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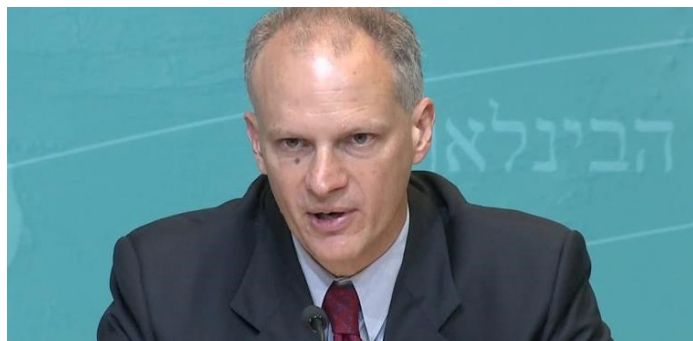
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FEATURED Q&A

Are Latin America's Economies Facing More Headwinds?



Growth in Latin America and the Caribbean is expected to rebound this year after years of economic decline, according to the International Monetary Fund's Alejandro Werner. // File Photo: International Monetary Fund.

Q GDP per capita in Latin America and the Caribbean has declined by an average of 0.6 percent per year from 2014 to 2019, far from the 2 percent average growth it experienced during the commodity boom from 2000 to 2013, Alejandro Werner, the director of the International Monetary Fund's Western Hemisphere Department, said last month. Growth in the region is expected to rebound to 1.6 percent in 2020 and 2.3 percent in 2021, though with significant challenges, he added. How are external factors such as global trade tensions, the coronavirus outbreak, Brexit and other developments likely to affect Latin America and the Caribbean this year? How much has social unrest in recent months altered the region's economic outlook? What structural issues are holding back the region's development?

A Alicia Bárcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC): "For 2020, ECLAC projects a rate of regional growth of 1.3 percent. While this represents an improved performance relative to 2019 (0.1 percent), it remains low by historical standards. This is the result of both long-term structural problems (such as low productivity and a structure of production biased toward natural resources with low technological content) and more short-term factors. This year, ECLAC expects an external context with stagnant growth and an increased uncertainty and vulnerability bias as a result of the rise in geopolitical tensions in the Middle East, the outbreak of the coronavirus, the unfolding of the U.S.-China trade agreement and the rise in global

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Uber Eyes Arbitration in Dispute With Colombian Gov't

The company is considering international arbitration after it was forced to close its operations in Colombia amid a dispute over regulation with the government.

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ECONOMIC

Tourism Income for Dominican Republic Hits Record \$7.7 Bn

The Caribbean nation saw record revenues from tourism and a 1.7 percent increase in tourism activity, year-on-year.

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POLITICAL

Russian Foreign Minister to Meet With Maduro

Russian Foreign Minister Sergei Lavrov is to meet later this week with Venezuelan President Nicolás Maduro in a show of support for his government. Lavrov also plans to visit Cuba and Mexico on the trip.

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Lavrov // File Photo: Russian Government.

POLITICAL NEWS

Russian Foreign Minister to Meet With Venezuela's Maduro

Russian Foreign Minister Sergei Lavrov plans to travel to Venezuela on Friday in a show of support for socialist President Nicolás Maduro, Reuters reported today. During his visit, Lavrov plans to meet with Maduro, Executive Vice President Delcy Rodríguez and Foreign Minister Jorge Arreaza to discuss issues including energy, mining, transportation, agriculture and defense, according to Russia's foreign ministry. "The agenda includes a discussion of steps ...

Lavrov's trip follows a visit to the region by U.S. Secretary of State Mike Pompeo.

to counteract illegal unilateral sanctions that worsen the socioeconomic situation in Venezuela," said Maria Zakharova, a spokeswoman at the ministry. Lavrov's trip follows several rounds of U.S.-imposed sanctions on Venezuela and a trip that U.S. Secretary of State Mike Pompeo took last month to Colombia, Costa Rica and Jamaica. In Colombia, Pompeo met with Juan Guaidó and voiced the Trump administration's solidarity with the Venezuelan opposition leader, whom the United States and dozens of other countries recognize as Venezuela's legitimate interim president, CNN reported. Lavrov's visit to Venezuela also follows a visit by Pompeo to four former Soviet states—Ukraine, Belarus, Kazakhstan and Uzbekistan. Lavrov begins his trip to Latin America today with a visit to Cuba before flying to Mexico on Thursday and Venezuela on Friday, Reuters reported. In Mexico, Lavrov, who has been Russia's foreign minister since 2004, plans to meet with Foreign Secretary Marcelo Ebrard to discuss trade and economic ties as well as cooperation with the Community of Latin American and Caribbean States, or CELAC, the

wire service reported. During his trip to Cuba, he is scheduled to meet with Foreign Minister Bruno Rodríguez.

