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FEATURED Q&A

# Will Consumer Spending Rebound in Latin America?

Consumer spending in Latin America has plunged amid the Covid-19 pandemic. Shoppers are pictured waiting to enter a store in Santa Marta, Colombia. // File Photo: Municipality of Santa Marta.

**Q The world's consumer class is expected to shrink this year amid the economic fallout from the Covid-19 pandemic, with North America's total consumer spending declining by $770 billion and South America's contracting by $300 billion, according to a recent blog post by the Brookings Institution. Brazil and most of South America are expected to have a recovery in spending per capita by 2023-2024, while Mexico faces a slower recovery, with spending per capita not back to pre-pandemic levels until 2025. What would shrinking consumer classes mean for Latin American and Caribbean economies? What accounts for Mexico's slower recovery relative to Brazil and other South American nations? Should countries in the region do more to stimulate consumer spending—and also savings—in the short and long terms?**

**A Jaana Remes, member of the Advisor board and partner at McKinsey Global Institute:** "When Covid-19 hit, most Latin American consumers were already economically vulnerable. The region introduced the world to conditional cash transfers, an effective policy tool for reducing poverty but, as we described in a 2019 report, it lacks a cohort of upwardly mobile consumers with rising incomes who can fuel sustained demand and growth. Poverty fell sharply in the past two decades, but one-quarter of the region remains vulnerable because of high prices and a dearth of higher-productivity, higher-wage jobs. Indeed, Latin America's bottom 90 percent of earners accounts for less than two-thirds of domestic consumption, the lowest of all regions. The pandemic highlighted and exacerbated these fragilities. Mexico's

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### Chile Allots Seats for Indigenous on Constitution Panel

Chilean lawmakers allocated 17 seats for representatives of Indigenous groups on the body that will be tasked with rewriting the country's constitution.

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Some of the world's largest food and grocery companies called on commodity suppliers to stop trading soy that is linked to deforestation in Brazil's Cerrado savanna region.

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### Mexico's Congress Approves Rules for Foreign Agents

Mexico's Congress approved and sent to President Andrés Manuel López Obrador legislation tightening restrictions on foreign agents, such as the U.S. Drug Enforcement Administration.

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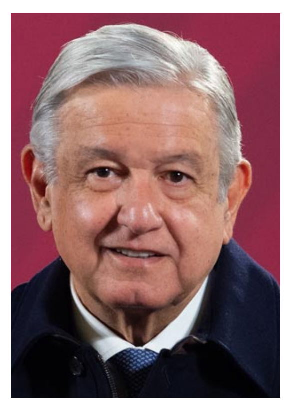

López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

# Mexico's Congress Approves New Rules for Foreign Agents

Mexico's Congress on Tuesday approved legislation to limit foreign agents' activities in the country, a measure that U.S. Attorney General William Barr said would damage cooperation between the two countries and only benefit criminal organizations, Bloomberg News reported. The Chamber of Deputies approved the legislation, which the Senate previously passed. The measure now goes to President Andrés Manuel López Obrador, who proposed the bill and is expected to sign it into law. Under the measure, foreign agents, such as agents of the U.S. Drug Enforcement Administration, would have no criminal immunity and would be required to hand over to Mexican authorities any information they gather and also file a monthly report on their movement, the news service reported. Additionally, the legislation requires local Mexican authorities to report to the government any meetings or telephone calls they have with foreign agents. The measure passed the Chamber of Deputies on a vote of 329-98, with 40 abstentions, the Associated Press reported. Mexico has historically relied on U.S. agents to generate much of its intelligence on drug trafficking organizations in Mexico. However, Mexican officials have a history of leaking information and sometimes even sharing it with drug cartels, the AP reported. The legislation was seen as Mexico's retaliation for U.S. authorities' arrest last October of former Defense Minister Salvador Cienfuegos. The retired general was arrested at Los Angeles International Airport on charges of accepting bribes from a drug cartel. However, Mexican officials were reportedly blindsided by the arrest. U.S. authorities eventually dropped the charges against Cienfuegos and returned him to Mexico. Mexican Foreign Minister Marcelo Ebrard said the country's government had threatened to terminate bilateral cooperation over the arrest, saying Cienfuegos' detention violated a 1992 agreement between the two countries that Mexico be notified of the investigation, Bloomberg News reported. [Editor's note: See related **Q&A** in the Nov. 30 issue of the Advisor.]

