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FEATURED Q&A

Will AMLO's Plan for Infrastructure Reactivate Mexico?

Mexico's economy has stagnated since President Andrés Manuel López Obrador took office a year ago, but the government hopes that new infrastructure spending will reactivate the economy. // File Photo: Mexican Government.

Q Mexican President Andrés Manuel López Obrador's government on Nov. 26 announced the first phase of a $44.3 billion infrastructure plan that includes nearly 150 projects and would be underwritten largely by the country's private sector. The plan includes projects in areas including transportation, tourism and telecommunications. Will the projects come to fruition as anticipated, and how would they affect the country's economy? How attractive are the conditions for public-private investment in Mexico, and will private companies participate to the extent planned? What obstacles could the infrastructure plans face?

A Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos: "The construction sector was anxiously awaiting the announcement of the plan, as investment in infrastructure had stagnated since López Obrador took office a year ago. A lack of planning, bids, tendering projects and clarity concerning public-private partnerships generated an atmosphere of uncertainty. Thus, the announcement of a plan that involves the private sector and entails a more formal commitment from the government rekindles hope for construction firms and investors. Besides, catalyzing construction enhances development and creates jobs for all kinds of skills and levels. Investments in infrastructure will always pay considerable dividends, as they yield economic, social, urban and work benefits in various regions. Even though the first chapter mentioned almost 150 projects, the government has already said more announcements and stages of this plan will be presented in the future. The first phase is focused

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U.S., Mexico, Canada Sign Trade Deal Updates

Representatives of the United States, Canada and Mexico signed amendments to the countries' trilateral trade agreement.

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Brazil's XP Raises $1.96 Bn in IPO

XP, Brazil's largest brokerage by equity-trading volume, raised $1.96 billion in its initial public offering in the United States, pricing its shares above the marketed range. Demand was equivalent to 14 times the offering.

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Alberto Fernández Takes Office as Argentina's President

Alberto Fernández took office Tuesday as Argentina's president, marking the Peronists' return to power. He vowed to help economically struggling Argentines through increased welfare programs.

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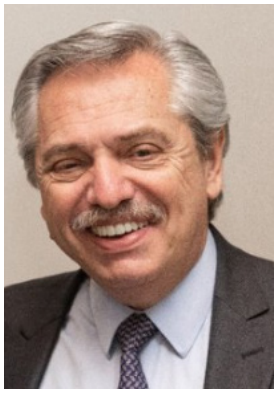

Fernández // File Photo: Argentine Goverment.

POLITICAL NEWS

Alberto Fernández Takes Office as Argentina's President

Alberto Fernández was inaugurated president of Argentina on Tuesday, marking the Peronists' return to power following a four-year stint of market reforms under Fernández's pro-business predecessor, Mauricio Macri. Under Macri, Argentina struggled with high inflation, growing government debt and a shrinking economy. In his inaugural address, Fernández vowed to help economically struggling Argentines through welfare policies including loans and more support for the unemployed, as well as assistance with food and health, The Wall Street Journal reported. "Those who are trapped in poverty and marginality will be a top priority," said Fernández after the presidential sash was placed on his shoulder. "We are receiving a fragile country, wounded and on its knees." In his hour-long speech in the country's Congress, Fernández also said Argentina needed to boost growth in order to escape from "virtual default," The Guardian reported. "We have to heal so many open wounds in our homeland," he said. Fernández also said he would introduce a "massive" credit system with low interest rates in order to increase domestic demand. "Without bread, there is no present or future. Without bread, life only suffers," he added. Highlighting his image as a common person, Fernández drove himself to Congress in his silver Toyota, waving to crowds gathered outside. In the Plaza de Mayo in central Buenos Aires, Fernández supporters waved banners and beat drums. Some wore T-shirts bearing the words "We're back" and the image of former President Cristina Fernández de Kirchner, who took office Tuesday as Argentina's vice president. The country's new government must now deal with foreign creditors including the International Monetary Fund, which last year provided Argentina a $57 billion credit line, its largest-ever such package. On Tuesday, Argentina's benchmark Merval stock index declined 4.8 percent, while the country's currency closed nearly unchanged at 59.73 to the U.S. dollar.

