# LATIN AMERICA ADVISOR

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FEATURED Q&A

## Are Social Protests in Latin America Hurting Growth?

Ongoing protests in several countries could be bad news for some of the region's economies and investor appetite, commentators say below. A protest last month in Cali, Colombia is pictured above. // Photo: Roboting via Creative Commons.

**Q** **Social and political unrest have taken a toll on Latin American assets, with the region's dollar bonds dropping 3.5 percent from early August to November, the worst performance among emerging markets, according to JP Morgan Chase. Of the 10 emerging markets with the worst-performing dollar debt in November, six are from Latin America. Additionally, currencies of countries such as Chile, Mexico, Peru and Brazil have seen volatility in the past months, and several governments have also cut their forecasts for this year's economic growth. To what extent have social protests dampened investor appetite for Latin American and Caribbean debt and assets? How much has the growth outlook changed as a result? What will next year bring for the region's largest economies, and how can they prepare for it? Which countries will fare best and worst, and why?**

**A** **Joydeep Mukherji, managing director of Latin American Sovereigns Ratings at Standard & Poor's in New York:** "We expect the region to grow less than 2 percent for the seventh consecutive year. Despite low interest rates and continued growth in the United States, the region's economic performance will be dampened by low investment and diverse political challenges. Among the bigger economies, Colombia may grow fastest, around 3.2 percent, followed by Peru at 2.8 percent. Brazil is likely to grow only 2 percent, unless progress with the government's reforms spurs greater private sector investment. Mexico will grow around 1 percent, despite recent agreement on the USMCA. Both Argentina and Venezuela will contract again in 2020. Inflation is likely to be low across the region, other than in Venezuela and

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TODAY'S NEWS

POLITICAL

### Rebels Attack Military, Police Posts in Venezuela

The attackers, reported to be led by a deserting soldier, seized weapons and killed at least one army officer at a military outpost in the remote Bolívar state before fleeing. Several have been apprehended by authorities.

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POLITICAL

### Cuba Names First Prime Minister in Four Decades

Manuel Marrero Cruz, 56, who will serve a five-year term as prime minister, has been Cuba's tourism minister for almost 16 years. The position was eliminated by Fidel Castro in 1976. He reports to Cuban President Miguel Díaz-Canel.

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ECONOMIC

### Argentina Enters 'Virtual Default'

President Alberto Fernández unilaterally postponed until August paying some $9 billion in maturities, which resulted in the country's debt being downgraded by ratings agencies.

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Fernández // File Photo: Argentine Government.

POLITICAL NEWS

# Rebel Soldier Leads Attack on Venezuelan Military, Police Posts

Venezuela's defense minister said that "extremist opposition sectors" attacked an outpost near the border with Brazil early Sunday, killing at least one army officer, the Associated Press reported. Gen. Vladimir Padrino López said via Twitter that the attackers, reported to be led by a deserting soldier, took weapons from the post. Some of those involved were detained and being questioned while the army and other security forces were pursuing the rest, he said, adding that the weapons were later recovered. Information Minister Jorge Rodríguez said six

**Padrino** // File Photo: Russian Government.

people had been arrested in connection with the attack by a "group of armed terrorists." A police station in Bolívar state was also hit by the group, Reuters reported. The incident took place in Gran Sabana National Park, home to the tallest waterfall in the world and one of the country's most important tourist destinations. In related news, the United States on Friday accused Venezuelan President Nicolás Maduro of trying to rig a coming election for control of his country's parliament, either by detaining opposition leaders, stripping lawmakers of their immunity or bribing them with up to $500,000 for each vote, The New York Times reported. Elliott Abrams, the State Department's special envoy for Venezuela, said lawmakers have reported being offered hundreds of thousands of dollars to vote against Juan Guaidó, the leader of the National Assembly who faces internal re-election on Jan. 5. The administration of U.S. President Donald Trump has issued 78 sanctions against Maduro's government.

# Cuba Names First Prime Minister in Four Decades

Cuban President Miguel Díaz-Canel on Saturday named the country's first prime minister in more than four decades, CNN reported. Manuel Marrero Cruz, 56, who will serve a five-year term as prime minister, has been Cuba's tourism minister for almost 16 years. Tourism has become increasingly important to Cuba's communist economy, which struggles with electricity outages and shortages of basic goods. But tourism to Cuba is expected to drop 8.5 percent this year in the wake of tighter U.S. travel restrictions to the Caribbean island, the Cuban government said in July. Analysts say Marrero's experience in negotiating deals with international companies could prove critical to a government facing broader sanctions from the United States, the Associated Press reported. The post of prime minister was last held by revolutionary leader Fidel Castro, who changed his title to president and abolished the post of prime minister in 1976. Marrero is expected to manage the day-to-day operations of the Cuban government but will still report to the president. Díaz-Canel is the country's head of state. Raúl Castro, Fidel's octogenarian brother, remains the first secretary of the Communist Party, still playing a powerful role in the government, according to Cuba observers. [Editor's note: See related Q&A in the Nov. 11 issue of the Advisor.]

