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FEATURED Q&A

Will Moreno's New Economic Reforms Get Past Congress?



Ecuadorean lawmakers last month rejected a package of economic reforms from President Lenín Moreno. // File Photo: Ecuadorean Government.

Q Ecuadorean lawmakers on Nov. 17 rejected a package of tax and monetary reforms that the government of President Lenín Moreno had proposed, the latest setback in his efforts to reduce the country's onerous fiscal deficit. Within hours, Moreno said he would send a new reform proposal to Congress. Why did the National Assembly reject Moreno's initial overhauls? What else can Moreno do to push for necessary reforms to lower Ecuador's fiscal burden and meet its obligations to the International Monetary Fund? What compromises will his government have to reach with the opposition, and is there sufficient political will within both the administration and Congress to pass such legislation? What would be the economic consequences of failure to reduce the deficit?

A Ramiro Crespo, president of Analytica Securities in Quito: "Moreno's administration has suffered two body blows since belatedly stepping up efforts to meet the aggressive targets of this year's IMF agreement. Both speak poorly of his ability to manage economic reform, first by stunningly trying to end all diesel and gasoline subsidies in one blow in October, then by trying to ram more than 400 articles of economic reform down legislators' throats in just one month. Even reasonable centrists and conservatives balked at signing off on that kind of a blank check to the executive branch. The financial market, more worried about finances than the details of the mammoth law, pummeled Ecuador's bonds in response, helping to knock some sense into most parties' heads about what's at stake. With the much-reduced bill now at 50-plus articles already sailing through the initial committee

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TODAY'S NEWS

ECONOMIC

United States to Reimpose Metals Tariffs on Brazil, Argentina

U.S. President Donald Trump said he will reimpose tariffs on imports of steel and aluminum from the South American countries.

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BUSINESS

Chile's Codelco Reports 57% Slide in Earnings

The miner's pre-tax earnings fell sharply for the year through September. Codelco produced 6 percent less copper during the first nine months of the year.

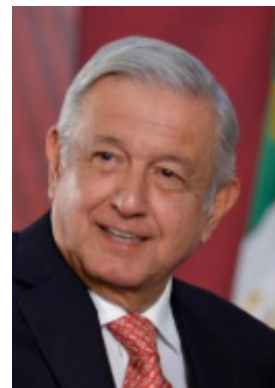
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POLITICAL

At Least 20 Killed in Gunfights in Coahuila State

At least 20 people were killed over the weekend in gun battles that began when assailants attacked the town hall in Villa Unión. The gunfights happened as Mexican President Andrés Manuel López Obrador was marking his one-year anniversary in office.

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

At Least 20 Killed in Gunfights in Mexico's Coahuila State

At least 20 people were killed in gun battles that stretched over two days this weekend in a small town in Mexico's Coahuila state, The Wall Street Journal reported Sunday. The surge of violence began Saturday when gunmen in a caravan of trucks, many of which were marked with the initials of the Northeast Cartel, arrived

Fourteen of the dead were suspected gunmen, four were state police officers and two were civilians.

in the town of Villa Unión, located about 44 miles from the city of Eagle Pass, Tex., officials said. The assailants fired a hail of bullets at municipal offices and other buildings in the town. The town hall was riddled with bullet holes in the attack, which began on the eve of Mexican President Andrés Manuel López Obrador's one-year anniversary in office on Sunday. By Sunday, security forces were still chasing down some of the attackers, seven of whom were killed on Sunday, the Associated Press reported. Of the dead, 14 were believed to be gunmen, four were state police officers and two were civilians whom the attackers had kidnapped and killed, according to Coahuila Governor Miguel Ángel Riquelme. In addition, six police officers were wounded. "I want to underscore the courage of the 15 police officers who initially fought off more than 60 criminals for more than an hour and a half," before reinforcements arrived, Riquelme said Sunday in a statement. Authorities seized 17 vehicles, four of which were armored and outfitted with .50-caliber machine guns, the governor said. The gunmen also took four hostages who were later rescued alive, Riquelme said, adding that

