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FEATURED Q&A

How Well Prepared Is Central America for the End of TPS?

In 2016, the Obama Administration's head of Homeland Security, Jeh Johnson, observed the arrival of a repatriation flight to Honduras, saying he was "impressed" with the efforts both governments were making to reintegrate deported Hondurans. // Photo: U.S. Government.

Q The administration of U.S. President Donald Trump on May 4 announced its decision to end Temporary Protected Status, or TPS, for some 57,000 Hondurans living in the United States. The move, along with the administration's earlier decision to end TPS for immigrants from Nicaragua, El Salvador and Haiti, may greatly reduce families' income from remittances if the migrants are sent back to their home countries. What economic impact will these countries experience due to the end of TPS? Which industries will be most affected? What preparations must these countries make in order to handle an influx of returning migrants?

A Hugo Llorens, former U.S. Ambassador to Honduras: "Canceling TPS for Hondurans is wrongheaded from a number of perspectives. First, it makes little economic sense. The 57,000 Hondurans who have benefited from this longstanding immigration program are well-established, hardworking members of communities across America. These residents are gainfully employed and generate economic value for our nation. Likewise, Honduran TPS beneficiaries remit a share of their earnings back to Honduras, which is a significant source of hard currency for our Central American trading partner, and many of these dollars are used to purchase U.S. goods and services. On the foreign policy side, it is important to remember that Honduras is a close friend and ally of the United States, and a nation of geo-strategic significance located at the very heart of the Hemisphere. The Honduran government provides U.S. security forces access to Honduran military bases to enhance our ability to prevent illicit narcotics from reaching

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Argentine Peso Falls to New Low, IMF to Meet Friday

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ECONOMIC

NAFTA Talks Set to Miss Deadline

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New Poll Shows Brazil's Bolsonaro Still in the Lead

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Bolsonaro // File Photo: Government of Brazil.

ECONOMIC NEWS

Argentine Peso Falls to New Low, IMF to Discuss Support

The Argentine peso closed more than 6 percent weaker at a record low of 25 per U.S. dollar on Monday, Reuters reported, as the central bank sold more than $400 million in reserves as part of its effort to shore up the battered currency. The government of President Mauricio Macri last week took the politically sensitive step of requesting a "stand-by" arrangement from the International Monetary Fund, similar to steps taken in recent years by Mexico when its currency was under pressure. In a statement, the IMF said its board would discuss Argentina at an informal meeting scheduled for Friday "as part of our usual process of briefing the Board on negotiations for high access IMF programs." The heightened pressure on the currency comes as holders of about $25 billion in peso-denominated notes, or Lebac bonds, issued by the central bank that are maturing today, will be allowed to demand settlement, Clarín reported. While more than half that amount is held by public institutions and is expected to be rolled over, the way that public bondholders respond today could trigger more fear among investors and lead to further capital outflows, JP Morgan economists cautioned clients last week, Bloomberg News reported. An IMF spokesman said Monday that a target exchange rate for the peso will not be a condition of a financing deal with Argentina, and that the exchange rate "should continue to be determined by market forces, with the central bank continuing to use all the policy tools that are at its disposal." [Editor's note: See related Q&A in Friday's Advisor.]

Some $25 billion in Lebac bonds issued by the central bank are set to mature today.

NAFTA Talks Likely to Miss U.S. Congress Deadline: Ross

The three member countries of the North American Free Trade Agreement have not resolved any of the "big hot topics" in renegotiations and are unlikely to reach a deal before the United States' May 17 target, Wilbur Ross, U.S. Secretary of Commerce, said at the National Press Club Monday, Reuters reported. The comments came as lead negotiators for the three countries have canceled meetings in Washington and are not scheduled to meet on a trilateral basis this week, according to Bloomberg News. Ross said rules of origin for North American automobiles, labor provisions, and changes to the dispute settlement system had become major sticking points in the talks. House Speaker Paul Ryan had cited the May 17 deadline because the Trade Promotion Authority, which allows the executive branch to negotiate on the country's behalf, requires that Congress be given several months' notice. If the U.S. misses the deadline, the deal would likely not arrive before Congress until after the midterm elections in November.

