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FEATURED Q&A

How Much Damage Has Puerto Rico's Economy Sustained?



Puerto Rico was struggling with a massive debt load even before a pair of hurricanes lashed the U.S. territory in September. U.S. President Donald Trump and First Lady Melania Trump are pictured surveying damage on the island Oct. 3. // Photo: White House.

Q The prices of Puerto Rico's bonds plunged Oct. 4, a day after U.S. President Donald Trump visited the hurricane-hit island and said its debt should be wiped out. The territory has been struggling under a \$73 billion debt load. However, the White House's budget director, Mick Mulvaney, later dialed back expectations, saying the Trump administration is "not going to be offering a bailout for Puerto Rico or for its current bondholders." How has the outlook for Puerto Rico's debt situation changed in the wake of Hurricanes Irma and Maria? What is the extent of the damage that the hurricanes have done to Puerto Rico's economy? Is the U.S. federal government doing enough to help the island recover?

A Rafael Cox Alomar, assistant professor of law at the David A. Clarke School of Law at the University of the District of Columbia: "Hurricane Maria has had an even more devastating effect on Puerto Rico's sagging economy than did the colossal bankruptcy of the island's government. Without a doubt, Puerto Rico's path to economic recovery has been put on hold for the foreseeable future. With estimated damages in the tens of billions of dollars and the breathtaking implosion of the island's most basic infrastructure assets (most alarmingly its electric grid), the road ahead is not easily discernible. Unsurprisingly, Puerto Rico's already downgraded debt has taken an even greater hit. It has now become apparent that the fiscal plan made by Promesa's fiscal control board, premised on increased tax revenues and stringent austerity measures, will not stand. Maria has turned the board's projections upside down. The most pervasive obstacle in the way of

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Pro-Maduro Candidates Claim Victory in Venezuela Vote

Candidates aligned with President Nicolás Maduro won at least 17 of the 23 governorships up for grabs in Venezuela's regional elections. Opposition leaders alleged fraud in the vote.

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NAFTA Can Help Raise Wages in Mexico: Trudeau

The renegotiation of the trade accord offers an opportunity for higher wages in Mexico, Canadian Prime Minister Justin Trudeau said during a visit Friday to Mexico City.

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POLITICAL

Kuczynski Sees Eight-Point Rise in Approval Rating

Peruvian President Pedro Pablo Kuczynski saw a bump in his approval rating as tensions subsided with the country's opposition-led Congress.

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Kuczynski // File Photo: Peruvian Government.

POLITICAL NEWS

Pro-Maduro Candidates Claim Victory in Venezuela

Candidates aligned with Venezuelan President Nicolás Maduro claimed victory in Sunday's regional elections as the country's National Electoral Council announced that candidates supportive of Maduro won at least 17 of the 23 governor's offices up for grabs, the Los Angeles Times reported. The announcement

“The fatherland is stronger. I ask that we celebrate in peace.”

— Nicolás Maduro

was a surprise, following projections that the opposition would win in Venezuela, where Maduro has presided over a country wracked by political and economic crisis and has been denounced internationally by critics who say he is turning the country into a dictatorship. Opposition leaders immediately rejected the electoral council's tally, citing exit polls that indicated opposition candidates won several states. With 96 percent of the votes counted, National Electoral Council President Tibisay Lucena said results were conclusive for 22 states, with results pending only for Bolívar state in Venezuela's southeast. “The results show the democratic mood of Venezuelans,” said Lucena. “Our destiny is decided by elections and this is an overwhelming demonstration of democracy.” Turnout was 61.1 percent, said Lucena. The electoral council said the opposition lost the three governorships that it had held, in the states of Miranda, Lara and Amazonas. However, opposition candidates aligned with the Democratic Unity Roundtable coalition won in the states of Zulia, Mérida, Táchira, Anzoátegui and Nueva Esparta, the electoral council said. Maduro celebrated the results in an appearance on state television. “It's another victory!” Maduro said, the Wall Street Journal reported. “The fatherland is stronger. I ask that

we celebrate in peace.” Opposition members alleged fraud, and the Democratic Unity Roundtable opposition coalition said it would not recognize the results announced Sunday. The coalition said it would determine its next steps in the coming days. “This is a very grave moment for the republic,” said opposition spokesman Gerardo Blyde. Before the election, polls had shown that the opposition could expand its number of governorships from three to as many as 18 if turnout reached 60 percent, The Wall Street Journal reported. Diosdado Cabello, a powerful member of Maduro's United Socialist Party, denied there was fraud in the balloting and said the official results showed that Venezuelans want a future under Chavismo, the movement that was spearheaded by Maduro's mentor and predecessor as president, the late Hugo Chávez.