ECONOMIC NEWS

# Argentina Falls Into 'Virtual Default'

Argentine President Alberto Fernández said Sunday his country is in virtual default on its debt and compared the situation with the 2001 economic meltdown, Agence France-Presse

NEWS BRIEFS

## ExxonMobil Begins Oil Production in Guyana

ExxonMobil on Saturday announced it has started producing oil from the Liza field offshore Guyana ahead of schedule and less than five years after the first discovery of hydrocarbons there, which it said is well ahead of the industry average for deepwater developments. In a statement, the Houston-based company said it expects to reach full capacity of 120,000 barrels of oil per day in coming months. About half its 3,400 employees and other workers supporting its activities in Guyana are Guyanese, ExxonMobil said.

## 18 Inmates Killed in Latest Honduran Prison Riot

Eighteen inmates were killed Sunday in fights between rival gangs at Honduras' El Porvenir prison, less than two days after similar violence at another facility, La Prensa reported. Deputy minister for security Luis Suazo said machetes and guns were used in the fight, which broke out during visiting hours when women and children were present, according to the report. On Friday, 18 inmates were killed and 16 hurt in a prison near Tela, BBC News reported. The government declared a state of emergency in the prison system last Wednesday.

## Colombia Raises $1.5 Bn in Bandwidth Auction

Colombia's government on Friday awarded bandwidth to three phone companies in an auction that raised some $1.5 billion, Reuters reported. Claro, a subsidiary of América Móvil, Millicom's Tigo and Novator Partners from Britain each won awards. Movistar, a subsidiary of Telefónica of Spain, did not make a winning bid. "This is the largest mobile social connectivity project in the history of Colombia that will allow, for the first time, Internet access for millions of Colombians in rural areas," President Iván Duque said on Twitter.

 

reported. "It is not the same as 2001, but it is similar. At that time poverty was at 57 percent, today we have 41 percent poor people; then we had a debt default, today we are in virtual default," Fernández said in an interview with TV program La Cornice. On Friday, Fernández's government unilaterally postponed until August paying some $9 billion in maturities, which resulted in the country's debt being downgraded by ratings agencies Fitch and S&P, which now consider it in selective default. "Argentina has defaulted on its sovereign obligations, and this development constitutes a 'distressed debt exchange,' " Fitch said in a statement, Bloomberg News reported. The South American country is in recession and has suffered 18 months of economic crisis sparked by a currency crash. Its economy is expected to shrink by 3.1 percent in 2019. Soon after taking office earlier this month, Fernández announced 30 percent tariffs on foreign purchases, the so-called "tourism tax," among other measures in a bid to raise revenue for the state treasury. "We must end the practice of saving in foreign currencies," he said, La Nación reported. Although a series of economic measures passed in Congress last week, the bill as of today has not been entered into the official gazette, according to the report. Pensioners have been pushing back against a reported freeze on increases in payments despite the fact that citizens have been suffering from inflation rates that are among the highest in the world. In Sunday's interview, Fernández said that a total freeze is not accurate and there would be increases for pensioners in the months ahead, although the formula for calculating payouts is changing.

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Argentina, a rare bit of good economic news. Poor economic performance increases the risk of social protests across the region. The protests vary in their focus, ranging from corruption and law and order, to social policies to economic austerity. Regardless of their causes, our credit rating analysis focuses on the political and economic capacity of sovereigns to respond to them. Most Latin American sovereigns have limited fiscal capacity to meet demands for more spending. Weak political institutions in some countries constrain the ability to channel discontent into peaceful political dialogue to resolve issues. Social media has made it easier to organize protests by providing quick access to many people. As a result, protest movements often lack an organized and disciplined leadership, making it difficult for the government to negotiate directly with anyone. Much of the world's political class is still struggling to respond to this new style of politics."

