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## FEATURED Q&A

# Will Urzúa's Exit Destabilize Mexico's Economic Policy?



Mexican Finance Minister Carlos Urzúa reportedly had several clashes over economic policy with the country's president. // File Photo: Mexican Government.

**Q Mexican Finance Minister Carlos Urzúa unexpectedly stepped down on July 9, citing "many disagreements over economic policy" in a strongly worded resignation letter. Urzúa and President Andrés Manuel López Obrador reportedly clashed over several decisions, including one to cancel the construction of a new airport for Mexico City. What does Urzúa's departure say about the direction of Mexico's economic policy? What can be expected of his successor, Arturo Herrera? What are the most important economic decisions facing López Obrador, and what is at stake for Mexico's economy?**

**A Ariane Ortiz-Bollin, assistant vice president in the Sovereign Risk Group at Moody's Investors Service:** "The resignation of Mexico's finance secretary reflects disagreements about economic policymaking prompted by different economic visions within the López Obrador administration. Even though the appointment of Arturo Herrera—a government official recognized for his technical capacity—as the new secretary will help mitigate immediate investor concerns and the potential impact on the financial markets, it is not clear that the factors that led to Urzúa's resignation will change in the near or medium term. We therefore expect continued uncertainty in the direction of economic policy, which is in line with the views that led us to assign a negative outlook on Mexico's sovereign rating earlier this year. We think Mexico's policy framework is weakening, with potential negative implications for growth and debt, as deteriorating economic rationality behind policymaking is undermining investor confidence and medium-term eco-

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## TODAY'S NEWS

### POLITICAL

## U.S. Secretary of State to Begin Latin America Trip

U.S. Secretary of State Mike Pompeo will visit Argentina, Ecuador, Mexico and El Salvador, in addition to the U.S. territory of Puerto Rico, to discuss counter-terrorism cooperation, Venezuela's crisis and migration.

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### BUSINESS

## Vale Agrees to Pay \$107 Mn Following Dam Collapse

Brazilian mining company Vale has agreed to pay nearly \$107 million in collective damages following the collapse of a tailings dam at its Brumadinho mine in January. The catastrophe killed nearly 300 people.

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### POLITICAL

## Former Peruvian President Toledo Arrested in U.S.

Alejandro Toledo, who was Peru's president from 2001 to 2006, faces extradition to Peru in connection with the multi-country Odebrecht bribery scandal.

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Toledo // File Photo: TV Perú.

## POLITICAL NEWS

## U.S. Secretary of State to Visit Latin America This Week

U.S. Secretary of State Mike Pompeo will visit four Latin American countries and Puerto Rico this week on a trip aimed at addressing regional counterterrorism cooperation, the crisis in Venezuela and migration, The Wall Street Journal reported Tuesday. In addition to visiting the U.S. commonwealth, Pompeo will go to Argentina, Ecuador, Mexico and El Salvador, followed by a stop in Orlando, Fla., on his



Pompeo // File Photo: U.S. State Department.

way back to Washington. The trip is intended to show the sort of “voluntary, flexible, multilateralism” that the U.S. administration promotes, an unnamed senior official told the newspaper. In Argentina, Pompeo is set to participate in a counterterrorism conference of Western Hemisphere countries, and he is scheduled to hold meetings with Argentine President Mauricio Macri, Chilean Foreign Minister Teodoro Ribera and Bahamian Foreign Minister Darren Henfield. The stop in Guayaquil, Ecuador, is an opportunity for the United States to strengthen its ties to the country, the official said, adding that Venezuela will be discussed. The visit to El Salvador, which the official described as taking an “overtly pro-American” approach, comes just as a new Trump administration rule that eliminates protections for many Central American asylum seekers comes into effect. As of Tuesday, migrants who pass through other countries to get to the United States are ineligible for asylum at the U.S. southern border. U.S. immigration officials struggled

with how to implement the policy, which meant closing the border to some 18,700 asylum seekers currently in Mexico, The Wall Street Journal reported. Most of them traveled from Central America and Cuba. The American Civil Liberties Union filed a lawsuit challenging the new rule on Tuesday.

