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FEATURED Q&A

Will Latin America's Economies Perform Well Next Year?



Among the region's biggest economic stories in the past year was the beginning of Brazil's emergence from its deep recession. The country's central bank, led by Ilan Goldfajn, on Thursday forecast economic growth of 2.6 percent in 2018. // File Photo: Brazilian Government.

Q Over the past year, major economic developments in Latin America included the beginning of Brazil's emergence from its worst recession ever, economic growth in Mexico despite two major earthquakes and uncertainty surrounding the future of NAFTA, and an imploding Venezuelan economy that has suffered quadruple-digit inflation and shortages of numerous basic goods, including food and medicine. What level of economic growth will Latin America and the Caribbean reach in 2018? Which countries will be the bright spots, and which will struggle? Which outside forces will most affect the region's economies in the coming year?

A Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean: "Global economic growth will remain strong in 2018 at around 3 percent, and international trade is picking up. This bolsters commodity prices, which will stay at relatively high levels. At the same time, the conditions of access to international financial markets will be relatively favorable, in spite of beginning normalization of monetary policies, as interest rates will remain relatively low, and country risks for most Latin American economies have decreased. All these elements comprise a rather favorable external scenario for Latin America and will have a positive impact on the region's economic growth in 2018. Specifically, exports will continue to make a positive contribution to growth, as will private consumption, based on moderately growing real wages, stronger job creation and, in a number of countries, remittances. Also, for the first time

Continued on page 2

TODAY'S NEWS

POLITICAL

Mexico's Peña Nieto OKs Military Policing Law

Mexican President Enrique Peña Nieto enacted a controversial law to give the country's military a legal framework to operate as a police force to help fight drug cartels.

Page 2

BUSINESS

Boeing in Talks to Acquire Embraer

Boeing is in talks over a potential multibillion-dollar deal to take over Brazil's Embraer. Such a transaction would be Boeing's largest since it took over McDonnell Douglas two decades ago.

Page 3

POLITICAL

Peru's President Survives Vote to Oust Him

Peruvian President Pedro Pablo Kuczynski's opponents fell short of the two-thirds majority that would have been needed to remove him from office over corruption allegations. The vote Thursday night came after 12 hours of debate.

Page 2



Kuczynski // File Photo: Peruvian Government.

POLITICAL NEWS

Peru's Kuczynski Survives Vote to Oust Him From Office

Peruvian President Pedro Pablo Kuczynski on Thursday night survived an impeachment vote, as lawmakers rejected an effort to remove him from office over corruption allegations involving Brazilian construction firm Odebrecht. Following 12 hours of heated debate and a plea by Kuczynski to remain in office, the president's opponents fell short of the two-thirds majority needed to oust him, The New York Times reported. Eighty-seven votes in the 130-member Congress would have been needed to remove Kuczynski from office. The final vote in favor of his removal was 78-19, with the remainder abstaining or not present. Before the vote, Kuczynski apologized in a speech to Congress for not more clearly explaining his business ties with Odebrecht, but he denied being involved in corruption. "My apologies with clarity of mind and grief in my heart if I didn't explain my professional conduct," said Kuczynski, The Wall Street Journal reported. "I'm an honest man that has never received a

bribe." Lawmakers last week opened impeachment proceedings following revelations that Kuczynski's Miami-based consulting business, Westfield Capital, received \$780,000 in payments from Odebrecht between 2004 and 2007 when Kuczynski was finance minister and then prime minister. Kuczynski has said that he was not involved in running Westfield while he was serving in government and that a business partner, who has said the deals with Odebrecht were legal, had signed the contracts with the construction company. Odebrecht last year admitted to paying nearly \$800 million in bribes in several countries in order to secure contracts. Included were \$29 million in bribes that it paid in Peru between 2005 and 2014.

Mexican Authorities Arrest Former PRI Official in Graft Case

Mexican authorities on Wednesday arrested Alejandro Gutiérrez, the former adjunct secretary to the presidency of the ruling PRI party, on charges that he allegedly participated in a scheme to divert public funds meant for educational programs in 2016, Reuters reported. Gutiérrez's arrest is the most recent in a string

NEWS BRIEFS

Mexico's President Signs Controversial Military Policing Law

Mexican President Enrique Peña Nieto on Thursday signed a controversial bill to give the military a legal framework to operate as a police force on Mexican soil to help fight powerful drug cartels, The Washington Post reported. Traditional police forces have been unable to curb drug-related violence in the country. The new law, which Congress approved last week, takes effect today. Human rights groups have protested the legislation, saying it does not provide sufficient human rights guarantees. The new law also does not provide incentives to improve the police force, critics argue.

