the 1970s and 1980s, Codelco was required to divert 10 percent of its export sales to the military. President Sebastián Piñera, who spearheaded the new legislation and is expected to sign it into law, said it was "absurd" for Chile's military to be affected by fluctuating copper prices, Reuters reported. The state miner did not immediately comment on the passage of the law, but CEO Nelson Pizarro has said Codelco would be better off without the military funding requirement. The law requires Codelco to continue paying the 10 percent tax to the state "for a period of nine years, gradually falling 2.5 percent per year beginning year 10," according to the congressional statement.

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ernment conglomerates but managed by European hospitality chains and the large tourism-centric private sector of upscale restaurants, bed-and-breakfasts, private taxis, cultural workers and lecturers, among others. How will these most affected adjust? The military-owned Gaviota hotel chain generates the cash flow to continue to build five-star hotels in the capital, despite low occupancy rates, as one such hotel manager confided to me: 'We are taking the long view; that lunatic will not always be in the White House.' For the hard-pressed private sector, some will look to diversify clientele, seeking to attract more Europeans and cater to more middle-class Cubans, while others may just throw in the towel and transfer to Miami or Mexico City."

A **Anya Landau French, former international trade advisor to the chairman of the U.S. Senate Finance Committee and senior policy advisor with the Cuba practice group at Akin Gump Strauss Hauer and Feld:** "New U.S. government restrictions on travel to Cuba factor prominently in the forecasted drop in tourism in 2019. But the loss of so many U.S. travelers will hurt the nascent Cuban private sector far more than it will the Cuban government, the intended target. Tourism has become Cuba's second-highest source of revenue. In 2018, there were 4.7 million visitors, including more than 600,000 Americans of non-Cuban descent. The vast majority of those American visitors traveled on people-to-people educational trips expanded by the Obama administration and eliminated by the Trump administration this spring, which accounts for the expected decline in travelers to Cuba this year. The lost revenue from U.S. travelers will no doubt bite at a time when the Cuban economy faces multiple challenges. Nonetheless, long-established non-U.S. travel, largely from Canada and Europe, can be expected to continue to tick upward, both due to price adjustments in the market and as the

island's infrastructure has gradually begun to meet the unfulfilled demand for higher-end hotel and resort development. Meanwhile, the Cuban private sector, which grew from 150,000 in 2010 to 600,000 in 2018, can be expected to take the biggest hit from

“**The lost revenue from U.S. travelers will no doubt bite at a time when the Cuban economy faces multiple challenges.**”

— Anya Landau French

reduced American travel. While Canadians and Europeans headed more often to Cuban government-owned beach enclaves, it was the American visitors who more often stayed in private homes, dined in private restaurants and hired private taxis and tour guides. Now, with even the best known private Cuban restaurants reporting their revenues are down by 80 percent or 90 percent, many other private entrepreneurs in the hospitality sector may be forced to close altogether."

A **Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana:** "The axiom, 'those who do not learn from history are doomed to repeat it,' sums up our policy toward Cuba. Fearing Communism and seeking to appease the Cuban exile community, President Kennedy approved the Bay of Pigs invasion, which led to the missile crisis with the Soviet Union. Seeking support for his re-election from Republican and conservative Cuban-Americans, Trump has again adopted a regime change policy toward Cuba. Predictably, the outcome has, as before, pushed the Cuban government into the waiting arms of Russia. Sadly, the ancillary impact of the regime change policy has been to destroy Cuba's fledgling private sector. Increasingly

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restrictive travel regulations have resulted in a precipitous decline in American visitors who sustained Cuba's entrepreneurs and who provided them with the bulk of their food, entertainment and the lodgings. These measures—combined with new limits on remittances, which were often used for private investment, and the chilling impact of allowing extraterritorial measures of the Helms Burton law to go into effect—have been a knockout blow to many of Cuba's entrepreneurs. All of which leads to the question: Why do conservative Cuban-Americans insist upon a policy that is detrimental to both their adopted and former countries, when the lessons of our unhappy last half-century, or more, of U.S.-Cuba relations makes it clear that regime change will fail?"

A **Carlos Saladrigas, chairman of the Cuba Study Group and Regis HR Group:** "Tourism has become increasingly important to the Cuban economy. After Obama's opening, U.S. travel (including by Cuban-Americans) expanded significantly to nearly rival Canada for the number-one spot. For 2018, non-Cuban U.S. travel was up 3 percent, while Cuban-American travel was up by more than 20 percent. Experts estimate that tourism in general contributed \$6 billion to the Cuban economy, half going to the state sector and half to the private sector, even though it is barely one-third the size of the former. However, statistics on the number of visitors tell only part of the story and belie the bigger picture. Tourists from other countries mostly

stay at all-inclusive beach hotels, largely the domain of the state sector, while U.S. travelers tend to disproportionately favor the private sector, mingle with the Cuban population, stay mainly in urban settings and spend significantly more per capita. This year, the

“**The restrictions were rhetorically intended to hurt the government but are devastating Cuba's civil society and its burgeoning private sector.**”

— Carlos Saladrigas

Trump administration significantly curtailed U.S. travel to the island by making it more restrictive, limiting daily expenditures, closing most consular services and prohibiting cruises. While negatively affecting total visitors for 2019 and beyond, it is proving devastating to the private sector, with many small businesses reporting drops in revenue of 50 percent or more. The restrictions were rhetorically intended to hurt the government but are devastating Cuba's civil society and its burgeoning private sector. Cuba is a living museum of the failures of central planning. It is hard to understand what is gained by not allowing Americans to visit. After all, ordinary Americans are the best ambassadors of America's values. Isolating Cubans from Americans doesn't seem like a very smart policy.”

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