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FEATURED Q&A

Why Does Cuba Need to Ration Basic Products?



Cuban Commerce Minister Betsy Díaz Velázquez blamed the Trump administration's hardening of the U.S. trade embargo for Cuba's need to begin rationing several staple foods. // File Photo: Cuban Government.

Q Cuba's government announced May 10 that it would ration products including eggs, chicken, cooking oil and soap amid widespread shortages in the country. What are the main reasons for the shortages of the basic goods? How big of a role have the U.S. embargo of Cuba and other sanctions played in the island's economic problems? Even if the U.S. does not lift the embargo, what should Cuba do in order to strengthen its economy?

A Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana: "The unwillingness or inability of Cuba's leaders to institute market-based reforms is the principal reason for the island's failing economy.

This, combined with a tired bureaucracy and top-down decision-making, prevents entrepreneurial Cubans from succeeding and discourages foreign investment. That said, the vengeful U.S. policy that imposes harsh sanctions on most financial transactions with Cuba has significantly contributed to the economy's poor performance in the past and the present. By denying Cuba access to the huge American market and imposing fines on foreign companies trading with Cuba, the United States has retarded Cuba's development and hurt the Cuban people. This was made clear by the Trump administration's rollback of Obama's opening. Under Obama, private entrepreneurs were flourishing as visiting Americans stayed in privately owned rooms, dined in family restaurants and attended musical and artistic events. The precipitous drop in American visitors—who stayed on the island, not in cruise ships—combined with the retreat of American

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TODAY'S NEWS

POLITICAL

Venezuela Crisis Worsening Security Abroad: U.S. Admiral

Venezuela's ongoing crisis is heightening security concerns throughout the Western Hemisphere, said the head of the U.S. Southern Command, or Southcom.

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BUSINESS

Natura Cosméticos Buying Avon in \$2 Billion Deal

The Brazilian cosmetics maker is planning to buy Avon, which has struggled in recent years amid higher competition from online sales of beauty products, in an all-stock deal.

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ECONOMIC

Brazil Cuts Forecast for Economic Growth

Brazil's GDP is expected to grow 1.6 percent this year, down from a previous forecast of 2.2 percent. Finance Secretary Waldery Rodrigues said the country is "under strong financial stress."

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Rodrigues // File Photo: Brazilian Government.

ECONOMIC NEWS

Brazil Cuts Forecast for This Year's Economic Growth

Brazil has cut its forecast for economic growth and tax revenue for this year as President Jair Bolsonaro's administration struggles to push key economic legislation through Congress, The Wall Street Journal reported Wednesday. The country's gross domestic product will expand 1.6 percent this year, down from the March forecast of 2.2 percent growth, the Economy Ministry said Wednesday. Brazil's GDP grew just 1.1 percent in 2017 and in 2018 as it continued to struggle to fully recover from the country's worst recession, Bloomberg News reported. Brazil "is under strong financial stress," Finance Secretary Waldery Rodrigues said during a press conference in Brasilia. The latest cut in Brazil's growth forecast follows newly released central bank figures that show economic activity, a key indicator of GDP, shrank 0.68 percent in the first quarter of the

year. Some analysts had shown optimism when far-right Bolsonaro was elected last year, expecting pro-market policies and a surge in investment that would boost growth, Bloomberg News reported. However, the government has failed to get key economic reforms through Congress, including a pension overhaul that would cut costs by about 1 trillion reais (\$250 billion) over 10 years. "People were hoping the pension bill would be approved in the first half, but it's starting to look like it won't be until the third or fourth quarter," economist Daniel Xavier told the Wall Street Journal. "That uncertainty is affecting business decisions."

POLITICAL NEWS

Venezuela Crisis Worsening Security Abroad: U.S. Admiral

Venezuela's ongoing crisis is heightening security concerns across the Western Hemisphere, with President Nicolás Maduro's influence in

NEWS BRIEFS

Nicaraguan Finance Minister Warns Banks Not to Participate in Strike

Nicaragua's finance minister on Wednesday warned the country's banks against participating in a general strike planned for today, the Associated Press reported. Opposition leaders have called for a general strike to pressure President Daniel Ortega's government to release political prisoners. However, Finance Minister Iván Acosta said banks must remain open because they are regulated by the government.

