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## FEATURED Q&A

# Why is the Homicide Rate Soaring in Mexico?



The arrest and extradition to the United States of Sinaloa cartel leader Joaquín "El Chapo" Guzmán, pictured in January in U.S. custody, is among the reasons for Mexico's escalation in violence, experts say below. // File Photo: U.S. Immigration and Customs Enforcement.

**Q Mexico's homicide rate has soared this year, with more than 11,000 people killed in the first five months of 2017, a 31 percent jump from the same period last year, according to government statistics. At that pace, Mexico's homicide rate this year could rival 2011 as the deadliest in Mexico's peacetime history. What factors have led to the spike in murders this year in Mexico? How effective are efforts by President Enrique Peña Nieto's government to improve security, and what more should the government be doing? How is the increase in homicides affecting the country's economy and business sectors?**

**A Raúl Benítez Manaut, researcher at the Center for Interdisciplinary Research in Science and Humanities at the National Autonomous University of Mexico (UNAM):** "During the government of Felipe Calderón, the most violent year of the so-called 'war on drug trafficking' was 2011, the fifth year of Calderón's government. In Peña Nieto's case, 2017 is the fifth year of his government. There are several factors at work. First is politics. In 2015 and 2016, the PRI lost several state governments, and corruption and scandals have also increased, leading to a lack of coordination between the federal and state governments. The armed forces have signaled that they do not trust many municipal and state security agencies, leading to a lack of cooperation in crime-fighting networks. Second, the mutations of criminal organizations has been very intense in 2016 and 2017. The capture and extradition to the United States of 'El Chapo' Guzmán has

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## TODAY'S NEWS

### POLITICAL

## Parts of Venezuela Paralyzed Amid General Strike

Venezuelans stayed home and businesses were shuttered in many parts of the country amid the general strike, which the opposition staged to protest President Nicolás Maduro's plan to elect a "constituent assembly" to rewrite the Constitution.

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### ECONOMIC

## Brazil Doubles Some Fuels Taxes Amid Budget Gap

The decision will raise an additional 10.4 billion reais (\$3.3 billion) in revenue this year, the government said.

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### ECONOMIC

## WTO Better for Resolving Trade Disputes Than NAFTA: Guajardo

The World Trade Organization has been a better avenue for resolving trade disputes than NAFTA's Chapter 19, said Mexican Economy Minister Ildefonso Guajardo.

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Guajardo // File Photo: Mexican Government.

## POLITICAL NEWS

## Parts of Venezuela Paralyzed Amid 24-Hour General Strike

A day-long general strike paralyzed several parts of Venezuela on Thursday as opponents of the country's government sought to stop President Nicolás Maduro from proceeding with a July 30 vote to elect members of a "constituent assembly" to rewrite the Constitution, *The Wall Street Journal* reported. In Caracas, many residents stayed home and businesses were shuttered. In some neighborhoods, opposition factions placed road barriers in the streets in order to block traffic and in some cases clashed with security forces. "It's obvious that today is not a normal day and that Nicolás Maduro doesn't have a way to prevent Venezuelans from exercising their will," said opposition lawmaker Juan Andrés Mejía, the newspaper reported. The 24-hour strike was part of the opposition's so-called "Zero Hour" protest campaign, aimed at preventing Maduro from proceeding with the vote in just over a week to elect the assembly to rewrite the Constitution, which was put in place in 1999, early in the government of Maduro's predecessor and mentor, the late Hugo Chávez.

Maduro has said a new Constitution is needed to solve the country's political and economic crises, but his opponents see his attempt as an effort to increase his power. Last Sunday, some seven million Venezuelans in the South American country and abroad cast ballots, in a vote not endorsed by the government, to express their objection to Maduro's plan to

“It's obvious that today is not a normal day and that Nicolás Maduro doesn't have a way to prevent Venezuelans from exercising their will.”

— Juan Andrés Mejía

rewrite the charter, according to the opposition. Venezuela's attorney general's office said there were two confirmed deaths in Thursday's protests. A 24-year-old man was killed in Los Teques, about 20 miles southwest of Caracas, and a 23-year-old man was killed in Valencia, 81 miles west of the capital, *The Washington Post* reported. Nearly 100 people have been killed in the current wave of violent protests, which began in April. Earlier this week, U.S. President Donald Trump threatened to take

## NEWS BRIEFS

## WTO Better for Resolving Trade Disputes Than Chapter 19: Guajardo

Mexican Economy Minister Ildefonso Guajardo on Thursday said the World Trade Organization has been a more successful avenue for his country in resolving U.S. trade disputes than the Chapter 19 mechanism as stipulated in the North American Free Trade Agreement, Reuters reported. Under the Trump administration plan announced this week, the United States aims to get rid of Chapter 19, an option it says has helped some industries rebuff U.S. efforts to pursue anti-dumping and anti-subsidy cases.

