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FEATURED Q&A

What Changes Will López Obrador Bring to Mexico?



Leftist Andrés Manuel López Obrador swept to victory Sunday in Mexico's presidential race. His margin of victory was the largest in decades. // Photo: Morena.

Q Leftist Andrés Manuel López Obrador trounced his opponents in Mexico's presidential election on Sunday. López Obrador, widely known as AMLO, won by more than 53 percent of the vote and defeated his nearest rival, conservative Ricardo Anaya, by more than 30 percentage points, the largest margin of victory for a presidential candidate since 1982. To what can AMLO attribute his victory? What are the biggest takeaways from the election? What do the results portend for economic policy and the business climate? What changes are in store for Mexico?

A James R. Jones, member of the Advisor board, former U.S. ambassador to Mexico and chairman of Monarch Global Strategies: "Mexico's elections Sunday were historic in many respects. It was the largest victory margin of any president in 36 years and, unlike in that period, this election was transparent and honestly conducted. This will be the first time in more than two decades that the president will have a majority in Congress from his own political party and coalition. It was a mandate for real change. That change will be manifest in two ways—style and substance. Clearly, the lifestyle of the political elites will be different. The old ways of doing things, which AMLO condemned as corrupt, will be closely watched and exposed. The public focus on the poor will continue, especially targeting the south of the country where poverty is rampant. AMLO believes a truly democratic society cannot be sustained if half the population gains nothing from democracy. In substance, AMLO will be more conventional on economic policy, adhering to a conservative, prudent fiscal policy as he did as

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Maduro Promotes 16,900 Venezuelan Military Personnel

Venezuelan President Nicolás Maduro promoted the military personnel after evaluations of their "loyalty."

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Jamaica's Wheatley Stripped of Energy Ministry Duties

Andrew Wheatley will no longer manage Jamaica's energy ministry, which will be taken over by the prime minister's office. The announcement followed corruption allegations involving Wheatley and state-run oil company PetroJam.

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ECONOMIC

Argentina's Central Bank Boosts Reserve Requirements

The bank, which Luis Caputo has headed since last month, made the move as part of its efforts to fight inflation. The hike in reserve requirements followed a similar move in mid-June.

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Caputo // File Photo: Argentine Government.

POLITICAL NEWS

Trump Predicts ‘Very Good’ Relationship With López Obrador

U.S. President Donald Trump on Monday spoke by phone for about 30 minutes with Mexican President-elect Andrés Manuel López Obrador, who won the country’s presidential election on Sunday. “I think the relationship will be a very good one,” Trump said during a meeting with the prime minister of the Netherlands, the

“We talked about trade, we talked about NAFTA, we talked about a separate deal, just Mexico and the United States.”

— Donald Trump

Associated Press reported. “We talked about trade, we talked about NAFTA, we talked about a separate deal, just Mexico and the United States,” said Trump. In a tweet, López Obrador said he proposed exploring a “comprehensive agreement” of development projects “that will generate jobs in Mexico, and with that reduce migration and improve security.” López Obrador said the call was “respectful,” adding, “our representatives will talk.” In an interview with Mexico’s Televisa television network, López Obrador said he would seek to “reach an understanding” with Trump, though he did not offer more specifics on what such an understanding would entail. He did, however, say there is a need for the United States and Mexico to have mutual respect and cooperation. “We are conscious of the need to maintain good relations

SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Wednesday, July 4 in observance of the Independence Day holiday in the United States. We will resume publishing on Thursday, July 5.

with the United States. We have a border of more than 3,000 kilometers, more than 12 million Mexicans live in the United States. It is our main economic-commercial partner,” said López Obrador, who is to take office Dec. 1. “We are not going to fight. We are always going to seek for there to be an agreement. We are going to extend our frank hand to seek a relation of friendship, I repeat, of cooperation with the United States.” A former mayor of Mexico City, López Obrador won Sunday’s presidential election with about 53 percent of the vote and the largest margin of victory for any presidential candidate since 1982. His rivals, Ricardo Anaya and José Antonio Meade, conceded even before the official results were announced, the AP reported. In addition to winning the presidency, López Obrador’s Morena party, which was established only four years ago, also appears poised with its allies to take control of the lower house of Mexico’s Congress, NPR News reported. The coalition also won as many as five governor’s offices on Sunday. The election marked the broadest mandate for a new Mexican president since the beginning of the country’s democratic opening in the late 1990s, the network reported.