## Former Peruvian President Toledo Arrested in U.S.

Former Peruvian President Alejandro Toledo was arrested Tuesday in the United States and faces extradition to his home country on corruption charges, CNN reported, citing a statement from Peru’s attorney general. Agents of the U.S. Marshals Service arrested Toledo, who was in office from 2001 to 2006, in California, where he lives, The New York Times reported. He appeared before U.S. Magistrate Judge Thomas S. Hixson, who ordered that he remain jailed until his next hearing, which is scheduled for Friday, CNN reported. Toledo is accused in connection with the sprawling Odebrecht corruption scandal, in which the Brazilian construction conglomerate has admitted to paying some \$800 million in bribes to officials in several countries. Toledo is accused of pocketing \$20 million in bribes from Odebrecht, which he denies. In February 2017, Peruvian police raided Toledo’s home in connection with the case. He denied the charges but then went missing, later surfacing in the United States. In an interview with The New York Times, Heriberto Benítez, a lawyer representing Toledo in Peru, played down the former president’s arrest. “The U.S. hasn’t approved an extradition,” said Benítez. “This isn’t them handing over Alejandro Toledo. It’s the beginning of a judicial process in the U.S.” During Toledo’s time in office, Peru experienced rapid growth, with Odebrecht taking advantage of the expansion. The company secured several deals with the Toledo government, including the construction of a highway through part of the Amazon and a potable water system in Ancash Province, the newspaper reported. However, Toledo’s popularity plunged during his presidency, and he left

## NEWS BRIEFS

## Ecuador Knew Assange Was Meddling in U.S. Election: Correa

Ecuador was aware that WikiLeaks founder Julian Assange, who took refuge in the Ecuadorian embassy in London for about seven years, interfered in the 2016 U.S. presidential election, former President Rafael Correa said Tuesday, CNN reported. “We did notice ... and we do not allow that because we have principles,” Correa said. A report published by CNN on Monday describes how Assange used the embassy as a command center to release a series of documents that influenced the U.S. presidential campaign and claims Assange also met with Russians and world-class hackers.

## U.S. Reportedly to Divert Central America Aid to Venezuelan Opposition

The administration of U.S. President Donald Trump is planning to divert \$41.9 million in humanitarian aid that had been earmarked for Central America toward the opposition in Venezuela instead, Reuters reported Tuesday, citing an internal document. The funds had been destined for Guatemala and Honduras, but a congressional notification from the U.S. Agency for International Development, or USAID, said the money will instead be used for salaries, travel, communications equipment, technical assistance, training and other needs of the Venezuelan opposition.

## Argentina Inflation Slows for Third Straight Month

Argentina’s rate of inflation rose 2.7 percent in June, the third consecutive month that increases in consumer prices have slowed, the country’s statistics agency said Tuesday, Reuters reported. Rolling 12-month inflation was 55.8 percent last month, falling for the first time this year, as compared to the 57.3 percent registered in May, the statistics agency said.

office with approval ratings in the single digits. [Editor's note: See related [Q&A](#) in the May 14 issue of the Advisor.]

## BUSINESS NEWS

# Vale Agrees to Pay \$107 Mn Following Deadly Dam Collapse

Brazilian mining giant Vale has agreed to pay out nearly \$107 million in collective damages and \$186,000 to each of the close relatives of nearly 300 people killed when one of its tailing dams collapsed in January, The Guardian reported Tuesday. A dam at Vale's iron ore mine in the town of Brumadinho in Minas Gerais State on Jan. 25 sent a river of sludge into the facility's cafeteria and offices and nearby

“Money will not pay for my peace, which has left along with my son.”

— Maraliz Fernandes

homes, killing 248 people. Another 22 are still missing. “You can't pay for the loss of my son's life. You can't pay for the plans and dreams he had for the future,” said Maraliz Fernandes, whose son worked for Vale and was killed in the disaster, The Guardian reported. “Money will not pay for my peace, which has left along with my son,” she added. Vale has yet to admit any responsibility, but it has reaffirmed “its total commitment to the prompt and fair reparation of damages caused to families, to the infrastructure of communities and to the environment,” the miner said in a statement. The company may adjust provisions for the dam burst as part of its second-quarter results, Vale said in a securities filing on Tuesday, Reuters reported. It did not detail how it planned to change its provisions. [Editor's note: See related [Q&A](#) in the Feb. 12 issue of the Advisor.]

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economic prospects. In addition to persistently lower growth, prospects of substantial and recurrent support to Pemex introduce risks to the medium-term fiscal outlook, despite the government's near-term commitment to fiscal austerity and this year's fiscal deficit goal. The key challenge facing the president and his team is the need to articulate a coherent and consistent set of policies that will reinstate policy credibility, particularly for Pemex. The government's commitment to fiscal austerity, while simultaneously providing financial support to Pemex and meeting its social and infrastructure agenda, pose a policy trilemma for the administration, particularly in the current low growth context.”

