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## FEATURED Q&A

# Will AMLO Find a Way to Keep Mexico Out of a Recession?



President Andrés Manuel López Obrador is facing slowing economic growth in Mexico, Latin America's second-largest economy. // File Photo: Mexican Government.

**Q** Mexico's gross domestic product remained flat in the second quarter as compared to the first, a level that was nearer to a recession than previously thought, the national statistics institute announced in August. Is Mexico slipping into a recession? What are the biggest headwinds that the country's economy faces? Are the central bank and President Andrés Manuel López Obrador taking the right actions to spur the economy?

**A** Jaana Remes, partner, and Kevin Sullivan, fellow, at the McKinsey Global Institute: "Mexico's flat growth this year comes as no surprise to long-term Mexico watchers: once again, hopes of change have turned into disappointing reality. GDP growth may even fall below population growth this year, and most Mexicans won't see gains in their living standards. For companies, stagnant incomes imply slow demand growth, dampening appetite for investment. To end this vicious cycle, the two 'missing middles' of Mexico's economy will need to be addressed: the relative lack of dynamic mid-size companies and of a prospering middle class. With few companies that have more than \$50 million in annual revenue, Mexico's economy lacks the dynamism to create well-paying jobs for most Mexicans. Jobs tend to pool in small, unproductive and often informal businesses, reducing upward wage pressure even for industries that have become globally competitive in Mexico's open economy. There is no silver bullet solution to these missing middles. More inclusive growth will require more participatory markets in industry, finance, labor and land, for example, and this will take time. Our research suggests that Mexico needs supply-side solu-

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## TODAY'S NEWS

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## Guatemala Deploys 2,000 Troops Following Soldiers' Deaths

Guatemala has sent some 2,000 soldiers to six departments following the deaths of three soldiers last week. Drug traffickers are blamed for the killings.

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## E.U. Committed to Ties With Cuba: Mogherini

The European Union is committed to its ties to Cuba, E.U. foreign policy chief Federica Mogherini said during a three-day trip to Havana.

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### POLITICAL

## Venezuela Still Seeing Extrajudicial Killings: Bachelet

Extrajudicial killings appear to be continuing in Venezuela, said U.N. human rights chief Michelle Bachelet, who said a government-backed special police force appears to be responsible.

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Bachelet // File Photo: United Nations.

## POLITICAL NEWS

## Extrajudicial Killings Continuing in Venezuela: Bachelet

Extrajudicial killings appear to still be occurring in Venezuela, and the country's Special Action Forces, which is believed to be responsible for the killings, is receiving support from Venezuela's government, United Nations human rights chief Michelle Bachelet said Monday, Reuters reported. The special police force, known as FAES, is believed to have executed 57 people in Caracas just in July, Bachelet said, citing non-governmental organization Victims' Monitor. In addition to the possible executions, Bachelet told the U.N. Human Rights Council that her office had recorded instances of torture against soldiers as well as arbitrary detentions. In July, Bachelet issued a report with details from witnesses describing activities of FAES death squads. At the time, Venezuela's government called the report a "selective and openly partial vision" that did not take government-issued information into account. In addition, Bachelet said groups that collaborated with her in the July report have faced threats by senior government officials in the South American country, the Associated Press reported. "Reprisals for having cooperated with the United Nations are unacceptable," she said. "I urge the authorities to take preventative measures." Additionally, Bachelet expressed concern about a proposed law in Venezuela that would outlaw activities by human rights groups that receive money from abroad. The proposal could further erode democracy in Venezuela, said Bachelet. The former Chilean president added that there have been some advances, including an allowed visit by a member of her staff to the Ramo Verde military prison, where authorities hold people the opposition considers to be political prisoners. Her office and the government also agreed to a schedule for future visits, Bachelet added. Additionally, Venezuela has released 83 people who had been jailed following arrests that human rights groups have considered arbitrary, said Bachelet, adding that authorities

have agreed to review more than two dozen other cases. Bachelet also urged President Nicolás Maduro's government and opposition leader Juan Guaidó to return to talks mediated by Norway, and she reiterated her support for those talks. Socialist party leader Diosdado Cabello, who is seen as the second most powerful person in Venezuela after Maduro, said no one focused on right-wing abuses that were committed under Venezuela's previous right-wing governments or by right-wing governments in other countries, including Chile, the AP reported. "We're not going to lose any sleep over whatever Ms. Bachelet says," said Cabello. "She doesn't fool us."