BUSINESS NEWS

Siemens Wins Gas Turbine Contract in Panama

Siemens will supply Panama with six gas turbines capable of producing 440 megawatts of power for the Central American nation, the firm said Monday. The German engineering company entered into an agreement with China's Shanghai Electric Group, which is scheduled to deliver the plant to local power distributor Martano in the fall of 2020. Siemens added that the natural gas-fired electricity plant, set to be built in Colón at the entrance to the Panama Canal's Atlantic coast, would "be able to ideally supplement fluctuating renewable energy

NEWS BRIEFS

New Poll Shows Brazil's Bolsonaro Still in the Lead

A new poll released Monday shows that controversial right-wing Brazilian presidential candidate Jair Bolsonaro has held onto his lead ahead of October's elections, with the most market-friendly candidates losing ground to leftist Ciro Gomes, Reuters reported. The MDA poll showed 18.3 percent of voters backing Bolsonaro, 11.2 percent for former environment minister Marina Silva and 9.0 percent for Gomes. São Paulo Governor Geraldo Alckmin slipped from third to fourth place, behind Gomes, polling with only 5.3 percent support, as compared to 8.6 percent in the same poll in March.

Business Leader Picked as Ecuador's New Finance, Economy Minister

Ecuador's President, Lenín Moreno, on Monday named Richard Martínez his new economy and finance minister, replacing María Elsa Viteri, who assumed the position early in March, El Comercio reported. An economist, Martínez had been serving as president of the Ecuadorian Business Committee since 2015. He has also served as president of Ecuador's National Federation of Chambers of Industries.

Valero Energy Buys Stake Peruvian Fuels Importer

U.S.-based refiner Valero Energy Corp. has agreed to buy Peru's Pure Biofuels, or PBF, from New York-based private equity firm Pegasus Capital Advisors for an undisclosed sum. The third-largest fuels importer in Peru, PBF maintains a base of over 500 customers including retailers, miners, and airlines, Pegasus said in a statement. The transaction, which was funded with cash, also includes refined products terminals in Callao, near Lima, and in Paita, near Piura in northern Peru. Pegasus purchased the equity of Pure Biofuels six years ago.

sources." Panama has set a goal of having 70 percent of its energy matrix be comprised of renewables by 2050. In related news, Spanish firm Audax Renovables announced last week that it had begun construction on a 66-megawatt wind park in Toabré, some 90 kilometers to the southwest of Colón, Energías Renovables reported. Audax said it would take 22 months to complete construction. The wind park, which is 70 percent owned by Panama's Recursos Eólicos and 30 percent by Audax, will require $150 million in total investment.

Hackers Steal $15 Million From Mexico Banks

Hackers stole millions of dollars' worth of pesos from Mexican banks in recent weeks, Reuters reported Monday, citing sources close to the investigation. The criminals, who remain at large, allegedly created phantom orders that transferred funds to fake accounts that were quickly withdrawn at brick-and-mortar bank branches. Banorte and four other banks not named in the Reuters report were apparently targeted. Local newspaper El Financiero reported that pesos worth more than $15 million were stolen. Lorenza Martínez, director of the Payments System at the Bank of Mexico, told Reuters last week that interbank transfers began to suffer delays last month, sparking concerns among authorities. The central bank in April asked several commercial banks to take emergency measures to fortify the country's electronic payments network following a cyberattack that disrupted some transfers, Bloomberg News reported. Martínez said that the central bank's SPEI interbank transfer system, which operates a network similar to the SWIFT global messaging system, was not compromised, but that the problem had to do with the software developed by external institutions or providers to connect to the payment system. In addition, the criminals may have had help from employees operating within the bank branches in order to conceal a series of such unusually large transfers, according to the report.

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our shores. Our security relationship with Honduras is vital to regional stability. It is also worth noting that Hondurans are among the most pro-American people in the world, and they share with us a belief in democratic governance and the worth of individual liberty. Finally, there is an ethical and humanitarian principle involved that should not be discounted. The possible repatriation of tens of thousands of good, honest people who have lived among us for many years, and the resulting shattering of families, makes no sense and should be opposed."

A **Karen Woodrow-Lafield, research professor at the University of Maryland:** "The administration and U.S. senior diplomats differed as to the importance of country conditions, because the latter warned against ending TPS and expelling those Central Americans. As longtime U.S. residents, individuals with temporary protection established families and are raising an estimated 300,000 U.S.-born citizen children. They possess skills in the English language and are part of the workforce, especially in agriculture, construction and services. Central American governments should seek to facilitate investments and entrepreneurship, perhaps even navigating opportunities in other countries, because some returnees would bring economic capital from income or sale of U.S. businesses. A humanitarian concern is the wellbeing of U.S.-born citizen children who could be thrust into new environments, lacking documents, fluency in Spanish and cultural basics, and confronting adverse, if not dangerous, situations. Some returnees may have originally fled to avoid victimization and would again face threats of violent attacks or gang recruitment. Civil violence initiates and drives migration in Mexico and Central America. For El Salvador, civil violence and personal economic crises are reasons for making an initial unauthorized trip to the United States. Ending TPS is poor policy for multiple reasons—endangering lives, economically stressing the region, potentially heightening violence—and could increase unauthorized migration from Central America to the United States and Mexico. Forcing out children for whom substantial public investments have already been made, through education and healthcare, would be a national loss and deviates from international safe migration principles. Central American governments should prepare to work closely with the U.S. State Department in safeguarding U.S.-born citizen children among returnees."

