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FEATURED Q&A

What Is Holding Back Caribbean Economic Growth?



Among the factors for lagging economic growth in the Caribbean are the hurricanes that have struck the region, Andrea M. Ewart says below. Damage caused in Road Town, in the British Virgin Islands, is pictured above. // Photo: U.K. Department for International Development.

Q Since 2000, real GDP growth of economies in the Caribbean has been half that of other emerging markets and developing economies, and their growth has been two-thirds that of non-Caribbean small states, according to data from the International Monetary Fund. What has been holding back the growth of Caribbean economies so far this century? What conditions should be fostered to help boost growth in the region? Which sectors hold the most promise for growth in the Caribbean, and which will most likely lag behind?

A Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean: "The Caribbean Community (Caricom) member states have attained per capita income levels that allow them to be considered as middle-income, upper middle-income and high-income states, the exception being Haiti. The Caribbean has not managed to keep pace with other developing countries, including other Small Island Developing States (SIDS), in terms of growth performance. Since 2010, annual growth in the region has averaged only 0.8 percent, while in other small states growth has been 4.7 percent. The economies of Caribbean SIDS contracted on average by 1.8 percent in 2016. The weak performance is related to a great extent to the absence of structural transformation of the productive structure and of diversification of the Caribbean economies. This is reflected in the lack of competitiveness and persistent external imbalances and fiscal disequilibria. In particular, some of the economies of the region face debt burdens that are among the highest in the world, relative

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TODAY'S NEWS

POLITICAL

E.U. Imposes Sanctions Against Top Venezuelan Officials

The sanctioned individuals include ruling party head, Diosdado Cabello, Attorney General Tarek William Saab and Interior Minister Néstor Reverol.

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ECONOMIC

Remaining TPP Countries Reach Deal

Negotiators from the 11 remaining Trans-Pacific Partnership countries resolved the final sticking points, a year following the U.S. withdrawal from the talks,

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BUSINESS

Puerto Rico to Privatize Power Utility: Governor

The U.S. commonwealth will privatize the Puerto Rico Electric Power Utility, or PREPA, said Governor Ricardo Rosselló. Hurricane Maria in September left much of the island's power infrastructure destroyed.

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Rosselló // File Photo: Commonwealth of Puerto Rico.

POLITICAL NEWS

E.U. Levels Sanctions Against Seven Top Venezuelan Officials

The European Union on Monday imposed economic and travel sanctions against seven top officials of Venezuela's government, accusing them of human rights abuses or breaching the rule of law in the country, the Associated Press reported. In a statement, the European Union said it was leveling the sanctions "as the political, social and economic situation in Venezuela continues to deteriorate." The sanctions include Diosdado Cabello, who heads Venezuela's ruling socialist party and is seen as the country's second-most powerful leader, after President Nicolás Maduro. The E.U. sanctions list also includes Venezuelan Attorney General Tarek William Saab, Interior Minister Néstor Reverol, Supreme Court President Maikel José Moreno, National Guard Commander Antonio José Benavides, elections commission head Tibisay Lucena and national intelligence agency director Gustavo Enrique González. The sanctioned individuals "are involved in the non-respect of democratic principles or the rule of law as well as in the violation of human rights," the European Union said, adding that they will be banned from traveling in Europe and will have any assets they have in Europe frozen. On Venezuelan state television, the government's communications minister, Jorge Rodríguez, blasted the sanctions as being imposed by the "elite" and said the sanctions target Venezuelan "patriots." He added, "Venezuelan democracy is solid. There's no country that exercises it as fully as Venezuela." Venezuela's government also accused the European Union of imposing the sanctions in subordination to the United States. "Today the European Union has again shown irrefutable evidence of its notable subordination to the racist government of [U.S. President] Donald Trump," Venezuela's Foreign Ministry said in a statement, the Voice of America reported. "These decisions show an interventionist and erroneous policy toward our country and are reminiscent of the colonial

maneuvers of outdated empires." European foreign ministers approved the sanctions on Monday during a meeting in Brussels, the Financial Times reported. The European Union also imposed an arms embargo against Venezuela's government in November and also implemented a ban on the sale of equipment that could be used for internal repression. The sanctions follow Venezuelan government crackdowns on its opponents. Human rights groups have claimed that state security forces have electrocuted, asphyxiated and sexually abused prisoners. Last month, Maduro threatened to ban some opposition parties from fielding candidates in this year's planned presidential election. The U.S. government has also previously sanctioned 51 Venezuelan officials, including four current and former officers of the country's military, the AP reported.