## Guatemala Deploys Troops Following Soldiers' Deaths

Thousands of Guatemalan soldiers were sent on Monday to six departments in an area near the country's borders with Honduras and Mexico, where suspected drug traffickers are blamed for killing three soldiers last week, El Periódico reported. Defense Minister Luis

**“We expect them to bring calm, security and peace to the people of this region.”**

—Luis Miguel Ralda

Miguel Ralda told reporters that 2,000 soldiers had been deployed as part of a mission following the soldiers' deaths, which prompted the government to declare a state of siege last Wednesday. The Central American nation's Congress on Saturday approved the emergency measure, which sets a night-time curfew, prohibits protests and makes it easier for the armed forces to detain people, Reuters reported. "We expect them to bring calm, security and peace to the people of this region," Ralda told reporters, in reference to the deployed troops. On Monday, soldiers stopped and inspected passing vehicles in the northeastern department of Izabal, and they also set up new

## NEWS BRIEFS

## Death Toll Rises to 50 in Bahamas Following Hurricane Dorian

The death toll in the Bahamas from Hurricane Dorian continued to climb on Monday, reaching 50 as more victims were reported and rescue efforts are underway, officials said, NBC News reported. Forty-two bodies were found in Abaco Island, and eight others in Grand Bahama Island, according to Anthony Ferguson, commissioner of Royal Bahamas Police Force. Thousands of people are still missing.

## Costa Rica to Tax, Regulate Housing Platforms Such as Airbnb

Costa Rica will tax and regulate nontraditional housing platforms such as Airbnb, The Tico Times reported Monday. A new law requires such hosts to register with the Costa Rican Tourism Board, or ICT, and the Finance Ministry and imposes a value-added tax on customers. Tourism Minister María Amalia Revelo said the law would foster a more equal market between traditional hotels and the nontraditional platforms. Airbnb said in a statement that the new measures will not only affect their hosts but also generate losses in local communities.

## Spain's Santander to Boost Stake in Mexican Unit

Spain's Santander will increase its stake in its Mexican unit to 91.65 percent from 74.96 percent following a stock exchange offer, Reuters reported Tuesday, citing a statement by Santander to Spain's banking regulator. Last April, Santander said it would take full control of its operation in Mexico through an all-share deal worth nearly 2.6 billion euros (\$2.87 billion). However, not all shareholders accepted the offer, so the deal will instead be for approximately 1.7 billion euros. The deal is to be materialized by Sept. 17.

bases there. Ralda recognized that the area is a lawless one due to extortion and other drug-related crime, the wire service reported. A drug trafficking route that connects Honduras to Mexico cuts through the region, where conflicts among locals and landowners, miners and palm oil plantations, as well as indigenous communities, have been ongoing for decades, Reuters reported. The state of siege is to last 30 days.

## ECONOMIC NEWS

# Europe Committed to Ties With Cuba: E.U. Foreign Policy Chief

The European Union is committed to its ties with Cuba, E.U. foreign policy chief Federica Mogherini said Monday during a three-day trip to Havana, Agence France-Presse reported. Mogherini's visit came amid stepped-up efforts by the United States to pressure the communist-run nation. "Cuba is a key partner for us," Mogherini said during a news conference alongside her Cuban counterpart, Bruno



Mogherini and Rodríguez spoke to reporters Monday in Havana. // Photo: Granma.

Rodríguez. "The E.U. is Cuba's top commercial partner and investor, and we have tripled cooperation in the last two days," she added, Reuters reported. Mogherini, who met with Cuban President Miguel Díaz-Canel on Monday, said the European Union could help the Caribbean nation update its economy, as well as boost investment. Europe began normalizing relations with Cuba about the same time as the United States did five years ago, but the administration of U.S. President Donald Trump has since

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tions to boost animal spirits of companies to invest, coupled with policies that boost demand by incentivizing expansion of more skilled jobs and rising wages. For service sectors, digital adoption offers an opportunity for productivity gains that are already being realized in the region (and the Mexican government itself). Despite trade uncertainty, Mexico can build on its world-class export strengths. Business and government will need to pull together a collaborative national plan of digital infrastructure, deeper and greener export supply chains, talent development and security of wages and jobs that can sustain a middle class. Only then will reality stop disappointing the aspirations of millions of Mexicans."

