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FEATURED Q&A

Will Macri's New Cabinet Boost the Economy?



Argentine President Mauricio Macri met on June 22 with governors of provinces in his Cambiemos coalition to discuss new cabinet changes, state news agency Télam reported. // Photo: Télam.

Q Argentine President Mauricio Macri has shuffled some of his government's top cabinet members in the wake of a plummet of the country's currency. Finance Minister Luis Caputo was tapped as the country's central bank chief, replacing Federico Sturzenegger. Engineer Javier Iguacel is taking over as energy minister for Juan José Aranguren. And economist Dante Sica was named production minister, succeeding Francisco Cabrera. Why has Macri's government made the changes? Will the newly named officials bring a different direction to their respective departments? How much success will Macri have at steadying Argentina's economy now that the International Monetary Fund's board has approved its \$50 billion loan package for the country?

A Paula Alonso, director of the Latin America and Hemispheric Studies Program at The George Washington University: "The gradual adjustment strategy implied risks from external shocks and domestic doubts regarding credibility in both inflation and fiscal targets. The currency crisis was a product of these vulnerabilities and the resulting fall in growth expectations has made the adjustment process more problematic. The government has replaced its previous overly enthusiastic predictions with announcements of a few months of recession ahead; growth for the year might be around 1.3 percent. The \$50 billion IMF package, while politically costly, may enhance credibility. This is also the objective of the reshuffle of personnel. Former Minister of Finance Luis Caputo, now at the helm of the central bank, seeks greater confidence with financial markets. The reunification

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TODAY'S NEWS

ECONOMIC

Brazil Slashes 2018 Growth Forecast

A nationwide trucker strike in May paralyzed key sectors of Latin America's largest economy, but the central bank also cited an easing of economic activity at the start of the year, as well as weakness in business and consumer confidence indicators.

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BUSINESS

Chile to Inject \$1 Bn in Codelco

Chile's finance minister said Friday the government will inject \$1 billion in "extraordinary" capitalization into state-owned copper miner Codelco.

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POLITICAL

López Obrador Wins Mexico's Presidency

Andrés Manuel López Obrador won a landslide victory in Mexico's presidential election on Sunday, claiming more votes than his three competitors combined. His Morena party also appears to have done well in Congress.

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López Obrador // Photo: López Obrador campaign.

POLITICAL NEWS

López Obrador Takes Mexico's Presidency in Landslide Win

Andrés Manuel López Obrador won a landslide victory in Mexico's presidential election on Sunday, claiming more votes than his three competitors combined, El Universal reported. In his third run at the presidency, López Obrador, or AMLO as he is popularly known, took nearly 54 percent of the vote, far ahead of Ricardo Anaya of the PAN party, with 23 percent, and José Antonio Meade of the ruling PRI party, with 15 percent. "I'm very aware of my historical responsibility," López Obrador, 64, told cheering supporters in Mexico City's central square, NBC reported. "I don't want to go into history as a bad president. Now we are going to transform Mexico." Earlier in a speech to reporters, López Obrador pledged to seek "a relationship of friendship" with the United States, with which Mexico is currently renegotiating the North American Free Trade Agreement. The two countries have also been at odds over border security and migration, with U.S. President Donald Trump pledging to "build a wall" on the border that Mexico will pay for. The first high-level contact between López Obrador and the White House is likely to be a phone call today, according to the report. Trump tweeted his congratulations Sunday night, saying, "There is much to be done that will benefit both the United States and Mexico!" Analysts have pointed out that the conservative Trump and leftist López Obrador, despite their ideological differences, campaigned on similar themes, catering to anti-intellectual or xenophobic sentiments, capitalizing on existential worries among middle- and working-class populations who see their jobs being lost to technology or to lower-paid workers, Tracy Wilkinson and Kate Linthicum wrote in the Los Angeles Times today. Like Trump, López Obrador benefited from a strong current of outrage where many voters felt disenfranchised, left out or overlooked. While it will likely be a few days before the make-up of congress is certain,

Eurasia Group analysts told clients that López Obrador's large margin of victory suggests his party would have a strong position in both houses and be able to attract support from smaller parties as well, Bloomberg News reported. Running with López Obrador's Morena party, Claudia Sheinbaum, an environmentalist, appears to have become the first woman ever to be elected Mexico City's mayor, a position López Obrador once held, with 47 percent of the vote, according to El Universal. "We have witnessed today a very profound reshaping of the country's political map," Goldman Sachs economist Alberto Ramos told Reuters. "The balance of power at the federal and local levels has definitely shifted to the left, with unclear implications for the near-term policy direction." It has been a "change year" in several Latin American elections, with the youngest candidates in recent history winning presidential races in Costa Rica and Colombia, the resignation of Peru's president over corruption allegations, and an unpredictable election ramping up in South America's most populous country, Brazil.

