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## FEATURED Q&A

# Are Argentina's Voters Satisfied With the Economy?



Argentine President Mauricio Macri has pushed market-friendly economic policies since taking office nearly two years ago // File Photo: Argentine Government.

**Q** Consumer prices in Argentina rose a relatively modest 1.4 percent in August, state statistics agency Indec said Sept. 12. The figure brings inflation year-to-date to 15.4 percent, among the highest in the world, yet still below some expectations that inflation would have reached 22 percent by this point. How satisfied are voters with the economic progress since President Mauricio Macri took office in December 2015? Are Macri's economic policies working as promised? Are his administration's reforms taking hold quickly enough to avoid a resurgence of populist and left-of-center politicians in next month's midterm election?

**A** Claudio M. Loser, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "Numbers are always difficult to interpret. President Macri's policies are working, but slowly, and Argentines are complaining as they always do, but they generally support the government. Inflation is on a declining trend, although it may go up slightly from the August number. This is almost totally explained by the central bank's tight monetary policy. The government is reducing the fiscal deficit too slowly by most accounts, and the labor unions, the traditional backbone of the Peronist/Kirchnerist movements, are not being particularly helpful in reducing wage demands. Thus, the reduction in inflation is an uphill battle, but will work out. Economic activity is recovering, but in a world of slow GDP growth, and with an ailing Brazil, the country cannot be expected to do as it did at the peak of the commodity/over-expansionary-policy cycle of a few years ago. Even so, the

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A week after a deadly and powerful 7.1-magnitude earthquake struck central Mexico, as many as 360 buildings are in danger of collapsing or sustaining greater damage.

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The government announced that it would reinstate a mining ban in part of the Amazon rainforest, revoking a previous decree.

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Venezuelan Foreign Minister Jorge Arreaza blasted U.S. President Donald Trump in his speech to the U.N. General Assembly, nearly a week after Trump denounced Venezuela's government in his address to the body.

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Arreaza // Photo: United Nations.

## POLITICAL NEWS

## Trump Acting Like ‘the World’s Emperor’: Venezuela

Venezuela’s foreign minister on Monday blasted U.S. President Donald Trump, telling the U.N. General Assembly that he is acting like “the world’s dictator,” the Associated Press reported. Jorge Arreaza’s speech came a day after Trump signed a new travel ban that includes a prohibition on some Venezuelan officials visiting the United States and almost

**Arreaza’s speech came a day after Trump signed a new travel ban that includes some Venezuelan officials.**

a week after Trump denounced Venezuela’s government in his own speech to the General Assembly, calling President Nicolás Maduro’s government a “corrupt regime.” “As if he were the world’s emperor, the president of the United States, Donald Trump, used this podium built for peace to announce wars, total destruction of member states,” Arreaza told the gathering of world leaders. The Venezuelan foreign minister also accused Trump of “coercive measures, threatening and judging as if he had absolute, dictatorial powers over the sovereign member states of our organization.” During his speech last week at the United Nations, Trump threatened to “totally destroy” North Korea “if it is forced to defend itself or its allies.” Referring to late Venezuelan President Hugo Chávez’s remark that it “smells like sulfur” at the podium after then-U.S. President George W. Bush addressed the General Assembly in 2006, Arreaza said “It’s still valid.” Arreaza added, however, that Venezuela was willing to engage in dialogue with the United States.

The U.S. government did not have an immediate response to Arreaza’s speech. Maduro’s government has faced widespread criticism in recent months. The country’s Supreme Court in March effectively dissolved the opposition-controlled National Assembly, before reversing the move. Then, in July, Maduro’s government held a vote to elect a powerful “constituent assembly,” which is entirely composed of government loyalists. Among the assembly’s moves was one to declare itself superior to all other government institutions, including the elected legislature and the courts.

## Hundreds of Mexico Buildings at Risk of Collapse After Quake

A week after a 7.1-magnitude earthquake toppled 38 structures in Mexico City, as many 360 buildings and homes are in danger of collapsing or seeing even greater damage, the Associated Press reported Monday. Some structures have already experienced delayed collapses; the cupola of Our Lady of Angels Church, which had been damaged in the quake on Sept. 19, split in half and fell to the ground on Sunday. There were no injuries. Mexicans worried about the structural integrity of their apartment buildings were calling police on Monday to report new or worsening cracks on their buildings. Mexico City Mayor Miguel Ángel Mancera said of the buildings at risk of collapsing, at least seven are schools. Education Secretary Aurelio Nuño said the government had declared safe for reopening only 676 of the nearly 9,000 schools in Mexico City, leaving hundreds of thousands of children idle. He said it would be another two or three weeks before the rest of the schools could be inspected and declared safe. At several locations throughout the city, employees refused to enter their office buildings on Monday, fearing their collapse. Mancera said there are 360 “red level” buildings that will need to be demolished or receive major structural reinforcement. There are another 1,136 buildings that have been deemed repairable, and 8,030 that have been inspected thus far are that deemed habitable.

