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FEATURED Q&A

How Tied to the U.S. Is Latin America's Economic Recovery?

The United States' economic recovery from the Covid-19 pandemic is expected to significantly affect the economies of Latin America. A factory in Ciudad Juárez, Mexico, before the pandemic began, is pictured above. // File Photo: Mexican Government.

Q The recently approved $1.9 trillion coronavirus package in the United States could boost growth by between a half and one percentage point of major U.S. trading partners, including Mexico, according to an OECD report. How will economic indicators in the United States, including GDP, inflation and interest rates, influence Latin America's economic fortunes? In what ways will the U.S. stimulus plan affect Mexico's GDP this year, and which sectors could benefit? Are Mexico and other Latin American countries becoming too reliant on economic growth in the United States and other major economies, and what should Latin American leaders do to mitigate associated risks?

A **Jonathan Heath, deputy governor at the Bank of Mexico:** "Mexico will benefit from the recently approved U.S. stimulus package, mainly through two main channels: stronger export growth and higher family remittances. Given that Mexico sends more than 80 percent of its exports to the United States, a vigorous U.S. economy is crucial to Mexican growth. This stimulus, coupled with a more attractive exchange rate and the recently implemented revised free trade agreement, will translate into making Mexican exports its main engine of growth this year. As Mexican exports consist mainly of manufactured goods, the manufacturing sectors such as the automotive industry are the most likely to benefit. While export growth is a necessary condition for the Mexican recovery in the aftermath of the pandemic, it will not be sufficient. Household consumption fell more than 10 percent last year,

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Brother of Honduran Leader Sentenced to Life in Drug Case

Juan Antonio "Tony" Hernández, the brother of Honduran President Juan Orlando Hernández, was sentenced to life in prison after being convicted in New York on drug trafficking charges.

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Chile's Itaú Corpbanca and mobile app company Rappi will work on providing new digital products in Chile.

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Brazil Military Chiefs Resign After Sacking of Defense Minister

The heads of Brazil's army, navy and air force all resigned after President Jair Bolsonaro dismissed Defense Minister Fernando Azevedo e Silva as part of a cabinet shake-up.

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Azevedo e Silva // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil Military Chiefs Resign After Sacking of Defense Minister

The leaders of Brazil's army, navy and air force all resigned Tuesday after President Jair Bolsonaro unexpectedly dismissed Defense Minister Fernando Azevedo e Silva as part of a broader cabinet shake-up, The Wall Street Journal reported. Azevedo e Silva, a former army general, was widely respected among members of the military, the newspaper reported. His dismissal preceded the resignations of army head Edson Pujol, navy leader Ilques Barbosa and air force chief Antonio Carlos Moretti Bermudez. Tensions between Bolsonaro and Brazil's armed forces have risen for months as the president has increasingly called on the military to support him politically, The Wall Street Journal reported. Bolsonaro announced the cabinet shuffle on Monday amid intense criticism over his handling of the Covid-19 pandemic. Over the past year, he has touted unproven remedies, minimized the threat of Covid-19, called for businesses to stay open, eschewed the use of face masks and recently told Brazilians to "stop whining" about the disease. A variant of the novel coronavirus is spreading in the country and has been detected in several other nations, and Brazil has the second-highest reported number of cases and deaths in the world, after the United States, according to a count by Johns Hopkins University. On Tuesday, Brazil also reported its highest single-day death toll yet from the disease, with 3,780 fatalities reported in a 24-hour period, meaning that 157 people died of Covid-19 every hour in Brazil, Reuters reported. "Brazil is a clear example of the power of the virus when there is a denialist president who refuses to face the pandemic," Gabriela Lotta, professor of public administration at the Getúlio Vargas Foundation, told the Advisor in a Q&A published March 26. However, Brazil's ambassador to the United States, Nestor Forster Jr., defended the Brazilian government's response

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with permanent damage in the labor market as many establishments did not survive. Unless consumption recovers most of its lost territory, Mexico will still face a mediocre recovery. Family remittances will play a crucial role yet again in complementing personal disposable income and sustaining many households that suffered employment loss and now earn less income. Last year, family remittances continued to grow in spite of a huge increase in Latino unemployment in the United States, thanks to the added fiscal support that the U.S. government gave to the unemployed. The approved package for this year will again do the same."

