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FEATURED Q&A

What Should AMLO Do to Get Mexico's Economy Growing?

Factors including uncertainty over President Andrés Manuel López Obrador's energy agenda have weighed on Mexico's economic growth. // File Photo: Mexican Government.

Q **Mexico's economy grew 5 percent last year, but it fell into a technical recession in the final two quarters of the year as the country's gross domestic product contracted in both the third and fourth quarters, according to data that national statistics institute INEGI published on Jan. 31. Latin America's second-largest economy has been in a difficult position in the past few months, with rising interest rates, inflation above 7 percent and uncertainty over Andrés President Manuel López Obrador's energy agenda. What factors will be the most important in pushing Mexico away from a recession in the year ahead? What steps can policymakers take to move the economy toward better results? Which sectors show the most promise for growth, and which will likely lag behind?**

A **Lucinda Vargas, research fellow at the Center for Border Economic Development at New Mexico State University:** "Mexico's economic growth this year will closely mirror the growth path of the U.S. economy. The two nations are highly integrated via intra-industry trade through the maquiladora and manufacturing export sectors, which are currently exhibiting double-digit growth. Positive prospects in this binational manufacturing base are in part fueled by a nearshoring trend as export companies servicing the U.S. market look to Mexico and away from Asia as a way to avoid or minimize supply-chain bottlenecks. While monetary policy should continue its appropriate tightening course to address inflationary pressures, other policies should focus on deeper problems of institutional weakness that are keeping the country from achieving long-term sustained growth. The

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Figueres, Chaves Lead in Costa Rica Presidential Race

Former Costa Rican President José María Figueres and former Finance Minister Rodrigo Chaves appeared to be headed to a runoff following the first round of Costa Rica's presidential election on Sunday.

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Venezuelan Court Upholds Sentences of 'Citgo 6'

A Venezuelan court upheld long prison sentences of six U.S. oil executives who were arrested in the South American country in 2017.

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Ecuador, China Seeking Trade Deal by Year's End

Ecuador and China are working to come to terms on a trade agreement by the end of the year, Ecuadorean President Guillermo Lasso said after meeting with his Chinese counterpart, Xi Jinping during a visit to Beijing.

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Lasso // File Photo: Ecuadorean Government.

POLITICAL NEWS

Figueres, Chaves Lead in Costa Rica Presidential Election

Former Costa Rican President José María Figueres emerged as the top vote-getter in the first round of the country's presidential election on Sunday, with former Finance Minister Rodrigo Chaves appearing to finish in second place, setting up a runoff between the two candidates on April 3, according to preliminary results from Costa Rica's Supreme Electoral Tribunal. With 80 percent of ballots counted, Figueres, of the center-left National Liberation Party, or PLN, led with 27.29 percent of the vote. Chaves, of the Progressive Social Democratic Party, or PSD, had 16.66 percent of the vote. An industrial engineer who was Costa Rica's president from 1994 to 1998, Figueres has been seen as the most establishment candidate of the 25 hopefuls in the first round of the race, Reuters reported. His father, the transformative José Figueres Ferrer, was the country's president three times in the 20th century. Chaves, who served seven months as finance minister under current President Carlos Alvarado, is a former World Bank official. Among the other candidates, Fabricio Alvarado, the runner up in the country's 2018 presidential election, appeared to finish third with 14.93 percent. Former Vice President Lineth Saborío of the center-right Social Christian Unity Party, was in fourth place with 12.43 percent, according to the election tribunal.

New Peruvian Prime Minister Quits After Four Days in Office

Peruvian Prime Minister Héctor Valer resigned Saturday after just four days in office amid allegations that he had beaten his daughter and late wife, the Associated Press reported. Valer, who was the third prime minister of President Pedro Castillo's six-month-old administration, said he was "machine-gunned by the newspapers" and that he was made to look "abusive and violent." Valer has denied the allegations of domestic violence. On Friday, Castillo said that he would reshuffle his cabinet yet again, an announcement that came just three days after he named a new slate of ministers, with different officials in all of the top cabinet posts. Castillo said his fourth cabinet would include representation from several political groups, Reuters reported.

ECONOMIC NEWS

Ecuador, China Seeking Trade Deal by Year's End: Lasso

Ecuador is working to solidify a trade agreement with China by the end of the year and will enter formal debt renegotiations with the country, Ecuadorean President Guillermo Lasso said Saturday following a state visit to Beijing, where he met with President Xi Jinping, Reuters reported. Over the past decade, China has become the Andean country's top lender. China has extended to Ecuador millions of dollars in long-term credit related to the delivery of crude oil and has made large investments in mining and hydroelectric projects. During Lasso's visit, the two countries signed a memorandum of understanding that sets the stage for a trade agreement by the end of the year. The deal would benefit Ecuador's banana, cacao and shrimp exports, among others. In a Twitter posting Saturday, Lasso said the meeting with Xi Jinping had been "productive," and added that there were "great results in trade openness, health cooperation and debt renegotiation." This meeting took place the same weekend as Argentine President Alberto Fernández's scheduled state trip to meet the Chinese president, Deutsche Welle reported. At a Sunday meeting in Beijing, Xi and Fernández committed to deeper integration and economic cooperation in the Belt and Road initiative, agreeing to a five-year plan for agricultural cooperation.

