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## FEATURED Q&A

# Will Manufacturers Relocate Factories to Latin America?



Supply interruptions during the Covid-19 pandemic have led to discussion about locating more parts of value chains in the Americas. A manufacturing plant in Mexico is pictured above. // File Photo: Mexican Government.

**Q** The coronavirus pandemic has led to value chain interruptions that have hit Latin American economies, particularly those of Brazil and Mexico, the U.N. Economic Commission for Latin America and the Caribbean said in a report released April 21. In the months and years ahead, how much of an emphasis and what specific actions should businesses and countries in the region take to promote local and foreign investments that would allow for more parts of value chains to be localized? Which types of manufacturing should be the focus? How can the Pacific Alliance and trade agreements, such as the USMCA, play a role?

**A** Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States: "The pandemic has hit global trade and investment at an unprecedented speed and scale; trade has flatlined in every region affected by the lockdown. There's no doubt that the pressures for deglobalization—whether politically driven or as a rational effort to shrink supply chain footprints and nearshore—will become a salient feature in the coming months and that the Americas will not escape the rethink of global models and supply dependencies. Resuscitating the U.S. economy will depend largely on the renewed productivity of the massive North American manufacturing supply chain. But there are several weak links. First is the atrophy of North America's muscle memory regarding trilateral cooperation as well as the lack of vision and understanding at the outset of the pandemic that the three partners needed to synchronize as much

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## TODAY'S NEWS

### ECONOMIC

## Peru Allows More Parts of Economy to Reopen

Peru's government has allowed parts of the country's economy, including road construction, beer production and printing, to resume activity.

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### BUSINESS

## Strike Ends at Chile Mines of Austral Gold

Austral said it has reached a deal with unions to end a strike at its Guanaco and Amancaya mines.

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### POLITICAL

## Brazil Has World's Third-Highest Confirmed Deaths From Covid-19

Brazil surpassed Italy to become the country with the third-highest reported total of Covid-19 deaths, after only the United States and the United Kingdom. At the same time, officials including Rio de Janeiro Mayor Marcelo Crivella, are allowing the resumption of some economic activity.

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Crivella // File Photo: Brazilian Senate.

## POLITICAL NEWS

## Brazil Has World's Third-Highest Total of Covid Deaths

Brazil on Thursday overtook Italy as the country with the world's third-highest confirmed total of deaths from the novel coronavirus. As of this morning, Brazil had a total of 34,021 deaths from Covid-19, surpassing Italy's total of 33,689, according to a tally by Johns Hopkins University. Only the United States and the United Kingdom have more deaths related to the disease. Brazil has the second-highest total number of confirmed cases—614,941—second only to the United States, which has more than 1.8 million. In an online broadcast shortly before Brazil's health ministry released its figures on Thursday night, President Jair Bolsonaro made nearly no mention of the victims, but he blasted governors and mayors for their moves to implement lockdowns intended to slow the virus' spread, *The Guardian* reported. "The collateral impact will be far greater than those people who unfortunately lost their lives because of the last three months here," said Bolsonaro. The escalating death toll in Brazil came as some officials in the country moved to allow some economic activity to reopen. Rio de Janeiro Mayor Marcelo Crivella on Thursday allowed more than 10,000 street vendors to re-

turn to work, Reuters reported. "The other day, some kid told me: I prefer to die of coronavirus than to see my family die of hunger," Crivella told journalists. Elsewhere in Latin America, Mexican President Andrés Manuel López Obrador urged the country to stay calm as health officials there reported an escalating death toll from the disease, the Associated Press reported. Mexico's health department announced an additional 816 deaths on Thursday, a day after officials reported 1,092 new deaths in a 24-hour period, a new daily record. "Let there not be psychosis, let there not be fear," López Obrador said Thursday in Chiapas. Mexico has more than 105,000 confirmed cases of Covid-19 and more than 12,000 reported deaths.

## BUSINESS NEWS

## Strike Ends at Austral Gold's Chile Mines

Australian miner Austral Gold said today that a strike by two unions at its flagship Guanaco and Amancaya mines in Chile has ended after it and the unions reached a deal to boost pay and benefits by 15 percent, along with a one-time bonus, Reuters reported. The strike had been going on for nearly a month. Austral Gold said operations were set to restart next week, adding that it does not expect the strike to have

## NEWS BRIEFS

## Mexicans Protest Against Police Brutality in Guadalajara

Protesters took to the streets Thursday in Guadalajara in a demonstration against police brutality following the death of a man who was in custody after allegedly being arrested over his refusal to wear a face mask in public, Reuters reported. Protesters in the city's historic center vandalized buildings and set police cars on fire. Protests have broken out around the world following last week's death of George Floyd, a black man who died after a white police officer knelt on his neck for more than eight minutes in the U.S. city of Minneapolis.