> **"We are receiving a fragile country, wounded and on its knees."**
>
> **— Alberto Fernández**

ECONOMIC NEWS

U.S., Mexico, Canada Sign Amendments to Trade Accord

The United States, Mexico and Canada on Tuesday signed amendments to the trilateral deal reached last year to replace the North American Free Trade Agreement, or NAFTA, paving the way for its ratification in the countries' legislatures, Bloomberg News reported. U.S. Trade Representative Robert Lighthizer, Canadian Prime Minister Chrystia Freeland and Mexico's chief negotiator, Jesús Seade, signed the updated United States-Mexico-Canada, or USMCA, agreement in Mexico City. "It's nothing short of a miracle that we have all come together," Lighthizer said, adding, "I think that's a testament to how good the agreement is." The latest changes include mechanisms to settle labor and environmental disputes, a committee based in Mexico to monitor compliance with labor standards and sanctions on goods and services that don't meet labor benchmarks, CNBC reported. U.S. House Speaker Nancy Pelosi said Tuesday that the revised deal is

The updated trade deal was signed in Mexico City. // Photo: Mexican Government.

NEWS BRIEFS

Former Mexican Security Chief Charged in U.S. With Taking Bribes From Cartel

Genaro García Luna, who oversaw Mexico's anti-narcotics strategy as the country's secretary of public security from 2006 to 2012, was arrested Monday in Dallas on charges of taking millions of dollars in bribes from kingpin Joaquín "El Chapo" Guzmán's Sinaloa Cartel, the Associated Press reported. U.S. federal prosecutors allege García Luna took the money in exchange for safe passage for drug shipments and leaked information to the cartel about investigations into its activities.

Brazil Poised to Beat Own Record for Beef Exports Next Year: Trade Group

Brazil is on track to beat its own beef export record next year as it strengthens trade ties with Asia, attempts to enter the Japanese market for fresh beef and increases sales to Russia, exporter group Abiec said Tuesday, Reuters reported. This year's beef exports reached an estimated 1.828 million metric tons, up from a previous record of 1.643 million metric tons last year. The number is expected to increase 13 percent in 2020, to 2.067 million metric tons, Abiec said.

Venezuela's Crude Exports Soar 20% in November

Venezuela's crude output in November soared more than 20 percent as compared to the previous month, reaching its highest level since the United States slapped sanctions against state oil company PDVSA in August, Reuters reported Tuesday, citing two unnamed sources with knowledge of PDVSA data. Last month's output averaged between 926,000 barrels per day (bpd) and 965,000 bpd, according to the sources, up from the 761,000-bpd average in October. This marked the first time Venezuela's output exceeded 900,000 bpd since August.

"a victory for America's workers." The United States' largest labor federation, the AFL-CIO, said the USMCA was one that "working people can proudly support." Democratic lawmakers have reached a deal with the Trump administration to move forward with ratification of the agreement, CNBC reported. Once the White House submits ratifying legislation to Congress, which it could do in the coming days, a 90-day window to approve the USMCA begins.

BUSINESS NEWS

Brazilian Brokerage XP Raises $1.96 Bn in Initial Public Offering

XP, Brazil's largest brokerage by equity-trading volume, raised $1.96 billion in its U.S. initial public offering, pricing its shares above the marketed range, Bloomberg News reported Tuesday. The company and its shareholders sold 72.5 million shares on Tuesday for $27 each, according to a statement, up from its initial $22 to $25 price range, with demand equivalent to 14 times the offering, Reuters reported. The sale gave XP a market value of nearly $14.9 billion, according to the outstanding shares listed in its filings with the U.S. Securities and Exchange Commission. XP has also given its underwriters the option of selling an additional 10.88 million so-called greenshoe shares, which unnamed sources said the company is expected to fully exercise, bringing the amount raised in the IPO to approximately $2.25 billion, Bloomberg News reported. The IPO is set to be the fourth largest in the United States this year, and other Brazilian financial technology companies considering U.S. listings next year see XP's public offering as a bellwether. Among XP's shareholders are private equity firm General Atlantic and Brazil's largest private lender, Itaú Unibanco, Reuters reported. The offering was led by Goldman Sachs Group, JPMorgan Chase, Morgan Stanley, XP Investments and Itaú BBA. The shares are expected to begin trading today on the Nasdaq Global Select Market under the symbol XP.

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mostly on transport and communications, and the next phase will focus on projects pertaining to the energy and health sectors. A structured and transparent plan will enable investors and construction firms to have more trust and certainty when partnering with the government. López Obrador and his team have realized that it is impossible to fully foster growth and meet development goals without the private sector; and the latter will warmly welcome that approach and collaborate with the public sector to regain stability and profitability. The main obstacle could be corruption, as the number of directly awarded contracts rose drastically at the beginning of the administration. However, the characteristics of the plan so far dismiss any doubts and portray an emphasis on transparency. The clouds of uncertainty seem to be scattering away."