Castro to Remain Cuba's President Until April

Cuban President Raúl Castro is to remain in office until April 19, the government announced Thursday, The Washington Post reported. Castro had previously announced that he would step down in February when a new National Assembly is elected. The assembly cited complications related to the destruction caused by Hurricane Irma. However, some analysts have suggested that the government is buying time to build consensus over the country's path.

Argentine Low-Cost Airlines to Begin New International Flights

Argentina-based low-cost airlines are eyeing more international flights to capitals throughout Latin America next year as part of their investment plans, executives from three companies said, Reuters reported Thursday. The change follows the opening of Argentina's once-restricted skies. Avianca Argentina, the local unit of Avianca Holdings, Flybondi and Andes plan to introduce flights to Brazil, Chile, Paraguay, Peru and Uruguay beginning next year.

FEATURED Q&A / Continued from page 1

since 2013, investment, specifically gross fixed capital formation, will add to economic growth. Thus, for Latin America as a whole, ECLAC projects a growth rate of 2.2 percent (after 1.3 percent in 2017), which represents a clear improvement in comparison to previous years. However, it is insufficiently vigorous in view of the needs identified by the Agenda 2030 and the Sustainable Development Goals. Central America (together with Cuba, the Dominican Republic and Haiti, +3.6 percent) and Mexico (+2.4 percent) will grow slightly stronger than South America (+2 percent). Among individual countries, Panama, the Dominican Republic and Nicaragua are projected to grow with the highest rates, of 5 percent or more."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Latin America will head into a second year of recovery in 2018, after two years of recession. The driver of the recovery will be the positive performance of net exports due to competitive exchange rates and commodity prices, accompanied by increasing investment attracted by structural reforms. In 2018, the region will continue to benefit from the global recovery in terms of demand and commodity prices. Even though there is a good probability of continuation of NAFTA, trade between the United States and Mexico could yet be subject to some restrictions. Trade in the rest of the region will continue to advance,

Continued on page 4

of high-profile arrests as part of a corruption investigation in Chihuahua State that has already ensnared four former governors who are members of the PRI. The Chihuahua State prosecutor's office alleged Gutiérrez diverted some 250 million pesos, or \$13 million, last year. Earlier this week, Gutiérrez rejected allegations against him in an interview with Mexican newspaper Vanguardia. Also this week, Mexican newspaper Reforma published reports of an alleged corruption scheme in Chihuahua State to funnel money into the PRI's campaign fund through fake contracts for workshops for parents and expensive software. Gutiérrez's arrest contributes to the "clearing up of the crimes of political corruption that have been attributed to the former governor, César Duarte Jáquez," said Chihuahua Governor Javier Corral, a member of the National Action Party, or PAN. He added that the government is determining whether others should be held responsible for their involvement in funneling money into the PRI campaign fund last year. A spokesman for the PRI did not respond to a request for comment by Reuters.

ECONOMIC NEWS

Mexico's Annual Inflation Rate Rises

Mexico's annual inflation rate rose slightly in the first half of December, keeping pressure on the country's central bank to keep interest rates at elevated levels, Reuters reported Thursday. The national statistics agency said annual inflation rose to 6.69 percent, up slightly from 6.63 percent in November. The December figure was slightly higher than analysts had expected. The central bank last week raised its benchmark interest rate by 25 basis points to 7.25 percent, its highest level in almost nine years.

SUBSCRIBER NOTICE

In observance of the Christmas and New Year's holidays, the Latin America Advisor will next be published on Jan. 2, 2018. We wish our readers a happy holiday season and a prosperous new year.

BUSINESS NEWS

Boeing in Talks to Acquire Brazil's Embraer

Boeing is in talks to acquire Brazilian aircraft maker Embraer, a move that would give the U.S. aircraft maker control of the largest producer of regional jets that serve smaller airline routes, The Wall Street Journal reported Thursday. The "potential combination" would also give the Chicago-based aerospace giant access to Embraer's engineering workforce. The move is the latest in a competition between Boeing and European aircraft producer Airbus, which announced in October it would be acquiring a majority stake of a jetliner program run by Canada's Bombardier, the second-largest maker of regional jets. Boeing and Embraer confirmed the talks on Thursday. They have reportedly been discussing a deal that would give Embraer a relatively large premium. The

Brazilian aircraft maker had a market value of \$3.7 billion before its value jumped by more than 20 percent on the news of talks with Boeing. The two carriers are waiting for approval from the Brazilian government that would allow them to move forward with the takeover, people

Brazil's government would have to approve any acquisition of Embraer.

with knowledge of the matter said. The government has a so-called golden share in Embraer that allows it to veto such decisions. In order to help persuade the Brazilian government to sign off on the deal, Boeing has said it is willing to help protect Embraer's brand, management and jobs, one of the people with knowledge of the matter said. Embraer rejected an offer for a similar deal with Boeing twice before, more than a decade ago, Reuters reported.

