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FEATURED Q&A

Will Brazilians Back Bolsonaro's Plans to Privatize?



Financial markets so far have reacted positively to the presidency of Brazil's Jair Bolsonaro. // File Photo: Brazilian Government.

Q Stocks in Brazil's Bovespa index hit record highs in the first days of the year amid investor optimism about the new government of President Jair Bolsonaro. In his inaugural address, Bolsonaro pledged to "carry out important structural reforms," and within days of taking office, he announced plans to privatize 12 airports and four seaports. Will Bolsonaro's privatization plan achieve the results he anticipates? What roadblocks could his privatization agenda encounter? Which industries are poised to prosper under his plan, and which will lag behind? What other initiatives should Bolsonaro undertake to spur economic growth?

A Samar Maziad, vice president and senior analyst in the sovereign risk group of Moody's Investors Service: "Jair Bolsonaro's election as Brazil's president has improved investor sentiment because of expectations of market-friendly policies, including the resumption of fiscal reform. However, a fragmented Congress still poses a risk. Although the economic policy direction of the new administration is taking shape with a focus on pension reform and privatization, policy coordination within the government and relations with Congress are untested, posing risks for policy implementation. The new administration will likely face challenges in passing constitutional amendments and will need to work to build coalitions to approve reforms. In addition, contradicting views within the administration will likely lead to mixed messages regarding policy direction. If this persists, it could eventually lead to market volatility if reforms are delayed. Additionally,

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TODAY'S NEWS

POLITICAL

Guyana's Granger, Opposition Leader Agree on Elections

Guyanese President David Granger and opposition leader Bharrat Jagdeo agreed to new elections in their first meeting since a Dec. 21 no-confidence vote.

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ECONOMIC

López Obrador Calls for Calm Amid Fuel Shortages

President Andrés Manuel López Obrador told Mexicans not to panic as fuel shortages continued across Mexico. The shortages followed López Obrador's moves to combat fuel theft.

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POLITICAL

Venezuela's Maduro to Begin New Term Today

Venezuelan President Nicolás Maduro is to be sworn in today for his second term. Thirteen nations recently said they would not recognize his government, calling his re-election fraudulent.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Guyana's President, Opposition Leader Agree on Elections

Guyana's president and top opposition leader met on Wednesday for the first time since the country's parliament approved a no-confidence vote last month, with the two men agreeing to hold new elections, the Associated Press reported. President David Granger and opposition leader Bharrat Jagdeo met for more than an hour and agreed to the vote as soon as the elections commission can prepare for it, the wire service reported. Granger has almost two years left in his term and said after meeting with Jagdeo that he will work with election officials to set a date for the vote. "Public ser-

vices have to be delivered and public order has to be maintained," said Granger. Jagdeo, who was the country's president from 1999 to 2011, said the elections must be held by April 30, Stabroek News reported. Jagdeo also warned Granger's coalition not to submit any new legislation before the vote, the AP reported. The country's ruling coalition fractured Dec. 21 when the country's National Assembly passed a no-confidence vote. The coalition lost after a deciding vote by Charrandass Persaud, a ruling-coalition legislator who later fled to Canada. Granger's government has argued that the motion would have needed 34 votes to pass, not the 33 that it received. The government also questioned whether Persaud, who has dual citizenship, can vote in the assembly. He has since been expelled from the chamber and replaced. A court hearing is scheduled for next week to hear the case against his eligibility to vote in the assembly.

NEWS BRIEFS

Venezuela's Maduro to Begin New Term Today

Venezuelan President Nicolás Maduro is scheduled to be sworn into a second term today. Cuban President Miguel Díaz-Canel and Bolivian President Evo Morales are to attend the ceremony in Caracas, the Associated Press reported. However, 12 Latin American countries and Canada recently said they would not recognize Maduro's legitimacy as president, saying his election last May was fraudulent. Venezuelan Defense Minister Vladimir Padrino López reportedly asked Maduro to step down last month, threatening to resign if he didn't, The Washington Post reported Wednesday, citing an anonymous U.S. intelligence official.

Trump to Make Case For Wall Today at Border

U.S. President Donald Trump is to visit the border town of McAllen, Tex., as he continues to push for funds to build his long-promised wall along the U.S.-Mexico border that on Tuesday he said was "absolutely critical to border security," Reuters reported. He will make the trip on the 20th day of a partial government shutdown that has 420,000 federal employees working without being paid and another 380,000 public workers on leave without pay.