# Chile Reserves 17 Seats on Constitution Panel for Indigenous

Chilean lawmakers on Tuesday approved a measure to reserve for Indigenous groups 17 of the 155 seats on the body that will rewrite the country's constitution, Reuters reported. The legislation reserves a set number of seats for each of the country's Indigenous groups. The largest of them, the Mapuche, will have seven seats. The Aymara will have two seats, and the other groups, the Rapa Nui, Colla, Quechua, Atacameño, Yámana, Kawashkar, Diaguita and Chango, will have one each, EFE reported. In October, Chileans overwhelmingly voted to rewrite the country's constitution, which was written during the dictatorship of Gen. Augusto Pinochet. A constitutional rewrite was among the main demands of protesters who mobilized last year in demonstrations over inequality. Protesters have also sought more equal health care and education, as well as improvements to the pension system, Reuters reported. In the October plebiscite, the majority of voters also said they wanted a specially elected body of representatives, split evenly between men and women, to rewrite the constitution. However, that vote did not specifically reserve seats for Indigenous people. Congress' action to reserve the seats for Indigenous groups drew praise. "We want to thank Congress and ... the Senate in its unanimous vote, for this tremendous historical milestone in recognition of Indigenous peoples, and for taking a another step toward repaying our historical debt [to them]," said Social Development Minister Karla Rubilar, Reuters reported. The constitutional convention will be elected in April and will have a year to decide on a draft text of the charter. Then, Chileans will vote on whether to accept the new constitution or keep the existing one. Issues including collective bargaining, as well as rights over land and water, in addition to Indigenous

NEWS BRIEFS

## López Obrador, Bolsonaro Congratulate Biden on U.S Presidential Win

Mexican President Andrés Manuel López Obrador and his Brazilian counterpart, Jair Bolsonaro, have congratulated U.S. President-elect Joe Biden after the Electoral College cast its votes on Monday, making official the former vice president's win, the Associated Press reported. López Obrador and Bolsonaro, both of whom have been seen as close to U.S. President Donald Trump, were among the last world leaders to recognize Biden's victory. López Obrador's brief letter to Biden contained an implicit warning against U.S. involvement in Mexican internal affairs, the AP reported.

## U.S. Reaches Deal to Send Asylum-Seekers to El Salvador

The administration of U.S. President Donald Trump on Tuesday announced an agreement with El Salvador's government to send asylum-seekers who arrive at the U.S. border to the Central American nation for protection there instead, the Associated Press reported. The United States already has a similar arrangement with Guatemala.

## Mexico's Lower House Delays Central Bank Bill

The lower house of Mexico's Congress has delayed until February consideration of legislation that would force the country's central bank to buy U.S. dollars that cannot be repatriated, the Financial Times reported. Currently, U.S. dollars received in Mexico are converted into pesos, while ones that are not used are returned to the United States through correspondent banks. The proposed legislation would force Mexico's central bank to buy any that are not repatriated, which critics have said harms its autonomy and could expose it to money laundering. Mexico's Senate passed the measure last Friday.

people's rights, are expected to be among the issues up for debate. "The overwhelming result of the plebiscite raises great expectations and hope for institutional, democratic and participatory change," Sergio Bitar, a nonresident senior fellow at the Inter-American Dialogue and former Chilean senator and cabinet member, told the Advisor in a **Q&A** published Oct. 27. "Chile will move toward an economy that provides fundamental public goods and services to all, and one that generates inclusion and social equality." [Editor's note: See the Advisor's Oct. 26 **interview** with former Chilean President Ricardo Lagos on the vote to rewrite the country's constitution.]

**BUSINESS NEWS**

# Companies Seek End to Soy Sales Linked to Brazil Deforestation

A group including some of the world's largest food companies and grocery providers on Tuesday issued a call for commodity suppliers to stop trading soy linked to deforestation in Brazil's Cerrado, a huge savanna region and a key carbon storehouse, Reuters reported. The 163 companies and signatories of the Cerrado Manifesto Statement of Support included Tesco, Walmart, Unilever, Nestlé and McDonald's, as well as other consumer-goods firms. The letter was addressed to commodity traders including Archer-Daniels-Midland, Bunge, Cargill and Louis Dreyfus Co. None of the traders agreed to the measures, according to the statement. "We source much of our soy from the Cerrado region, so it's vital we play a leading role in protecting this biodiverse region for future generations," Anna Turrell, Tesco's head of environment, said in a statement on Tuesday, Bloomberg News reported. "We're calling on traders to step up their own commitments and implement robust monitoring, verification and reporting systems within the region, and set a 2020 deforestation and conversion-free cut-off date for soy from the Cerrado," she added. The Cerrado, the largest savanna in South America, currently produces about 60 percent of all soybeans in Brazil, which is the world's top exporter of the oilseed, Reuters reported. Soy is used to make animal feed and cooking oil.

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consumers have been especially hard-hit and will take longer to recover. Its economy was already stalling in 2019, and beyond the domestic demand drop induced by the pandemic, the steep decline in U.S. consumer demand affected its manufacturing export industry. By contrast, Brazil benefited from a record soybean crop and already recovering demand from China. This, together with a large transfer program accounting for 10 percent of GDP, helped boost household purchasing power. Addressing the region's 'missing' middle class will require more than near-term stimulus. Binding constraints to inclusive growth will need to be tackled. Mexico's market-opening reforms such as NAFTA boosted investment and productivity but did not translate into higher wages or productivity, nor expanded domestic markets. Brazil has seen a higher share of income go to labor and has expanded credit but is constrained by limited access to global supply chains and a protected 'Brazil cost' on firms and consumers."

