

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Dirk Donath

Senior Partner,
Catterton Aimara

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carl Meacham

Associate VP for Latin America
Int'l Advocacy Division, PhRMA

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Ernesto Revilla

Head of Latin American
Economics, Citi

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Shelly Shetty

Head of Sovereigns Ratings,
Latin America, Fitch

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Does Mexico's Next President Face a Weaker Economy?



In the first full year of his administration, Mexican President-elect Andrés Manuel López Obrador faces slowing economic growth, according to the country's central bank. // File Photo: López Obrador Campaign.

Q Mexico's central bank on Aug. 29 lowered its estimates for growth this year and next year but added that progress in the talks to revamp the North American Free Trade Agreement could remove some uncertainty from the growth outlook.

The central bank said it now expects Mexico's gross domestic product to grow between 2 and 2.6 percent this year and between 1.8 and 2.8 percent next year. What are the biggest headwinds that Mexico's economy is facing, and which industries will be the most affected? What are the biggest reasons for optimism about future growth? How much are Mexico's economic policymakers relying on a successful outcome of the NAFTA talks?

A Sergio Luna, chief economist at Citibanamex: "We have been forecasting GDP growth of 1.9 percent for 2019 since April, based on two key assumptions. First, on AMLO's victory in the presidential election, and second, on a successful renegotiation of NAFTA. We thus find natural revisions like Banxico's, as those premises have proved valid. In the case of NAFTA, 'success' is a relative concept. The bilateral agreement that the United States and Mexico announced is positive in the sense that it helps to mitigate some of the more worrying features of the protectionist proposals of the Trump administration, but it still implies either status quo (fortunately, in agriculture) or even losses versus the current situation (for example, the regional rules of origin for the auto sector). All in all, when it comes to 2019 prospects, the U.S.-Mexico agreement is positive because it reduces

Continued on page 2

TODAY'S NEWS

ECONOMIC

Mexico to Launch Oil Tenders in December

Mexican President-elect Andrés Manuel López Obrador said his government will launch tenders for drilling oil wells soon after he takes office Dec. 1.

Page 2

BUSINESS

Workers at Chilean State Energy Firm Threaten Strike

Workers at ENAP said they would plan a strike after a government report found the company was responsible for a gas leak.

Page 3

POLITICAL

Brazil's Bolsonaro Stabbed, in Serious But Stable Condition

Far-right presidential candidate Jair Bolsonaro was stabbed as he was being carried through the streets of the southern Brazilian city of Juiz de Fora. He was rushed to a hospital with serious injuries.

Page 2



Bolsonaro flashed a "thumbs up" sign from his hospital bed. // Photo: @FlavioBolsonaro via Twitter.

POLITICAL NEWS

Brazil's Bolsonaro Stabbed, Condition Serious But Stable

The right-wing front-runner in Brazil's presidential race, Jair Bolsonaro was stabbed Thursday during a campaign rally in the southern city of Juiz de Fora, in Minas Gerais State, and was rushed to a hospital where he was listed in serious but stable condition, O Estado de S.Paulo reported. Bolsonaro, a member of Brazil's Chamber of Deputies and the Social Liberal Party, was being carried through the streets of the city when the assailant lurched toward him with a knife. The candidate sustained a single knife blow that punctured his small intestine in three places, leading to internal bleeding. He was treated in the intensive care unit of the Santa Casa hospital and is to be transferred today by plane to the Albert Einstein Hospital in São Paulo. Bolsonaro's son Flavio said in a posting on Twitter that his father's knife wound was "graver than we expected" and that he had arrived at the hospital "nearly dead." He added, "Please pray!" He later posted a photo on Twitter showing his father lying in a hospital bed flashing a "thumbs-up" signal. Police arrested the man allegedly responsible for the attack,

40-year-old Adelio Bispo de Oliveira, O Estado de S.Paulo reported. In a video posted to social media by Senator Magno Malta, who went to visit Bolsonaro in the hospital, Bolsonaro is seen making his first public statements after the attack. He thanked the hospital's medical team and God. "This wonderful and blessed team prevented the greatest evil from happening," he said in a low voice. Politicians in Brazil universally condemned the attack. "It is intolerable that, living in a democratic state of law, it's not possible to have an orderly campaign," President Michel Temer said in a televised address, The New York Times reported. Former Senator Marina Silva, one of Bolsonaro's top rivals, also condemned the attack. "The act of violence against candidate Jair Bolsonaro is inadmissible and represents a double assault: against his physical integrity and against democracy," Silva said in a tweet.

