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FEATURED Q&A

What Can Be Done to Reduce Peru's Rate of Poverty?



Peru's poverty rate has increased in recent years. Lima's regional vice governor, Nicolás Barrera Morán, is pictured in April distributing school supplies to poor children. // File Photo: Peruvian Government.

Q Between 2004 and 2019, poverty in Peru dropped from 59 percent to 20 percent amid “vigorous economic growth,” according to the World Bank. However, in a report released in April, the institution said the country's economy contracted by 11 percent in 2020—Latin America's sharpest downturn that year, as well as Peru's biggest fall in three decades. At the same time, Peru's poverty rate rose to 30.1 percent, and extreme poverty reached levels not seen since 2015, the World Bank said in the report. Despite the economy's recovery by the end of 2021, poverty rates continue to hover around 27 percent. To what extent has Peru's development prior to the pandemic been erased? What accounts for the backward turn, and how does it relate to the ongoing political crisis? What must be done in order to bring Peru's poverty rates back down?

A Luis Miguel Castilla Rubio, director of the Videnza Institute and former Peruvian minister of economy and finance: “Peru's government faces the daunting challenge of improving the livelihood of more than nine million impoverished people. Last year, the basic consumption basket experienced a 10 percent price hike, especially affecting foodstuffs that account for more than half of poor households' spending. Although political instability and public sector mismanagement have hindered social policy effectiveness, a sluggish economy (and a weakened labor market) are the main reasons behind the country's inability to continue reducing poverty after years of a successful track record. The spike in poverty has occurred mainly in urban areas,

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TODAY'S NEWS

POLITICAL

Widow of Slain Haitian President Moïse Files Suit Against Suspects

Martine Moïse, the widow of assassinated Haitian President Jovenel Moïse, on Thursday filed a lawsuit against several people accused in his killing in 2021.

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BUSINESS

BTG Pactual Eyes Acquisitions in U.S., Mexico

Brazilian investment bank BTG Pactual is considering the acquisition of units in the United States and Mexico, said an executive.

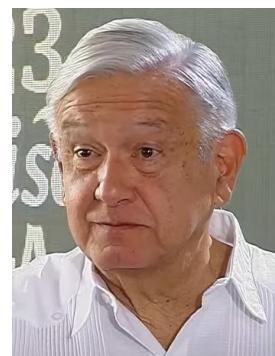
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POLITICAL

Mexico's High Court Rejects More Electoral Reforms

Mexico's Supreme Court on Thursday rejected another portion of President Andrés Manuel López Obrador's electoral reforms. The court struck down other parts of the reforms last month.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

Mexico's Supreme Court Again Rejects Electoral Reforms

Mexico's Supreme Court on Thursday struck down another section of the country's controversial electoral reforms pushed by President Andrés Manuel López Obrador, Reuters reported. Nine of the high court's 11 justices voted to reject reforms that would significantly shrink the size and budget of the country's independent National Electoral Institute, or INE, the court announced in a posting on Twitter. López Obrador has argued that the electoral institute is bloated. However, López Obrador's critics have said that gutting the INE would cede power to state and local officials, many of whom are members of the president's Morena party, Reuters reported. The court's action on Thursday followed its ruling in May, also in a 9-2 vote, to strike down a part of the electoral reforms that would have restructured the INE and limited its ability to police political communications. In the May ruling, the high court ruled that Congress rushed the measure's approval without providing time to debate it or even read it, the Associated Press reported. López Obrador has habitually demanded that lawmakers approve bills just hours or even minutes after they receive them, often late

at night or in the early morning hours, the AP reported. Mexico's constitution requires Congress to debate any measures it approves. In one instance, the Supreme Court said that changes were made to one piece of legislation without informing lawmakers before they voted on it, the AP reported. "Mexico's Supreme Court is asserting its autonomy and role as a much-needed check on the executive and legislative powers," Arantza Alonso, senior analyst for the Americas at Verisk Maplecroft, told the Advisor in a [Q&A](#) published May 22.

Widow of Slain Haitian Leader Files Suit Against Suspects

The widow of assassinated Haitian President Jovenel Moïse filed a lawsuit Thursday against people accused in his killing, the Associated Press reported. Martine Moïse was seriously injured when her husband was shot a dozen times in their private home on July 7, 2021. "Whatever assets are out there, we will make sure these people will pay," her attorney, Paul Turner, told the wire service. "We believe there are deep pockets or political power behind this," he added. The allegations include battery, assault, civil conspiracy and intentional infliction of emotional distress. Filed in Miami-Dade County in Florida, the lawsuit asks for a trial by jury and unspecified damages, the

NEWS BRIEFS

Torres Leads Polls Ahead of Sunday's Presidential Election in Guatemala

Former Guatemalan First Lady Sandra Torres is polling first ahead of Sunday's presidential election in the Central American country, newspaper Prensa Libre reported on Thursday. Torres had 21.3 percent support in the poll, followed by diplomat Edmond Mullet, who had 13.4 percent support and former lawmaker Zury Ríos, who had 9.1 percent. If no candidate wins more than 50 percent of the vote on Sunday, the top two finishers will face each other in a runoff on Aug. 20.