NEWS BRIEFS

Nicaraguan Judge Convicts Former Presidential Hopeful Mora

A judge in Nicaragua on found former presidential hopeful Miguel Mora guilty of "conspiracy to undermine national integrity" on Friday, following a trial that lasted a few hours, the Associated Press reported. Mora was one of the approximately 46 political prisoners that authorities arrested ahead of the country's Nov. 7 presidential election, allowing President Daniel Ortega to run virtually unopposed. The judge recommended a 15-year prison sentence for Mora, the AP reported, citing Lucía Pineda Ubau, the current leader of Mora's television station, 100% Noticias.

Guatemalan Prosecutors Charge 10 With Human Trafficking After Killings

Guatemalan prosecutors on Friday charged 10 alleged members of a smuggling ring with crimes including criminal conspiracy, money laundering and human trafficking, among others, the Associated Press reported. The ring reportedly organized a trip during which 15 Guatemalan migrants were killed in northern Mexico last year. Twelve members of a Tamaulipas state elite police unit in Mexico have been charged with the migrants' killings, as well as those of four other people in the group, the AP reported.

Brazil's Petrobras Selling Fertilizer Plant to Russia's Acron Group

Brazilian state-owned oil company Petrobras said Friday in a securities filing that it had reached an agreement to sell a fertilizer plant to Russia-based Acron Group, Reuters reported. Petrobras had been seeking to sell the UFN3 plant since 2017. Brazilian Agriculture Minister Tereza Dias announced the sale, though she did not specify the terms of the deal.

BUSINESS NEWS

Venezuelan Court Upholds Long Prison Terms of 'Citgo 6'

A Venezuelan court on Friday upheld the long prison sentences of six U.S. oil executives who were jailed in the South American country on charges of corruption, Bloomberg News reported. The Venezuelan court rejected an appeal that José Pereira, a former chief executive officer of Citgo Petroleum Corp., filed in opposition to his 13 year and seven month prison sentence, the Venezuelan Supreme Court announced in a statement. At the same time, the court affirmed the sentences of eight years and 10 months of the other five executives, Tomeu Vadell, Jorge Toledo, Gustavo Cardenas, José Zambrano and Alirio Zambrano, Bloomberg News reported. Venezuelan authorities arrested the six executives in 2017 after they were called to a meeting in Caracas at the headquarters of Citgo's parent company, Venezuelan state oil firm PDVSA. They were convicted in 2020. The rulings disappointed the executives' family members who had hoped that the court's decision last year to consider the appeal, along with a recent jailhouse visit by a top official of the U.S. State Department, indicated that Venezuelan President Nicolás Maduro's government was considering the men's release as a goodwill gesture to the administration of U.S. President Joe Biden in an effort to engage Washington in talks over loosening sanctions on Venezuela, the Associated Press reported. The South American nation's judicial system, which is stacked with Maduro loyalists, routinely issues rulings in accordance with Maduro's wishes. "We are deeply saddened with the continued violation of Tomeu's human rights," Vadell's family said in a statement, the AP reported. The executives are being held at the Helicoide prison in Caracas alongside prominent opponents of Maduro. The United States has called for the men's release, saying their detention is devoid of any due process.

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flip-flop on energy policy currently at play is an example as it changes the rules of the game for investors. More troubling still in ensuring lasting growth is the country's poor performance on governance as monitored by the World Bank. In all six governance indicators—voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption—Mexico's performance has been on a deteriorating trend for the past 10 years. Stronger governance correlates with higher per capita income growth in any country, which is the true measure of whether a country is advancing in its standard of living. Any growth Mexico achieves this year and in the near-term will not translate into sustained growth further into the future if the country continues to ignore the deeper reforms and actions that improve the country's governance."