Ikea to Launch First Store in Mexico Next Year

Ikea will launch its first store in Mexico in the fall of 2020 and plans to open other stores across the country, the company said Wednesday, Reuters reported. The Swedish furniture chain will also sell its products online, according to the retail manager for Ikea Mexico, Malcolm Pruys, who said the company has a "reasonably aggressive expansion plan" for the North American country. The first Mexican store, in Mexico City, will be medium-sized, with around 7,500 products for sale, a restaurant capable of seating more than 650 people and an offsite e-commerce warehouse.

Colombia's Coal Output Rises 6.5% in First Quarter

Colombia's coal production rose 6.5 percent in the first quarter of the year, as compared to the same period a year earlier, to 20.9 million metric tons, according to government figures released Wednesday, Reuters reported. Last year, Colombia produced 19.6 million metric tons in the January-March period and 83.4 million metric tons for the full year, 7.4 less than in the previous year due to heavy rains disrupting operations at several major mines. Colombia is the fifth-largest exporter of coal in the world.

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investment has had a disastrous impact on the economy. The sad fact is that if the United States had continued its opening to Cuba, private economic activity would have continued to expand, and Cubans would be better off. The Trump administration's policies have—as intended—caused an economic downturn. A reversal that will cause great suffering among the Cuban people and likely further entrench the Cuban government."

A Carmelo Mesa-Lago, distinguished service professor emeritus of economics and Latin American studies at the University of Pittsburgh: "Cuba has been importing about \$2 billion annually in food for many years, due to poor performance in agriculture and fishing: output of 13 products in 2017 was well below the 1989 level.

Servicing foreign debt has forced the government to cut food imports. The combination of poor domestic production and import cuts have generated the severe scarcity and the need to ration those items. In addition to an inefficient economic system (central plan, largely collectivized agriculture and the acopio—compulsory selling of part of the crop to the state at prices set by the government below the market price), the major cause of the shortages is the severe crisis in Venezuela. Since the peak of the Venezuelan economic relationship (buying Cuban professional services, supplying oil and direct investment) in 2012, Cuba has lost the equivalent of 8 percentage points of its GDP. If the Maduro's regime collapses, it could cost Cuba another 8 percentage points. The embargo is a problem but not the major cause of the shortages, as Cuba has trade with

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Latin America posing a “significant threat” to the region’s stability and democracies, the top U.S. military commander for South America, Central America and the Caribbean told The Hill. Navy Admiral Craig Faller, the head of U.S. Southern Command, or Southcom, told the newspaper in an article published today that Maduro’s presence is worsening security problems in other Western Hemisphere countries. “I don’t think I’d even call them a regime—it’s a mafia. It’s an illicit business that he’s running with his 2,000 corrupt generals. It’s ruining the country,” he told The Hill. “And the effects of that are compounding every other security problem in our neighborhood. Every security problem is made worse by Venezuela.” U.S. President Donald Trump has not ruled out military action in Venezuela, saying “all options are on the table.” The U.S. Navy earlier this month said it would deploy the USNS Comfort to the region in June to aid in humanitarian relief efforts. Some 3.4 million Venezuelan migrants and refugees have left the country amid its crises, the United Nations’ refugee agency said in February. [Editor’s note: See related [Q&A](#) in the May 10 issue of the Advisor.]

BUSINESS NEWS

Natura Cosméticos Buying Avon in All-Stock Deal

Brazil’s Natura Cosméticos has reached an agreement to buy Avon Products in an all-stock deal valued at roughly \$2 billion, Natura said Wednesday, The Wall Street Journal reported. Under the agreement, each Avon share will be exchanged for 0.3 of a Natura share. Avon had nearly 443.2 million shares outstanding as of March 31. Natura Cosméticos, the São Paulo-based company that owns The Body Shop stores, would control approximately 76 percent of the combined group, and Avon shareholders would own the remainder, the Financial Times reported, citing sources with direct knowledge of the negotiations. The combined company, to be named Natura & Co., will have a board consisting of 13 members, three of whom Avon

THE DIALOGUE CONTINUES

How Can Latin America Become More Productive?