U.S. Senate Approves Long-Stalled Tax Treaty With Chile

In an overwhelming vote, the U.S. Senate on Thursday approved a tax treaty with Chile that supporters consider critical for ensuring access to lithium to U.S. companies, Reuters reported. The light metal is needed for electric car batteries. The 95-2 vote was well above the two-thirds majority needed to approve such treaties. The treaty, which Chile's Congress approved in 2015, had been stalled in the U.S. Senate since 2012. U.S. President Joe Biden plans to sign the treaty into law the White House said.

Brazil's Petrobras Planning to Resume Work on Fertilizer Project: CEO

The chief executive officer of Brazil's Petrobras said Thursday that the state oil company will resume work in the city of Tres Lagoas, where a massive nitrogen fertilizer project is underway, Reuters reported. Jean Paul Prates also said the company is evaluating new natural gas projects in Bolivia. Tres Lagoas is located in Mato Grosso do Sul state. Construction on that project was initially halted in 2014, with 80 percent of it completed.

FEATURED Q&A / Continued from page 1

adding three million urban poor, many of whom participate in the informal economy as independent workers, and migrants. The government is ill-prepared to undertake policies to support the urban poor, unlike the rural poor who benefit from targeted cash-transfer programs. Therein lies the policy challenge along with extending social safety nets that are financially sustainable in a highly informal economy. Bringing poverty down demands accelerating private investment, which accounts for 90 percent of total investment and formal job creation. Although investment prospects remain grim,

there are ample investment opportunities in several sectors, including mining (spurred by energy transition trends), agribusiness, tourism and infrastructure, among others. Sound macroeconomic fundamentals need to be matched by structural reforms that improve a weakened business climate (plagued by red tape and corruption) and modernize an inefficient public sector to close persistent social gaps. As inflationary pressures start to subside, accelerating economic growth is the only way to reduce poverty which, in turn, requires building more robust, accountable and stronger institutions."

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Miami Herald reported. Moïse's assassination remains under investigation, and more than 40 people have been arrested in connection with the case, including a former Haitian senator, an ex-government official and 18 former Colombian soldiers, the AP reported. Eleven of the 12 people named in the lawsuit are being held in U.S. federal prisons. One is under house arrest. Among the people named in the suit is Rodolphe Jaar, a Haitian-Chilean businessman who was sentenced earlier this month in Miami to life in prison for his role in helping the Colombian mercenaries get the weapons that were used to kill Moïse.

BUSINESS NEWS

Brazil's BTG Pactual Eyeing Acquisitions of U.S., Mexican Units

Brazilian investment bank BTG Pactual is considering the acquisition of a bank in the United States and a wealth-management firm in Mexico in order to grow its private-banking business, Bloomberg News reported Wednesday. BTG Pactual, which is headquartered in São Paulo, already has a broker-dealer in the United States, but it wants to expand its product offerings to current customers, Rogério Pessoa, the partner at the investment bank who is responsible for its private-banking and wealth-management businesses, told the news service. BTG Pactual also has operations in Mexico, but that country has a wealth-management sector that is already too competitive to build a wealth-management business from a low starting point, said Pessoa. "If we want to be the biggest private-banking firm in Latin America, we will need to have a wealth-management firm in Mexico eventually," he said. Pessoa added that BTG would be able to reach that goal by offering mortgages in the United States. The investment bank recently opened an office in Madrid and also announced in March that it was acquiring a bank in Luxembourg to serve customers in Latin America, Bloomberg News reported. The moves are part of BTG Pactual's strategy of becoming more

THE DIALOGUE CONTINUES

How Well Is the USMCA Working After Three Years?

Q July 1 marks the three-year anniversary of the United States-Mexico-Canada Agreement, or USMCA, trade deal taking effect. The trade accord modernized the former North American Free Trade Agreement, or NAFTA, and incorporated a wide range of provisions including ones related to digital trade, intellectual property and labor conditions. How well has the USMCA functioned over the past three years? Who has benefited from it the most? What deficiencies have come to light with the trade accord since it took effect?