JOB POSTINGS

EDITOR'S NOTE: We are pleased to share Latin America-related job postings that readers of the Advisor and others have posted recently.

BlackRock: Latin America Communications Manager (Vice President), New York

Gilead Sciences: Vice President, Intellectual Property, San Francisco

Facebook: Policy Communications Manager, Latin America, São Paulo

Hilton: Regional Director, Central America and Caribbean, Miami

Alexion: Executive Director and International Counsel, Latin America, Boston

Medtronic: Senior Internal Communications Program Manager, Americas Region, Minneapolis

ASICS: President, Latin America, São Paulo

IPG Mediabrands: Regional Growth Director, Latin America, Mexico City

Amazon Web Services: Regional Development Manager, Austin

FEATURED Q&A / Continued from page 2

since Asia continues to be the main market for most South American countries. Next year's recovery will be more balanced, with South America advancing at average rates similar to Mexico and Central America. The region will post growth around 2.2 percent in 2018, after 1.2 percent in 2017. In the south, the leading countries will be Argentina, followed by Peru, Colombia, Uruguay, Chile and Brazil. Mexico will advance further, particularly because of the expansionary effects of the political cycle and benefits of the ongoing reforms. Venezuela will be the only country in the region facing recession for a fifth consecutive year. On the economic front, a potential medium-term risk for the region could come from the global economy, either in terms of a weakening recovery that would affect demand and commodity prices, or geopolitical issues that increase risk aversion and financial turbulence. On domestic politics, even though the arrival of leftist governments is not a major threat—except to some extent in Mexico—some countries will hold elections, which could cause some turbulence: Colombia in May, Mexico in July, as well as Brazil and Venezuela in October. "

A **Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York:** "Latin America's macroeconomic backdrop strengthened gradually, but steadily, throughout 2017, and is expected to improve further in 2018. We expect the cyclical demand recovery to firm and broaden next year, supported by accommodative domestic financial conditions and strengthening confidence indicators. Inflation is forecast to moderate further, and the cross-country dispersion of inflation outcomes to narrow. Overall, we forecast real GDP growth (excluding Venezuela) to accelerate from 1.8 percent in 2017 to 2.7 percent in 2018, the highest growth rate since 2011. We forecast above-trend growth in Argentina and Brazil, the return to trend-like growth in Chile and Peru, but still subpar,

below-trend growth in Colombia and Mexico. Venezuela is expected to remain trapped in a recessionary hyperinflation spiral, with real GDP forecast to decline for the fifth year in a row: we project that by year-end 2018 real GDP will have contracted by an astonishing

“**Latin America's macroeconomic backdrop strengthened gradually, but steadily, throughout 2017...**”

— Alberto Ramos

34 percent from 2014. Venezuela is experiencing one of the worst economic downfalls in modern Latin American history, with the contraction of real GDP exceeding that of the United States during the Great Depression. The forecast improvement in the macro outlook is far from assured. It is contingent on the implementation of disciplined investment-friendly macro policies. It is also contingent on keeping policy and political uncertainty relatively contained in a year packed with presidential and legislative elections in several of the largest regional economies. The external backdrop is expected to remain supportive, given the forecast solid above-trend global growth, firmer terms of trade (particularly for industrial metal exporters, less so for energy and agricultural exporters) and, in general, still abundant global liquidity. The main stylized external risks to our macro outlook are: 1) sharp deceleration of capital inflows (or outright portfolio outflows) triggered by faster-than-expected tightening of G3 monetary conditions, and/or renewed bouts of volatility in international financial markets that could dampen sentiment toward emerging markets; 2) downward corrections in commodity prices; 3) sharper- and bumpier-than-expected growth deceleration and/or potentially disorderly foreign exchange policy moves in China, and; 4) rising protectionism, which could hamper trade and investment flows into the region.”

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

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