A **Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House:** "A very disappointing negative fourth quarter of last year, compared to the same quarter a year earlier, has formally put Mexico in a technical recession. Although the definitive result of GDP growth for 2021 will be made public later this month, the preliminary 5 percent year-on-year growth is far below the objective of the López Obrador administration. This poor result puts the Mexican economy at about the same level as five years ago and makes the country one of the very few middle-income nations not to have reached or exceeded pre-pandemic levels last year. Furthermore, growth estimates for this year have now been lowered to somewhere between 1 and 2 percent, which means that Mexico's economy won't reach pre-2019 levels until at least 2024. One must remember that López Obrador promised a 6 percent annual growth for his six-year term, and even though the pandemic lowered growth prospects worldwide, much of the dismal performance in AMLO's first three years in office is a direct result of his government's policies to refuse fiscal alleviation to small and medium-sized enterprises to cope with the pandemic, to create uncertainty and instability in the energy sector with his proposal to roll back Mexico's energy reforms and to return to a 1970s state-dominated economy at the expense of the private sector. I am not at all optimistic that AMLO intends to make any fundamental changes to his ideologically driven economic policy and that the coming months and years will continue to see Mexico's economy perform poorly, with increasing levels of poverty, inflation and minimal foreign and domestic investment."

A **Antonio Ortiz-Mena, senior vice president at Dentons Global Advisors-Albright Stonebridge Group:** "Mexico's economic performance during the AMLO administration has been the worst one since the Great Depression, and the IMF estimates GDP growth of 2.8 percent this year. If Mexico's economy grows at 6.3 percent in 2023 and 2024, average GDP growth will be zero, and GDP per capita will be lower than when AMLO took office. The reasons for this dismal performance are external and home-made. On the external front, the Covid-19 pandemic and related lower global growth spurred an economic downturn. However, the Mexican government's refusal to engage in any significant counter-cyclical fiscal policies meant that the downturn was deeper and the recovery shallower than in comparable emerging markets. Mexico's GDP growth in 2019—before the pandemic hit—was a negative 0.17 percent. This is partly explained by the unwarranted cancellation of the new Mexico City airport. Regulatory uncertainty and adversarial government-business relations ensued, most notably regarding energy policy. The most important policy changes that would foster greater certainty, a necessary condition to boost investment and thus

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growth, are to generate more constructive government-business relations conducive to accelerating Mexico's energy transition and ensuring the provision of reliable, price-competitive clean energy, in addition to strengthening independent regulatory bodies. A second confidence-building measure would be the entry into force of a new Mexico-European Union trade agreement, whose negotiations concluded almost four years ago. Mexico's trade policy is sound and has saved the country in the past, but is not enough in the face of these domestic policy challenges. Significant domestic economic policy shifts are unlikely."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Even though the cumulative decline in output in the last two quarters of 2021 was neither significant nor broad-based, the economy showed significant structural weakness that was aggravated by the pandemic and the lack of mitigation policies. The main reason behind the weakness is the chronic anemia of investment. That weakness deepened in the past three years given the reticence of private investment generated by the government's measures to limit competition and increase the participation of state-owned companies in the economy. Therefore, an important factor to promote investment is to create a favorable climate for business by removing the uncertainty created by the hostile environment against competition, combined with sound macroeconomic policymaking. Unfortunately, all this does not seem very probable, and the economy will continue to report low growth and depend heavily on the external engine more than on the domestic demand. Of course, expansionary policies can also boost growth, but it would be only transitory and not sustained. Hence, the best contribution of economic policy is to provide macroeconomic stability. The economy is still expected to perform positively in 2022, but growth will be insufficient to provide the number of jobs and income required. Export-oriented activities will lead the economic advances, mainly manufactures focused on the U.S. market and primary activities like mining and agriculture. Meanwhile, some services will continue to lag behind, particularly those affected by the changes implemented in the outsourcing law. Growth estimates for this year are in the range of 1.5 percent and 2 percent."

A **Alma Caballero, director at McLarty Associates:** "Mexico's economic growth last year was insufficient to counteract its 8.3 percent GDP decline in 2020. Additionally, Banxico figures reveal a record high of $12.6 billion in foreign capital outflows from the country's sovereign debt market in 2021. Risks including a global semiconductor shortage, as well as the country's highest inflation rate in 20 years (7.13 percent) and the congressional debate over AMLO's constitutional electricity reform bill, compromise Mexico's growth prospects in the medium to long term. The president has said he still expects the Mexican economy to grow by 5 percent in 2022 despite the IMF's forecast of 2.8 percent. The agriculture and manufacturing sectors—growing by 0.3 and 0.4 percent, respectively, show the most promising growth. The current government has challenged contracts signed during previous administrations, and public-private sector collaboration remains weak. Sudden changes in regulations coupled with an ideologically driven energy policy leave little room for the 4-6 percent annual economic growth that AMLO promised. However, shifting global supply chains and the expansion of Mexico's digital economy present a tremendous opportunity. Likewise, trade tensions between the United States and China coupled with a shift in global supply chains due to Covid-19 makes Mexico an attractive candidate for nearshoring. Whether Mexico capitalizes on these opportunities largely depends on government policymaking and public-private sector relations."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Leticia Chacón
Reporter
lchacon@thedialogue.org

Mark Kennedy
Reporter
mkennedy@thedialogue.org

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www.thedialogue.org

Subscription inquiries are welcomed at ebrand@thedialogue.org