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FEATURED Q&A

What Factors Are Weighing on Mexico's Economy?



Mexican President Andrés Manuel López Obrador's administration is facing a softening economy. // File Photo: Mexican Government.

Q Mexico's industrial output declined 2.1 percent in May as compared to April, the country's National Statistics Institute said July 12. The sharpest drop in industrial output in a decade, the statistic was among recent data that suggest the country's economy slipped into a recession in the second quarter, following a 0.2 percent contraction in the first three months of the year. What factors are most weighing on Mexico's economy? What does Mexico need in order to return the country to growth? How well is President Andrés Manuel López Obrador managing the economy, and how would a recession affect his agenda?

A Charles Seville, senior director for Americas sovereigns at Fitch Ratings: "Mexico's overall output has stalled, as shown by the economic activity indicator for May. As ever, the data present a mixed picture. Households are continuing to spend, and manufacturing and exports (7 percent higher year-on-year in May) are holding up. U.S. growth remains supportive. Investment is the main weak spot. Part of this may relate to global trade uncertainty, but domestic policy considerations are also weighing on sentiment. Business confidence is still in positive territory but has weakened. Microeconomic policy interventions by the government have increased uncertainty in some areas. Actions to tackle some of the weaknesses in Mexico's business environment and reduce corruption will take time to pay off. Moreover, monetary and fiscal policy are also tight. Real interest rates are among the highest in the region, yet core inflation is still higher than

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TODAY'S NEWS

POLITICAL

U.S., Guatemala Sign 'Safe Third Country' Deal

The controversial agreement would require migrants passing through Guatemala to apply for asylum there first instead of continuing to the United States.

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ECONOMIC

Mexico to Help Honduras Create 20,000 Jobs

Mexico pledged to help the Central American nation create 20,000 jobs by December. Mexico is also vowing to help coffee farmers who have been hurt by low prices for the crop.

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POLITICAL

Ecuador to Require Visas of Venezuelans

Ecuadorean President Lenín Moreno signed a decree requiring Venezuelans to have visas in order to enter the country. More than four million Venezuelans have fled their home country's political and economic crises, the U.N. refugee agency said last month.

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Moreno // File Photo: Ecuadorean Government.

POLITICAL NEWS

U.S., Guatemala Sign 'Safe Third Country' Agreement

The United States and Guatemala on Friday signed a "safe third country" agreement, which if it takes effect as scheduled within weeks, would require asylum seekers who are passing through Guatemala to request asylum there instead of continuing to the United States. Guatemalan Interior Minister Enrique Degenhart signed the controversial agreement at the White House. U.S. President Donald Trump has been seeking to limit the number of asylum claims, particularly from a surging number of Central Americans who have been crossing the United States' southern border and overwhelming border agents. "Look, we've been dealing for many years, I would say, with Guatemala and with other countries, and we are now at a point where we are—we just get along. And they're doing what we've asked them to do and I think it's going to be a great thing for Guatemala," Trump said at the signing in the Oval Office, CBS News reported. The deal will "put coyotes and the smugglers out of business," Trump added, UPI reported. "These are bad people." The signing came three days after Trump threatened to punish Guatemala over its Constitutional Court's ruling that blocked President Jimmy Morales' government from

signing such a deal with the United States. In a tweet, Trump had threatened to impose tariffs, "remittance fees" and other penalties on the Central American nation, saying its officials had broken their pledge to sign the agreement. Two weeks ago, Morales had been scheduled to visit the White House but canceled the trip just before the Constitutional Court's decision. On Friday, Morales' government seemed to be going around the court ruling by avoiding the use of the "safe third country" term, but the Trump administration did use the term, which could give fuel to a legal challenge in Guatemala, The New York Times reported. The United States still must take several steps before the agreement can be fully implemented. Among them, the U.S. Justice Department and the Department of Homeland Security must certify that Guatemala has a "full and fair" asylum system and can protect asylum seekers from other nations if the United States sends them there, the newspaper reported. Under the agreement, migrants could be sent from the United States to Guatemala, regardless of their country of origin. In an interview with CBS News, U.S. Rep. Norma Torres (D-Calif.), the only member of the U.S. Congress born in Guatemala, called the agreement "an insult to common sense." She added, "It is inconsolable to think Guatemala—the country that has one of the highest murder rate in the world... could be a safe country for people coming from Venezuela, from Cuba and some countries that are in deep trouble. To think that [Guatemala] is a country that is going to accommodate asylum seekers from