A **Manuel Orozco, director of the Migration, Remittances and Development Program at the Inter-American Dialogue:** "Currently, the four nationalities affected by TPS remit nearly $1 billion every year. This represents between 1 and 2 percent of GDP for three of those countries. The termination of TPS will lead to a drop of income for families receiving remittances, a disruption in the lives of those with TPS (including separation from their loved ones), and a large loss of income. Overall, we estimate that 15 percent of people may return via deportation or voluntarily during a short-term period of five years. This means that nearly 10,000 people would return in addition to the more than 45,000 deported every year. The losses are multiple. First, U.S. businesses will lose valuable employees who have been working in areas that migrants have filled, such as construction and domestic work. The costs to businesses are not negligible, and may represent some $2 billion to at least 20,000 businesses. Second, remittances will fall by at least $135 million every year. Because current migration is already slowing down, an increase in deportations is affecting the increase in remittance transfers through new migration. Third, these countries are currently facing severe economic hardship; El Salvador and Honduras have only generated 14,000 new formal jobs, compared to 150,000 new entries into the labor

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market, the majority which joins the informal economy. Adding at least 45,000 more people in the form of deportations or TPS returns (some 6,000 on TPS), would greatly affect productivity in these countries, which already have low-performing growth. Finally, these countries have not prepared beyond establishing minimum micro entrepreneurship training for fewer than one thousand people. These programs are problematic because they will simply add more people to the informal economy. The effects are devastating for migrants, families, their home countries and U.S. businesses, as the Dialogue explains in a recent report. Returning people is a loss for everyone."

A **Ariel Ruiz Soto, associate policy analyst at the Migration Policy Institute:** "The decision by the Trump administration to terminate TPS designations for Central American migrants is likely to generate several consequences. Given their family ties and deep social roots, the majority of TPS holders will likely remain in the United States illegally and join informal markets. The construction, services and entertainment sectors, where most TPS holders are employed, will be critically affected, and workers' wage and remittance losses may trigger additional pressures on regional informal markets and economies. The most immediate regional impact will be a reduction in household and family support for those who depend on TPS holders' remittances. Because their remittances in 2017 represented 2 percent of GDP in El Salvador and 1 percent of GDP in Honduras and Haiti, significant reductions may also hamper economic growth in TPS countries, where growth has remained between 1 to 4 percent. How quickly remittances and economic growth fall, however, will depend on how many TPS holders transition from stable jobs in the formal market to transient jobs in the informal market as their employment authorizations and protections begin to expire in 2019. While an influx of returning migrants is unexpected, TPS holders will become subject to deportation and a fraction of them may return voluntarily to the region, bringing with them new skills and the potential to spark economic growth. But to buffer losses in remittances—as well as to reduce future migration pressures—regional governments must accelerate collaboration with civil society and the private sector to implement sustainable reintegration services tailored to returning migrants' needs."

A **Louis DeSipio, chair of Chicano/Latino Studies at the University of California, Irvine:** "The end of TPS presents serious challenges for Honduras, Haiti, and El Salvador. Approximately 300,000 nationals of these countries will face expulsion from the United States over the next several years. Most are long-term residents of the United States, in some cases with twenty years of U.S. residence. Migrations of this magnitude would present a challenge for any developing economy and will do so all the more in these three countries that have weak civic infrastructures and failing economies. Jobs, particularly for older workers, are few. None of these nations have the resources to facilitate the integration of people who are, in many senses, immigrants in these societies. As much as these new migrants will need assistance to reintegrate into these economies and societies, their presence comes at a cost. Many have been regularly sending money home to family members, a flow of funds upon which these countries have come to depend. Finally, it is a fiction that ending TPS will end their ties to the United States. TPS recipients from these three countries have at least 273,000 U.S. citizen children, most of whom are minors. Divided families will spur new efforts to migrate to the United States. This is a recipe for disaster not just for Honduras, Haiti, and El Salvador, but also for the United States. The return of these migrants will weaken the economies, spur social unrest at home, and propel new efforts to migrate. This is a disaster forged by United States policy."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

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freetrial@thedialogue.org