ECONOMIC NEWS

Peru's Congress OKs Road Construction in Remote Amazon Area

Peru's Congress on Monday passed legislation that will allow roads to be built in the most remote region of the country's Amazon rainforest, The Guardian reported. The move was announced in the country's official gazette hours after Pope Francis ended his trip to the country, during which time he had advocated for the rights of the rainforest and the indigenous groups living within it. The law declares the construction of the roads in border zones to be of "national priority and interest." "These projects don't benefit indigenous people. This is an area with isolated people who are extremely vulnerable," said Lizardo Caupter, the head of Peru's federation of native Amazon peoples, or Aidesep. "Roads bring outsiders who traffic our land, log our timber, as well as drug traffickers and illegal miners," Caupter said. The Peru director for the Environmental Investigation Agency, Julia Urrunaga, said some 95 percent of deforestation takes place less than four miles from a road.

NEWS BRIEFS

Remaining TPP Countries Agree on Deal, Signing Planned for March

Representatives from 11 Pacific Rim nations agreed today on a deal for the Trans-Pacific Partnership and plan to sign the deal in Chile March 8, The Wall Street Journal reported. The agreement by negotiators meeting in Tokyo came exactly a year after President Donald Trump pulled the United States out of the talks. In addition to Chile, the Western Hemisphere countries involved in the deal are Canada, Mexico and Peru.

Brazil Braces for Ruling in Lula Corruption Case

An appeals court in Brazil is set to rule Wednesday on an appeal by the country's most popular leader, former President Luiz Inácio Lula da Silva, who was convicted last July of Lula corruption and money laundering on charges of accepting a beach penthouse apartment from engineering firm OAS in exchange for helping the company secure government contracts. If the three-judge panel upholds the conviction, which includes a nine year and six month-long prison sentence, Lula would be unable to run in the country's Oct. 7 presidential election.

Number of Yellow Fever Cases in Brazil Has Tripled in Recent Weeks

Brazil has had 35 confirmed human cases of yellow fever from July 1 through Jan. 14, the World Health Organization said Monday. During that time, 20 people have died from the virus, and 145 additional cases are under investigation. The number of cases in Brazil has tripled in recent weeks, with the majority of the cases being found in São Paulo State and Minas Gerais State. On Jan. 11, the Netherlands confirmed a case of yellow fever in a returning traveler who had visited São Paulo State.

BUSINESS NEWS

FEATURED Q&A / Continued from page 1

Puerto Rico to Privatize Power Utility: Governor

Ricardo Rosselló, the governor of Puerto Rico, on Monday announced the island would privatize its public power utility, the Puerto Rico Electric Power Authority, or PREPA, CNBC reported. The announcement came two days before the bankrupt utility is scheduled to submit a revised fiscal plan following the damage caused by Hurricane Maria in September. The hurricane had left much of Puerto Rico's electricity grid destroyed, and after more than 100 days of repair efforts, some residents are still

The privatization process is expected to take 18 months, said Rosselló.

living without power. "The Puerto Rico Electric Power Authority (PREPA) has become a heavy burden on our people, who are now hostage to its poor service and high cost," Rosselló said. He said he expects the privatization process to take about 18 months, the Financial Times reported. The first phase of the three-phase process will define the legal framework through legislation, and then will open PREPA to interested buyers. Offers from companies would then be made, and in the final phase, the terms of awarding and hiring the selected companies would be negotiated, Rosselló said, CNBC reported. Some analysts say the governor's plan overlooks crucial details, and that the government could hit snags with the utility's bondholders and municipal bond insurers, adding that creditors would have to agree with the privatization so that it could exit the Title III debt restructuring plan. "While Puerto Rico may attempt such an end-around maneuver, we doubt that it would pass muster with the courts," said Mark Palmer, an analyst at BTIG. PREPA has some \$9 billion in outstanding debt.

to the size of their economies. This severely restrains the capacity of governments to pursue sustainable development goals. When the management of a debt burden becomes the overriding focus of economic policy and institutions, it is likely that policy and institutional priorities become divorced from their roles in the longer-term development of real sector activity. In terms of human capital, the region has not made the required efforts to improve the skill levels of the population, enhance educational standards and close the mismatch between the output of the region's educational system and the requirements of the labor market. The region is also characterized by having one of the world's highest levels of migration of tertiary-educated and skilled people and an aging population that negatively affects their productivity."

