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FEATURED Q&A

Are Argentina's Investment Plans Paying Off?



President Mauricio Macri has sought to boost investment in Argentina. // File Photo: Argentine Government.

Q German automaker Volkswagen is planning to invest \$650 million in Argentina, where it will manufacture a new sport-utility vehicle at its existing plant terminal in Pacheco, the company said in a statement this month. Meanwhile, Argentine newspaper El Cronista has reported that Coca-Cola is considering withdrawing part of a \$1 billion investment in Argentina over a government proposal that would raise taxes on soft drinks. Is the government making good on its promise to make Argentina more business friendly? Why are some companies increasing investment while others are mulling divestment? How has the country's landscape changed for international business investment since the Kirchner era?

A Andrés Asiain, director of the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires: "Until a few years ago, the prevailing view in the business world was that populism was discouraging investment in Argentina. In that way, the victory of a 'market-friendly' government was hoped to generate a 'flood of investment.' In search of that flood, the Macri government hastened to carry out a series of pro-market reforms, releasing exchange controls so that companies could send their profits abroad, paying the vulture funds in order to reopen the credit markets and pursuing a foreign policy that repairs relations with developed countries and their corporations. However, investment contracted by 5 percent in the first year of Macri's government. Given the weak investment in the private sector and the urgency of the legislative elections, the government changed its script

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TODAY'S NEWS

ECONOMIC

Mexico's Economy Contracts Amid Natural Disasters

Mexico, which was hit in by disasters including two powerful earthquakes in September, saw its economy contract a seasonally adjusted 0.3 percent in the third quarter as compared to the second quarter.

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BUSINESS

Quevedo Named as New President of PDVSA

Venezuelan President Nicolás Maduro tapped Manuel Quevedo, a military general who is currently serving as housing minister, as the next head of state oil company PDVSA.

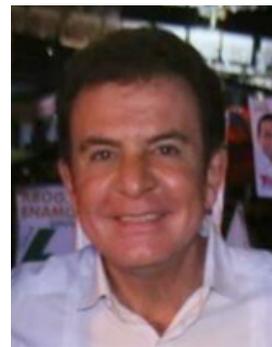
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POLITICAL

Nasralla Leads Hernández in Honduras Race

Leftist challenger Salvador Nasralla has taken an early lead against incumbent Juan Orlando Hernández in Honduras' presidential race. Both candidates claimed victory Sunday night.

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Nasralla // File Photo: Nasralla Campaign.

POLITICAL NEWS

Nasralla Leads Hernández in Honduras Vote

Early results from Honduras' presidential election on Sunday showed leftist Salvador Nasralla with an early lead against President Juan Orlando Hernández, who is seeking a second term, the Associated Press reported today. With 57 percent of ballots counted, Nasralla was leading with 45.7 percent of the vote, as compared to Hernández's 40.2 percent, according to David Matamoros of Honduras' electoral court. Both Nasralla and Hernández claimed victory on Sunday night. "I am the new president-elect of Honduras," Nasralla said in a tweet after the partial results were announced, Reuters reported. However, Hernández told supporters before election officials announced the partial results that he was certain he would be the winner, and his backers chanted, "Four more years!" BBC News reported. Turnout appeared to be heavy across the Central

American country, and only minor irregularities were reported, according to the AP. Nasralla, a former television game show host and sportscaster, has benefited from the perception that he is an outsider and not corrupt, while Hernández has sought more power in exchange for heightened security, The New York Times reported. With tens of millions of dollars in aid from the United States, Hernández has extradited a dozen alleged drug traffickers to the United States and has broken up several drug cartels.

ECONOMIC NEWS

Mexico's Economy Contracts Amid Natural Disasters

Mexico's economy contracted in the third quarter as compared to the second amid a series of natural disasters, The Wall Street Journal reported Friday. Gross domestic product declined a seasonally adjusted 0.3 percent in

NEWS BRIEFS

Argentine Navy Not Giving Up Hope in Search for Missing Submarine

Argentina's navy said Sunday that it has not given up hope in the search for a submarine that went missing nearly two weeks ago, the Associated Press reported. The ARA San Juan was last heard from on Nov. 15. Navy spokesman Enrique Balbi said that "a situation of extreme survival" was still possible. Last week, families of the 44 crew members were informed that an explosion had been detected near the sub's last-known position.

Mexico's Finance Minister Expected to Step Down for Presidential Run

Mexico's finance minister, José Antonio Meade, will quit his job in the cabinet of President Enrique Peña Nieto in order to run for the presidency next July as the candidate of the ruling PRI, Reuters reported Sunday, citing unnamed sources in the government. A public announcement is expected later this morning. José Antonio González Anaya, the chief executive of state oil company Pemex, is likely to replace Meade in the ministry, the Financial Times reported. Meade's name had also been floated as a potential head of the central bank.