ECONOMIC NEWS

Argentine Gov’t to Liberalize Fuel Market

Argentine Energy Minister Javier Iguacel is eyeing the idea of liberalizing the country’s fuel market to boost competition among gas producers and bring down fuel prices, La Nación reported Monday. Iguacel, whom President Mauricio Macri appointed to replace Juan José Aranguren in a cabinet reshuffle two weeks ago, is following a non-interventionist strategy, according to the Argentine newspaper. The energy ministry will also reportedly allow fuel retailers to establish pump prices starting in August, Reuters reported, citing an unnamed government official. Amid rising international fuel prices and a sharp devaluation of the

NEWS BRIEFS

Venezuela’s Maduro Promotes 16,900 Military Personnel for ‘Loyalty’

Venezuelan President Nicolás Maduro announced Monday that 16,900 military personnel were promoted after evaluating their “loyalty,” Agence France-Presse reported. Maduro, who was re-elected in May in what opposition groups and international groups called a sham election, has been cracking down on “treason,” especially within the country’s armed forces. Several human rights groups in Venezuela claim Maduro jailed five members of the military in June, and at least 150 members are in prison “for political reasons,” the AFP reported.

Argentina’s Central Bank Hikes Reserve Requirements

Argentina’s central bank, headed since last month by Luis Caputo, on Monday increased reserve requirements by three percentage points, Reuters reported. The decision followed a hike of three percentage points on June 18. The bank has been seeking to curb inflation in the South American country and also bolster the peso. President Mauricio Macri has sought to boost investor confidence and tackle a budget deficit, including through a \$50 billion loan deal from the International Monetary Fund.

Peru’s Pay-TV Market Grows 8.2% in Q1

Peru’s pay-TV market grew by 8.2 percent year-on-year in the first quarter of 2018, according to a report telecom services regulator Osiptel released Monday. Some 980,000 subscribers paid for television service in March, including 150,000 new connections since that month last year, the report said. The hike comes as a result of increased competition among television operators in Peru, which in turn has driven down service and installation prices as they try to attract new consumers, Osiptel said.

currency in May, the government reversed its liberalization strategy and reached an agreement with three of the country's largest oil operators—state-owned YPF, Shell and BP's Pan American Energy—to freeze pump prices for two months at \$68 per barrel for domestic crude, Reuters reported. The companies later agreed on a 5 percent increase in June and a 3 percent increase in July, which many oil industry actors, including global trader Trafigura, found insufficient, according to the wire service. The new measures would signal a return to Macri's pro-business, free-market reforms, which in turn seek much-needed private investment to develop Argentina's energy sector, but could risk angering consumers and negatively affecting inflation.

Jamaica's Wheatley Stripped of Energy Minister Duties

Jamaican Energy Minister Andrew Wheatley after Wednesday will no longer manage the island's energy portfolio, the Office of the Prime Minister said in a press release on Monday. The announcement came as corruption allegations regarding Wheatley and Jamaica's state-run oil



Wheatley // File Photo: Jamaica Information Service.

company PetroJam have prompted an investigation into the management and operations of the firm, the Jamaica Observer reported. The energy agenda will be transferred to the Office of the Prime Minister starting Wednesday, "in the interest of transparency" as the state carries out the investigation, as well as a review of PetroJam's "long-term commercial viability and role in Jamaica's energy security," the statement said. According to the press release,

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mayor of Mexico City while honoring the independence of the central bank which has produced a world-class monetary regime. He recognizes that to deliver a better life to the poor, he must grow the economy and that can best be done through encouraging private sector investment, not irresponsible government spending. The issue of poverty is so deep in Mexico that it will not be cured in one presidential term. But AMLO will try to put that issue on the road to recovery and create hope and a sense of belonging among the poor with investments in education, health care and infrastructure. That will help reduce crime and insecurity, the hardest challenge to crack. A major push to implement true rule of law and professionalize the institutions of law enforcement and the judicial system will be needed. In short, this presidency can transcend the promise of a more just and stronger Mexico into one where more promises can come true."