ECONOMIC NEWS

Mexico to Launch Oil Tenders in December: AMLO

Mexican President-elect Andrés Manuel López Obrador on Thursday said his government will

NEWS BRIEFS

Guatemalan Foreign Minister Tells U.N. Chief Not to Interfere

Guatemala's foreign minister on Thursday said U.N. Secretary General Antonio Guterres should not interfere in the Central American country's decision to bar the head of a U.N.-backed anti-corruption commission from re-entering the country, Reuters reported. "Mr. secretary-general, you are at the service of the member states. It is unacceptable and against the purpose of the United Nations to try to be a supranational entity," said Foreign Minister Sandra Jovel. President Jimmy Morales earlier this week barred Iván Velásquez from re-entering Guatemala while he was on a trip to the United States.

Mexican Authorities Find 168 Skulls in Mass Grave in Veracruz State

Mexican authorities said Thursday they had discovered 168 human skulls in a mass grave in Veracruz State, The New York Times reported. Veracruz Attorney General Jorge Winckler Ortiz said personal items and clothing found at the site suggested the victims were killed two years ago. Drug cartels have a strong presence in Veracruz, where another mass grave with 250 human skulls was found last year. Officials say more than 300,000 people have gone missing in Mexico in recent years.

Brazil's Rate of Inflation Unexpectedly Slows in August

Brazil's consumer price inflation unexpectedly slowed in August to 4.19 percent year-on-year, according to a report released Thursday by IBGE, the country's statistics agency, the Financial Times reported. It decreased 4.48 percent as compared to the previous month, a higher drop than the 4.29 percent the market had forecast.

FEATURED Q&A / Continued from page 1

a source of uncertainty. But the agreement itself does not imply an extra stimulus to economic activity. In the case of AMLO, two aspects are behind our current projection. First, while we do not think the energy reform will be reverted, its execution will proceed more slowly; this should therefore limit the upside for private investment. Second, the major fiscal re-engineering AMLO has in mind will face implementation challenges, and therefore we think public expenditure will be unusually weak in the first half of next year; this should affect activities such as construction. Eventually, we expect the fiscal stance to shift to the opposite direction, but

for all of 2019, these factors should imply a softening of economic growth."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "A positive trade agreement with the United States and Canada removes a risk factor but does not resolve Mexico's structural bottlenecks. Mexico still has a long way to go to lift its structural restrictions and increase the economy's production capacity, which is necessary to attain higher and sustainable growth rates. Mexico's central bank reduced its growth estimates because the

Continued on page 4

launch tenders for drilling oil wells starting in December, when he takes office, El Universal reported. "Tenders to drill wells are already being drawn up, and prepare yourselves, because we are going to launch them from the first days of December," López Obrador said during a news conference to announce the latest members of his economic team, Reuters reported. The

“ We’re preparing the rescue plan for the oil industry...”

– Andrés Manuel López Obrador

president-elect did not give details of the new tenders, but an unnamed industry source told Reuters that López Obrador was likely planning to give service contracts to private companies to help state oil company Pemex extract more crude. The tenders for drilling would be part of López Obrador's plan to boost Mexico's crude output quickly and strengthen Pemex's role in the country's crude production, which has fallen to its lowest rate in decades at 1.8 million barrels per day. "We're preparing the rescue plan for the oil industry, which will consist of extracting more oil soon, and we're going to need these companies that have experience," added López Obrador.

BUSINESS NEWS

Workers at Chilean State Energy Firm Threaten Strike

Workers at Chilean state energy company ENAP on Thursday said they would plan a nationwide strike after the government said the firm was responsible for an industrial gas leak that left more than 300 people seeking medical treatment last month, Reuters reported. Nolberto Díaz, president of the ENAP workers' federation, told journalists in the Quintero industrial zone that other companies were to blame for the "toxic cloud" and said the government was accusing them without proof, the wire service

THE DIALOGUE CONTINUES

Have Voters Spurred Colombia to Step Up Anti-Graft Efforts?

Q Millions of Colombians voted on Aug. 26 in favor of seven referendum proposals intended to fight corruption. While more than expected, the turnout failed to reach the minimum vote threshold, stopping the initiatives from moving forward. The referendum included measures such as establishing congressional term limits, cutting lawmakers' salaries by 40 percent and imposing tougher penalties on corrupt officials. The referendum's passage with the necessary quorum would have required Congress to pass legislation implementing the proposals over the next year, or force President Iván Duque to issue a decree doing so. What do the referendum results mean for the future of the proposals? Would the initiatives that were included reduce corruption in Colombia? Will Congress consider legislation to enact any of them soon?

