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## FEATURED Q&A

# Has Mexico Gotten Through the Worst of Its Recession?



Exports of automotive products rebounded 188 percent from the previous quarter, but overall economic growth rates have started to moderate, Alfredo Coutiño writes below. // File Photo: Mexican Government.

**Q Mexico's economy grew 12 percent in the third quarter, according to national statistics agency INEGI, following a historic decline of 17.1 percent in the second quarter amid strict lockdowns due to the Covid-19 pandemic. What accounts for the expected increase in Mexico's GDP during the third quarter? Is the worst over for Mexico's economy? How well has the Mexican government handled the economic fallout from the pandemic as compared to others in Latin America, and what should it do to help maintain growth?**

**A Pamela Starr, senior advisor to Monarch Global Strategies and professor of international relations and public diplomacy at the University of Southern California:** "It is important not to be distracted by the 'recovery' in the Mexican economy suggested by the strong growth and job creation numbers for the third quarter. These numbers are relative to the second quarter, when a pandemic shutdown rocked the economy, not compared with conditions a year ago. The Mexican economy is still on track to shrink by about 10 percent this year and to recover slowly in the ensuing years. The Mexican recovery will not be 'V-shaped,' but instead appears to be developing into a 'curb' recovery with a strong but incomplete recovery in the third quarter followed by a flattening of growth thereafter. This likely performance in the Mexican economy reflects a number of factors, but one of the most important is the government's refusal to implement a stimulus that might have helped cushion the pandemic's impact on small and medium-sized businesses or the newly unemployed. As a result, Mexico has lost

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## TODAY'S NEWS

### POLITICAL

## Latin America Responds to News of Biden Victory

Leaders from across Latin America issued statements on the U.S. elections, with the heads of the region's two largest economies, Mexico and Brazil, standing out for not congratulating former U.S. Vice President Joe Biden (D) on his projected victory.

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### POLITICAL

## Arce Sworn In as President of Bolivia

Former Economy Minister Luis Arce of the Movement for Socialism (MAS) party took office as Bolivia's new president on Sunday.

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### POLITICAL

## Peru's Vizcarra Faces 2nd Vote on Impeachment

A plenary session of Peru's Congress is scheduled to vote today on whether to remove President Martín Vizcarra from office over bribery charges. Vizcarra survived a similar motion less than two months ago.

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Vizcarra // File Photo: Government of Peru.

## POLITICAL NEWS

## Latin America Responds to News of Biden Victory

Leaders from across Latin America over the weekend issued public statements on the U.S. elections, with the heads of the region's two largest economies, Mexico and Brazil, standing out for not congratulating former U.S. Vice President Joe Biden (D) on his victory. Major news outlets on Saturday projected he had won after four tense days of heavily scrutinized vote tallying, the Associated Press reported. President Donald Trump has refused to concede the race. In a series of aggressive tweets, Trump in recent days declared himself the winner of the race and promised to file numerous court cases today raising objections to the election process and alleging fraud took place, evidence of which he thus far has failed to produce publicly. Mexico's Andrés Manuel López Obrador, who unsuccessfully contested his own loss in a close presidential election in 2006, said he will hold off on sending congratulations until official results are released. "We are going to wait until all the legal matters have been resolved," López Obrador said at a news conference Saturday, adding that he enjoyed a good relationship with Trump. Far-right Brazilian President Jair Bolsonaro, a vocal ally of Trump, has kept unusually silent on the election so far. Although under U.S. law the winner will not be formally declared until next month, other regional leaders responded quickly Saturday to the media projections. "Congratulations Joe Biden and Kamala Harris for becoming President-Elect and Vice President-Elect of the United States," Costa Rican President Carlos Alvarado said on Twitter, the Tico Times reported. Left-leaning President Alberto Fernández of Argentina, whose own vice president, Cristina Fernández de Kirchner, is a woman, said on Twitter, "Greetings to Joe Biden, the next president of the United States, and Kamala Harris, who will be the first woman vice president of that country." Cuban President Miguel Díaz-Canel tweeted Sunday, "We rec-

ognize that, in their presidential elections, the American people have chosen a new course. We believe in the possibility of a constructive bilateral relationship that is respectful of differences." Trump has slapped new sanctions on Cuba over the course of his four years in office, as well as on Venezuela and Nicaragua, factors that may have helped him win a majority of votes in Florida in last week's election, analysts say. [Editor's note: See related [Q&A](#) in the Nov. 5 issue of the Advisor.]

