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FEATURED Q&A

How Are External Factors Affecting Cuba's Economy?



Agriculture and tourism are helping to drive Cuba's economy, according to Economy Minister Ricardo Cabrisas. However, stricter U.S. travel rules could affect tourism to the island. // File Photo: Cuban Government.

Q Cuba's economy grew 1 percent in the first half of this year, and the island's economic growth is estimated at 2 percent by the end of the year, Economy Minister Ricardo Cabrisas said July 14 at the opening session of the country's National Assembly. Which sectors are driving Cuba's economy, and what are the prospects for those sectors? To what extent do external factors such as Venezuela's political and economic crises and the Trump administration's rollback of some of the Obama-era openings with Cuba threaten Cuba's economy? What types of economic policies do you expect Cuban President Raúl Castro to take in his remaining time as the country's leader, and what shifts in economic policy can be expected after he leaves office next year?

A Kezia McKeague, director at McLarty Associates: "Minister Cabrisas credited tourism, construction, transport, communications and non-sugar agriculture for driving economic growth in 2017, following a contraction of 0.9 percent in 2016. Of those sectors, tourism has grown most impressively, with a record four million visitors last year. Once enacted, new U.S. regulations prohibiting individual travel will likely slow the growth of arrivals from the United States, but at 285,000 visitors last year, they represent less than 10 percent of the total. Of greater concern to the government is the prospect of further reductions of Venezuelan aid and subsidized oil deliveries, coupled with still-weak prices for Cuba's commodity exports of nickel and sugar. These external factors have created a liquidity shortage

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TODAY'S NEWS

POLITICAL

Santos Rejects Possibility of U.S. Military Action in Venezuela

Colombian President Juan Manuel Santos told U.S. Vice President Mike Pence that the U.S. should not consider military action in Venezuela. U.S. President Donald Trump had said he wasn't ruling out such action.

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ECONOMIC

Chile's Business Confidence Needs Boost: Piñera

Chile needs higher business confidence in order to recover investment, said presidential candidate and former President Sebastián Piñera.

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POLITICAL

Macri's Coalition Gets Strong Backing in Argentina Primary

Argentine President Mauricio Macri's Cambiemos coalition received strong support in Sunday's nonbinding vote.

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Macri // File Photo: Argentine Government.

POLITICAL NEWS

U.S. Military Action in Venezuela Unacceptable: Santos

The United States must not consider military action in Venezuela, Colombian President Juan Manuel Santos told Mike Pence during the U.S. vice president's visit to Cartagena on Sunday, the Associated Press reported. The United States and Colombia are important allies, said Santos, "But since friends have to tell each other the truth, I have told Vice President Pence that the possibility of a military intervention shouldn't even be considered, neither in Colombia nor in Latin America." Santos added, "America is a continent of peace. It is the land of peace. Let us preserve it as such." Santos' statement came after U.S. President Donald Trump told reporters at his golf resort in New Jersey that he wasn't ruling out military action in Venezuela. "We have many options for Venezuela," Trump said alongside Secretary of State Rex Tillerson and Nikki Haley, the U.S. ambassador to the United Nations, CBS News reported. "And by the way I am not going to rule out a military option," Trump added. "We have

many options." Trump made the statement in response to a reporter's question on whether he would support a regime change in Venezuela, where President Nicolás Maduro has been accused of dismantling the country's democracy, in part through last month's election of a powerful "constituent assembly." In his visit to Colombia, Pence also refused to rule out U.S. military action in Venezuela, but added that the United States would much prefer a "peaceable" solution to Venezuela's political and humanitarian crises.