ECONOMIC NEWS

Brazil Slashes 2018 Growth Forecast

Brazil's central bank last week slashed its forecast for gross domestic product growth for 2018, Reuters reported Friday. The government now sees GDP growth of 1.6 percent this year, compared to 2.6 percent previously. A nationwide trucker strike in May paralyzed key sectors of Latin America's largest economy, but the bank also cited an easing of economic activity at the start of the year, as well as a weakness in business and consumer confidence indicators. Brazil's unemployment rate remained at a 12.7 percent in May, state statistics agency IBGE said Friday. However, the composition of new jobs remains of low quality, and formal salaried jobs are still contracting from a year ago, economists noted. Increases in jobs were driven chiefly by the informal sector jobs, up 5.7 percent, year over year, and public sector hiring, up 2.9 percent.

NEWS BRIEFS

U.S. Judge Sides With Puerto Rico Hurricane Evacuees in Mass. Hotels

A U.S. district judge in Massachusetts on Saturday ordered federal emergency officials to extend vouchers paying for temporary hotel housing for nearly 1,700 Puerto Rican hurricane evacuees, the Associated Press reported. On the eve of the program's expiration, Judge Leo Sorokin said ending the vouchers could cause irreparable harm. He also said that evidence showed problems with the Federal Emergency Management Agency's efforts to notify and provide transitional help for the hurricane refugees.

Colombian Park in Amazon Added to Latest U.N. World Heritage List

Colombia's Chiribiquete National Park on Sunday made UNESCO's World Heritage List, Agence France-Presse reported. The United Nations agency said the Amazon-region park, with an area of 2.7 million hectares (6.7 million acres), will be the ninth world heritage listing in Colombia. The Andean nation's president, Juan Manuel Santos, said Sunday via Twitter that his government this week will expand the protected territory in the area by 1.5 million hectares, according to the report.

Ecuador GDP Rises More Slowly in First Quarter

Ecuador's gross domestic product grew 1.9 percent in the first quarter as compared to the same period last year, América Economía reported Friday, citing central bank data. However, the rate of growth fell of 0.7 percent as compared to the previous quarter. The government's expenditures increased 1.3 percent in the period, largely due to more spending on education, which expanded by more than 5 percent, and health, which grew by 1.3 percent.

BUSINESS NEWS

Chile to Inject \$1 Billion to Bolster Codelco Output

Chile's finance minister said Friday the government will inject \$1 billion in "extraordinary" capitalization into state-owned copper miner Codelco, Reuters reported. Finance Minister Felipe Larraín said Codelco needs to overhaul its aging mines, which produce nearly 10 percent of the world's copper. Chile is planning a 10-year, \$39 billion "total overhaul" of several of its operations as it seeks to maintain production amid declining ore grades at Chile's massive deposits. "If it does not invest, its mines will run dry," Larraín said, adding that half the funds would be dispersed immediately and all would be paid out by February next year. With metals prices rising after years in the doldrums, Codelco delivered \$3 billion in profits to Chile's coffers last year, accounting for 16 percent of the South American nation's exports and more than one-third of its copper production. However, copper prices last week hit three-month lows as the market expected weaker demand from top consumer China amid a trade spat with the United States even as its manufacturing sector slows, Reuters reported. In related news, Chile's mining industry cheered a decision last week to drop a glacier-protection bill, Bloomberg News reported. Claiming the proposed rules would thwart mineral extraction, Environmental Minister Marcela Cubillos requested the withdrawal of the bill from the lower house, nullifying former socialist President Michelle Bachelet's push for special protections that included banning some activities on and around glaciers, according to the report. "The bill's hidden objective was to prevent mining from happening, rather than protecting glaciers," Joaquín Villarino, executive president of the Mining Council, told Bloomberg News. "The new law will protect glaciers and all other environmental assets with a more rational and reasonable legislation," he added.

THE DIALOGUE CONTINUES

Will Latin America's Crippling Labor Strikes Continue?

Q Labor unions in Brazil, Peru and Argentina have either launched or threatened paralyzing transportation strikes in recent weeks, in several cases yielding big concessions from governments grappling with widening fiscal imbalances and few options to address them. How successful has the strike strategy been, as compared to past periods of austerity, and what scenarios are likely to play out in the future? Have unions and protesters hijacked economic policy, or have politicians been ignoring the needs of their citizens to the point that protests and strikes are the only way to be heard? Will labor strife worsen in Latin America in the coming months and years?