Brazil's Oi Taps Teles Neto as Acting Chief Executive

Brazilian telephone service provider Oi, which is undergoing Latin America's largest-ever bankruptcy case, has appointed Eurico de Jesus Teles Neto as acting chief executive after Marco Schroeder resigned from the post on Friday, Reuters reported. In a securities filing, Oi said Teles Neto will also serve as legal director until the board chooses a permanent replacement. Teles Neto has been Oi's chief legal officer since May 2016 and a member of the board of executive officers since 2012, according to Bloomberg News.

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and promoted public works as a catalyst for investment, leveraging international credit. In this way, investment was able to recover ground that was lost during Macri's first year in office. For next year, the government is hoping to reduce the state's active role in investments, returning to the idea of a 'flood of investment.' This time, the bait to attract investors is composed of public-private participation, which was presented to Congress along with next year's budget. It grants a series of guarantees in terms of profitability to private companies that finance certain projects. Outside of this framework, productive investment is discouraged by the strong profitability of investments in central bank securities, known as LEBACs, which reach more than 20 percent per year in hard currency, which is difficult to obtain in the real economy."

A **Thomas Andrew O'Keefe, president of Mercosur Consulting Group:** "Volkswagen's announcement is not only an endorsement of the Macri administration's efforts to move Argentina away from the anti-business policies of the Kirchner era, but also a vote of confidence in a revitalized Mercosur free-trade area. After all, automobile manufacturers within Mercosur have other options from whence to supply the Southern Cone markets, and Brazil has been the default location since the late 1990s. Coca-Cola's threat, however, is meaningless. Raising taxes on soft drinks is a growing international public health practice. Like other civilized countries, all the Southern Cone nations have national health care systems that incur huge costs in treating the ill effects of mass consumption of sugary drinks, including

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the third quarter, as compared to the preceding three-month period, while it was up 1.5 percent unadjusted as compared to the third quarter of last year, according to the National Statistics Institute. Industrial production declined 0.6 percent as compared to the second quarter, while services declined 0.1 percent and agricultural production increased 0.5 percent. Two major earthquakes struck Mexico in September, leaving at least 471 people dead. One quake forced state oil company Pemex to temporarily close its largest refinery.

BUSINESS NEWS

Quevedo Named as New Head of PDVSA

President Nicolás Maduro on Sunday named Manuel Quevedo, a major general in Venezuela's military who is currently serving as the country's housing minister, to be the next president of state oil company *Petróleos de Venezuela*, or PDVSA, as well as the new oil minister, *El Universal* reported. He replaces Nelson Martínez and Eulogio Del Pino in the two positions, respectively. "Quevedo is a professional widely qualified to take on the job," Maduro said. However, critics of the administration were quick to point out that



Quevedo // File Photo: Venezuelan Government.

Quevedo has little direct experience in the oil industry. "The military has achieved its aim of controlling PDVSA. The forecast is somber," Francisco Monaldi, a fellow in Latin American energy policy at the Baker Institute in Houston, told Reuters. PDVSA has not had an active military official at its helm since 2002, when General Gueaicaipuro Lameda finished his two-year

THE DIALOGUE CONTINUES

Can Venezuela Restructure its Debts?

Q President Nicolás Maduro this month called for a restructuring of Venezuela's massive debt, estimated at \$120 billion.

The announcement led to a selloff in the country's bonds and was seen as a sign that Maduro's government may finally be reaching the limits of its ability to pay its debts. Russia later agreed to a \$3.5 billion debt restructuring with Venezuela. How much success will Maduro have in restructuring Venezuela's debt, and could such a move lead Venezuela to emerge from its economic crisis? Will support from foreign governments be enough for Venezuela to stave off default? What effect are U.S. economic sanctions having on Venezuela, and how would the sanctions inhibit a potential debt restructuring? What would a restructuring attempt mean for Maduro and his hold on power?