A Carlos Vejar, partner at Holland & Knight: "The USMCA has maintained its central role in consolidating trade and commercial relations among its three parties. It is fair to say that the labor chapter of the agreement has successfully addressed labor concerns, particularly in Mexico. Both the United States and Mexico have effectively tackled legitimacy issues within different export industries. The USMCA has also brought significant improvements over NAFTA in areas such as intellectual property rights, e-commerce and cross-border data flows. The absence of public criticism or bilateral discussions on these matters is a positive indication of its success. Mexico

prominent in countries where competitors are exiting their local operations. Among those other banks was J.P. Morgan Chase & Co., which shuttered its onshore businesses in Brazil and Mexico over the past three years. BNP Paribas stopped serving local clients in Brazil in 2021, the news service reported. "Clients want to be serviced globally, and not by someone in Latin America that has no idea what's happening abroad, or by some banker outside the region that has no idea about local life," Pessoa told Bloomberg News in the interview. BTG, which

has emerged as a primary beneficiary of the agreement, attracting foreign investment that has led to job creation, economic growth and expanded market access, notably in the automotive and manufacturing sectors. Canadian farmers have also gained increased access to the U.S. dairy market. Despite some tensions, trade and investment have continued to flow smoothly. The USMCA has played a crucial role in facilitating the nearshoring boom. Although the parties have actively utilized dispute settlement mechanisms for antidumping, labor enforcement and state-to-state disputes, the overall results have been positive. The agreement has maintained a fair and balanced trade environment through the effective use of dispute settlement mechanisms that were not functional under NAFTA, particularly the state-to-state mechanism and labor disputes under its 'side agreement.' In conclusion, the USMCA has undoubtedly contributed to the modernization of North American trade practices and solidified its member countries as each other's main trading partners."

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

billionaire Andre Esteves founded, has tripled its staff in the United States that focuses on wealth management to about 50 people over the past three years, said Pessoa. BTG also has local private-banking staffs in Brazil, Chile and Peru, as well as in Lisbon and London. "We see a big exodus of clients from Colombia, Chile, Peru and Mexico moving to Madrid, or at least staying part of their time there, with the advance of more leftist governments in the region," said Pessoa. BTG is Latin America's largest investment bank, Reuters reported.

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A **Miguel Jaramillo, senior researcher at GRADE: Group for the Analysis of Development:** “Peru’s development has not been erased. In fact, it is the country’s prior development that accounts for its resilience in the face of pervasive political turmoil and a discouraging business environment. In effect, Peru, as most of Latin America, had a brilliant growth run in the 2000s, during the so-called commodity boom. Annual growth rates averaged 5.1 percent in real terms in the post-Fujimori period of 2001 to 2019. Growth, however, had started declining by the mid-2010s. From 2016 to 2019, it dropped to 2.9 percent following a slowing trend. Thus, the ‘backward turn’ did not come all of a sudden, but rather has as a clear antecedent in a slowdown in growth during most of the 2010s. Behind this diminishing growth are two factors. One has to do with the lack of conviction in the political realm on the progress made during the last two decades and its sources. The left never recognized the achievements of the past two decades, which included an enormous reduction in poverty and one of the fastest declines in inequality by any country at any time, and instead focused on rhetoric around the need to do away with the ‘economic model’ that had made such progress possible. Meanwhile, the right was entertained playing out its bitter resentment regarding the results of the 2016 election that kept Keiko Fujimori from the presidency. Thus, the political scenario made very difficult a course of reforms that would build on recent achievements and strengthen the many areas that needed strengthening, particularly regarding the provision of basic public services. The other element is the extremely poor handling of the pandemic. Former President Martín Vizcarra had no problem prohibiting all economic activity except for two essential sectors, even when the virus had showed up in only two regions. The 2021 election only compounded this scenario with a drastic decline in the quality

of the business environment that brought private investment to zero growth. Going back to a path of poverty reduction requires a more promising business environment and a modicum of political stability.”

A **Alfredo Thorne, partner at Global Source and former Peruvian finance minister:** “Recently, Peru’s central bank released a study of poverty reduction in Peru, dividing the 2004-2022 period into four subperiods. First was the period of rapid poverty reduction from 2004-2013, when the poverty rate was brought down by 34.8 percentage points, from a peak of 58.7 percent. The second period was a mild reduction in 2013-2019 when poverty fell by 3.8 percentage points. Third was the pandemic, from 2019-2020, when poverty increased 9.9 percentage points. Fourth, in the post-pandemic period of 2021-2022, poverty increased by 1.6 percentage points. The central bank argues that poverty reduction started faltering in 2017 when poverty rates started increasing again. During the pandemic, the government controlled it partially by granting cash transfers to the population, but then poverty increased again. Ironically, the upward trend in 2017 coincides with the period of high political instability and populist policies. The positive is that both World Bank and central bank studies indicate that rapid growth and formal job creation are the main drivers of poverty reduction. The World Bank calculates that 85 percent of Peru’s poverty reduction is due to growth, while the central bank estimates that growth was responsible for 69 percent of that reduction. Moreover, the central bank calculates that half of the poverty reduction from 2004 to 2013 was explained by job creation. From this, it is apparent that Peru needs to resume its pro-growth and pro-employment policies to instill economic progress. But it is first necessary to halt political brinkmanship and reach a political consensus in favor of these policies.”

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