A **Anthony Payne, professorial fellow at the Sheffield Political Economy Research Institute at the University of Sheffield:**

"The core economic problem for most small Caribbean economies (and most are very small) is that, despite many years of political independence, they have not escaped the deep continuing ties of economic dependence. Apart from Trinidad and Tobago, which possesses considerable resources of oil and gas, none have developed an autonomous engine of economic growth, capable of moving their economies forward regardless of the condition of the bigger economies on which they rely for demand for their products and services. In fact, many of the islands are now more narrowly dependent than they were 40 or 50 years ago, when commodities like sugar and bananas still provided an adequate living for many of their peoples. Several of the islands have, in fact, become monocrop economies, with that crop being tourism, a business that is singularly dependent on the condition of the economies of the rich world in North America and Europe. Yet, typically in this

sector, many of the bigger hotels are foreign-owned and repatriate their profits, while the many cruise ships that now dominate the tourism sector in the Caribbean stay in

“Several of the islands have in fact become monocrop economies, with that crop being tourism...”

— Anthony Payne

port only briefly, with their passengers doing little more for the island economies than providing work for some taxi drivers and shop-owners. Nevertheless, tourism remains one of the few key economic opportunities available to these small islands, and it is vital in the next phase that more locally based and sustainable forms of tourism are at last developed."

A **Daniel Erikson, managing director at Blue Star Strategies:** "The Caribbean is a beautiful and culturally rich region of the world, but it is also a tough place to manage an economy, particularly with the goal of achieving sustained growth. The challenges are many. They include relatively few commodities for export, vulnerability to natural disasters, high labor costs, debt and an excessive reliance on imports for fuel, food, textiles and electronics. Add to that the fact that the Caribbean's traditional partners such as the United States, Canada and the European Union are not particularly benevolent in their trade practices vis-à-vis these mainly small islands (while China and India have used massive economies of scale to dominate certain manufacturing and service sectors), and one can see why Caribbean economy ministers and central bankers tend to be a fairly sober-minded lot. Of course, there are exceptions: Trinidad and Tobago

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has had a good run based on its natural gas exports, and Guyana's recent oil discoveries may place it next in line. The Dominican Republic's growth rate has zigged and zagged over the years, but the good times have been very good indeed. In the coming period, expanding the competitiveness of the Caribbean services sector beyond tourism is a way to draw on the strengths of the Caribbean while creating more sustainable economic growth. Developing services that are competitive in the global economy is one way to retain high-skilled workers in sectors such as finance, health, education, call centers and back-office services. Sun, sand and sea—plus bankers, doctors, nurses, teachers and tech? Now that's a recipe for success."

A **Andrea M. Ewart, CEO of DevelopTradeLaw:** "Not surprisingly, the global recession of 2008-2009 had a significant negative impact on economic growth of the Caribbean region. However, recovery in the English-speaking Caribbean has lagged, in part, because of the deeper impact of the recession caused by the countries' high dependence on trade with—and foreign direct investment from—the United States. The primary causes, however, are a combination of external and internal structural factors that impede the growth of these small and micro states. Key among the external factors is the high cost to the region from the powerful hurricanes that caused extensive damage at the same time that the rest of the world was recovering from recession. On average, a country can expect to be impacted by a major hurricane every 10 to 18 years. Between 2016-2017 alone, one Category 4 and three Category 5 hurricanes affected the region, including Irma, the most powerful Atlantic storm in recorded history. Countries

suffer an average annual loss to GDP of 1.8 percent from natural disasters. Countries continue to experience a decline in goods exports because of the loss of preferential access to traditional markets. Loss of pref-

“Countries suffer an average annual loss to GDP of 1.8 percent from natural disasters.”

— Andrea M. Ewart

erential access to the E.U. market, combined with decline in official development assistance, has had a particularly negative effect on the Eastern Caribbean islands. Structural impediments to growth include the high cost of doing business, which is a deterrent to investment and growth. The World Bank Doing Business Report 2018 ranked Jamaica highest in the region at 70/190. The stronger economy of Trinidad and Tobago ranked 102/190. The countries are also among the world's highest debtors. Public debt exceeds 100 percent of GDP in such countries as Jamaica, Barbados and Belize. Crime is also a deterrent to investment and trade. Solutions include improved disaster preparedness to minimize loss of life and insurance schemes to assist with recovery of property. An effective customs union will provide both a strengthened business regulatory regime and a regional market to attract trade and investment."

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