Macri's Coalition Gets Strong Backing in Argentina Primary

Argentine President Mauricio Macri's Cambiemos coalition received a strong showing of support in Sunday's nonbinding primary election, dealing a blow to former President Cristina Fernández de Kirchner as she seeks a Senate seat in Buenos Aires province, The Wall Street Journal reported Monday. The primary is akin to a nationwide poll, and likely will predict the outcome of the midterm congressional election in October. With the votes counted at most polling stations, Cambiemos outpolled its

NEWS BRIEFS

U.S., Mexico, Canada to Open NAFTA Renegotiation This Week

The United States, Mexico and Canada are set to begin renegotiating the North American Free Trade Agreement this week, following U.S. President Donald Trump's demands that the trade accord be renegotiated, Agence France-Presse reported Monday. However, all three of the member countries agree that there is value in revisiting the agreement, which was created nearly 25 years ago, before the Internet era. The first round of talks is to take place Aug. 16-20 in Washington.

Chile Must Recover Business Confidence to Attract Investment: Piñera

Chilean presidential candidate and former President Sebastián Piñera said the country needs to recover business confidence and lower its fiscal deficit if the country wants to attract more investment, Reuters reported Friday. Piñera added that if elected, he plans to adjust the three major reforms enacted under President Michelle Bachelet, saying they failed to help Chileans. "The tax reform was a brake on investment and growth, the labor reform was a brake on jobs and the education reform was an attack on freedom and quality in education," he said.

Venezuela's Banco Mercantil Sells New York Office for \$30 Million

Venezuela-based Banco Mercantil has sold its landmark office building in New York for \$30 million, the New York Post reported today. There were no indications that the sale of the building, next to the country's consulate on East 51st Street, was related to Venezuela's political and economic crises. Mercantil is moving its New York office two blocks away.

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for a country that imports the majority of its food and other goods. Nevertheless, Cuba's senior leadership has opted for a slowdown of economic reforms as it prepares for the succession in 2018. Earlier this summer, I found Havana abuzz over the closure of several popular private restaurants, and in early August, the government indefinitely suspended the issuance of new licenses for more than 25 self-employed occupations. Recent Cuban economic history reflects perpetual tensions between the objectives of economic growth and international prestige on the one hand and political control and economic equality on the other. The recent crackdown typifies the frequent outcome of that balancing act—stability over growth—even as the

authorities postpone long-pending reforms such as unification of Cuba's two currencies. Although Raúl Castro has declared that Cuba is not transitioning toward a market economy, he has not defined an alternative model, adding another dose of uncertainty to the cautious and gradual reform process."

A **Jorge Sanguinety, chairman and senior advisor at DevTech Systems:** "The main sectors driving the Cuban economy are tourism, remittances from the United States, sales of health care and educational services to other countries (in decline), and sugar (much less than in the past). As with practically everything in the Cuban econ-

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opponents in half of Argentina's 24 provinces, including Buenos Aires province. Cambiemos appears poised to win seats in both houses of Congress, and no party or coalition appears to have a majority. Earlier polls had predicted Fernández would best Marci's top Senate candidate, Estéban Bullrich, by several points,



Bullrich // File Photo: Bullrich Campaign.

but Sunday's vote put Bullrich slightly ahead of Fernández with 34.27 percent of the vote versus 34.01 percent of the vote, respectively. The news is likely to be viewed positively by investors, who feared that Fernández's political comeback would lead to weakened support for Macri's pro-business policies. "The Argentine peso has been depreciating over the past two months, leading the Central Bank of Argentina to sell almost \$2 billion. Most probably that trend will revert this week," said Rafael Di Gioro, the director of Buenos Aires-based asset investment firm Proficio Investment Management. "Bonds and stocks will recover losses."

ECONOMIC NEWS

Colombian Gov't Issues 'Green Bond'

Colombia has issued a 200 billion Colombian peso, or approximately \$66.7 million, green bond, which aims to support projects that will help mitigate the effects of climate change, Renewables Now reported Friday. Banco de Comercio Exterior de Colombia, or Bancoldex, issued the five-year bond, with technical support from the Inter-American Development Bank. "We are adding efforts so that the countries of the region can raise private funds in key areas, while contributing to the development of

THE DIALOGUE CONTINUES

Should Companies Be More Involved in Peru's Water Management?

