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## FEATURED Q&A

# What Threats Face Colombia's Economy in the Year Ahead?



Colombian Finance Minister José Manuel Restrepo said last month that the government expects the country's economy to grow more than 8.5 percent this year. // File Photo: @jrestrep via Twitter.

**Q** Colombia's GDP grew 5.7 percent in the third quarter as compared to the previous quarter, and the country's output grew 13.2 percent from the same period in 2020, which was higher than expected. The retail and manufacturing sectors led the growth, and the country's GDP has surpassed pre-pandemic levels. How is the Colombian government prioritizing different economic sectors in its recovery efforts? What are the year-end and 2022 projections for Colombia's economic recovery? Which sectors are expected to do best in the coming year, and which will continue to struggle? What might this faster-than-expected recovery mean for next year's presidential and congressional elections in Colombia?

**A** Karla Schiaffino, Americas senior analyst of risk insight at Verisk Maplecroft: "In 2021, the Colombian economy began recovering from the Covid-19 shock. After restrictions to curb a third wave resulted in a contraction during the second quarter and protracted unrest subsided, the recovery accelerated in this year's third quarter. An increase in consumption as Covid-19 restrictions eased greatly supported the expansion of the service and retail industries, driving the recovery. A normalization of production and the recovery of oil prices also pushed up revenue from the extractives industry, further aiding economic improvement. It is likely these sectors will continue to support consumption and growth into 2022. The positive results of the third quarter prompted an increase in the government's growth forecast from 6 percent to 8.5 percent. Notably, despite expectations, Colombia's

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## TODAY'S NEWS

### ECONOMIC

#### Brazil Enters Recession as GDP Shrinks in Q3

Brazil's economy entered a recession in the third quarter as gross domestic product shrank 0.1 percent as compared to the previous quarter.

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### POLITICAL

#### Honduras Not Planning Formal Ties With China: Nasralla

Honduras' incoming government is not planning to establish ties with China, said Salvador Nasralla, who is expected to be one of the country's vice presidents.

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### ECONOMIC

#### Mexico Threatens Action Over Potential U.S. Vehicle Subsidies

Mexican Economy Secretary Tatiana Clouthier said the country would "apply trade reprisals" in response to U.S. legislation that would provide electric vehicle subsidies.

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Clouthier // File Photo: Mexican Government.

## ECONOMIC NEWS

## Mexico Threatens Action Over Possible U.S. Vehicle Subsidies

Mexico's government on Thursday threatened action against the United States over parts of the Biden administration's Build Back Better Act that would provide consumers as much as \$12,500 in subsidies for purchases of electric vehicles made in the United States with union labor, the Associated Press reported. The legislation, which is currently under consideration in the U.S. Senate, would violate provisions of the U.S.-Mexico-Canada trade agreement, the USMCA, said Mexican Economy Secretary Tatiana Clouthier. The subsidies would favor U.S. producers of electric vehicles at the cost of Mexican manufacturers, which she said is prohibited under the trade agreement. "We would apply trade reprisals," Clouthier said, apparently referring to tariffs. "This bill is not consistent with the U.S. obligations under the TMC and the rules of World Trade Organization." Clouthier said the U.S. legislation could cost jobs in Mexico and also "could generate

additional pressures for migration," the AP reported. The tension over the electric vehicles comes as the United States is concerned that Mexico is giving preference to its state-owned power plants after Mexican President Andrés Manuel López Obrador proposed constitutional reforms that would favor Mexico's state-owned utility company by restricting the market share of private power generators. Last month, U.S. Ambassador to Mexico Ken Salazar said the United States has "serious concerns" about the Mexican government's attempts to favor state-owned power plants. Trade issues were among the items on the agenda when López Obrador, U.S. President Joe Biden and Canadian Prime Minister Justin Trudeau met last month in Washington. In a cordial meeting, the first such trilateral gathering by the leaders of Mexico, the United States and Canada since 2016, the three leaders vowed to work together to advance common interests. "Just beneath the warm and fuzzy surface, however, are some pretty thorny issues related to trade, supply chains, labor shortages and migration," Amanda Mattingly, security fellow at the Truman National Security Project, told the Advisor in a Q&A published Nov. 24. "Coursing through these topics are questions of protectionism and nationalism," she added.

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fiscal position remains weak after a year of expanded social spending. Furthermore, over the coming months higher inflation will depress consumption, dampening the government's optimistic estimates. President Duque is also betting on extractives to support the way out of the crisis. Beyond August 2022, the next government will have to balance the need to support investment in the sector with social and international pressure to comply with the country's international commitments on environmental protection. In our view, Colombia's strong economic performance in the third quarter will not significantly improve the chances of Duque's Centro Democrático (CD) party to win the election. Since 2019, the public appeal of the CD has decreased, opening the door for a left-wing government to clinch victory.

