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## FEATURED Q&A

# Will Jamaica's Economy Soon Be Able to Recover?



Jamaica's tourism industry has been hard-hit during the pandemic. Cruise ship passengers are pictured disembarking in Port Royal Jamaica in January 2020. // File Photo: Jamaica Information Service.

**Q** The Covid-19 pandemic has devastated Jamaica's economy, which is expected to contract 12 percent for the 2020-2021 fiscal year, Finance and Public Service Minister Nigel Clarke told lawmakers on March 9. The Caribbean nation's foreign exchange inflows from tourism are expected to plunge 74 percent for the fiscal year, setting the country back 30 years, he said. How long will Jamaica's economy suffer the effects of the pandemic, and can it bounce back soon? What factors will most influence the speed and robustness of Jamaica's economic recovery? Is the country's government doing enough to economically support citizens and businesses amid the crisis, and what more should it do?

**A** Anthony T. Bryan, senior associate in the Americas program at the Center for Strategic and International Studies and fellow at the Caribbean Policy Consortium: "Jamaica successfully emerged from two successive IMF adjustment programs between 2013 and 2019. The country received universal kudos for its efforts. The country's implementation of its new monetary framework saw inflation fall to single digits. The Bank of Jamaica was able to build up its international reserves to levels regarded as appropriate for the purpose of risk mitigation. The public debt burden has been reduced by approximately 40 percentage points of GDP through fiscal prudence, transparency and improvement of fiscal policy implementation. However, the Covid-19 pandemic has taken an economic toll and has reduced growth for Jamaica and many other countries in the Caribbean. But institutional reforms

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## TODAY'S NEWS

### POLITICAL

## Brazil Using Dictatorship-Era Law Against Protesters: Report

President Jair Bolsonaro's administration is reportedly using a 1983 law to crack down on opponents of the president.

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### BUSINESS

## Companies Strike Deal to Create North America Rail Network

Canadian Pacific has agreed to acquire Kansas City Southern to create a network linking the United States, Mexico and Canada.

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### BUSINESS

## Two Ships of Royal Caribbean to Restart in June

Two Royal Caribbean ships will resume cruises in June after a one-year hiatus. Passengers will have to test negative for Covid-19 within 72 hours before departure, said Royal Caribbean's Celebrity Cruises unit, led by CEO Lisa Lutloff-Perlo.

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Lutloff-Perlo // File Photo: Celebrity Cruises.

## POLITICAL NEWS

## Brazil Using 1983 Law Against Bolsonaro Opponents: Report

The administration of Brazilian President Jair Bolsonaro has been using a dictatorship-era security law to crack down on protesters and opponents of the president, the Associated Press reported Friday. The latest round of arrests under the law, which dates back to 1983, occurred Thursday, when authorities detained four demonstrators for calling Bolsonaro “genocidal” for his government’s lack of response to the Covid-19 pandemic and displaying a cartoon of the president as a Nazi. The law vaguely states that it is a crime to harm the heads of the three branches of government or expose them to danger, according to the AP. The lack of specificity has given the Bolsonaro administration some leeway to detain or investigate his critics, the wire service reported. About 40 demonstrators gathered in Brasília on Friday to protest the arrests. Brazil’s health care system is in crisis as it continues to face the unrelenting spread of the novel corona-

virus, and of a particularly contagious strain known as P.1., The Guardian reported. For the past weeks, doctors and health institutes have been warning of a health “catastrophe” in the South American nation as intensive-care units fill up in virtually all of Brazil’s 26 states and the federal district.

## BUSINESS NEWS

## Deal Would Create U.S., Mexico, Canada Freight-Rail Network

Canadian Pacific Railway has agreed to acquire Kansas City Southern in a \$25 billion transaction that would create the first freight-rail network linking the United States, Mexico and Canada, The Wall Street Journal reported Sunday. The agreement involves a lengthy regulatory review, but if approved, the companies would join their networks in Kansas City, which would make shipments faster, allowing some cargo to remain in the same car, CNN reported. Currently, cargo being transported from one railway’s network to the other must be moved

## NEWS BRIEFS

## Ecuador’s Health Minister Resigns Amid Allegations of Favoritism With Vaccine

Rodolfo Farfan has resigned as Ecuador’s health minister after only three weeks on the job, the Ecuadorean government said Friday, Reuters reported. The announcement came as prosecutors probe allegations of favoritism in the rollout of Covid-19 vaccines. Farfan, a surgeon, has not been accused of wrongdoing. The government said in a statement that it was willing to cooperate with the investigation.