NEWS BRIEFS

Ecuador's Moreno Signs Decree Requiring Venezuelans to Have Visas

Ecuadorian President Lenín Moreno on Friday signed a decree requiring visas for Venezuelan citizens wishing to enter the country, who previously could cross the border with just a passport or other form of identification, Reuters reported. The measure is part of a wider security plan for migrants, which outlines tighter regulations and a non-obligatory census of Venezuelans in Ecuador to help them access education, health and welfare benefits. Associations of Venezuelan migrants in Ecuador celebrated the initiative but criticized the visa requirement.

Mexico's Government to Help Honduras Create 20,000 Jobs

Mexico's government announced Saturday that it would help Honduras create 20,000 jobs amid an effort to stem migration to the United States, Reuters reported. After a meeting between the two countries' presidents in Veracruz, Mexican Foreign Minister Marcelo Ebrard said his country would help Honduras create the jobs between now and December. Mexico is also pledging to help Honduran coffee farmers.

Qatar Petroleum Buying Stake in Guyanese Oil, Gas Blocks From Total

Qatar Petroleum has reached a deal with French oil company Total to acquire a stake in two oil and gas blocks offshore Guyana, the Qatari firm said Monday, Reuters reported. Qatar Petroleum said it will buy 40 percent of Total's 25 percent participating interest in the Orinduik block, as well as a 40 percent of Total's 25 percent participating interest in the Kanuku block. Tullow Oil holds 60 percent participating interest in the blocks, and EcoAtlantic has a 15 percent interest.

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the central bank would like. Lower government spending is subtracting from activity. We expect this effect—typical of the first year of a presidential term—to fade. Public investment has been cut over successive years, but higher investment, not to mention some proposed programs, will be difficult to accommodate within the current fiscal framework. Pemex will receive more resources to carry out a revised business plan. The company announced that it had stabilized crude production in the second quarter, although we think it's too early to celebrate.

A still relatively new administration faces a classic trade-off between maintaining the confidence of investors in the policy framework and supporting the economy. So far, it has chosen the former. Meeting the fiscal target of a 1 percent of GDP non-financial public sector primary surplus is within reach in 2019, but meeting a higher target in 2020 may prove challenging. We expect Banco de México will cautiously start cutting rates this year, helped by a more dovish global rates picture."

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anywhere else in the world—that is ridiculous.” Humanitarian groups also blasted the deal. Refugees International President Eric Schwartz called the agreement a violation of U.S. law and said Guatemala is unsafe for migrants. Guatemala “is in no way safe for refugees and asylum seekers, and all the strong-arming in the world won’t make it so,” he said.

Puerto Rico Secretary of Justice Doesn’t Want Governor’s Job

Puerto Rico Secretary of Justice Wanda Vázquez, who is next in the line of succession to replace Governor Ricardo Rosselló, said Sunday that she does not want to be governor of the U.S. territory. Rosselló is set to step down this Friday after announcing his resignation last week following days of massive protests demanding his ouster. “I have no interest in occupying the position of Governor,” Vázquez said



Vázquez // File Photo: Puerto Rico Department of Justice.

on Twitter. As secretary of justice, she was next in the constitutional order of succession, given that the territory’s secretary of state, Luis G. Rivera, who would normally replace the governor, also resigned, CNN reported. Rivera was a member of a group chat at the heart of the scandal that resulted in Rosselló’s resignation. Hundreds of pages of group messages that included misogynistic and homophobic comments as well as jokes about victims of Hurricane Maria were leaked, prompting Puerto Ricans to take to the streets in numbers comparable to past protests demanding that the U.S. Navy leave Vieques island in the early 2000s. Puerto Ricans last week protested against Vázquez, also calling on her to resign. “Her positions and her character as a person is well aligned with what Ricardo Rosselló

JOB POSTINGS

EDITOR’S NOTE: We are pleased to share Latin America-related job postings that companies reading the Advisor and others have posted recently.