ECONOMIC NEWS

NAFTA Can Help Raise Wages in Mexico: Trudeau

The renegotiation of the North American Free Trade Agreement, or NAFTA, offers an opportunity to raise wages for Mexican workers, Canadian Prime Minister Justin Trudeau said Friday during a visit to Mexico City, the Associated Press reported. In a speech to the Mexican Senate, Trudeau said support for NAFTA “depends on the fruits of this trade being fairly shared.” He added, “So we must pursue trade agreements that are win, win, win, helping workers across North America achieve better standards, wages and working conditions.” Wages for Mexican workers are a key issue in the NAFTA talks. Auto workers in Mexico, for example, are paid only \$2 per hour compared with \$30 or more per hour for their counterparts in the United States and Canada. Wages are low in Mexico due in part to antiquated labor laws and also to pro-government unions that will often sign contracts without workers' consent, the AP reported. “Mexico doesn't want to be competitive based

NEWS BRIEFS

Peru's Kuczynski Sees Eight-Point Rise in Approval Rating

Peruvian President Pedro Pablo Kuczynski saw his approval rating rise eight points to 30 percent this month after tensions with the opposition-led Congress subsided and the country's soccer team tied Colombia and managed to hold on to the hope of qualifying for the World Cup for the first time since 1982, Reuters reported Sunday. Kuczynski's approval rating had dropped to a low of 22 percent in an Ipsos poll last month, after Congress gave a vote of no-confidence to his cabinet, forcing the president to name new cabinet officials.

Guatemalan Police Announce Capture of MS-13 Gang Leader

Guatemalan police say they captured a leader of the Mara Salvatrucha, or MS-13, street gang early Friday, BBC News reported Saturday. The police said via Twitter that Ángel Gabriel Reyes Marroquín, known as “Blanco,” was arrested in the town of Chimaltenango, 31 miles west of Guatemala City. Reyes Marroquín was reportedly wanted in connection with a shooting at a hospital two months ago. In 2014, he faced charges including murder and was detained at a maximum-security prison, but eventually escaped. He has been connected to the deaths of at least 287 people.

Anadarko May Spend as Much as \$200 Mn on Peru Oil Blocks

U.S.-based Anadarko Petroleum may spend as much as \$200 million on the exploration and development of 4.7 million acres in the Trujillo basin off Peru's coast, the Houston Business Journal reported Friday. The company signed three license deals with the government for exploration across three deepwater oil blocks in Peru, the newspaper reported.

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Puerto Rico's recovery has been the Trump administration's lack of urgency in providing necessary aid to the island's 3.6 million U.S. citizens, who require food, water, shelter and medicine (among many other basic needs) to survive a tragedy of historic proportions. The president has so far only paid lip service. He visited the island on a tour of obvious self-aggrandizement without any meaningful or substantive result for those who are suffering. President Trump should: 1) indefinitely waive the application of the Jones Act to the island. A 10-day waiver is simply not enough, given the scarcity of fuel and supplies today besieging Puerto Rico; 2) extend liquidity to the island's government through the Treasury, bearing in mind that Puerto Rico may very well run out of cash by the end of October (unsurprisingly for a jurisdiction that Congress put into receivership last year); 3) meaningfully insert the island into the White House's proposed tax reform and into the \$1 trillion infrastructure package the administration soon intends to push through Congress; 4) normalize the chaotic state of affairs at Puerto Rico's international airport and 5) create the conditions for the definitive restructuring of Puerto Rico's electric infrastructure. These are all essential pieces of a jigsaw puzzle which only the federal government, given the island's systemic weaknesses, has the wherewithal to effectively address."

A **Steve Malanga, senior fellow at the Manhattan Institute:** "Even under a different president, the impact of damages from Hurricane Maria on already-insolvent Puerto Rico would have added tremendous uncertainty to efforts to restore the territory's finances. But with President Trump pivoting in different directions—on the one hand talking about canceling Puerto Rico's debt, and on the other, saying the federal government's recovery efforts there can't go on forever—it's difficult to predict how the recovery process will work out. One thing

is certain: Republicans in Washington and some Democrats from swing states are not in the mood for a bailout and will work hard to make sure that the disaster relief that the island receives will not look like a bailout. This means that suggestions from Demo-

“ Republicans in Washington and some Democrats from swing states are not in the mood for a bailout.”

— Steve Malanga

crats that Washington provide money for the island's coming 'Medicaid cliff' or for investments in infrastructure that seek to right problems that existed before the disaster will be viewed skeptically. The one wild card is that even before the hurricane, Puerto Rico residents were fleeing the island, and that process has accelerated and is placing a burden on places like Florida, where many territory residents are relocating, prompting the state's leaders to appeal to Washington for help. Expect the bankruptcy judge to continue delaying negotiations on the debt while recovery proceeds, and for the United States to focus on getting the island's tourism economy back in business. Even so, Puerto Rico's already flailing economy may not have enough left in it to support any traditional restructuring, which raises the risks to bondholders."