## Peru’s Central Bank Lowers Outlook for Economic Growth

Peru’s central bank on Friday revised its outlook for economic growth this year to 10.7 percent, down from 11.5 percent previously, as a second wave of Covid-19 cases threatens a fast recovery in the Andean nation, Reuters reported. Despite higher copper prices, the bank cut its forecast for growth in the country’s mining sector to 11 percent this year, down from an earlier prediction of 14.4 percent growth. [Editor’s note: See related [Q&A](#) in the Feb. 1 issue of the Advisor.]

## Mexican Authorities Targeting Governor in Money Laundering Probe

Mexico’s anti-money laundering agency said Friday that Francisco García Cabeza de Vaca, the current governor of Tamaulipas, owns several luxury properties that the agency says do not match his income from government positions over the last two decades, the Associated Press reported. In a report to Mexico’s Congress, the Financial Intelligence Unit said García Cabeza de Vaca earned some \$3 million since 2000 but acquired properties worth many times that amount. The governor said none of the homes in the report belong to him, and he said he has no links to organized crime.

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on policies since 2013 have put Jamaica in a very strong position to face the crisis. The country still faces specific challenges with respect to the structure and performance of the economy. Its economic output is heavily weighted toward the services sector, which accounts for 72 percent of total GDP. This includes activities such as financial insurance services, telecommunications and tourism. Tourism will bounce back, but reliance on tourism is one of Jamaica’s weak points, making it susceptible to external shocks and amplifying the need for economic diversification away from that sector. What remains to be done? Strengthen tax collection, reduce tax evasion, increase the efficiency of public expenditure and accelerate investment in diversifying the economy in order to

accelerate long-term growth. Concurrently, there must be improvements in economic management that fall directly under the government’s control. In sum, the government has done well, and one expects that in the post-pandemic era, public investment will have a significant multiplier and resilient effect on the economy.”



**Nadine McCloud, senior lecturer and head of the Department of Economics at The University of the West Indies at Mona:**

“Overall, this pandemic’s catastrophic effects on the Jamaican economy will certainly not be ephemeral. These effects are commensurate with their counterparts from Hurricane Gilbert in 1988, which caused estimated

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to new cars in order to continue to its destination. "The new competition we will inject into the North American transportation market cannot happen soon enough, as the new USMCA trade agreement among these three countries makes the efficient integration of the continent's supply chains more important than ever before," said Canadian Pacific's chief executive officer, Keith Creel, Reuters reported. "This will create the first U.S.-Mexico-Canada railroad." If approved, Creel would serve as CEO of the combined company, headquartered in Calgary, Canadian Pacific said in a statement. It would be renamed Canadian Pacific Kansas City, would have some \$8.7 billion in annual revenue and would employ close to 20,000 people, The Wall Street Journal reported. Patrick Ottensmeyer, the chief executive of Kansas City Southern, said the United States-Mexico-Canada Agreement creates a unique opportunity for shipping freight. "This company is going to have a North America rail footprint that is truly unmatched," he said. The companies said the deal also would bring environmental benefits as new rail routes that are established would take trucks off crowded highways, cutting emissions, Reuters reported. Rail is four times more fuel-efficient than trucking, the companies said. The board of Kansas City Southern has approved the deal, and the two companies have notified the U.S. Surface Transportation Board in order to seek its approval, Reuters reported. However, acquisition attempts by Canadian railroad operators have had limited success in recent years over antitrust concerns. Canadian Pacific plans to issue 44.5 million new shares and raise approximately \$8.6 billion in debt for transaction, Reuters reported. Kansas City Southern shareholders would own 25 percent of Canadian Pacific's outstanding common shares through the deal.

## Two Royal Caribbean Ships to Resume Operations in June

Two Royal Caribbean cruise ships will resume operations in June after a one-year hiatus, the company's Celebrity Cruises subsidiary announced Friday, the Associated Press reported.

## THE DIALOGUE CONTINUES

### How Will Lula Shake Up Brazil's Political Landscape?

**Q** **A Brazilian Supreme Court judge on March 8 annulled the criminal convictions against former leftist President Luiz Inácio Lula da Silva, leading to speculation that the move will pave the way for Lula to run in the 2022 presidential election. Though the decision could still be overturned, the political uncertainty shook Brazilian financial markets. How likely is it that Lula will run for president next year? How does the possibility of a Lula candidacy alter Brazil's political dynamics, and in what ways could it affect the agenda of President Jair Bolsonaro, who is likely to run for re-election? What implications does the ruling have for anti-corruption efforts in Brazil?**