Q **Low productivity has been the primary culprit for Latin America’s limited capacity to transform productive resources into high-quality goods and services, according to a report released last month by CAF-Development Bank of Latin America. What are the reasons behind Latin America’s persistently low productivity rates, and what consequences do they have on the region’s overall growth? What measures should policymakers and businesses implement to reverse this trend? To what extent do non-economic factors such as weak rule of law and bureaucracy play a role in the region’s stagnant productivity measures, and what can be done to improve countries’ business environments in relation to these areas?**

A **Andrew Rudman, managing director at Monarch Global Strategies:** “Lack of investment in innovation and in education (including in STEM) reduce Latin America’s productivity. However, an additional, if often-overlooked, factor is inadequate and/or inefficient health care delivery. Absenteeism and presenteeism (working while sick or otherwise distracted) can be caused or exacerbated by inadequate health care for employees or their families. Long distances between workplace and home or between home and medical facilities may limit the ability of employees and their families to access adequate care. As a result, work-

will name. Together, the companies make up the world’s fourth-largest beauty group in terms of net sales, Natura said in a statement, Folha de S.Paulo reported. The deal is expected to close in early 2020. London-based Avon, which is also U.S. listed, has struggled in recent years with the rise of online beauty sales, losing market share to competitors such as LVMH-owned Sephora, Estée Lauder and L’Oréal. Avon’s

ers may be at their work site but not fully ‘present’ in terms of their productivity. We all appreciate that when we are not feeling well, we are not as productive. A 2016 U.S. Chamber of Commerce study quantified the relationship between productivity and health across 18 countries (including Brazil, Colombia, Mexico and Peru in Latin America). A more targeted study, using a similar methodology and sponsored by the Mexican Innovative Pharmaceutical Industry Association (AMIIF), focused on the auto industry in the Mexican state of Guanajuato and revealed a loss of more than 7 percent of GDP with roughly 80 percent of the loss attributable to presenteeism. Offering onsite medical care for employees and granting limited sick leave to care for dependents could reduce the impact of presenteeism for employers. Public officials should ensure that health care facilities are open outside of normal business hours and, where applicable, improve access to health care by removing geographic or other limitations governing use of specific facilities. Finally, simply viewing health care as an investment rather than a cost would be an important first step to improving both health and productivity.”

EDITOR’S NOTE: The comment above is a continuation of the [Q&A](#) published in the May 16 issue of the Advisor.

equity value has dropped sharply, standing at about \$1.4 billion, based on the stock’s closing price on Tuesday, the Financial Times reported. Avon shares surged 9 percent during regular trading and were up 15 percent in aftermarket trading on Wednesday. Natura is Brazil’s largest cosmetics company, with its own direct sales force in several Latin American countries as well as France.

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at least 81 countries and investment from many. However, Trump's strengthening of the embargo, particularly the application of Title III of the Helms-Burton law and measures to reduce remittances and tourism, will have a severe adverse effect on foreign investment and the Cuban economy. The only way out for Cuba's leadership is to accelerate and deepen the economic structural reforms, following the successful model of market socialism of China and Vietnam."

A Carlos Saladrigas, chairman of the Cuba Study Group and Regis HR Group: "The fundamental problem with Cuba's inability to feed its people is that its productive capacity is constrained by legal and systemic inefficiencies, leading to a high dependency on food imports, which consumes an ever-increasing share of Cuba's foreign-exchange earnings (forex). The dire economic situation in Venezuela, once a major provider of oil and hard currency, is, at the moment, the second most important cause of the growing food shortages, while a deteriorating relationship with the United States, with looming new sanctions, has already caused a decline in U.S. tourism, further reducing available foreign exchange. Lastly, payments to creditors, which cannot be defaulted on, constitute a heavy burden on the dramatically limited forex earnings, coming at the cost of limiting food imports. U.S. economic sanctions, which are on a hardening path, will exacerbate food shortages and severely

hurt the Cuban people. Cuba's nascent private sector, which two years ago had its own boom, is now severely crippled, with revenues falling in many cases by more than 50 percent. I have yet to see a case where sanctions on a closed economy have toppled governments. Yet, they disproportionately harm the people. Proponents of sanctions naively believe that such disproportionate

“ U.S. economic sanctions, which are on a hardening path, will exacerbate food shortages and severely hurt the Cuban people.”

— Carlos Saladrigas

harm will have a pressure-cooker effect, causing a revolt that will topple the government. The United States has been waiting for this for more than 60 years. By hurting and isolating Cuba's future agents of change, the United States is reducing their ability to play such future role. Yet, it remains clear that Cuba's inefficient production system, not U.S. sanctions, is the primary cause of Cuba's food shortages. Notwithstanding U.S. hostilities, Cuba can and should find a way out of this rot by liberating its internal economy and opening its agriculture to market mechanism, while expanding the range of economic activities allowed for private enterprises—and it must do so quickly."

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