**A** **Claudio Loser, former head of the Western Hemisphere Department at the IMF and founder and CEO of Centennial Latin America:** "No matter how outsiders look at it, the region's economic prospects look bleak, or at least worrisome. The IMF's estimates for GDP growth were low when they appeared in October, but today they may overestimate the prospects. Latin America has shown the weakest growth of all subregions of the world since 2014, with an average growth of 0.6 percent (1 percent without Venezuela), compared with 3.5 percent globally. Even with slowing population growth, the recent trend has meant a fall in per capita income of 0.3 percent a year. The IMF projected growth of almost 2 percent for 2020, but it would not be surprising for the growth rate to be closer to 1 percent. The popular demonstrations, which are not unique to Latin America, will make investors weary of the situation. Moreover, this will be compounded by a general concern about global growth, from the United States, through the European Union and the United Kingdom, to India, China and Japan. The inclination will be to increase public expenditure and widen public sector deficits, but there will be serious difficulties in attaining it, as Argentina is already recognizing, and Brazil and Mexico may also become keenly aware of. Reduced access to foreign financing, low growth and domestic political problems are not easily compatible. It may well be that after a bout of fiscal and monetary expansion, countries may end up without access to markets and may request help from the IMF. This may be financially sound, but it is certainly explosive politically."

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> — Claudio Loser

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**BUSINESS NEWS**

# Trump Drops Brazil Steel Tariff Threat

U.S. President Donald Trump on Friday backtracked on a threat to reimpose tariffs on steel and aluminum from Brazil after speaking to Brazilian President Jair Bolsonaro, The Wall Street Journal reported. Bolsonaro said during a Facebook live video that he convinced Trump to reverse course on the levies. "We discussed many subjects including trade. The relationship between the United States and Brazil has never been stronger!" Bolsonaro said, The New York Times reported. A U.S. official familiar with the call confirmed that Trump told Bolsonaro he would not impose the tariffs. The U.S. president earlier this month unexpectedly announced his administration would slap levies on Brazilian and Argentine steel and aluminum, saying in a tweet that the two South American countries were devaluing their currencies and hurting U.S. farmers. However, a week after the tweet, the director of the White House National Economic Council, Lawrence Kudlow, said that "no decisions have been made," The Wall Street Journal reported. It is unclear whether the United States will move ahead with the threat to impose the tariffs on Argentine metals.

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A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "The emergence of social protests in Latin America has its roots in the accumulated discontent regarding the lack of improvement in social well-being. Notorious social protests have erupted in Ecuador and Bolivia, and most recently in Chile and Colombia, with a severe degree of violence, not only interrupting activities but also destroying infrastructure. The original movements have been infiltrated by radical protesters with little relationship, if any, with the genuine social cause. This radicalization is the main reason for the destruction of infrastructure, which together with the lack of firm actions from governments to apply the law, has raised uncertainty and shaken domestic financial markets. Domestic assets have been affected, and the demand for U.S. dollars has increased, thus generating significant currency depreciations. Given the prolongation of protests, investors are not only seeking refuge in the dollar but also quitting domestic markets. Social unrest has certainly reduced investor appetite for Latin American assets. The interruption of several activities and the destruction of physical investment have taken a toll on economies, particularly in Chile, Bolivia and Ecuador, thus affecting the region's production capacity and the potential for growth in the future. Before Chile's protests, the region was expected to grow around 1.6 percent in 2020. The country's growth has now been revised down to around 1.2 percent with a high risk of further downgrade. The two largest economies, Brazil and Mexico, are expected to advance to rates around 2 percent and 1.3 percent in 2020, while Colombia and Peru will still move in the 3 percent neighborhood. Chile will grow in the range of 1 percent to 1.2 percent. Argentina and Venezuela will remain in recession. Unfortunately, Latin America is now facing the consequences of the prolonged lack of public policies to resolve the accumulated social lag."

> **"Social unrest has certainly reduced investor appetite for Latin American assets."**
>
> **— Alfredo Coutiño**

A **Carol Wise, associate professor of international relations at the University of Southern California:** "At the close of the 2010s, Latin America and the Caribbean have seen a new elected wave of nationalist-populist presidents. Argentina, Brazil and Mexico are prime cases in point. Chileans are rioting over inequality and the false promises of neoliberal social reforms, while Peru's president simply disbanded the Congress and called for new elections in January. The 20-month U.S.-China trade war has spiked export growth for soybeans in Argentina and Brazil and auto parts in Mexico, although the Inter-American Development Bank has warned that, 'If we have a ... combination of shocks in which China's growth falls, U.S. growth falls, and asset prices also fall, we could have a reduction in Latin American growth rates that could reach negative territory in 2020.' Keep in mind that the pattern of political and economic underachievement in Latin America and the Caribbean may be long running, but it is not structurally determined. Rather, a turnaround depends on the tenacity and leadership of politicians and policymakers within each of these countries to pursue policies that promote 'technology upgrading, high-quality education, significant diversification of trade with China, betting on strong regional integration processes, and heavy investing in physical infrastructure.' These, argues José Antonio Ocampo of Columbia University, 'are, together, the structural keys to dynamic long-term growth in Latin America.' "

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