**A** Pamela Starr, senior advisor at Monarch Global Strategies and associate professor at the University of Southern California: "The Mexican economy is poised for a mild recession, driven by declining industrial output and investment and reinforced by tight monetary and fiscal policies. Industrial production experienced a sharp across-the-board annual drop in May and June, due to a decline in both government and private sector investment. Real investment fell for the fourth consecutive month in May, its largest contraction since 2013, while a 21 percent drop in capital goods imports in June suggests a continuation of this trend. These figures reflect a number of external and domestic factors, but the one that stands out is weak investor confidence. According to the national statistics agency, it is at its lowest level since 2017. However, other measures paint a bleaker picture. The Bank of Mexico's most recent poll of economic

reverted to tough sanctions against the island's government. Last week, Washington set a limit on the amount of money Cuban-Americans can send home to their families, AFP reported. Earlier this year, the U.S. administration also started enforcing a law that allows U.S. citizens to file suit against companies deemed to

analysts registered fully 77 percent who said now was not a good time to invest in Mexico, and business executives point to paralysis driven by AMLO's erratic decision-making

“**What Mexico needs is a positive shock in the form of a policy statement from AMLO that revives private sector confidence in his administration.**”

— Pamela Starr

process and the uncertainty it generates. In this context, AMLO's insistence that the 'Fourth Transformation' cannot be achieved without the collaboration of a dynamic private sector does not resonate. What Mexico needs is a positive shock in the form of a policy statement from AMLO that revives private sector confidence in his administration. Recent indications that AMLO could be revising his petroleum policy to allow Pemex to enter into joint ventures with private firms and to reinstate auctions for deepwater oil tracts, if true, would be a big step in the right direction."

**A** Wolfram F. Schaffler González, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University: "International trade uncertainty is taking a toll on the Mexican economy, specifically because, for better or for worse, much of its trade is U.S.-centric, and if the United States enters a recession, the same can be expected for Mexico. U.S.

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be profiting from territories nationalized after the 1959 Cuban revolution, a move that has hit European firms. "The European Union has constantly reiterated its position on considering illegal the extraterritorial application of the U.S. measures," Mogherini said during the news conference, AFP reported.

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Congress' delay in approving the USMCA has presented some risks, but not enough to slow down Mexican exports, which have steadily grown over the past year. In addition to this, the U.S.-China tariff war can have unintended positive effects on the Mexican economy. When both factors are brought together, it seems less likely that Mexico will fall into a recession. However, when confronted with information that does not conform to the institutional narrative he is promoting, President López Obrador is known to stick to 'the other data' he often says he has. In this case, two quarters in a row of zero growth will certainly have his administration scurrying for either economic policy alternatives or a new storyline that disregards it as an anomaly or an untruth. Other factors also seem to undercut the fear of a recession. Among them are good unemployment and inflation figures, which are the best in the last two years (3.5 percent and 3.84 percent, respectively for the first six months of 2019). And during the same period, Mexico's foreign direct investment grew 1.5 percent more than in 2018. Nonetheless, the risk of a recession in Mexico exists, because when the United States sneezes, Mexico catches a cold."

**A** **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Mexico's economy is suffering a deceleration that is deeper than expected, more as a result of domestic factors and less of external shocks. The economy only grew 0.2 percent in the first half of the year, with the first quarter experiencing a contraction of 0.3 percent. On the domestic side, the economy is facing the traditional deceleration that is typical of the first year of each new administration, which is aggravated by the fiscal austerity self-imposed by the López Obrador government. Additionally, actions the government has taken during its first year have affected investor sentiment and consumer confidence. Among those actions

are: the cancellation of infrastructure projects, reversion of the education reform, revision of the energy reform and threats against independent institutions. On the external front, the economy suffered the threat of cancellation of NAFTA and the U.S.

“**Actions the government has taken during its first year have affected investor sentiment and consumer confidence.”**

— Alfredo Coutiño

government's imposition of tariffs on some of its exports. The uncertainty surrounding the agony of Brexit and market fears about the possibility of a global recession have affected financial markets and introduced a persistent uncertainty. All this together has produced a reticence in investment and a delay in consumer decisions, thus amplifying the economy's traditional slowdown generated by the political transition every six years. Given the above-target inflation over the past two years, monetary policy turned restrictive. However, the recent disinflation generated by the economy's plunge has opened space for the central bank to start a monetary easing cycle. President López Obrador's actions have already affected investor sentiment, and his persistent neglect of growth as a necessary condition for development has generated a lack of proactive policies to help the economy overcome its prolonged weakness. Despite López Obrador's denigration of neoliberalism, 2019 will not be different for the economy under his government, compared with previous neoliberal administrations."

*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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