**A** **Fiona Mackie, regional director for Latin America and the Caribbean at The Economist Intelligence Unit:** "The recovery in consumer demand from this year's collapse will undoubtedly be slow and will vary considerably across Latin America, depending on domestic labor conditions, the level of fiscal support for consumers and the success or failure of government efforts to control the pandemic. In this context, government fiscal support, most notably in the form of transfers that put money directly in people's pockets, will remain a critical lifeline for consumers. In virtually all of LAC's major economies—with the notable exception of Mexico—governments have introduced emergency direct cash transfers to provide income support to the most vulnerable segments of the population, as well as to the recently unemployed. Unfortunately, with very few exceptions, room for fiscal maneuver is shrinking, and in 2021 most governments will be dialing down fiscal support while scaling up efforts to reopen the economy. This suggests a few key issues to watch looking ahead. The first is the possibility of new revenue raising measures (including new taxes and, possibly, some privatizations) to help maintain support for hard-hit consumers for as long as possible. The second is the success or failure of vaccine rollout programs, which will depend not just on vaccine access but also on implementation capacity. On the whole, we expect this to be getting underway in earnest in the second half of 2021, allowing for key sectors such as tourism to start getting back to normal. Finally, and perhaps most importantly, the huge hit to Latin America's consumers has laid bare the need for deep reforms to expand access to health care, increase labor market flexibility, improve digital infrastructure, increase financial inclusion and promote savings. Beyond short-term crisis management, this should form the foundation for post-pandemic policy agendas in the region. However, despite the huge benefits to consumers such policies would bring in the long term, we remain skeptical that we'll see much progress here, given persistent problems of political effectiveness in the region."

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**— Fiona Mackie**

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**A** **Miguel Braun, associate at the Harvard Growth Lab and former secretary of economic policy in Argentina's finance ministry:** "Latin America has an infrastructure and capital shortage that leads to lower productivity, wages and growth than it could have. The best way to stimulate consumption in the medium to long run is to promote investment, technology and infrastructure. In the short run, the effect of the pandemic should be limited as much as possible through monetary and fiscal policy. However, the Covid shock found Latin America in a much weaker fiscal position than during the global financial crisis, and fiscal space in the region is heterogeneous. For example, Chile and Peru had low levels of debt and were able to implement relief packages of 10-15 percent of GDP. Ecuador, with limited fiscal space, proposed a package below 2 percent of GDP. Mexico's slower recovery vis-à-vis Brazil has to do with a lower fiscal space to implement countercyclical fiscal policies. Brazil developed a generous system of transfers to poor households that contributed to sustaining consumption during the crisis. Thinking about the response to future crises, Latin America needs to recover fiscal space. The IDB estimates that debt in the region will rise from 57 percent of GDP in 2019 to 74 percent at the end of 2020 and 78 percent by 2021. Debt sustainability will be a challenge, albeit a heterogeneous one. The solutions require fiscal adjustment, growth acceleration and, where necessary, debt renegotiation. Another lesson is that credible fiscal institutions are key. Countries with credibility can borrow at a lower risk premium, and therefore delay fiscal adjustment at a lower cost."

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>
> **— Miguel Braun**

**A** **Ione Amorim, economist at the Brazilian Institute of Consumer Defense (IDEC):** "I don't think it is possible to say that Brazil will have a brief recovery in consumption. We are experiencing a health, economic and political crisis, which makes it difficult to establish a recovery estimate in the short term, especially when the indicators of social inequality, unemployment and hunger are growing in the country. These are driven by government measures, with the increase of exports, and even of food security stocks, generating internal shortages, price increases and inflation. The pandemic has also turned into a political crisis; we are heading toward an electoral process in 2022 that is very obscure, and which is supported by a neoliberal policy aligned with the interests of some economic sectors, and with incomplete economic reforms. This scenario points to great challenges for the current government under pressure from falling GDP and rising public debt. At the beginning of the pandemic, increases in the supply of credit to companies and emergency aid for families without income reduced economic impacts. The measures were extended until December, but without the forecast for the end of the pandemic, the margin of resources to continue boosting the economy is slow and makes the recovery more distant and unlikely in the short term. For IDEC, one of the measures that could contribute to the economic recovery before 2024 would be the approval of Bill 3515/2015, which addresses the over-indebtedness of consumers with the potential to insert $110 billion into the economy with renegotiation of debts and recovery of household consumption capacity. Another possibility is recovery of international markets and the increase in exports of raw materials."

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