A Riordan Roett, director of the Latin American Studies program at the Johns Hopkins University's School of Advanced

International Studies: "There are two actors at play in Venezuela's debt crisis. The first is the sovereign, the government of Nicolás Maduro. Ratings agencies have declared the government in default on several of its international bonds, which amount to more than \$60 billion. The government is also overdue on \$420 million of further interest payments on other sovereign bonds, as well as payments on debt issued by PDVSA. Russia has offered Venezuela a deal to restructure \$3.15 billion of sovereign debt. Is this a per-

manent answer to the government's dilemma or a short-term fix? Probably the latter. The second actor is PDVSA. Rosneft has loaned PDVSA about \$6 billion in payments guaranteed by oil supplies and a 49.9 percent stake in Citgo. Given high interest rates, PDVSA bonds have been a favorite of foreign investors because the company is seen as the country's cash cow, with a steady stream of foreign exchange earnings and a wealth of overseas assets. But as the Venezuelan economy continues to deteriorate, the risks of owning these bonds have grown significantly. The country's foreign-exchange reserves have fallen below \$10 billion. Maduro's call for a general restructuring has not proven to be popular with bondholders. The Nov. 13 meeting in Caracas between the government and bondholders, which lasted for 30 minutes, provided no strategy to move forward. And any bond restructuring would require the issuance of fresh debt for the old bonds. But the new debt would only be recognized internationally as legal if the opposition-dominated National Assembly approves it. That is not going to happen. Maduro is stuck. PDVSA bonds are no longer a safe option. The sovereign has no other income than from PDVSA. E.U. and U.S. sanctions will continue to constrict the country's freedom of movement. There is no happy ending to this tragedy."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Nov. 22 issue of the Advisor.

tenure as head of the company. Oil production has fallen to near 30-year lows in Venezuela, which depends on oil for more than 90 percent of its exports. In announcing the shakeup at PDVSA, Maduro said corruption would be routed from the industry. Last week, the U.S. State Department asked the Maduro government for

access to five Venezuelan-American executives of U.S.-based refiner Citgo who were detained in Caracas on corruption charges. Around 50 managers at PDVSA have been arrested since August on corruption charges, Reuters reported. [Editor's note: See Q&A on PDVSA's debt in the Nov. 24 issue of the Energy Advisor.]

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childhood obesity and diabetes. Accordingly, health cost savings for these governments far outweigh any lost investment opportunity from Coca-Cola. Furthermore, the reality of bottling logistics makes it prohibitively expensive to supply the Argentine market from outside the Southern Cone."

A **Lin Hua, general secretary of the Center of Argentine Studies of the Institute of Latin American Studies at the Chinese**

Academy of Social Sciences: "The Macri administration tried to improve the domestic investment environment by reducing government intervention and resolving debt disputes with holdout creditors. Since Macri took office two years ago, Argentina's economic landscape has undergone significant changes. The cancellation of restrictions on the repatriation of foreign investment profits, the stabilization of exchange rates, the increase of foreign reserves, the decline of inflation and the sovereign's exit from default are favorable for attracting foreign investment. Meanwhile, the risk of nationalizations in the private sector no longer exists. However, in 2016, the Argentine economy still could not get rid of stagflation, so the severe macroeconomic situation did not help boost foreign investment. As a result, FDI inflows in the first year of Macri's administration failed to achieve the desired goals because investors were still worried about the uncertainty of the Argentine economy. In the first half of 2017, investor confidence has been recovering. But, for now, Argentina lacks attractiveness for foreign investors. Therefore, in order to make Argentina more business friendly, the government's primary task is to carry out macroeconomic adjustments through reducing inflation and fiscal deficits, so as to boost purchasing power, achieve sustained economic growth and create a stable domestic economic environment. Macri's victory in the midterm parliamentary

elections has reinforced his determination to push the reforms. The government hopes that the tax reform will play a role not only in improving the financial system, but also in attracting investment, encouraging competition and creating employment opportunities. However, in the short term, the impact of tax-rate adjustments on every industry will be different. Some enterprises have decided to reduce investments, while others will increase them."

A **Javier Tizado, owner of Tubos Trans Electric and former Argentine secretary of state for industry, commerce and investment:**

"The country has undergone a drastic change. Argentina has returned to the international markets after the settlement of its debt in default. The central bank has regained its independence, and we have a free market to exchange foreign currencies. Movement of capital has no restrictions. Also, economic performance has improved, with GDP expected to grow 3 percent this year and 3.3 percent next year, driven by strong investment and recovering consumption. Inflation is descending, as the central bank's target for 2018 is 12 percent. After winning strong support in the mid-term elections, the government has launched a set of reforms in order to gain economic competitiveness. The tax reform reduces the tax burden by 1.5 percent of GDP over a five-year period. Corporate taxes will drop from 35 percent to 25 percent. Other taxes that increase the cost of transactions will be gradually eliminated. The pension reform provides 1 percent of GDP in fiscal savings, and 0.5 percent of GDP will be obtained through efficiencies and growth spurred by the reform."

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