A Ken Frankel, president of the Canadian Council for the Americas and senior policy advisor at Blue Star Strategies: "It's tempting but perhaps premature to interpret the referendum results too zealously or definitively. Yes, it's a positive and encouraging sign of citizen engagement that many more people voted than had been anticipated, particularly given that it was the fourth time in five months that Colombians were summoned to the voting booth. Yes, this has served as a catalyst for President

Duque to assemble a broad coalition of the willing to ostensibly develop responsive legislation—a useful political opportunity for him after providing vocal but not active support for the referendum. And yes, former President Uribe's cynicism (including changing his position on the referendum for transparently political machinations, not substantive reasons) during the process was noted nationally and seems not to have been politically astute after all. It's easier for voters to throw all the blame for corruption on the politicians (the focus of the referendum questions did) rather than engage in a serious national reflection about corruption and the many ways in which it permeates society. Except for some who thrive on corruption by fishing in murky waters, as a Colombian would say, who wouldn't vote for curbing corrupt political practices? Former governor of Antioquia and mayor of Medellín Aníbal Gaviria was spot-on when he characterized the vote as an important but essentially populist exercise. Uribe has much bigger concerns these days with his upcoming court appearance than any minimal fallout caused from his stance on the referendum."

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

reported. The company has repeatedly denied assertions that it is to blame. The allegations prompted ENAP's vice president, Gonzalo de la Carrera, to resign on Wednesday night to protest the government's claims, La Tercera reported. "It would be an ethical dilemma if I had to accept a report that is absolutely contradictory to the technical reports that we have," he said on Chilean radio Thursday morning.

He added that the gases in the leak, nitrobenzene and methylchloroform, are substances over which ENAP never had control. The leak, which affected some 300 people with nausea and vomiting, brought a quick government response, with Chilean President Sebastián Piñera and his environment minister visiting the area and vowing to undertake long-term measures to curb pollution, Reuters reported.

FEATURED Q&A / Continued from page 2

economy is showing its limited capacity and prolonged weakness. In 2018, the economy was expected to grow more because of the positive impact of reforms and the expansionary effects of the political cycle in a year of elections. However, the economy was affected by threats from the U.S. government regarding trade and investment, the Fed's rate hikes and uncertainty surrounding elections. As a result, the economy will

“A new NAFTA will help, but it will not resolve the economy's chronic anemia.”

— Alfredo Coutiño

grow around 2 percent in 2018. Next year, the economy will be affected by, first, the traditional deceleration of the first year of each new administration, when the execution of the federal budget is delayed due to the change of the economic team. Second, it will be affected because the economy is also weakening because of anemic investment. Third, the economy will be affected because fiscal and monetary policies were tightened by force in order to correct imbalances and distortions. Another headwind comes from the continuation of the Fed's rate hike cycle, which imposes pressures on domestic monetary policy. In addition, markets will remain cautious, looking at how the new government will manage the economy during its first year. The trade agreement seems to be resolved, at least as a bilateral accord. Mexico's future depends on the ability of the new government to address low growth through the fundamental source of growth: accumulation of capital, instead of by using expansionary policies. A new NAFTA will help, but it will not resolve the economy's chronic anemia.”

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

“Let us take one step back and ask ourselves the following question: How good have the Banxico forecasts been about GDP growth in the past? If we examine 24-month out forecasts for the past two decades, the average predicted growth was 3.84 percent, whereas actual growth was 1.13 percent. It is a little better when we examine the 12-month ahead forecasts. However, one element remained constant: The actual growth rate has consistently run below the forecast. This should caution us not to take Banxico forecast numbers seriously. The Mexican economy has been bubbling along at about the same pace overall for the past two decades. Compared with the United States, the growth rate has been far more volatile. This is a feature, not an exception. If we examine the Mexican economy for the past 100 years, volatility has been much bigger than the country's northern neighbor. While Mexico is not growing at the rate of China or South Korea, it would be useful to recall that the U.S. economy has grown at the rate of 2 percent per year over the past two centuries. What needs to be done to improve economic growth in Mexico? Santiago Levy has prescribed the employment of salaried workers. With a large body of data, he showed that if firms can employ salaried workers even if they are in the informal sector, the productivity in Mexico can be substantially raised. The productivity (or lack thereof) in Mexico has been the key factor. For example, per capita GDP in South Korea was the same as Mexico in 1985. But South Korea has moved to a different orbit since, thanks to growth in labor productivity. Mexico has not.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2018

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, Asia and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.