Q The Peruvian government wants the private sector to play a larger role in water management as it enacts reforms that are aimed at giving more people across the country access to running water by 2021, Housing Minister Edmer Trujillo said July 25. He said reaching the goal of providing basic water services to millions of Peruvians who lack them will require some 50 billion soles, or approximately \$15 billion, in investment in water infrastructure projects. How much involvement should the private sector have in water resource management in Peru? What are the pros and cons of giving the private sector a larger role in the management of water for Peruvians? What would be the likely dynamic between the two spheres as they work to achieve the goal of providing greater access to water across the country?

A Newsha Ajami, director of Urban Water Policy at the Stanford Woods Institute for the Environment: "Engaging the private sector to provide public assets or services can provide water utilities with resources beyond what they currently have at their disposal. However, this needs to be approached with caution. Public-private partnerships (PPPs) can be set up in many different formats, which would dictate how much risk and responsibility is assumed by the public sector versus the private investor. One issue to keep in mind is that each entity that is involved in such a partnership can have specific goals and objectives that might not always align with others.

their financial markets helping in the structuring of instruments in their own currencies," said the head of the IDB's connectivity, markets and finance division, Juan Ketterer. Bancoldex said the funds raised from the bond issue will go to financing sustainable construction, cleaner

The question should not be focused on the degree of involvement the private sector will have in water resource management, but rather how such engagements and partnerships could be set up in a way that would ensure a win-win contract for both the public and the private sector and affordable and sustainable outcomes for the community. New PPP models such as community-based public-private partnerships, which focus on all parties, including the local community in which the project is being constructed, are great examples of an arrangement that provides value to all parties. These models strive to create local jobs, provide opportunities for community outreach and educational advancement, and improve the lives of those living in urban, rural and underserved communities. By partnering with private entities interested in long-term investments, as opposed to those interested in quick, short-term returns, public entities can help to stimulate local economic growth, preserve the environment and improve the quality of life for their stakeholders, while taking advantage of the benefits of a traditional PPP. If this effort by the Peruvian government does not lead to affordable access to these services, people will not use it. So it is essential for the government to approach this with that consideration in mind."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Aug. 10 issue of the Advisor.

production, energy efficiency and renewable energy projects. Pension funds, institutional investors, government entities, multilateral organizations, insurance companies, businesses and the public all have the right to purchase the bonds.

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omy, the prospects for these sectors are uncertain, as the actual implementation of President Trump's Cuba policy has not yet begun. For instance, American tourism to the island might decline if the U.S. government starts rigorously enforcing the conditions for

“Another important external factor negatively affecting the Cuban economy is the deterioration of Venezuela's economy...”

— Jorge Sanguinety

travel to Cuba, while regarding remittances there may be a reduction of the amounts allowed so far. Another important external factor negatively affecting the Cuban economy is the deterioration of Venezuela's economy, which seems to be worsening, even independently of its political crisis. However, Raúl Castro's inability to complete the economic reforms promised five years ago, his incomprehensible paralysis in unifying the exchange rate regime to eliminate a major macroeconomic obstacle to economic growth and Cuba's poor performance on the agricultural and foreign investment fronts provide a solid basis for a pessimistic outlook. This assessment was confirmed at the recent annual conference in Miami of

the Association for the Study of the Cuban Economy, where around 100 experts on Cuba presented and discussed research papers covering different aspects of the country's economy.”

A Jaime Suchlicki, professor and director of the Institute for Cuban and Cuban-American Studies at the University of Miami: “There are three principal sectors driving the Cuban economy: tourism; remittances by Cuban-Americans; and the leasing of medical and military personnel. These sectors will continue to support Cuba's economy. The rollback of Obama's measures and the possible collapse of the Maduro regime will affect General Raúl Castro's regime, but not to the extent of causing a collapse. Cuba underwent and survived more difficult times after the collapse of communism. The 'Special Period' in the 1980s was brutal, but the regime muddled through. Castro will continue to tighten both economic and political policies in an attempt to ensure the system's continuity. Next February, Castro will step down from the presidency, leaving in that position a Communist Party bureaucrat with no military or party support. Castro is not leaving power; he will remain as secretary general of the Communist Party and as head of the military. Very little will change.”

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

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