Brazil's JBS to Sell \$5 Mn in Pork Products Through U.S. Bailout Program

Brazilian meatpacking firm JBS will sell 1.8 million pounds of pork products for approximately \$5 million through a Trump administration bailout program that was intended to help U.S. farmers hurt by the government's trade war with China, The Washington Post reported, citing records from the U.S. Department of Agriculture. Most of the \$12 billion program consists of direct cash payments to U.S. farmers, but the government is also buying \$1.2 billion in surplus products, including pork.

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Bolsonaro could challenge the way Brazilian institutions function, creating political noise in the process. Ultimately, the policies themselves and the president's ability to push through fiscal and structural reforms that support growth will determine Brazil's credit prospects. The central bank will likely maintain a relatively accommodative monetary policy stance in the context of still-weak growth. Corporate profits will gradually recover in 2019 as high unemployment at around 12 percent and a large output gap reflecting excess capacity in different sectors continue to weigh on private consumption and investment. A continued period of low interest rates should support economic activity. Structural reforms and sustained economic recovery would benefit nonfinancial corporations, such as airlines, steelmakers, homebuilders and building materials producers, that depend on discretionary consumer spending or investments. Diminished government influence over state-owned enterprises would support operating and financial performance for state oil company Petrobras."



Shelly Shetty, member of the Advisor board and head of Latin American sovereign ratings at Fitch Ratings: "Structural

reforms are required to boost Brazil's modest potential growth. This is especially important given risks emanating from the external headwinds confronting Brazil. Tightening external financing conditions for emerging markets, commodity price volatility, China's slowdown and a protracted and slower recovery in Argentina are the major external risks Brazil could face in 2019. Brazil's 10-year average growth rate of just over 1 percent is very low and has been a factor contributing to the worsening fiscal dynamics. Improving the business climate, liberalizing the economy, increasing trade openness, reducing state participation through rationalization of bureaucracy, privatizations and greater infrastructure investment will all be necessary for Brazilian potential growth to improve. Some of these elements form part of Bolsonaro's agenda. However, the speed and scope of pushing through microeconomic reforms to boost

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ECONOMIC NEWS

López Obrador Calls for Calm Amid Fuel Shortages in Mexico

Mexican President Andrés Manuel López Obrador on Wednesday called on Mexicans to avoid panicking as gasoline shortages at service stations across the country continue, El Universal reported. López Obrador last week announced new measures to protect Mexico's oil pipeline network from fuel theft, deploying

“There is enough gasoline in the country ... We are in the process of returning to normal deliveries.”

— Andrés Manuel López Obrador

military troops to guard them and forcing the shutdown of some of state oil company Pemex's pipelines. This in turn caused fuel shortages in at least six states, including Mexico City and Guanajuato, prompting long lines at service stations as Mexicans rushed to purchase available gasoline. “We're going to resist the pressure ... How can you support us? By acting prudently and calmly, without panicking, without listening to alarmist and biased information,” López Obrador said at his daily press conference, Agence France-Presse reported. “There is enough gasoline in the country ... We are in the process of returning to normal deliveries,” he added. He said there were shortages because of a change in the fuel distribution system. On Tuesday, Pemex said the shortages at gas stations were due to “logistical adjustments” and that supply will be restored “in the short term.” The government estimates fuel theft amounts to as much as \$3.5 billion of gasoline every year. Incidents fell from 787 truckloads stolen every day to 177 since soldiers started guarding the pipelines last week, López Obrador said Tuesday, Reuters reported.

CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

Engel Elected Chairman of the House Committee on Foreign Affairs

U.S. Representative Eliot L. Engel (D-N.Y.) was unanimously elected chairman of the House Committee on Foreign Affairs with the start of a new Congress last week. “We'll work to underscore the importance of American values—human rights, democracy and the rule of law—as pillars of our foreign policy,” Engel said following the vote. “And, we will bring a new focus to issues including climate change and the root causes of migration.” In his statement, Engel added that he would push the administration for answers on its policies toward the world's “most important hotspots,” including Venezuela.