A Maria Fernanda Teixeira, CEO of Integrow in São Paulo and a board director of the Inter-American Dialogue: "Brazil's truck driver strike—the first of its kind—surprised the government and population alike in its scope and unprecedented impact, even compared to famous automotive union strikes of the past, which never stopped the country completely like the trucker strike did. Brazilians never imagined how dependent the whole country is on truck drivers. After a few days of paralyzation, all areas of the country started lacking food and materials for industries. Even industries with some available materials on hand had to stop production since the warehouses got full. Truck drivers did not realize the power they had, either. The way they got organized was through social media tools such as WhatsApp. Now they know how to pressure the government to get their requests attended to, but are they right? Maybe, in part, but is it right to affect the whole population? Many people were left without food, hospi-

tals lacked important medications, critical surgeries were stopped, and GDP contracted—in the end, even the truck drivers and their families were affected with scarcity of goods and prices going up. So how can this be prevented from happening again? The best solution is for politicians to be closer to their constituents' needs, requests and issues. People should expect to be able to have access to food, healthcare, education and security. Living in a democracy, when one or more of those is not available, a population will fight for their rights. It's amazing how the Internet is helping populations in organizing themselves. The easier approach is calling for attention through strikes. Much harder is listening and finding mechanisms of communication and dialogue. The problem is that politicians are elected and then they go to Olympus, forgetting who voted for them. Most of the politicians in Latin America really believe they are there to only to work on their own behalf, and they do not listen to the needs of their constituents. With elections pending, I think there is a good chance we'll see more strikes, especially in countries with governments in their last months. After the elections, I expect a break will happen, because the public generally trusts that new politicians will work to fulfill their promises. The challenge starts after the famous first 100 days in office, when populations become less patient with political promises. One important attitude change (from both sides) is the communication and dialogue that has to happen, urgently, but politicians need to take the first step."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the June 26 issue of the Advisor.

FEATURED Q&A / Continued from page 1

of the finance and treasury ministries under strengthened Minister Nicolás Dujovne certainly has logic, while Minister Aranguren's replacement may introduce a softer approach to the unpopular energy tariffs. The fiscal deficit, however, remains President Macri's Achilles' heel, a challenge that requires further attention in at least three main areas. First, the negotiations between Minister of Interior Rogelio Frigerio and the governors to reduce provincial deficits and agree on a national budget for 2019. Second, negotiations with the trade unions. Last Monday's general strike, the third and most successful since Macri took office, shows union leadership in search of a national role and a prime place in the overdue restructuring of the Peronist Party. Third, as adjustment proceeds, the government will need to monitor its impact on the popularity of Buenos Aires Governor María Eugenia Vidal, Macri's main political asset."

A **Bruno Binetti, nonresident research fellow at the Inter-American Dialogue:** "Argentina is facing a perfect storm: financial turbulence keeps punishing the peso and the stock market; the government expects a recession for the rest of 2018 after the worst drought in 50 years; and this year's inflation rate will be 27 percent or more, higher than in 2017. In this context, changes in Macri's team had been expected in Argentina and abroad. In no small part because of government interference, Sturzenegger had lost the confidence of financial markets and was incapable of containing the run. Caputo has Macri's trust and is trying to stabilize the market and clean up the balance sheet of the central bank. Former minister Aranguren was effective in reducing subsidies for the energy sector, but there is little room for more hikes in utility rates because of their high political cost. His successor's mission will be to shift the burden of the adjustment from consumers to electric companies, in order to preserve the government's waning political capital. Finally, Sica entered the

government to repair the relationship with the industrial sector, which had deteriorated under his predecessor. The deal with the IMF provides much-needed financing for Argentina's fiscal deficit: the first \$15 billion has already been disbursed. With about a year to go before the presidential campaign kicks off, Macri will try to share the burden of the adjustment with the provinces, preserve social peace and maintain as much of his public works program as possible."

A **Andrés Asiain, director of Centro de Estudios Económicos y Sociales Scalabrini Ortiz in Buenos Aires:** "Argentina's economy in April entered the declining stage of a speculative cycle initiated by Mauricio Macri. The exchange rate run pushed Macri to ask for stand-by credit from the IMF, which comes conditioned by cuts in public spending and a policy of a free-floating exchange rate that has caused an even greater devaluation of the peso, as well as a drop in real wages and domestic consumption. It's a combination that contracts the domestic market, which has already been hit by interest rates that are among the highest on the planet. Facing the prospect of a production crisis, the government aims to recompose parts of its relationship with the business community through changes to sectoral policies. The removal of the minister of energy points to containing price hikes for fuel and utilities, which drown the productive sector. The new minister of production also has links to the business community. Caputo's appointment to the central bank is related to the previous chief's mala praxis. But, at the same time, it speaks to Caputo's relations with international banks and funds holding Argentine paper that want to use the IMF credit dollars in order to sell, thus transferring financial losses from the foreseeable crisis to that body. There's nothing more strategic for that than Macri appointing his own man to control the central bank, which administers international reserves that have been padded by the IMF's loans."

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