**A** **Antonio Ortiz-Mena, senior vice president at Albright Stonebridge Group:** “Carlos Urzúa's resignation took many by surprise given its suddenness and his ‘slamming the door’ on his way out. There is broad consensus within the AMLO administration that a main challenge is to attain high and sustainable GDP growth rates that translate into improvements in real GDP per capita, the need for the Bank of Mexico to remain independent and maintain its core mission of combating inflation and to maintain fiscal prudence. There are nonetheless significant disagreements on the nature and extent of budget cuts and spending priorities. Urzúa expressed disagreements on both counts. Macroeconomic stability is a necessary but not sufficient condition to attract foreign and domestic investment and thus foster greater economic growth. The government needs to speak with a single voice regarding economic policy and to provide legal certainty to foreign and domestic investors. The clash between the Federal Electricity Commission (CFE) and several foreign and domestic companies over the terms of pipeline contracts does not bode well; in an interview, Urzúa said this was one of the reasons for his resignation. The president

has second-guessed former Undersecretary of Finance Herrera in public at least twice. As finance minister, Herrera will have his work cut out in ensuring fiscal stability and making sure that budget cuts do not harm the ability of key government agencies to function adequately and that spending has significant positive externalities. That means he must have a say in Pemex's business plan and set limits to its fiscal support going forward, and he must make sure that there are no market-adverse actions announced either by the president or top government officials. That is a tall order.”

**A** **Jonathan Heath, deputy governor at the Bank of Mexico:** “Urzúa's resignation did not come as a complete surprise, as he was expected to return to academia sometime in the first half of Andrés Manuel López Obrador's presidency. What was unexpected, however, was the swiftness of it, the strongly worded notification letter and the resulting post-resignation interviews that have highlighted the many disagreements between the two. Some were well-known, such as the Mexico City airport project, the construction of the Dos Bocas refinery, Pemex's business plan and the elaboration of the National Development Plan. Still, the manner in which Urzúa left underlined his growing frustration with AMLO's style and obstinacy. Nevertheless, Urzúa's departure, coupled with Herrera's appointment, does not necessarily entail a change in economic policy, as fiscal conservatism, independent monetary policy and a flexible exchange rate regimen remain firmly in AMLO's mind. AMLO's overall goals remain intact: to fight corruption, to spend better, to reduce inequality and to dismantle the crony-capitalism structure that dominates most businesses. In the short-term, his biggest challenges lie in getting the economy up and running, which entails redirecting public expenditures toward a much more efficient arrangement, together with a renewed participation with

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the private sector, which still needs to be convinced that his policies make sense. The U.S. ratification of the new trade treaty would definitely help. In the medium- to long-term, AMLO needs to determine how to effectively fight rising crime and violence.”

**A** **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:** “What is at stake in Mexico is perpetual stagnation or growth. To achieve more robust growth and continue to push households from poverty into the middle classes, Mexico needs to engage in second-generation reforms. This entails less government intervention, credit expansion, heightened competition and better education and training. And this needs to be done while preserving macroeconomic virtue. These rather obvious strategic choices do not seem to be a priority for President López Obrador, whose current focus is constitutional reform, most likely to allow re-election. This vision would most probably clash with that of Urzúa, who had as his highest priority tax reform to enhance receipts and the cost of evasion. This evidently did not sit well with López Obrador, whose chief of staff is one of Mexico’s richest businessmen and a beneficiary of current tax laws. Urzúa has completed the learning circle for those who study populism. Like Felipe Pazos in Cuba, Maritza Izaguirre in Venezuela and Roberto Lavagna in Argentina, Urzúa’s departure signals the end of the primary phase of populist deployment when the head of state attempts to bedazzle everyone in order to get the nation to engage in constitutional reform. When this proves to be impossible, the head of state gets rid of those who delay or block changes that increase the already powerful executive branch of government. Urzúa’s departure can only be read as ‘populism is well and alive in Mexico.’ ”

**A** **José Carlos Rodríguez Pueblita, CEO and founding partner of Pondera Lab:** “Urzúa’s departure was expected, given the recent performance of the Mexican economy and reported constant clashes with other cabinet members. The timing of his departure was surprising though. Urzúa was an outcast among AMLO’s economic team: he is an economist with solid academic credentials and is known for using evidence, rather than sentiment, to design policies, closer to a ‘neoliberal,’ as AMLO likes to call technically sound bureaucrats. The tone of Urzúa’s letter of resignation was also unexpected for a man known for being conservative in his communications. Two specific claims set the alarms: he implicitly recognizes that his role as head of the economic cabinet was minimized, and that cronyism has not been expelled from the federal government. The former sets doubts on whether Arturo Herrera, his successor, will have a stronger role in setting economic policies. The latter reflects that the fight against corruption is far from successful if not just pure rhetoric. Urzúa’s resignation letter unveils what has been known for several months already: the president concentrates all decisions; thus, we shall expect the immediate continuation of economic policies that are contracting the Mexican economy. Overall, Urzúa’s departure sent a clear message to the markets: economic policy is not designed by the Finance Ministry, but rather by the office of the president or the president himself—a major change that should alarm national and foreign investors. We should expect a fragile business plan at Pemex, the continuation of major infrastructure projects with doubtful social returns and policies motivated by ‘other data.’ ”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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