The question is whether such a government would manage to maintain support for key sectors while achieving fiscal consolidation and resolving social demands to address income inequality and ensure environmental protection."

**A** Sergio Guzmán, director of Colombia Risk Analysis: "The DANE's quarterly GDP report suggests that economic recovery is on the right track, despite the strikes and protests that happened in the second quarter of 2021. Colombia's rapid economic recovery is due, in large part, to the government's fiscal stimulus program, advances in the national vaccination plan and improved aggregate demand. It is likely that as Colombia's economy reopens, these effects will

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## NEWS BRIEFS

## Biden Administration Reinstates 'Remain in Mexico' Policy

The administration of U.S. President Joe Biden announced Thursday that it will reinstate the Trump-era Remain in Mexico Policy, the Associated Press reported. In January, Biden had suspended the policy, which requires some asylum seekers to remain outside of the United States while their cases are being processed. However, the administration cited a lawsuit by Texas and Missouri as the reason for reinstating it. The Mexican secretary of foreign relations stated that Mexico will allow these returns "for humanitarian reasons and for temporary stays" as early as next week.

## Hong Kong's MMG to End Copper Production at Peru's Las Bambas Mine

MMG Ltd., a Hong Kong-listed mining company and unit of the state-owned China Minmetals Corp., announced today that it would put an end to its copper production from Peru's Las Bambas mine by the middle of this month, Reuters reported. MMG cited the lack of a resolution from a Nov. 30 meeting between the Peruvian government and the residents of the Chumbivilcas province, who have staged protests in the area in recent years.

## Brazil's Banco Inter Shelves Move of Listing to Nasdaq: Filing

Brazil's Banco Inter said Thursday in a securities filing that it was not proceeding with moving the listing of its shares from Brazil's B3 exchange to the U.S.-based Nasdaq, Reuters reported. The digital lender had been expecting shareholders to cash out less than 2 billion reais' worth of shares, but the bank said requests for cashing out shares exceeded that amount.

## Brazilian Economy Enters Recession as GDP Shrinks in Q3

Brazil's economy, the largest in Latin America, entered a recession in the third quarter as its economy shrank 0.1 percent as compared to the previous three-month period, the Financial Times reported Thursday, citing official data from government statistics agency IBGE. In the second quarter, Brazil's economy shrank 0.4 percent as compared to the first. However, the country's gross domestic product grew 4 percent in this year's third quarter as compared to the same period a year ago. An 8 percent fall in agriculture and a 9.8 percent decline in goods and services exports led the month-on-month contraction. The industrial sector was stagnant in the third quarter, and services grew 1.1 percent. A severe drought and surging inflation were also to blame, Reuters reported. Analysts in a recent Reuters poll had a median forecast of zero growth for the quarter. High levels of inflation in Brazil have eroded consumers' purchasing power, economists have said.

### POLITICAL NEWS

## Honduras Does Not Plan to Establish Ties With China: Nasralla

Honduran President-elect Xiomara Castro is not planning to establish diplomatic ties with China due to her prioritization of U.S.-Honduras relations, a high-ranking Castro ally said Thursday, Reuters reported. Before her election on Sunday, Castro had said she was open and interested in developing formal relations with China, a move that would complicate Honduras' established diplomatic ties with Taiwan, which China claims as its own, The Guardian reported. Salvador Nasralla, who is expected to be one of Castro's vice presidents, said the incoming presidential administration is focused on maintaining its strong ties with the United

## THE DIALOGUE CONTINUES

### Who Has the Best Chance in Chile's Presidential Runoff?

**Q** **Conservative former lawmaker José Antonio Kast and former student protest leader Gabriel Boric, a current member of Chile's Chamber of Deputies, emerged Nov. 21 as the top vote getters in the first round of the country's presidential election. Neither candidate received a large enough share of the votes for an outright victory, so Kast and Boric will face each other in a polarized presidential runoff on Dec. 19. Which candidate is best positioned to win, and what factors will decide the race between now and the second round? How difficult will it be for the eventual winner to govern and advance his agenda? What is at stake for Chile in the election?**

**A** **Beatrice Rangel, member of the Advisor board and director of AMLA Consulting in Miami Beach:** "Like every other nation in the world, Chile is profoundly shaken by the technology-induced radical change in the world economy. Thus, after 30 years of political stability combined with economic development, social unrest took center stage. A government leadership lacking vision and understanding of the sources of the discontent fed the fire by choosing constitutional change as an exit strategy. In