## NEWS BRIEFS

## Brazil to Auction Oil Exploration Blocks

An upcoming oil auction in Brazil this week will prove to be a test for whether President Michel Temer’s market-friendly reforms are enough to attract investors to the sector, which has been tarnished by a major corruption scandal at state-run oil firm Petrobras, Reuters reported. Brazil will auction 287 onshore and offshore exploration blocks on Wednesday, and will bring in an estimated 1.69 billion reais, or some \$537 million, if all contracts are awarded. The auction may be a bellwether for the country’s second and third pre-salt rounds planned for next month.

## Thirteen Killed in Ecuador Bus Crash

Thirteen people were killed and 28 were injured in a bus crash on a highway in Ecuador between Quito and the northern city of Ibarra, authorities said Monday, Agence France-Presse reported. The crash took place around 8 p.m. local time on Sunday, when a bus ran off the road and overturned, killing 12 people at the scene. Deadly motor vehicle accidents are common in Ecuador; a local non-governmental organization estimates that some 13 people die and 142 are injured as a result of road accidents every day in Ecuador.

## Arcos Dorados Assessing Effects of Disasters on McDonald’s Restaurants

Arcos Dorados, the world’s largest independent McDonald’s franchisee, said today that it is “making a full assessment of the impact to our employees and operations” from the recent earthquakes in Mexico and hurricanes in the Caribbean. The company and its sub-franchisees have reopened nearly all of its McDonald’s locations in Mexico, though most in the U.S. Virgin Islands and Puerto Rico remain closed, Arcos Dorados said.

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governing Cambiemos party with its allies are the strongest political group, while the Peronists are infighting and seen as totally corrupt, particularly because of the divisive presence of ex-president Cristina Fernández de Kirchner. The Peronists have a hardcore base of about one-third of the electorate, but it is divided, with provincial governors willing to work with the government. Macri, in turn, is spending less on subsidies allegedly meant to benefit the poor, and instead he favors infrastructure, which benefits the Argentine interior—outside the Buenos Aires area. In sum, the government is far from loved, but is respected, even if has shown some tactical flaws. It can be expected to do well next month.”

**A** **Horacio Verbitsky, president of the Center for Legal and Social Studies in Buenos Aires:** “Inflation this year will be lower than last year’s, but will exceed 25 percent, as was the case in the last year of the Fernández administration. The fiscal deficit also grew, and the government’s improvements are just a statistical rebound after a year of a nightmarish economic situation. Indicator by indicator, the economy has not yet reached the levels of 2015, and this includes foreign direct investment. The ministers of the national cabinet have half of their assets outside the country, and the government has allowed them to leave those assets abroad. This does not incentivize external investors to invest in Argentina, except in public securities that allow for a lucrative carry trade, while at the same time maintaining a high deficit and inflation. The budget for 2018 includes a reduction in the primary deficit, but this does not include the payment of interest for the growing levels of debt. What is adjusted in social spending is intended for paying interest. Macri has incurred the highest level of debt in history, higher than even the highest level during the dictatorship, and the most bloated in the world. This debt does not create exportable

goods that permit the debt’s repayment, nor does it create development projects that will improve infrastructure. It only covers the current expenditure, while unemployment grows. For this reason, it is socially unsustainable, and banks and international organizations have also warned that it is financially unsustainable. But this does not mean it will be easy to predict the electoral outcome, as the government blames all its problems on its predecessor. Given the fragmentation of the opposition to Macri’s government, it will be enough to win through the loyalty of his base, which believes the government’s side of the story.”