A **Amy Glover, president and founding partner of Agil(e):** "The U.S. economy will benefit from both the stimulus package and from the fact that it remains one of the most resilient and flexible economies in the world. The effective vaccine rollout will give the United States a competitive edge that its commercial partners—Mexico and Canada chief among them—will undoubtedly benefit from as major exporters to the U.S. market. Mexico remains a unique player, given its dual identity as both a Latin American and North American country. Mexico has been hit hard economically, and no relief package is in sight, as the administration of Andres Manuel López Obrador sticks unblinkingly to a vision of austerity. While the United States will be one of the first countries to be able to reopen, Mexico is opening without the benefit of a massive vaccine campaign, which will likely mean additional risks and slow economic growth for the foreseeable future. Mexico is undoubtedly dependent on the U.S. economy, and while greater market diversification would be desirable in theory, frankly there is no better economic partner to have at this point in time. Mexico could do more to devise an active investment promotion strategy, particularly with respect

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NEWS BRIEFS

Guatemalan President, U.S. Vice President Discuss Migration in Call

Guatemalan President Alejandro Giammattei and U.S. Vice President Kamala Harris spoke by phone on Tuesday about the root causes driving Guatemalans to flee to the United States, the White House said in a statement. They agreed to seek innovative opportunities for job creation and to improve conditions for all Guatemalans, including by promoting transparency and combating crime, the statement said. They also agreed to cooperate on economic development, technology and climate resilience.

Argentina Posts Ninth Consecutive Month of Economic Growth

Economic activity in Argentina in January was up 1.9 percent from the previous month, the fastest pace in four months, though down 2.2 percent year-on-year, according to government data published Tuesday, Bloomberg News reported. It was the ninth consecutive month of economic growth in Argentina, which has been in recession over the past three years. Argentina's economy is expected to expand by at least 7 percent this year, according to the economy ministry. [Editor's note: See related Q&A in Monday's issue of the Advisor.]

Peru Working on Instant Payments Network by Linking Banks, Fintechs

Peru is working on an instant payments network that will link banks, financial technology companies and mobile wallet providers, PaymentsSource reported today. The network will use real-time technology provided by Mastercard, according to the report. The launch of the payments hub is scheduled for early next year and will use mobile phone numbers and email addresses in place of bank account numbers.

to the pandemic. "Since the beginning of the pandemic, President Jair Bolsonaro has been leading a relentless effort to protect both the lives and jobs of Brazilians," Forster told the Advisor. On Tuesday, Bolosnaro signed an order to provide 5.3 billion reais ($918.08 million) in new loans to fight the pandemic, Reuters reported. The loans are intended to support the country's health care system.

Brother of Honduran President Sentenced to Life in Drug Case

A U.S. district judge in New York on Tuesday sentenced Juan Antonio "Tony" Hernández, a brother of Honduran President Juan Orlando Hernández, to life in prison after he was convicted on drug trafficking charges, The Wall Street Journal reported. U.S. District Judge Kevin Castel said there were no mitigating circumstances to lighten the sentence of Tony Hernández, who was a legislator in Honduras from 2014 to 2018. The judge said he acted as a facilitator of bribes to other politicians, including President Hernández when he himself was a lawmaker and as recent as 2019. Juan Orlando Hernández has repeatedly denied wrongdoing, calling into question the accusations by alleging the witnesses are not credible. "For the entire family, the news expected from NY will be painful," President Hernández said on Twitter ahead of the ruling. [Editor's note: See related Q&A in the March 5 issue of the Advisor.]

BUSINESS NEWS

Itaú Corpbanca Signs Deal With Rappi for Digital Products

Chile's Itaú Corpbanca has agreed to work with Colombia-based mobile app provider Rappi to provide new digital products in Chile, Itaú Corpbanca said Tuesday in a statement. "This agreement aims to revolutionize the local financial market with simple, innovative and unique digital products, allowing an increasing number of individuals to access new financial solutions in an agile and digital way," the bank said. "With this initiative, Itaú and Rappi seek to democratize financial services, promote greater inclusion and, at the same time, simpler and faster digitization that brings broad benefits to users." Itaú Corpbanca and Rappi said that through the initiative they expect to be able to offer the bank's customers new digital financial products and services in the third quarter of this year. Rappi, which is headquartered in Bogotá, raised $300 million in venture capital last year and is now valued at $3.5 billion, Bloomberg News reported earlier this month.

THE DIALOGUE CONTINUES

Is There Any Hope for the E.U. Trade Deal With Mercosur?