A Eduardo Arcos, Mexico analyst at Control Risks: "The biggest takeaway is the collapse of the ruling PRI and the rise of the leftist Morena. The election marks a true breaking point for Mexico's young democracy and a blunt departure from the two main parties that had ruled the country over the past 18 years. This landslide electoral result can only be explained by massive disillusionment with the political establishment amid a failed security strategy, mediocre economic performance, pervasive corruption and persistent inequality. AMLO will become the first leftist president of Mexico in three decades and will implement policy changes. Nonetheless, he is unlikely to dramatically

Wheatley agreed with Prime Minister Andrew Holness' decision. He will retain his minister status and continue to handle the island's science and technology portfolios, the Jamaica Gleaner reported. The move comes in response to opposition and private sector groups' increasing pressure for the prime minister to

alter economic and trade policy, and he has pledged to maintain stable macroeconomic indicators. AMLO has promised to diversify exports—in a likely attempt to make the Mexican economy less reliant on U.S. imports amid a changing geopolitical dynamic in

“ The election marks a true breaking point for Mexico's young democracy..”

— Eduardo Arcos

the region. He is likely to devote increasing resources to social and welfare spending; however, he has pledged not to increase taxes and to lower them in the northern border region. AMLO will likely maintain a cooperative stance with investors. However, the energy sector, and the oil and gas industry in particular, will be cautious during his first year in office, likely delaying spending in major projects until AMLO's energy policies become more evident. AMLO will not rule without democratic checks and balances. Despite Morena's rise, both the PAN and the PRI will continue to hold more state governorships. Moreover, it is uncertain whether AMLO and his allies in Congress will achieve a two-thirds majority in both houses—required to make constitutional amendments. The most likely scenario sees AMLO fulfilling some of his campaign pledges, particularly the revision of contracts for energy companies awarded during the past administration.

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fire Wheatley amid the corruption scandal, the Jamaica Observer reported. For this purpose, the prime minister also tasked the Ministry of Finance with gathering information regarding direct expenditure of public funds, especially with respect to donations and corporate social responsibility, the statement said.

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However, canceling the energy reform is unlikely to occur. Combating corruption has been his central campaign promise. On this front, AMLO's successes will be, at best, gradual. Corruption at the local level will likely persist and corruption scandals within AMLO's allied parties will emerge once in office. Overall, changes will follow but their pace and impact will be more modest than AMLO hopes."

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:**

"The main reasons for AMLO's victory are persistence, some winning formulas and timing. Since 2006, AMLO has been in perpetual campaign mode. After he lost then by a tiny margin, he declared himself as the 'legitimate president' and formed a shadow cabinet. He has crisscrossed the country ever since for the next elections—both for 2012 and for 2018. His two winning formulas as the mayor of Mexico City were to give pensions to all older people; to be in the news all the time by doing public opinion polls (from pricing of the metro to garbage collection); and doing press conferences at 6 a.m. so that he was always in the first news cycle of the day. That bet paid off. When he left as the mayor, his approval rating was 83 percent. All of that earned him a legion of supporters that amounted to about 30 percent of the electorate. With the PRI's corruption scandals and the rise of unprecedented violence, he added another 20 percent of the voters who reasoned that they had nothing to lose. His promises have been vague. He has taken a nativist stance while talking in public. However, he has signaled a 'business as usual' stance when he talked to businesses. Not surprisingly, today, neither the stock market nor the exchange rate market has reacted strongly. However, in the past six months, the credit default swap market has the premium up by

35 percent. The changes he promised are an end to corruption, reversing education and oil industry reforms and more government help for the poor. It is hard to see how he can deliver on ending corruption, but the other two promises can be fulfilled. They will have negative consequences."

A **Luis Rubio, executive partner at the Mexico City office of Holland & Knight:** "On Sunday, Mexico had the biggest election of its history in numbers and importance. With a turnout of 62 percent of eligible citizens, 55 million people chose the president, eight governors, the mayor of Mexico City, the whole Senate and Chamber of Deputies, and other positions. The good news is that the stock market and the exchange rate did not show drastic changes. During his victory speech, López Obrador made some interesting references that could have an impact on Mexico's trade relations with the United States and the rest of the world. In his speech he said 'a relationship of friendship and cooperation for development will be sought with the government of the United States of America,' (referring specifically to the rights and protection of Mexican immigrants in the United States). He later said that reducing current spending and increasing public investment to boost productive activities and create jobs will be made with the objective of 'strengthening the domestic market, to try to produce in the country what we consume.' In reality, these two concepts may be difficult to reconcile. How can we obtain further cooperation for development and, at the same time, restrict, substitute or impose conditions to replace imports from those countries where cooperation will be sought? This dissonant approach to trade will be one of the key policies to watch in the coming months and years."

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