- MetLife:** Director of Governance, Latin America, New York
- Accion:** Senior Director, Digital Transformation, Latin America
- Mastercard:** Manager, Managed Services, Mexico City
- Zimmer Biomet:** Compliance Senior Counsel, Investigations, Latin America
- Hillrom:** Financial Analyst, Latin America, New York
- U.S. Air Force:** Professor of National Security Studies (Latin America), Alabama
- Inter-American Development Bank:** Resource and Planning Specialist, Washington
- Inter-American Dialogue:** Coordinator, Development and External Relations

represents,” Mayra Velez Serrano, a professor of political science at the University of Puerto Rico at Río Piedras, told CNN. “It’s no surprise that Puerto Ricans don’t want her either.” [Editor’s note: See related [Q&A](#) in the July 23 issue of the Advisor.]

BUSINESS NEWS

U.S. Extends Chevron’s License to Operate in Venezuela

The administration of U.S. President Donald Trump on Friday extended a license allowing Chevron and several other oil field services companies to remain in Venezuela, The Wall Street Journal reported. The license would have expired on Saturday, a deadline that sparked debate within the administration over whether to extend it, according to unnamed sources familiar with the matter. Some U.S. officials argued that shutting down Chevron’s Venezuela units was a crucial step in the administration’s efforts to pressure Venezuelan President Nicolás Maduro to step down, while others believed the company’s departure would

put U.S. energy companies at a disadvantage and pave the way for a greater role for Chinese and Russian operators in the South American country, the newspaper reported. The license renewal allows Chevron to remain in Venezuela, where it has operated for nearly a century, until Oct. 25, when it could be further extended. Chevron had pushed for the extension. “We are a constructive presence in the country,” spokes-

“We are a constructive presence in the country.”

— Ray Fohr

man Ray Fohr said earlier last week, adding on Friday that its Venezuela operations “continue in compliance with all applicable laws and regulations.” The U.S. company’s share of production in Venezuela was 44,000 barrels of oil and gas a day last year, less than 2 percent of its global output total. Chevron and other U.S. firms’ departure from Venezuela could have worsened an already declining production trend in the country, Francisco Monaldi, fellow in Latin America energy policy at the Baker Institute, told the Advisor. [Editor’s note: See related [Q&A](#) in last week’s issue of the Energy Advisor.]

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A **Wolfram F. Schaffler Gonzalez, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M**

International University: “Various factors account for the contraction of the Mexican economy, and there are several possible actions to get it back on track, but the common denominator in both cases is trust: Trust in AMLO’s leadership by the business sector (not easy to regain); trust by AMLO that they both are on the same side (not easy to achieve); trust in the importance of facts and knowledge in the decision-imple-

“**AMLO needs economic stability and resources to fulfill his promises...**”

– **Wolfram F. Schaffler Gonzalez**

menting process (difficult for someone who believes his own facts more than real ones); trust in the certainty and benefit of international trade agreements (this is a point of coincidence but also a risk until the USMCA is approved and the threat of new tariffs disappear); and trust that AMLO’s fight against corruption and the reinvesting of recovered funds is real and not only a political soundbite. As an anonymous author once said, ‘Trust takes years to build, seconds to break, and forever to repair.’ The wisdom of this frequently repeated quote can be applied in this case and also in the current U.S.-Mexico relationship and how it affects trade, industrial productivity and regional competitiveness. AMLO needs economic stability and resources to fulfill his promises of delivering benefits for elderly people, single mothers and ‘nini’s’ (young people who neither work

nor study). A recession would deeply affect this, and recent events such as the resignation of the Mexican finance secretary and Fitch’s downgrade of Pemex’s status to ‘junk’ contribute to the uncertainty. The challenge in all of these cases is to regain trust, something that might take more time than what is needed to avoid a recession or a more severe economic downturn.”

A **Joan Domene, senior economist at Oxford Economics:** “The 2.1 percent month-on-month contraction in industrial production in May was broad based. The highly uncertain scenario dampened investment, and slow government revision of building projects and permits caused a sharp 6.2 percent month-on-month plunge in construction. We believe that the rise in global protectionism and the Mexican government’s failure to provide stability after a rocky start of the year is behind the weak investment trend and deteriorating business and consumer confidence. Moreover, the fiscal austerity agenda and high borrowing costs drag down private consumption. The likelihood of recession increases the chance for a countercyclical fiscal policy, which could revive credit rating woes if the government deviates significantly from the planned 1 percent surplus. Meanwhile, we expect Mexico’s central bank to keep a restrictive stance to anchor inflation expectations and shield the peso. However, slowing aggregate demand and the U.S. Federal Reserve’s more accommodative position should provide incentives for a rate cut by the end of the year.”

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

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