## Arce Sworn In as Bolivia's President

Former Economy Minister Luis Arce of the Movement for Socialism (MAS) party took office as Bolivia's new president on Sunday, La Razón reported. In a half-hour speech before the Legislative Assembly, Arce promised to represent all Bolivians and restore the country's stability. "We will govern with responsibility and inclusion, respecting everyone," he said. Arce, 57, won handily in the first round of voting last month. The inauguration was attended by centrist former President Carlos Mesa, whom Arce defeated in the race, along with foreign dignitaries including the presidents of Argen-



Arce // Photo: Bolivian Government.

tina, Paraguay and Colombia, but not outgoing interim President Jeanine Áñez. On Oct. 30, Bolivia's parliament approved a motion recommending that Áñez and 11 of her cabinet ministers face justice over deaths that occurred during last year's post-election unrest, Agence France-Presse reported. An investigation by the Inter-American Human Rights Commission found that 35 people were killed in those incidents. In his speech Sunday, Arce said he does not see revenge as an end. "I believe in justice,

## NEWS BRIEFS

## Pierluisi Wins Puerto Rico Governor Race

With 100 percent of precincts reporting, preliminary results released Saturday show Pedro Pierluisi of Puerto Rico's governing New Progressive Party has become the U.S. territory's next governor, the Associated Press reported. In a tight race, Pierluisi received nearly 33 percent of votes cast on Nov. 3 as compared with nearly 32 percent obtained by Carlos Delgado of the Popular Democratic Party, which supports the current territorial status as opposed to Pierluisi's pro-statehood party. Delgado has conceded the race.

## Walmart Sells Business in Argentina at a Loss

Arkansas-based retailer Walmart said Friday it has agreed to sell its business in Argentina to Grupo de Narváez, a company that has retail operations in Argentina, Ecuador and Uruguay. Walmart will continue to support the business through transition services and sourcing agreements under the new ownership, but it will not retain an equity stake. Walmart Argentina started operating in 1995, expanding to more than 90 stores and 9,000 employees. As a result of the sale, Walmart will take a noncash loss of about \$1 billion after taxes during the third quarter of fiscal year 2021, MarketWatch reported.

## Hess Sells Gulf of Mexico Stake, Plans to Invest in Guyana Instead

New York-based independent energy company Hess Corporation said Friday that it has completed sale of its 28 percent working interest in the Shenzi Field in the deepwater Gulf of Mexico to BHP, the field's operator, for \$505 million. In a statement, chief executive John Hess said the proceeds of the sale will be used to fund the company's "world class investment opportunity in Guyana."

not in fostering an environment of resentment and revenge, which does not respect diversity of thought, where being from another party or political color makes you the object of hatred," La Razón reported. [Editor's note: See related [Q&A](#) in the Oct. 20 issue of the Advisor.]

## Peru's Vizcarra Faces Impeachment Vote

A plenary session of Peru's Congress is scheduled to vote today on whether to remove President Martín Vizcarra from office, El Comercio reported. Vizcarra, who survived a similar motion less than two months ago, is scheduled to arrive in Congress this morning, where he has said he will defend himself against accusations that he received bribes in exchange for favoring construction companies when he was a regional governor. Peru's Congress is made up of a host of small parties, which, so far, have been tight-lipped about their voting intentions today. Peru's general election is scheduled for April 2021.

### ECONOMIC NEWS

## Ecuador Delegation in Washington to Discuss Trade Ties

A high-level delegation from Ecuador is scheduled to meet today in Washington with officials from the office of the U.S. Trade Representative and other agencies, El Comercio reported. The group, which includes Foreign Minister Luis Gallegos as well as the minister for production, trade, investment and fisheries, Iván Ontaneda, will also discuss migration and security issues with U.S. counterparts. Earlier this month, the United States removed longstanding duties of 6.8 percent on imports of cut roses from Ecuador, which domestic growers say had shielded them from large volumes of low-priced Ecuadorian imports, Capital Press report.

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thousands of firms, is expected to see an additional 10 million of its citizens fall into poverty and is on the way to losing a large segment of a new middle class that had developed in recent decades. Unfortunately, there is no indication that the López Obrador government will alter its policy course and thereby mitigate the economic costs of Covid-19."