Engel // File Photo: U.S. House of Representatives.

Three Republican Senators Call for Reopening of Gov't Without Border Deal

Senators Lisa Murkowski (R-Alaska), Susan Collins (R-Maine) and Cory Gardner (R-Colo.) on Tuesday called for the partial federal government shutdown to end before the Trump administration and top Democrats continue negotiations on border security, Axios reported. Their separate statements came hours before President Donald Trump demanded that Congress appropriate \$5.7 billion for his long-promised wall along the U.S.-Mexico border in a prime-time national television address. Democrats in the House of Representatives have approved a spending bill that would allocate resources to most government agencies that are now closed, but Trump has promised to veto it. “I see no reason why the bills that are ready to go and on which we've achieved agreement should be held hostage to this debate over border security,” Collins said, Axios reported. The Senate has the power to override a veto with 67 votes.

Torres Blasts Morales' Decision to Expel Anti-Graft Commission From Guatemala

U.S. Representative Norma J. Torres (D-Calif.) on Monday blasted Guatemalan President Jimmy Morales' decision to withdraw the country from and expel the United Nations-backed International Commission Against Impunity in Guatemala, or CICIG. “[Morales] has engaged in a pattern of behavior that has undermined Guatemala's justice system,” she said in a statement. As a result of legislation Torres sponsored last year, the State Department will report to Congress in February about high-level politicians in Central America who are involved in corruption and drug trafficking, she added.

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investment and growth is uncertain. Privatizing parts of the transportation sector can have positive spillovers, although the timeline for implementation is unclear. Moreover, a more aggressive privatization effort can face political and social resistance. Besides the microeconomic reform agenda, making progress on fiscal reforms to strengthen the medium-term outlook for public finances will be critical for sustaining the recent improvement in market confidence. The social security reform is paramount for containing spending growth and making the 'spending cap' (a new institutional anchor for Brazil's fiscal policy) credible and viable over time. While the new administration is signaling its willingness to implement a pension reform, congressional resistance can still undermine the prospects of a meaningful reform given its unpopular nature."

A **Aaron Melaas, senior associate at McLarty Associates:** "There is broad scope for privatization in Brazil, given the costs of maintaining state-owned enterprises. The 400 such enterprises at the federal and state levels received \$3.9 billion in federal funds in 2017. In addition to cutting costs, the Bolsonaro administration claims that its plan to privatize major parts of the transportation infrastructure will generate nearly \$1.9 billion in investment—while privatization of additional state-owned enterprises in the energy sector could draw billions more. The privatization drive is led by influential policymakers, including Economy Minister Paulo Guedes and Petrobras CEO Roberto Castello Branco. However, other interests remain resistant to moving forward quickly. Several cabinet members with military backgrounds are particularly cautious about privatizing state enterprises in strategic sectors. These include Government Secretary Carlos Alberto dos Santos Cruz, who is responsible for the Investment Partnership Program (PPI), and Energy Minister Bento

Costa Lima Leite. The Supreme Court also ruled last year that sales of major Petrobras assets require congressional approval, so the Bolsonaro administration will have to negotiate with legislators who are concerned about a repeat of last year's trucker strike if Petrobras allows diesel prices to rise as well as potential job losses if Eletrobras is privatized. A recent Datafolha poll showed 60 percent of respondents were opposed to privatization, so management of the process will face intense scrutiny to ensure transparency and limit corruption. Developing an effective privatization agenda will require the Economy Ministry to expand its focus, developing regulatory proposals to promote competition and ensure private investment creates social benefits without compromising public services."

A **Gary Clyde Hufbauer, nonresident senior fellow at the Peterson Institute for International Economics:** "President Bolsonaro's plan to privatize 12 airports and four seaports will likely trigger strikes by unionized government workers. Without drastic labor reforms, the airports and seaports will not be worth much to private investors. But the looming contest brings to memory President Reagan's celebrated confrontation with PATCO, the air-traffic controllers union, in 1981. Reagan prevailed, and that victory set a commanding tone for his White House years. Whether Bolsonaro is equally successful remains to be seen. If not, he will find it difficult to carry through with pension and entitlement reforms—a more difficult but even more essential undertaking that is sure to spark widespread resistance, not least among his military supporters. At this juncture, the Bovespa banquet seems premature."

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