## Chile Introduces New Tax on Digital Services

Chile has introduced a new tax on digital services despite concerns from major companies including Mastercard, Facebook and Uber about when and how the rule applies, *Bloomberg Law* reported Thursday. The country's tax authority said the 19 percent value-added tax will apply beginning June 1 to online services that have bases elsewhere. Among the firms that will be subject to the tax are streaming services for music and video, games, online software, cloud computing, advertising and e-commerce platforms such as Airbnb, Google and Uber.

## Ecuador Declares Force Majeure After Pipeline Shut Down

Ecuador has declared force majeure on oil exploration and production activities after a main crude pipeline shut down due to soil erosion in the Amazon region, the energy ministry said Thursday, Reuters reported. The ministry added that oil exports would not be affected by the force majeure declaration, due to the level of inventories available at the country's Balao terminal.

## FEATURED Q&amp;A / Continued from page 1

as possible the designation of essential industries within each nation, which would have reduced supply chain disruptions. Second, there's President Trump's diplomatic and strategic malpractice, believing he does not need his two neighbors, or that he can have his cake and eat it too, suggesting Mexico is a threat to the United States and then expecting it to respond strategically. And third, Mexico's inability—conceptually but also because of domestic policy signals being conveyed to international investors and financial markets—to seize the day and understand that it has a unique opportunity

to entice greater regionalization of supply chains and investments away from China and toward Mexico. Naturally, North America could play a substantial role in substituting China as a source of critical goods, becoming the most important, smart and nimble joint supply and production region in the world, capable of weathering future storms. Alas, those strategic opportunities may be squandered if the three governments don't stop playing checkers and start playing chess, and understand that this crisis should not be squandered."

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had serious consequences on its 2020 output, which it estimates will be between 55,000 and 60,000 gold equivalent ounces, according to the report. Workers represented by two of the three unions at the two mines went on strike on May 11 after failing to reach a three-year labor agreement. The unions represent 254 employees, according to Austral Gold. Under the new deal, employees will receive a bonus of about \$13,000 each, which is expected to cost the company \$3.5 million.

## ECONOMIC NEWS

### Buenos Aires Province Extends Debt Talks Deadline

Buenos Aires province on Thursday extended the deadline for its debt restructuring talks to June 19, saying there might be room for further negotiation with its creditors, Reuters reported. The deadline had been set for today on the renegotiation of about \$7.15 billion of debt, but the province said it would “intensify the dialogue with investors who have not yet accepted the proposal.” Argentina’s federal government is also in talks with its creditors over the restructuring of some \$65 billion in sovereign bonds.

### Peruvian Gov’t Allows More Parts of Economy to Reopen

Peru’s government allowed more parts of the economy to reopen as Lima’s health care system grapples with the number of people infected with the novel coronavirus, Bloomberg News reported Thursday. A wide range of sectors, including road construction, beer production and printing, can resume operations, along with interprovincial transport services, according to a government decree. However, the measure did not apply to seven of the country’s 25 regions, where there is still high prevalence of Covid-19 cases. Economy Min-

## COMINGS & GOINGS

### Trump Appoints New U.S. Ambassador to Guatemala

U.S. President Donald Trump on May 28 announced the appointment of William W. Popp as the new U.S. ambassador to Guatemala, the White House said in a statement. Popp, a career member of the Senior Foreign Service, was previously working as the deputy chief of mission at the U.S. Embassy in Brasília, where he was the chargé d’affaires from November 2018 until February. Additionally, Popp served in different positions at U.S. embassies and consulates in Kenya and Colombia. He was also the director of the office of regional economic policy and summit coordination in the Bureau of Western Hemisphere Affairs at the State Department, the statement said.