**A** **Melvyn Levitsky, professor of international policy and practice at the University of Michigan's Gerald R. Ford School of Public Policy and former U.S. ambassador to Brazil:** "If Lula is able to run for president next year, he stands a good chance of winning. Bolsonaro has presided over a terrible period of time for Brazilians. Essentially, he has mishandled the pandemic; in fact, he has made it worse by poo-hooing its danger. Brazil has the highest death rate from Covid in the world. In gross terms, it is second only to the United States. The Brazilian

economy and quality of life have suffered. Lula remains popular in the polls, despite his conviction for corruption. Many Brazilians seem to accept that politicians are corrupt. As São Paulo residents used to say about a now-discredited mayor, 'rouba, mas faz,' or 'he steals, but he gets things done.' Lula's term in office brought about an upsurge in the country's economy, and his social programs were popular among the lower economic classes, especially the 'Bolsa Família' program, which gave cash grants to poor families that kept their children in school and made sure they had regular health examinations. The Car Wash scandal damaged Lula's Workers' Party, which the middle class had considered to be clean. The question for the electorate in 2022 may be whether the race between the right (Bolsonaro) and the left (Lula) will preclude or promote a more centrist candidate. The answer may lie in the choice between incompetence (Bolsonaro) and corruption (Lula) and whether a qualified middle-of-the-road candidate will emerge to challenge. At this point, that seems unlikely, but there is plenty of time for that to happen."

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**EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the March 17 issue of the Advisor.**

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The Celebrity Millennium ship will restart trips on June 5 from the Dutch Caribbean island of St. Maarten, with one itinerary having stops in Aruba, Curaçao and Barbados, and the other in Tortola, St. Lucia and Barbados. Another Royal Caribbean cruise will resume trips a week later, leaving from the Bahamas. In both cases, passengers 18 or older will have to test negative for Covid-19 within 72 hours of boarding. Celebrity Cruises CEO Lisa Lutloff-Perlo said the restart marks "the measured beginning of

the end of what has been a uniquely challenging time for everyone," the AP reported. Shares of Royal Caribbean were up more than 2 percent on Friday following the news. "Once countries begin to lift their travel restrictions and facilitate tourism again, there is no practical reason why tourism shouldn't restart to countries that are happy to welcome tourists," Danny Callaghan, CEO of the Latin American Travel Association, told the Advisor in a Q&A published Feb. 12.

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damage of approximately 65 percent of GDP. Research shows that the adverse effects of such extreme events can last for more than 20 years. Jamaica will recover. Financial prudence, including the use of official development assistance through an intensive margin lens, can facilitate positive short-run economic outcomes. However, some of this pandemic's effects may persist beyond 20 years. Jamaica's constraints to economic growth and sustainable economic development include capital deficiency, crime, compromised institutions and climate change. The rapidity and distribution of Jamaica's economic recovery and the extent to which an upturn takes us to sustainable and equitable growth and to an economic development path will be functions of its constraints. Of course, how well and fast world leaders can coordinate to curb this pandemic by reducing, among other things, the inequity of global vaccine distribution is another impediment to Jamaica's economic recovery efforts. The Jamaican government's swift implementation and execution of a transparent and accountable system that affords some amount of social protection to citizens and businesses financially displaced by the pandemic deserves commendation. It is difficult for the government of any country with a sizable informal sector to accurately predict the size of the pandemic's impact on citizens and firms, determine the optimal support allocation and efficiently distribute funds to qualified households and businesses. In Jamaica's case, however, regular audits of primary and secondary students' truancy rates, coupled with the country's flagship conditional cash transfer program (PATH), are paramount in assisting the government in identifying eligible families who need long-term economic security. The businesses experiencing difficulties accessing targeted assistance, particularly those in the informal sector, may fall prey to usury. As such, widespread sensitization

campaigns that directly assist informal businesses to move to the formal sector will ensure that government support reaches a broader spectrum of the population."

**A** **Densil A. Williams, professor of international business at the University of the West Indies:**

"Jamaica, like all other economies across the world, suffered massive economic dislocation due to the Covid-19 pandemic. Official figures suggest that the island's GDP will contract by 10-12 percent during the fiscal year. Similarly, unemployment has moved from a low of 7 percent pre-pandemic to over 10 percent, adding more than 130,000 people to the unemployment line. Further, there is expected to be contraction in all sectors of the economy except for construction, according to the official release from the Planning Institute of Jamaica. With this bleak picture for the 2020-2021 fiscal year, it is clear that drastic strategies must be implemented to recover, fast and strong. Business-as-usual policies and programs will lengthen the recovery process and lead to social dislocation. Critical strategic intervention for a fast recovery has to be focused on driving consumption in the local economy. The use of direct cash grants to individuals, especially the most vulnerable, has to be a high priority for the government over the next six months. Similarly, countercyclical policies such as tax cuts for the middle class will be necessary to drive consumption. While these may increase the debt burden slightly, the expected fast recovery in GDP will be able to compensate for the fear of a rising debt-to-GDP ratio. Without an aggressive push to drive domestic consumption and keep businesses open, Jamaica's recovery will be long and painful."

*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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