security forces would remain in the town for several days in order to restore calm. As the gunmen fled security forces on Saturday, several of them stole vehicles in an effort to get out of the town. At least one of the vehicles that was stolen was a hearse that had been heading to a funeral, according to local newspaper *Zócalo Saltillo*. It was not immediately clear why Villa Unión was targeted, The Washington Post reported. The Zetas drug cartel ravaged Coahuila state earlier this decade, but Coahuila has not been among the states worst hit by violence more recently. The gunfights came nearly four weeks after nine members of a Mormon family—six children and three women—were killed as they drove along a rural road in Sonora state. On Sunday, Mexican authorities arrested several people in connection with the killings of the members of the LeBaron family, The Washington Post reported. Three people were arrested in the town of Bavispe, near the site of the massacre, according to daily newspaper *El Universal*. Mexican authorities have said the family members appeared to have been caught in the middle of a conflict between affiliates of the Sinaloa and Juárez drug cartels, which dominate the area, The Washington Post reported. Last week, U.S. President Donald Trump said he planned to designate Mexican drug cartels as foreign terrorist organizations, a move that some in Mexico fear could lead to U.S. interference in Mexico's internal affairs. U.S. Attorney General William Barr is expected to visit Mexico City this week at the Mexican government's invitation to discuss Trump's intentions. [Editor's note: See related [Q&A](#) in the Nov. 1 issue of the Advisor.]

ECONOMIC NEWS

Trump to Reimpose Metals Tariffs on Brazil, Argentina

U.S. President Donald Trump said today that he will reimpose steel and aluminum tariffs on Brazil and Argentina effective immediately, The Washington Post reported. "Brazil and

NEWS BRIEFS

Venezuela's Opposition Vows to Probe Alleged Wrongdoing in its Ranks

Venezuela's opposition on Sunday vowed to investigate allegations of wrongdoing in its ranks following a report that some opposition legislators had advocated on behalf of a businessman with links to President Nicolás Maduro's government, Reuters reported. Nine legislators were reportedly involved in writing letters in support of Colombian Carlos Lizcano, despite his suspected links to another Colombian, Alex Saab, whom the United States has sanctioned in connection to graft in a Venezuelan state food program. It is unclear whether the opposition legislators violated any laws.

Mexico's President Urges U.S. Democrats to Back USMCA Ratification

Mexican President Andrés Manuel López Obrador sent a letter last week to U.S. House Speaker Nancy Pelosi (D-Calif.) urging Democrats to ratify the U.S.-Mexico-Canada trade agreement, The Wall Street Journal reported. López Obrador noted that he has allocated more funds in next year's budget to implement changes in Mexican labor laws, including changes to collective bargaining, a major demand by Democrats seeking to add protections for U.S. workers.

Guatemalan Prosecutors Indict Fourth Ex-Military Official Within a Week

Guatemalan prosecutors on Friday indicted a fourth top military official within a week in connection with human rights abuses during the country's civil war, Reuters reported. Luis Enrique Mendoza García was a military operations chief under late dictator Efraín Ríos Montt and is accused in connection with an operation that killed at least 1,771 Maya Ixil Indians in the early 1980s.

Argentina have been presiding over a massive devaluation of their currencies. which is not good for our farmers," Trump said in a tweet. The announcement apparently came as a surprise to officials both in the United States and South America. Brazilian President Jair Bolsonaro told reporters he would speak with his economy minister about the development. "Alu-



Trump // File Photo: White House.

minum? I'm going to speak with Paulo Guedes now ... If necessary, I'll call Trump. I have an open channel with him," he said, according to the report. Last week Brazil's currency, the real, fell to a record low against the U.S. dollar, while Argentina's peso has weakened sharply this year as the Peronists pushed the right-of-center party out of the presidency in October elections. After four years of collegial ties with conservative President Mauricio Macri, whom Trump had known for years, relations between the United States and Argentine President-elect Alberto Fernández could get off to a rocky start in light of the tariff decision, *La Nación* reported today.

BUSINESS NEWS

Chile's Codelco Reports 57% Slide in Pre-Tax Earnings

Chilean state-owned copper miner Codelco reported on Friday that its pre-tax earnings have fallen 57 percent this year through September, Reuters reported. A combination of factors such as heavy rains, an extended workers' strike and lower metal prices contributed to the decline. The company said it produced 1.12

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review, it looks like it could pass as soon as Dec. 6. This proves Moreno isn't a lame duck just yet and will calm the financial situation in the immediate future. Sadly, it looks like the lack of public enthusiasm for reform has effectively hamstrung Moreno's ability to pursue more ambitious cuts of the bloated public sector, privatization and reductions in incredibly wasteful fuel subsidies during the upcoming electoral year. The administration has itself to blame for the ham-handed reform attempts. But Ecuador's relatively swift escape from the political violence that has engulfed other countries of the region should be seen as one of Ecuador's true assets."