**A** **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Mexico's economic rebound in the third quarter is not, and should not be, a surprise, as it was largely expected as the result of the reactivation of businesses after the lockdown. Growth was mainly propelled by the recovery of external demand, mainly U.S. demand for Mexican products, and to a lesser extent due to the reactivation of the domestic market. The main driver was exports, which reported a rebound of 50 percent from the second to third quarter. Among exports, manufacturing products increased 55 percent, with exports of automotive products rebounding 188 percent from the previous quarter. Automotive products are mostly bound for the U.S. market given the close relationship

**“ Mexico has done less well than Brazil, Chile and Colombia...”**

— Alfredo Coutiño

of the auto industries in both countries. Another external factor was remittances from Mexican workers in the United States, which constitute an important driver of household consumption. On the domestic side, consumption also benefited from cash transfers from the government to vulnerable groups. Even though the economy has left recession behind, growth rates started to moderate significantly and will continue to moderate through the fourth quarter. The

worst of the contraction seems to be over, but there are still some risks ahead, as in the case of a second wave of Covid-19 and the uncertainty surrounding the government's anti-market policies. As compared with its Latin American peers, Mexico has done less well than Brazil, Chile and Colombia, countries that are performing better and reporting milder contractions. Mexico's main economic problem continues to be anemic investment. With an anti-private attitude, the government will not be able to restore investment and will consequently condemn the country to mediocre economic growth and deteriorating social well-being. Restoring credibility and confidence is essential to create a positive environment for sustained economic performance."

**A** **Juan Carlos Hartasánchez, senior advisor at Albright Stonebridge Group:** "After a disastrous second trimester, the Mexican economy showed a strong recovery as restrictions eased throughout the country and economic activities resumed. The economy grew 12 percent in the third quarter, driven by a 22 percent increase in the secondary sector, which includes activity from the 'maquiladoras.' Indeed, non-oil exports have seen a V-shape recovery and are back to pre-pandemic levels. Despite the good results in the third quarter, there are concerning trends that point to an unbalanced recovery and deceleration. First, growth in the tertiary sector, which includes services and commercial activity, expanded only 8.6 percent in the third quarter, affected by a modest recovery in consumer confidence and unemployment. Second, economic activity across all sectors has reduced the rate of recovery; the Global Indicator of Economic Activity (IGAE) grew 1.1 percent month-to-month in August, down from 8.9 percent in June. Finally, the recent rebound of Covid-19 cases in Europe, the United States and some states in Mexico, including border states and Mexico City, will further contract aggregate

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demand. Notwithstanding these concerning trends, it is unlikely that Mexico will again experience the economic contraction of April and May. Local governments, which ultimately decide whether to shut down economic activities, are loath to apply draconian measures to contain infections. But unfortunately, looser restrictions will translate into higher Covid-19 cases and extend economic and social hardship. Mexico will stand out as one of the most affected countries by the pandemic, with more than 100,000 lives lost, and a GDP contraction of no less than 9 percent by the end of the year."

**Alicia Girón, researcher at the Institute of Economic Investigations at the National Autonomous University of Mexico (UNAM):** "Forecasts for the Mexican economy for early 2021, in an environment of a strong global recession, will be very worrying for several reasons. First, Mexico over the last decade has had low interest rates and growing indebtedness of nonfinancial corporations as well as of sovereign countries at an international level. Second, Mexico's economic growth has not been accompanied by economic development, but rather by unstable growth, as indicated by macroeconomic data from 2019. Third, without strong growth due to the government's economic policies as well as the attempt to return to an economic model of nonrenewable energies and the cancellation or halting of works, an environment of risk for foreign and private investors was created. Fourth, the U.S. government's back-and-forth on NAFTA and its exit from the TPP is a blow to sectors integrated into the North American economy. Fifth, even with the new USMCA, the deal did not guarantee an economic take-off, given coronavirus-related closures of businesses and borders. Sixth, the decline of 8 percent in the first quarter hardly augurs positive growth at least for the remainder of the year. Seventh, the recent slow growth does not yet reflect increasing

unemployment and closure of businesses. Eighth, the impact will be reflected in expired portfolios of commercial banks and in the consumer credit cards business. Ninth is the mismanagement of the pandemic; there are no preventive measures, hospitals are

**“Mexico's economic growth has not been accompanied by economic development...”**  
— Alicia Girón

once again full, and deaths continue to rise. Mexico can resume sustained and sustainable economic growth by starting a health campaign, preventing diseases such as diabetes and hypertension through public policy, strong investment in education, the expansion of public infrastructure for access to water and closing the digital gap in order for marginalized communities to achieve better opportunities and to comply with the Sustainable Development Goals of the 2020 Development Agenda."

**Joan Domene, senior economist at Oxford Economics:** "Gradual easing of restrictions domestically and abroad allowed for a steady recovery of the industrial sector, while capacity constraints and social distancing will continue to weigh on activity. We expect an additional recovery in the fourth quarter and next year, but risks remain tilted to the downside as the incipient Covid-19 second wave could halt or even revert the reopening process. The composition and structural weaknesses of the Mexican economy made it especially susceptible to the pandemic shock despite imposition of softer restrictions than the regional average. Moreover, the lack of economic stimulus from the government due to AMLO's counterproductive austerity will prevent a speedy recovery to pre-pandemic levels."

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