BUSINESS NEWS

Uber Eyes Arbitration in Dispute With Colombian Gov't

Uber is considering taking its dispute with the Colombian government over regulations in the country to international arbitration, the company's general manager for Latin America, George Gordon, told Reuters on Monday. Uber last weekend closed its operations in the Andean country following a court order that the San Francisco-based firm cease its business there, ruling that it had violated competition rules, El Tiempo reported. Uber estimates that suspending its services in Colombia will cost more than \$250 million in damages, Reuters reported. Gordon said Uber wants to return to Colombia, adding that it was up to the government to find a solution. "We want to come



Gordon // File Photo: Uber.

back, but it is a question of when and how," he said. "When? As soon as possible. How? That is up to the government. They could resolve it today if they wanted." He also said they are considering international arbitration, as well as "other legal resources" in Colombia. Uber has argued that the ruling went against freedom of expression online and Internet neutrality and that the company was treated unfairly. "In contrast to the measures taken against Uber, other companies from Colombia and elsewhere have not been subject to the same treatment and

NEWS BRIEFS

Man Killed During Raid to Fight Illegal Deforestation in Brazil's Roraima State

A man was killed Saturday during a raid to fight illegal deforestation in Brazil's northern state of Roraima, national environmental agency Ibama said, Reuters reported Monday. Ibama and military police agents discovered illegal logging in a forest near the city of Rorainópolis. Two men involved in the illegal practice hid in the woods and shot at the police forces, prompting an exchange of fire. One of the men was killed in the shootout, the agency said.

Dominican Republic's Tourism Income Sets Record at \$7.7 Bn for 2019

Income from tourism in the Dominican Republic last year was \$7.7 billion, setting a new record, according to the figures released by the Tourism Ministry, Dominican Today reported today. Tourism activity was up by 1.7 percent from a year earlier, roughly equivalent to an increase of \$128.9 million, and by 64.3 percent from 2012, when income totaled \$4.7 billion. From 2012 to 2019, revenues from tourism surpassed \$50.6 billion, according to the data.

Brazil's Bolsonaro Outlines Priorities in Message to Congress

Brazilian President Jair Bolsonaro said Monday in a message to the country's Congress that tax reform, central bank autonomy, job creation and the enactment of regulations for public sanitation are his top priorities for this year, Reuters reported. However, in anticipation of mayoral elections in October, analysts say it is unlikely that Congress will approve major pieces of legislation this year, the wire service reported. Last month, Bolsonaro marked one year in office as president. [Editor's note: See related [Q&A](#) in the Jan. 2 issue of the Advisor.]

continue operating in the country," Uber said, Reuters reported. "This will allow our competitors to grow their market share in Colombia at Uber's expense." China's Didi and Greece's Beat are among the ride-hailing companies still operating in the South American country.

Trinidad & Tobago Cancels Gas Field Deal With Venezuela

Trinidad and Tobago has canceled an agreement with Venezuela for the joint development of a natural gas field in the countries' maritime border due to U.S. sanctions against Venezuelan state oil firm PDVSA, Trinidad's prime minister, Keith Rowley, said Monday, the Trinidad Express reported. Each country will now separately develop the 10.04 trillion cubic feet Loran-Manatee shallow-water field, Rowley said. "Progress in the development of the unitized Loran-Manatee field has been impeded by the sanctions imposed by the U.S. government, which inhibits U.S. companies from doing business with Venezuelan oil company PDVSA," Rowley said at an energy conference in Port of Spain, Reuters reported. Under the 2013 deal, the neighboring countries had agreed that 73.75 percent of the joint field belonged to Venezuela, and the remainder belonged to Trinidad and Tobago. The Caribbean nation is a top exporter of liquefied natural gas, or LNG, but its offshore natural gas production has fallen in recent years. The idea was for Trinidad to use gas from Venezuela, which has largely untapped offshore gas reserves, in their LNG plants, the wire service reported. Rowley said gas production from the Manatee field could start by 2024 or 2025, totaling between 260 million and 400 million standard cubic feet per day. "This major policy shift, which frees up investment and development of Manatee gas, also provides easy access to market for all gas from these fields, if the circumstances permit and the owners so desire," Rowley added, the Trinidad Express reported. Chevron has a 60 percent interest in the Loran field, while the rest belongs to PDVSA. Shell's Trinidad unit holds a 100 percent interest in the Manatee field.