A **Cate Long, founder of the Puerto Rico Clearinghouse:** "Decades of poor fiscal practices and corruption left Puerto Rico vulnerable to the titanic forces of two hurricanes this year. Public infrastructure spending had declined in prior years, and the island's last bond issuance of \$3.5 billion of debt in 2014 was used to repay internal lines of credit and early refund bonds due between 2020 and 2029. The commonwealth

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on low wages," Mexican President Enrique Peña Nieto said. "Mexico wants to compete on the basis of skilled labor." However, Peña Nieto's administration has not moved to get rid of pro-company contracts that prevent worker-led unions from organizing, and the leaders of labor federations that appear to benefit the company over the worker are often members of the ruling PRI political party, the wire service reported. Trudeau argued that improving standards for workers may be the only way to preserve NAFTA. "Progressive labor standards are how we ensure that a modernized NAFTA will also bolster not just free and fair trade, but will enjoy long-lasting popular support," Trudeau said. In related news, Mexican Central Bank chief Agustín Carstens on Saturday said that the potential dissolution of NAFTA would be negative for Mexico, but only in the short-term, Reuters reported. Carstens said his country is prepared for the worst-case scenario, though he hopes the agreement will prevail.

BUSINESS NEWS

Loma Negra Hopes to Raise \$800 Mn in IPO in Argentina, U.S.

Argentine cement manufacturing company Loma Negra is hoping to raise some \$800 million in an initial public offering in Argentina and the United States, Reuters reported Friday. Loma Negra plans to sell 50 million American Depositary shares, which represent five common domestic shares each, at the suggested price range of between \$15 and \$19, according to a securities filing Thursday with the U.S. Securities and Exchange Commission. Approximately 90 percent of the proceeds from the IPO will go to Intercement Brasil, the country's second-largest cement producer, which owns 99 percent of Loma Negra. The remaining 1 percent will go to Loma Negra's coffers. Camargo Corrêa, the industrial group that owns Intercement, is hoping that the IPO will allow it to cash out from a decade-long investment in the company and will help cut debt.

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has staggered under decrepit hard assets, an unstable tax code, a poor business climate, \$72 billion in bonded debt, public pension plans with zero assets and ongoing migration to the mainland. Following Hurricane Maria, the U.S. House of Representatives approved a \$4.9 billion loan for government operations, and many billions more will likely be given to Puerto Rico to rebuild. Last year, Congress passed Promesa, which provides a framework for Puerto Rico to enact fiscal reform and restructure its debts. The law required consensual negotiations between bondholders and the federally imposed oversight board. The oversight board held two meetings with creditors holding \$50 billion of debt, declared them a failure and then immediately moved to a court-supervised restructuring phase. The federal judge overseeing the court proceedings has scheduled hearings over the next 24 months, and parties will likely appeal the rulings. It is believed that litigation will continue for four to five years. Puerto Rico currently has no bond market access. Following statements by President Trump concerning Puerto Rico's debts and weak infrastructure, Congress is considering different approaches to restructuring the territory's electric system. Partial privatization and conversion to a structure such as the Tennessee Valley Authority are being researched. Depending on recovery prospects, bondholders anticipate slightly larger haircuts than prior to the hurricanes. Puerto Rico, rebuilt entirely with federal funds, could see much stronger economic activity and better capacity to repay bondholders. The picture will be much clearer in three to six months."

A José J. Villamil, chairman of the board of Estudios Técnicos in San Juan: "Uncertainty is what characterizes the situation in Puerto Rico at the moment. This uncertainty pertains to the debt issue and its solution, the scale and nature of assistance from the federal government, the state of the electric power grid and, more than anything

else, what happens once the immediate reconstruction efforts are terminated. Last Friday, a congressional delegation led by House Speaker Paul Ryan visited the island on a fact-finding mission. There have been a number of such missions that have done lit-

“Uncertainty is what characterizes the situation in Puerto Rico at the moment.”

— José J. Villamil

tle more than reconfirm what is known about the situation and the specific and immediate needs. President Trump and Congress have expressed different points of view concerning aid to the island, with the White House making it abundantly clear that no bailout is forthcoming with respect to the island's debt. Procedures concerning the public debt are ongoing under Title III of Promesa. The outcome is uncertain. Damages to the island have been estimated at \$20 billion, \$55 billion and \$90 billion. Each estimate is based on different assumptions and coverage. The \$20 billion estimate covers immediate physical damages to infrastructure, housing and other structures. The others include reconstruction expenses over a number of years and foregone income. The \$20 billion estimate is roughly three times FEMA's estimate for Hurricane Georges in 1998, when damages were estimated at \$5.7 billion in 2016 dollars. After the initial reconstruction of infrastructure is completed and the power grid is operational, which may take months, Puerto Rico will need to reconstruct its economy and, more importantly, its government institutions, which are now in disarray, notwithstanding Governor Rosselló's very competent handling of the recovery efforts."

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