**A** **Miguel Kiguel, executive director of EconViews in Buenos Aires:** “The most recent figures indicate that Argentine economic activity is on the rise, inflation is coming down, consumer confidence is rising and financial conditions have improved significantly. The results of the primaries (which are likely to be reaffirmed in the October general election) provided a boost to investor confidence, as they indicate that the chances of populism coming back in the foreseeable future are almost nil. In this scenario, the economy this year is likely to grow by approximately 3 percent, a big turnaround compared with the contraction of 2.2 percent that took place last year. The outlook for next year is positive, as the growth momentum should remain in place, in spite of the maintenance of tight money and the expected increases in utility rates and the reduction of the fiscal deficit, as the economy expands approximately 3.8 percent. The private sector, and especially investment, which is expected to rise 10 percent, should be the drivers of growth, while consumption will take a back seat and grow by only 3.2 percent. On the inflation front, this year it seems that it will end at 22 percent, somewhat above the target of 17 percent that was set last year. For 2018, there is again a very ambitious inflation target of 12

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## ECONOMIC NEWS

## Brazilian Gov’t Reinstates Amazon Mining Ban

Brazilian President Michel Temer’s government on Monday announced it would reinstate a mining ban in part of the Amazon rainforest, revoking an August decree that abolished the National Reserve of Copper and Associates, or Renca reserve, Reuters reported. The reserve is roughly 17,800 square miles, or slightly larger



Temer // File Photo: Brazilian Government.

than the size of Denmark. The reserve was established in 1984 and covers parts of the northern states of Amapá and Pará. Renca was created to preserve a section of the Amazon rainforest that is believed to contain significant deposits of gold, copper, iron ore and other minerals from the perceived threat of foreign miners in the 1980s. The Amazon is the world’s largest rainforest, and the preservation of the forest is seen as essential to fighting global warming by absorbing CO2 emissions that lead to climate change. The government said it would revisit the issue of the mining ban at a later date. In the past, the government had argued that lifting the ban would help boost the economy and would lead to better oversight over the area, where there are estimated to be more than 1,000 people illegally mining. “Brazil needs to grow and create jobs, attract mining investment and even tap the economic potential of the region,” the Mines and Energy Ministry said in a statement. [Editor’s note: See [Q&A](#) on Brazil’s mining sector in the Aug. 4 issue of the Advisor.]

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percent, though it is more likely to end the year at around 17 percent. Even if the central bank does not meet the target, it is clear that the government is gradually winning the fight against inflation. With the economy on the right track and with the political support from good results in the mid-term election, the government will have the space to move ahead on new policy measures to consolidate the reduction in the fiscal deficit, and to address structural reforms to improve efficiency and competitiveness."

**A** Paula Alonso, associate professor of history and international affairs and director of the Latin American and Hemispheric Studies Program at The Elliott School of International Affairs at The George Washington University: "Economic activity is clearly improving in Argentina. INDEC indicated that the second quarter was better than the first, with a 1.5 percent cumulative increase in the first half of the year. Growth was 4 percent year-over-year in June. Inflation, at 1.4 percent in August, remains high, but is lower than July's 1.7 percent. The gradual strategy for bringing down fiscal deficits remains on track, and the goal of a 4.2 percent deficit for the year appears to be feasible. These figures are far from spectacular, but the government can claim that things are going in the right direction. While these indicators should help Cambiemos in the Oct. 22 midterm elections, a month is a long time in Argentine politics. There are a few fronts open that can complicate things. The disappearance of Santiago Maldonado, the artisan who went missing after clashes with Gendarmería and members of the Mapuche community, may not have the big impact on voters' preferences that the opposition desires, but it overshadows the government's attempt to bring the economic indicators to the forefront of the campaign. A student revolt against an educational reform proposed in the city of Buenos Aires undermines the government's favorite propaganda tool: gestión, or the capacity for administrative

reform. More importantly, the government may be able to celebrate the defeat of former President Cristina Fernández in the elections, but it could be a short-term victory, as it would propel the reorganization of the Peronist Party. Electoral victory will not provide Macri with a majority in Congress, negotiations would be more difficult under a unified Peronism and, after the elections in October, the race for the presidential elections of 2019 begins. Nonetheless, if a month is a long time in Argentine politics, two years is an eternity."

**A** Agustín Crivelli, economist at the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires: "The policy of external debt that is the base of President Macri's economic policy is, by all accounts, unsustainable and only has allowed the delay of external restrictions without solving them, or perhaps even making the original economic issues worse. To the central problem of capital flight and the trade and industrial deficit, President Macri has added a record commercial trade deficit that is a structural component of his economic model. For 2018, all signs point to Macri continuing the old theme of the conditional programs of the IMF, cutting back on labor rights, pension systems and public salaries, and seeking to privatize anything he can. Argentines know this pattern, which the government so far has been able to disguise by engaging in rhetoric that is contrary to its actions. But it shouldn't be forgotten that this is a government that came to power by a thin margin, and since then the government's level of support has been steadily falling. It's possible to say that Macri's government is supported by an immense network of official public and private propaganda with record-level spending. But the reality is that Argentina's current economic situation is very critical, and all that remains to be seen is when the political and economic project, which is seeing tension mount on all fronts, will explode into a crisis."

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