### Three Costa Rican Ministers Resign

Three Costa Rican ministers, including the finance minister, stepped down on May 28 in a significant shakeup to President Carlos Alvarado’s cabinet, Reuters reported. Rodrigo Chaves, who began his term as finance minister about six months ago, said differences between Alvarado on state spending prompted the president to ask for his resignation. “He told me that the difference in styles does not allow us to continue working together,” Chaves said. Science and Technology Minister Luis Adrián Salazar and Communications Minister Nancy Marín also stepped down. Alvarado described the resignations as “part of the beginning of the second part of the administration.” Elián Villegas will replace Chaves as finance minister. Paola Vega, who previously served as vice minister, will now lead the Science and Technology Ministry, while Agustín Castro will take over as communications minister.

### Browning Takes on Expanded Role at Mitsubishi Hitachi Power Systems Americas

Paul F. Browning will take on an expanded role as chief regional officer of the Americas and co-chief regional officer of Europe, the Middle East and Africa at Mitsubishi Hitachi Power Systems, or MHPS, the company said in a statement June 3. As president and chief executive officer of Mitsubishi Power Systems Americas, Browning leads two global businesses based in the United States and three regional businesses in North and South America. Under his leadership, MHPS has expanded into Central and South America, as well as into renewable power project development, energy storage and artificial intelligence products and services, the statement said. Before joining MHPS Americas, Browning served as president and CEO of Irving Oil Company Limited, which owns and operates Canada’s largest oil refinery.

ister María Antonieta Alva said the new move reopens nearly 80 percent of the economy, up from around 44 percent when the pandemic began, Andina reported. “At the beginning of the pandemic, we prepared an economic plan with very clear phases: the containment phase and the economic reactivation phase. About one month ago, we started the transition to the economic reactivation phase with Phase

1 of the economic reopening, and Phase 2 is authorized today,” Alva said. The measure comes as the country becomes a hot spot for Covid-19, registering the second-highest number of confirmed cases in Latin America after Brazil and more than 5,000 related deaths, even after a strict nationwide quarantine. Most cases are concentrated in Lima, Bloomberg News reported.

## FEATURED Q&amp;A / Continued from page 2

**A** Grace Jaramillo, expert consultant on trade and global value chains at the Asia Pacific Foundation of Canada: “The reshoring of global value chains has been trending for at least two years now, and not only because of the tensions between China and the United States. Risks such as climate change and political instability have pressured companies to diversify their supply chains. Latin America has missed most of the opportunities in the last two years. Ac-

“**The key element to connect a country to global value chains is investment in human capital...**”

— Grace Jaramillo

ording to the Asian Development Bank, 98 percent of investment redirecting and most manufacturing reshoring went to Southeast Asia, not to Latin America, even when the United States was the end market. Only Mexico got some of the new investments, and it was a tiny fraction. The pandemic could be the last opportunity for Latin America to capture some of the investment that is looking for new places. Vietnam, Malaysia and Thailand are the countries that have most benefited from the reshoring in the past months. Public-private efforts to attract companies divesting production have been successful. However, the key element to connect a country to global value chains is investment in human capital, and logistical and digital infrastructure are key. And, after the pandemic, investment attraction efforts could be futile in the absence of a proper national health system that can weather cathartic events such as the novel coronavirus. Regional associations such as the Pacific Alliance have the best chance at fighting for a sizable portion of the reshoring efforts,

especially Peru and Chile, which started the pandemic with a comfortable cushion of savings and international reserves.”

**A** Michelle DiGruttolo, senior managing director, and Miyako Yerick, senior geopolitical analyst, both at Ankura: “The coronavirus has created disruptions to global supply chains and has prompted discussions in the United States around reshoring. In fact, despite the efficiency gains of ‘just in time’ manufacturing over the past few decades, the last four years of trade uncertainty have highlighted the importance of supply chain resiliency and diversity. As a result, some companies moved parts of their manufacturing to Vietnam, Malaysia or Mexico, but China remains the major global manufacturing hub. For more companies to move production to the Western Hemisphere, governments will need to offer incentives and compensation. The most likely industries to see that assistance are those likely to be labeled essential to national security. Such industries and sectors include pharmaceuticals, medical devices, critical minerals and energy-friendly autos. The USMCA, which goes into effect July 1, provides companies a low cost and skilled work force with easy access to the U.S. market. However, the coronavirus will exacerbate and further expose inequality in the Americas, and analysts expect substantial social unrest to continue beyond this year and expand to other countries. Both Brazil and Mexico have mishandled the infection, and Brazil has become the virus’ new epicenter. The value chains that run through the economic engines of Latin America where the virus continues to rage will suffer most and be the most difficult to resuscitate.”

*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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