Q The landmark free trade deal between the European Union and the Mercosur trade bloc, which consists of Brazil, Argentina, Paraguay and Uruguay, is on the verge of collapse after Austria announced this month that it will block the agreement out of concern over the deal's environmental effects. Other E.U. member states and civil society organizations across Europe and South America have also called for the agreement's disposal. Why are European nations so cautious of ratifying the agreement, and is it likely to be scrapped altogether? What other markets can Mercosur look to as an alternative, and how can the bloc leverage close ties with China and the United States, both of which are enjoying strong economic recovery, to create new trade and investment opportunities? To what extent do member countries have competing priorities, and what collaborative steps can the bloc take to boost regional economic recovery?

A Santos Goñi, counselor at the Argentine Council on Foreign Relations (CARI) and retired Argentine career ambassador: "Ratification hinges on European legislatures' opposition to environmental chapters, mostly centered on the Amazon and lately the Pantanal. The absence of a clear acceptance of the services chapter and their own protectionist agricultural policies also work against ratification. China has become the largest commodity export destination for Mercosur members and associates. While traditional U.S. and European investments continue to be the mainstay of Mercosur's manufacturing base, China has acquired important local assets in separate areas. At the same time, it has unapologetically encroached on fisheries resources and aspires to invest in basic infrastructure and energy projects of interest to itself. Balancing this is not a Mercosur issue, but rather a national concern for its members, whose equidistant approach seems increasingly harder to sustain and could bring significant cost to their relationships with one or the other or both. The conflicting priorities are firstly strategic, tearing at Mercosur's seams, as both the larger and the smaller partners are losing patience with each other's positions vis-a-vis the E.U. accord and are tempted to proceed with bilateral agreements. The specifics of services and agricultural issues, some set aside for further negotiation, affect sectoral agreements within Mercosur. These also tempt E.U. member states to reject the accord in order to satisfy their own countries' sectoral interests that fear its effects."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the March 25 issue of the Advisor.

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to the potential for attracting near-shoring investments returning from Asia, in order to build on its strong manufacturing base and geographic comparative advantage. Domestically, digital platforms and innovative tech solutions have allowed Mexico's economy to keep running and have boosted the adoption of technology more broadly, which will hopefully provide new fuel for growth moving forward."

A **James R. Jones, chairman of Monarch Global Strategies and former U.S. ambassador to Mexico:** "For the foreseeable future, what happens economically in the United States will be the most important external factor affecting the economies of Latin America, especially Mexico. This is certainly true of the recent passage of the $1.9 trillion rescue stimulus legislation. While President Biden hoped for a bipartisan legislative solution, not a single Republican in either the House or Senate supported it. The majority of economic leaders are predicting U.S. growth of approximately 6 percent because of the stimulus. If that happens, Mexico will benefit greatly as a supplier of goods and services to support this growth in American jobs and output. But a growing minority of economists are predicting that the huge budget deficits created will add to an already recovering economy and will create great inflation. Whichever scenario prevails will have a profound political effect on the U.S. elections of 2022 and 2024 and on the economies of Latin America thereafter. For the most part, the nations of the hemisphere have implemented political and economic reforms that are consistent with economic growth in the United States. However, meaningful reforms in the rule of law still lag behind, and this is perhaps the most important action Latin American nations should take."

A **Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City:** "The pandemic has had widespread economic, political and social consequences for Latin America. Brazil and Mexico have the world's highest death tolls, after the United States. The derived struggles have exposed vulnerabilities particular to the region: high levels of informality, inefficient health systems and gender-based violence. As vaccination expands in some developed countries, the region has lagged behind, except for Chile. Vaccine diplomacy, international cooperation and financial aid will be critical to mitigate the damage. President Biden's $1.9 trillion stimulus package will definitely contribute to the region's reactivation. Most projections foresee 4.5 percent economic growth in the region, after shrinking almost 8 percent last year. This scenario largely depends on the spillover effect from the potential 6.5 percent recovery and the positive outlook of most economic indicators in the United States, in part thanks to the stimulus package. Mexico, in particular, will benefit from a fast and steady U.S. recovery. More Americans will buy cars assembled in Mexico, tourism will increase and migrants will send more remittances back to their countries of origin. Additionally, 80 percent of Mexican exports are shipped to North America, hence, a higher purchasing power parity and consumption will directly boost demand for goods made in Mexico. Thus, Mexico is projected to grow 5 percent, relying heavily on economic growth in the United States. There is a caveat, however: if Latin American countries, including Mexico, do not implement reforms to rescue private companies and attract more foreign investment, positive chances might be missed. The uptick will definitely boost Latin American economies, but it is their responsibility to preserve that momentum."

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