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debt. Developed economies are expected to continue to slow down this year (up to 1.5 percent growth). Emerging economies as a group would continue to grow at rates higher than those of developed economies, but the difference between the two groups has been significantly shrinking over the past decade, and this trend is not expected to reverse. The slowdown in external aggregate demand and trade (2.7 percent for 2020) will negatively affect the prices of most commodities, reducing the terms of trade and fiscal revenues of commodity-exporting and producing countries in the region. This may be reinforced by the expected deceleration of the United States and China, two of the main trading partners of Latin America and the Caribbean. China's growth, which was expected to be below 6 percent (the lowest in 30 years), will be further dampened by the outbreak of the coronavirus. Preliminary data points to a potential decline in activity in the first quarter as a result of the virus. The social unrest that erupted in the last quarter of 2019 led to a downward revision of growth in the affected countries. Its effects will continue to be felt in growth and investment in 2020. The main challenge will be to combine greater social spending with medium- and long-term sustainability and improved growth prospects."

A **David Ross, global fund manager at La Financière de l'Echiquier in Paris:** "The region's development problems are not caused by outside issues; the causes are structural. While a slowdown in the Chinese economy, whether from trade wars or a coronavirus epidemic, is an impediment to growth in the major commodity-driven economies of Latin America, such as Brazil, Venezuela, Mexico, Colombia, Peru and Chile, it is the importance of extractive industries that is holding back overall economic development. Resource-based extractive economies are capital-intensive industries that provide relatively limited employment. For example,

the world's largest copper mine, Escondida in Chile, employs fewer than 2,500 miners. Colombia's Ecopetrol, one of the 25 largest oil companies in the world, has a total employment of 10,000 people. Economies built around such low labor intensity and

“ The region's development problems are not caused by outside issues; the causes are structural.”

— David Ross

high capital intensity tend to be undiversified, leading to an underdeveloped consumer economy. These types of economies do not generate their own growth; they are reliant upon growth in China and the United States to drive demand and pricing for their commodities. Latin American economies are still operating as if this were the 19th century, and they are not participating at all in the 21st century. The Caribbean countries, at the other end of the spectrum with tourism-based economies requiring little capital and needing low productivity service jobs, also suffer from undiversified and nondynamic economies. Until the countries of the region fix their structural economic problems and develop more diversified, modern economies, their economic development will remain volatile and suffer disproportionately from any ills affecting the U.S. and Chinese economies."

A **Shelly Shetty, member of the Advisor board and head of Latin American sovereign ratings at Fitch Ratings:** "Fitch expects a mild economic recovery for Latin America in 2020, but growth will remain well below potential for several countries. While the Phase I trade deal between the United States and China bodes well for global sentiment, the recent outbreak of the coronavirus has

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induced another source of uncertainty. We believe global growth is stabilizing in 2020, but downside risks remain. Moreover, idiosyncratic country-specific risks from policy uncertainty, reform disappointment and social unrest cannot be ruled out. On the policy front, several countries have eased monetary policy against a more accommodative global monetary policy backdrop amid moderate inflation and anchored expectations. However, fiscal space to provide stimulus to boost economic activity is quite limited across the region. Fiscal consolidation remains challenging, and debt burdens have increased in several countries in recent years, putting downward pressure on credit profiles. Structural reforms are needed to address both growth challenges and fiscal pressures. Low domestic saving and investment rates, deficiencies in infrastructure and human capital, and a difficult business environment continue to weigh on the region's potential growth. Sluggish growth, persistent income inequality and the perceived lack of progress to adequately address these issues could increase political, social stability and governability risks. Finally, despite the favorable external financing conditions, specific countries could still be vulnerable to shifts in investor confidence. Argentina's likely debt restructuring and the renegotiation with the IMF will be important milestones. Similarly, Ecuador's adherence to its IMF program will be key for it to meet its large financing needs."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "The economic prospects for Latin America in 2020 are of a mild recovery from the 2019 stagnation. However, the outlook is subject to internal and external risks that could deviate the region's growth to the downside. On the internal front, the region's performance still depends heavily on structural changes that

increase production capacity. The advance or recoil of the reform process depends on the political leadership of governments to continue deepening the modernization and on the risk of leftist governments against free-market policies. On the external front, the main risk comes from the possibility of

“The region's performance still depends heavily on structural changes that increase production capacity.”

— Alfredo Coutiño

a more pronounced global deceleration or even recession, followed by persistent trade protectionism and more recently from the coronavirus outbreak. All these three factors have the potential to affect economic activity around the world, mainly through trade and investment flows. Obviously, Latin America could get the hit through those two channels. Regarding social conflicts, the cases of Peru, Ecuador, Chile, Bolivia and Colombia seem to have lost intensity, and the probability of new cases remains low. Moreover, the damage caused by those social cases was already reflected in 2019 poor performance, and it is expected to be reduced in 2020, unless a major eruption shows up. The main structural problem continues to be the lack of productive investment, which has affected the region's production capacity. Fortunately, Brazil seems to be taking the lead again, while Mexico does not show significant improvement. Under normal conditions, Latin America will grow around 1.5 percent this year, but the materialization of risks could bring growth down to below 1 percent."

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