States, an ally of Taiwan. He said, "There are no relations with China, relations continue with Taiwan... We don't want to fight with the United States, the United States is our main trade ally," Reuters reported. The Central American country is one of 15 countries worldwide that continue to recognize Taiwan's sovereignty from China, The Guardian reported. In response to Castro's electoral victory, Taiwan's President Tsai Ing-wen congratulated her by tweeting, "I look forward to working with you to benefit the people of our countries & strengthen the longstanding Taiwan-Honduras partnership."

so doing, it scraped away one of the sources of stability. The country is now trekking through uncharted territory that will demand keen strategic vision on the part of the new leadership. Preserving the inroads Chile has made in 30 years of stability, which created a powerful middle class, great public services and booming international trade under a framework of freedom and transparency, is at stake. Kast and Boric have the historical responsibility to lead their country toward enhanced democracy and greater economic achievements. While the campaign will most probably be polarizing and bitter, the Chilean people will choose the candidate who can better guarantee protection and future expansion of those assets. On the plus side is the process that started with rebellion to engage in constitutional revision and a presidential election has already opened wide the door to leadership to a generation that had nothing to do with the past divide and much to do with the preservation of democracy and development."

**EDITOR'S NOTE:** The comment above is a continuation of the Q&A published in the Nov. 23 issue of the Advisor.

In a Q&A published Tuesday, former Honduran Foreign Minister Roberto Flores Bermúdez told the Advisor that Honduras establishing relations with China at the cost of its relations with Taiwan would be fraught with risks. "The risks of shifting diplomatic ties to China include getting caught in the middle of a growing polarized world order, China not meeting expectations in development cooperation, Honduras' productive sector not being able and ready to access China's vast market with efficacy and losing development assistance from Taiwan," he said.

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be compounded and improve the business environment. It should be noted that GDP increments occur in the context of ongoing economic recovery and even though there are reasons to celebrate, unemployment and inequality are not improving at the same rate. The pace of job creation was sustained in the first half of the year but has recently slowed, despite the extension of subsidy programs and the rebound in the economy. It will therefore be difficult to sustain employment growth, especially considering the pressure to increase the minimum wage to above-inflation levels, which is likely to be counterproductive to the creation of new jobs. In the short term, not addressing the problem of the impoverishment of the population could generate two serious long-term effects. One is a greater concentration of economic power in a small group of large companies. The other is an increase in the concentration of wealth, deepening social unrest. Improved economic recovery is likely to help the government's chances of enticing the public to vote for a pro-incumbent candidate; however, considering low approval rates and lagging employment numbers, the chances for that to happen in the next four months are slim."

**A** **Sergio Olarte, principal economist at Scotiabank Colpatria:** "The decision of the national government to fully reopen the economy in June 2021 caused economic activity to recover significantly, showing that the business structure is resilient. In the third quarter, Colombia reached pre-Covid levels and recovered what it lost in the second quarter due to the national strike. The recovery was led by the labor-intensive manufacturing and commerce sectors, generating a boost in job creation with a rate of 12.1 percent, just 300,000 jobs below pre-Covid levels in September. Colombia

is pointing to a growth close to 10 percent this year due to higher employment, leading to a growth projection of 4.5 percent for 2022. The restoration of mobility has led to substantial improvements in hospitality and tourism, as well as in the entertainment and mass events sectors. However, the mining sector—especially coal—continues

**“ Colombia is pointing to a growth close to 10 percent this year...”**

— Sergio Olarte

to lag behind, increasing production costs and causing delays in the normalization of construction. Meanwhile, the government's countercyclical policy has been based on improving the speed of vaccination (70 percent of the population has at least one dose) and restoring mobility to almost 100 percent so that the private sector can reactivate in a sustained manner. Meanwhile, the government maintains some subsidies to strengthen the demand for work. An improvement in GDP, together with a greater response from employment, supports the preservation of the market economy status quo, ahead of elections next year. However, there are risks in the face of the expected recovery: new variants of Covid-19 may restrict mobility in Colombia, and foreign direct investment may slow as well. However, the region's geopolitical environment may also cause foreign investors to avoid the region during the first half of 2022, making the external imbalance more difficult to finance and delaying the recovery of key investment projects such as infrastructure plans."

*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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**Erik Brand**  
Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**  
Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Leticia Chacón**  
Reporter  
[lchacon@thedialogue.org](mailto:lchacon@thedialogue.org)



**Michael Shifter**, President  
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Subscription inquiries are welcomed at [ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

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