A **Mauricio Pozo Crespo, director of the business school at SEK International University of Quito and former Ecuadorean minister of economy and finance:** "Ecuador's National Assembly rejected President Lenín Moreno's economic growth bill for several reasons raised by lawmakers who voted in that direction. The legislation was excessively bulky, with 404 articles and reforming 22 legal bodies, dealing with aspects such as tax and financial issues, making an adequate review of the proposed law impossible. Political groups such as the Social Christian

million metric tons of copper from January to September, which represents a fall of more than 6 percent as compared to the same period last year. Codelco chief executive Oscar Arane-

Heavy rains, an extended strike and lower metals prices were among the reasons for the decline.

da told reporters at Codelco's headquarters in Santiago that the company was looking to trim

Party (PSC) and CREO opposed raising some taxes, particularly in a time of economic stagnation. As of Nov. 25, the assembly was studying new legislation that the government

“The legislation was excessively bulky, with 404 articles and reforming 22 legal bodies.”

— Mauricio Pozo Crespo

sent. The new legislation is shorter and focuses strictly on taxes. The new measures are being received better, but parties including the PSC have questioned the tax increase, so the party is not expected to support the new legislation—at least the parts that seek a tax increase. The new measure aims to raise approximately \$540 million annually, so if it is not approved, the government will have to look for other sources of revenue, such as anticipated sales of oil. The government does not anticipate issuing bonds in the international market because the country's risk level has risen, making it an excessively burdensome operation. The government is renegotiating its agreement with the IMF, but the consequence of all this

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\$8 billion from its \$40 billion, 10-year overhaul of aging mines. Codelco, the world's largest copper miner, is the single biggest source of revenue for Chile's government. In related news, Chile's central bank said today that massive street protests, arson and looting in Chile sent economic activity down 3.4 percent in October as compared to the same month a year ago, Reuters reported. Non-mining activity fell 4 percent. The IMACEC economic activity index encompasses about 90 percent of the economy tallied in gross domestic product figures. Street protests that started in mid-October and extended into November left 26 people dead, hundreds injured and upwards of \$1.5 billion in losses for businesses, according to the report.

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is that the economy could continue stagnating or worsen, as could unemployment.”

A **Siobhan Morden, managing director and fixed income specialist for Latin America at Amherst Pierpont Securities:**

“It was the wrong political strategy to try to force through a complex bill without proper time or debate on complicated and controversial reforms. The recent strategy of individual submission of separate bills is a more democratic process that intends to seek more legislative cooperation. There has also been a more active lobbying process to seek support with Finance Minister Richard Martínez and President Moreno also meeting all the political parties. The mutual respect should pay off with now open support from select political parties such as SUMA and probably a more disciplined coalition. There is awareness that there needs to be collaboration. The revisions and pre-negotiations suggest high probability of legislative approval in the current format. It’s a step-by-step process that includes a revised executive decree to eliminate subsidies and the submission of central bank reform next year. The approval of a tax reform this month should prove sufficient for disbursement of IMF funds. Ecuador is also increasingly geopolitically relevant in an increasing unstable region. The bottom line is that the downshift to more gradual fiscal adjustment increases the rollover risks with constant reassessment of IMF relations. The Moreno administration realizes that there are limited financing options, if any, without the IMF. This is why the administration approached the IMF in its role as lender of last resort. There is growing consensus for fiscal discipline among the political establishment and the middle class on the awareness that the country needs to defend dollarization. The tax reform is the litmus test and should be approved quickly under fast-track status. Moreno needs to continue to reduce current spending on goods/services and public payrolls. The worse alternative is forced

austerity. Under the constraints of dollarization, a country cannot spend without access to financing. The IMF-sponsored fiscal adjustment program allows for gradual adjustment without the shock therapy of forced adjustment on restricted access to credit.”

A **Juan Paz y Miño Cepeda, professor at Pontificia Universidad Católica del Ecuador:**

“Moreno’s proposed reform was questioned because it violated the constitution, which allows only one subject for any urgent economic law, while the government’s proposals dealt with several. It led to widespread rejection from the social, academic and business sectors. The National Assembly responded to that reaction, and then the government reacted by readying the submission of other proposals. Lawmakers have already received the first, which focuses on tax reforms—an area with greater political consensus between the president and the assembly. However, multiple questions remain because the government has welcomed neoliberal principles and the IMF’s conditions as guides, so reducing the fiscal deficit involves shrinking the size of the state. Such cuts will be reflected in the 2020 budget and will affect essential public services, such as education and health. The dismissal of thousands of state workers will also be involved. The 2021 election will accelerate political calculations, so the government will have to redouble its efforts at winning a legislative majority. However, a neoliberal/business path will only aggravate the living and working conditions of the population, which is already happening. Throughout Latin America, neoliberalism remains at odds with any alternative social economy model, which the conservative governments of the region, including that of Ecuador, are not disposed to follow.”

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

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