## Argentina Announces Deal to Export Lemons to Mexico for First Time

Argentina's agriculture ministry on Thursday announced a deal that would allow the South American nation to export lemons to Mexico for the first time, Reuters reported. Sanitary inspection agencies from the two countries reached their agreement just months after a U.S. decision to allow lemon imports from Argentina's main producing region for the first time in 16 years.

## Bank De-Risking Trend Pushing Up Remittances Costs

The trend of bank de-risking is pushing up the costs to send remittances, a draft International Monetary Fund study has found, the Jamaica Gleaner reported Thursday. While remittance costs for sending to Latin America and the Caribbean have declined over the last decade, the report suggests that costs are climbing again because of correspondent banking challenges. Global banks' withdrawal from correspondent banking relationships out of compliance concerns has "disproportionately" affected money-transfer operations, the authors said.

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led to the decline of his Sinaloa cartel, and many of its cells have been dismantled. At the same time, two organizations have been strengthened: the Jalisco New Generation cartel and the Gulf cartel. These two cartels are extremely violent. Third, there has been a diversification of criminal activities in other parts of the country, such as the theft of gasoline, which has led to increased violence in Puebla and Guanajuato. Fourth, there has been increased criminal activity against employers and the population. Extortion against investors has increased, and both small and large companies have been targeted, affecting economic activity throughout

the country. Corruption also weakens public security agencies, as budgets for police are diverted in favor of political parties for their campaigns."

**A James R. Jones, member of the Advisor board and chairman of ManattJones Global Strategies:** "Much of the new wave of violence and homicides seems to have originated from when 'El Chapo' Guzmán was extradited to the United States and jailed. While Guzmán was in Mexico, even in Mexican prisons, he ran the Sinaloa cartel and enforced order and discipline. Ironically,

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"swift economic actions" if Maduro proceeds with the July 30 vote, but Maduro responded by vowing to continue and accusing Trump of imperialism, The Wall Street Journal reported. On Thursday, Maduro sang and danced at a youth rally in Caracas, playing down Thursday's strike as a failed effort by a few critics and threatening to jail the protest's organizers.

## ECONOMIC NEWS

## Brazil Doubles Some Fuels Taxes Amid Budget Deficit

As of today, Brazil's government is doubling some fuel taxes in an effort to close the country's budget deficit, The Wall Street Journal reported Thursday citing the country's finance and planning ministries. The move affects the "PIS/Cofins" levy and will raise an additional 10.4 billion reais (\$3.3 billion) this year, the ministries said. Other taxes imposed on fuels will not be affected. The government also said it will freeze 5.9 billion reais (\$1.9 billion) in federal spending this year, Reuters reported. Brazil in 2015 lost its investment-grade rating after years of missing budget targets.

## BUSINESS NEWS

## Mexico's Grupo Elektra Posts 17% Rise in Revenue for Q2

Mexico-based Grupo Elektra, the retailing and financial services arm of billionaire Ricardo Salinas' business empire, on Thursday said its second-quarter revenue grew 17 percent as compared to the same period last year. The company reported net income of 7.1 billion pesos (\$404 million), as compared to net loss of 79 million pesos a year ago. Operating profit grew 32 percent. An increase of 17 percent in financial services revenue, to 14 billion pesos from 12 billion pesos in the previous year,

## THE DIALOGUE CONTINUES

## What Does Lula's Conviction Mean for Brazil?

**Q** **Former Brazilian President Luiz Inácio Lula da Silva on July 12 was convicted and sentenced to nine and a half years in prison in connection with the massive corruption scheme involving state-run oil company Petrobras. Lula has denied wrongdoing, and his lawyers have vowed to appeal. What does Lula's conviction and sentencing mean for his political future and that of his Workers' Party? To what extent is there public support for the prosecution of politicians in the Petrobras case, and will the still-popular Lula see the sentencing diminish his support? What is the reason behind the Brazilian federal police force's disbanding of the task force behind the Petrobras probe last month, and how will that move affect the investigation?**