A **Antonio Ortiz-Mena, senior vice president at Albright Stonebridge Group:** "Mexico needs to improve its infrastructure: it has one of the most extensive free trade agreement networks but ranks only 54th out of 141 countries in the WEF Infrastructure Competitiveness Index. It will not be able to fully use its network without world-class infrastructure. Improving infrastructure would generate immediate jobs and long-term positive externalities to increase GDP growth and boost confidence—which is badly needed to get the economy out of its 2019 standstill. There are no specifics on energy projects, and no electricity projects until 2021. Mexico, as a manufacturing powerhouse, needs reliable sources of energy at competitive prices. In fact, the agreement lists electricity generation, gas pipelines and fuel storage as opportunity areas, so it does not make sense to delay some of these projects. There is no dearth of capital to finance the 147 priority projects. The question is who will be willing to risk capital and under what terms, given that the government has sent negative signals to infrastructure investors on at least three occasions: first, the ex nihilo cancellation of the new Mexico City airport; second, the renegotiation of gas pipeline contracts; and third, changes to rules on clean energy certificates. Given these precedents, the implementation mechanism, over which AMLO would preside, will be critically important in providing assurances to investors so concessions can be part of the mix and not all projects are turnkey, for in the latter case the government could end up bearing a large share of risks and expenses."

A **Juan Casillas, senior advisor at Monarch Global Strategies in Mexico City:** "The joint announcement on Nov. 26 is a welcomed start toward reactivating investment in Mexico's infrastructure sector. In its initial stage, funds will mostly come from the private sector for projects that were already expected, committed or required under existing concessions, such as nearly all investments in air and sea ports. It is promising that the plan includes specific projects, especially several that prior administrations have neglected, such as revamping the national weather system and the national water quality monitoring network. It is unfortunate, however, that none involve energy, and few include the much-needed investment in water treatment and management. Both sectors will likely be incorporated once the government reconciles how to best involve the private sector's vital expertise and investment with its own goals. The main benefit of the initiative is the expressed willingness to begin working together in a structured manner, with the government committing to diligently process required permits and other authorizations and by acting as a facilitator. In the end, investment and trust will result if the public sector ensures rules and guarantees, while the private sector competitively delivers quality projects, on time and as budgeted, all of which beg for greater engineering, management and rule of law. Another benefit of the accord is that

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it foresees incorporating additional projects going forward, with a semblance of planning, rather than only fulfilling campaign promises as occurred during the past administration. Future rounds will likely see the government having to enhance its funding commitments, as recently conceded for the Tren Maya, and the pursuit of projects under PPP type structures."

A **Alma Caballero, director for Mexico at McLarty Associates:** "López Obrador's $44 billion infrastructure plan hopes to reactivate Mexico's faltering economy, which has been far from achieving the 4-percent annual GDP growth that the president promised when he took office in December 2018. In 2019, INEGI reported that Mexico's construction sector shrank by 10.2 percent, marking the largest contraction since 2013. If implemented correctly, these projects can stimulate the Mexican economy, as they would bring lasting impact on economic activities and generate benefits that would foster development, facilitate trade and provide transformative opportunities that would affect the quality of life in Mexico. Over the next five years, the federal government and the private sector have committed to investing in 147 infrastructure projects throughout the country, making this an ambitious plan to reactivate the Mexican economy. The support that this plan has received from several international financial institutions and private sector associations can be assuring for weary investors who won't forget the cancellation of the largest infrastructure project in Mexican history, the Mexico City airport. However, the current state of violence in Mexico, along with the failure to strengthen the country's institutions and the unpredictability of its regulatory frameworks, could continue to create headwinds for investors. Thus, improvements in fiscal, monetary and judiciary policies as well as political stability offer a unique opportunity to creating impetus to an economic recovery, even when the external environment is not totally recovered."

> **"If implemented correctly, these projects can stimulate the Mexican economy."**
> **— Alma Caballero**

A **Ariane Ortiz-Bollin, assistant vice president in the Sovereign Risk Group at Moody's Investors Service:** "The infrastructure plan, which represents 3.7 percent of 2018 gross domestic product to be invested in five years, could partially offset the slow activity in Mexico's weak infrastructure and construction sectors, which are material contributors of Mexico's GDP and have spillover effects on other economic sectors. While the private sector will finance the projects, the government has emphasized its commitment to facilitate and accelerate implementation of the projects. Since half of the program (1.8 percent of GDP) is expected to begin implementation in 2020, this could improve economic growth prospects next year, if it contributes to turn negative investor sentiment that has been prevalent in the private sector and if the projects are implemented in a timely and effective fashion. Reversing negative investor sentiment in Mexico is important because gross fixed investment has shown large successive year-on-year contractions since November 2018, and it is one of the main contributors of the economic slowdown expected this year in Mexico."

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

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