**A** **Peter Sufrin, independent Washington-based analyst:** "One can say that Lula's conviction for charges of passive corruption and money laundering represents a symbolic watershed in modern Brazilian political history. Lula oversaw Brazil's remarkable political and economic success during his tenure as president. His policies lifted millions out of poverty with the growth of the middle class. He revised the tax code, brought inflation under control, directed a commodities boom and witnessed the rise of Brazil on the world stage, most notably in the country's classification as a mem-

ber of the BRICS nations. But now, Lula represents the ongoing crisis of Brazil's top political leadership. He is not alone in his accountability. His successor as president, Dilma Rousseff, was impeached, and current President Michel Temer faces corruption charges. Temer's approval ratings are in the single digits, and there have been calls for his impeachment as well. Lula claims that his conviction is an attempt to prevent him from running in the 2018 election. According to his lawyers, Lula can still run, and he will try to delay the decision in court in order to buy time to mount a reasonable campaign. If Lula is barred from running, the Workers' Party has no other viable candidate, and a political outsider like environmentalist Marina Silva, Ciro Gomes, or João Doria would probably fill the void. While Brazil's reputation has suffered abroad, and its populace has grown even more disillusioned with politics, there is some cause for optimism—namely, the drive for transparency and the growing role of the judiciary in accountability. If Brazil's leadership can proceed with reform, it can potentially reduce corruption in years to come and put the country on the path to greater political stability."

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

was driven by a 21 percent growth in revenue of Banco Azteca Mexico, the company said. Elektra noted that a 9 percent increase in financial costs remained lower than revenues and reflected "a moderate growth in loan-loss provisions, in line with greater strength in asset quality." Banco Azteca's delinquency rate at the end of the quarter was 2.5 percent, down from

2.9 percent of the previous year. Earlier this year, members of Mexico's association of brokerages asked the stock exchange to look into Elektra's unusual share price gains, Reuters reported. At the time, the company said it was not aware of what was driving them. Elektra operates in Mexico, the United States, Guatemala, Honduras, Peru, Panama and El Salvador.

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during previous periods of drug violence, Sinaloa was one of the safest states. With Guzmán in solitary confinement in the United States, he was no longer able to command the cartel. That's when the fight to succeed him began, and it has been bloody. Potential successors were younger, more violent and less knowledgeable. Other drug organizations with the same type of younger leadership sprang up, such as the Jalisco New Generation cartel. It quickly established itself as a cartel in more than half the states by essentially taking over smaller local drug organizations. This also led to a spike in violence. The sense of impunity from justice also led this younger criminal leadership to be bolder. Only a very small percentage, approximately 3 percent, of crimes actually reported result in convictions. Many more crimes are never reported because of widespread belief that incompetence and corruption in law enforcement is huge. This new wave of violence affects business in Mexico in many ways, from extortion demands to kidnapping and more. It also makes foreign investors reluctant to invest in Mexico. The Mexican government must put many resources into implementing the legal and judicial reforms passed in the last nine years. Only when justice is fair and certain will such violent crimes begin to recede."

**A** **Amanda Curtis Mattingly, senior director at The Arkin Group:** "President Peña Nieto has done little to improve the security of Mexico. He came into office in 2012 wanting to change the conversation away from the drug war, which had dominated former President Felipe Calderón's tenure, to a focus on the economy. Peña Nieto had some success at the start of his term in driving the media coverage, particularly as he introduced important energy reforms. But a change in media coverage did not mean a change in the underlying problems of violence, crime

and insecurity related to the illegal drug trade—problems that have spiked significantly this year due to a surge in U.S. demand for heroin and the legalization of marijuana in a number of U.S. states. The levels of violence in states such as Guerrero have reached a peak as various cartels vie for control of the drug trade, and the same issues are playing out in many other states of Mexico. The

“**President Peña Nieto has done little to improve the security of Mexico.**”

— Amanda Curtis Mattingly

federal government has arrested more than 100 of its 122 named targets, but taking out cartel leadership has resulted in cartel fragmentation, turf wars and increased violence. So late in Peña Nieto's term, it would be difficult for him to implement a new, comprehensive security plan. Still, there is time to make human rights and the rule of law top priorities, and he should empower the proper Mexican authorities to investigate and prosecute criminality. Peña Nieto should lay the groundwork for the Mexican government to reform its local and federal police forces and to end the corruption and collusion between authorities and the criminal organizations. Cracking down on corruption and impunity is not just good for the security of the Mexican people, it is also imperative for the Mexican economy. Peña Nieto entered office focused on the economy, but if he really cares about it, he should leave office focused on security."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

## LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

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**Latin America Advisor** is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

[www.thedialogue.org](http://www.thedialogue.org)

ISSN 2163-7962

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