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FEATURED Q&A

What Can Argentina Expect of its New Economy Minister?



Economist Silvana Batakis was tapped earlier this month as Argentina's economy minister. She replaces Martín Guzmán who resigned on July 2. // File Photo: Argentine Government

Q Martín Guzmán stepped down as Argentina's economy minister on July 2 after two and a half years in the position under President Alberto Fernández. Guzmán, who led Argentina's debt renegotiation talks with the International Monetary Fund, suggested in his resignation letter that internal strife within Argentina's government was at least part of the reason for his departure. What factors led to Guzmán's resignation, and what does his departure mean for Argentina's economy? How might it affect support for the Peronist coalition leading up to next year's presidential election? Why was Silvana Batakis tapped as Guzmán's successor as finance minister, and what policies is she likely to push?

A Kezia McKeague, regional director at McLarty Associates: "Guzmán's resignation appeared abrupt but was a long time in the making. While tensions within the governing coalition intensified following its loss in the 2021 midterm elections, the conclusion of the IMF deal early this year caused an even greater rift. Most recently, Guzmán struggled against political constraints to implement the program he had negotiated with the Fund, particularly on a plan to alter public utility subsidies. As inflation accelerated and economic conditions worsened, Guzmán came under increasing pressure from Vice President Fernández de Kirchner. The lack of more fulsome political support from President Fernández may have been the last straw for the frustrated minister, who had an impressively lengthy tenure by Argentine standards. In his place, heterodox economist and career civil servant

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TODAY'S NEWS

ECONOMIC

U.S. Companies Planning \$40 Bn in Investments in Mexico: AMLO

Mexican President Andrés Manuel López Obrador said Wednesday that U.S. companies are planning \$40 billion in investments in Mexico by 2024.

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BUSINESS

Mercedes-Benz to Build Electric Buses This Year in Brazil

A Mercedes-Benz executive said the Germany-based vehicle manufacturer would start assembling electric buses in Brazil at the end of this year.

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POLITICAL

Lula Calls for Calm Ahead of Brazil Election

Following last weekend's killing of a local Workers' Party official, former Brazilian President Luiz Inácio Lula da Silva called for calm ahead of the country's October election.

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Lula // File Photo: Facebook Page of Luiz Inácio Lula da Silva.

POLITICAL NEWS

Lula Calls for Calm Ahead of Brazil Presidential Election

In the wake of last weekend's killing of a local official of Luiz Inácio Lula da Silva's Workers' Party, the former Brazilian president called for calm ahead of the country's October presidential election, the Associated Press reported Wednesday. "We don't need to fight. Our weapon is our calmness, the love we have inside of us, our thirst of making people's lives better," Lula told supporters at a rally, the AP reported. Lula, who faces current President Jair Bolsonaro in the election, leads polls ahead of the vote. "We don't have to react to [Bolsonaro's supporters'] provocations. If anyone teases you, tell them to go bite themselves. Go home and take care of your families. That's the lesson we need to teach," Lula told supporters. Last Saturday, Marcelo Arruda, a Workers' Party official, was fatally shot by a man who witnesses said shouted support for Bolsonaro before opening fire, the AP reported. Bolsonaro has urged supporters to arm themselves and has suggested that he may not accept the results if he loses the election, the AP reported. Bolsonaro, who himself was seriously stabbed while campaigning in 2018, condemned Arruda's killing. "We

are against any kind of violence," he told O Globo Monday in an interview. Last week, Brazilian Supreme Court Justice Edson Fachin, who chairs the country's electoral court, said during an appearance in Washington that incidents worse than the insurrection that happened at the U.S. Capitol on Jan. 6, 2021 could occur this year in Brazil, the AP reported.

ECONOMIC NEWS

U.S. Companies Eye \$40 Bn in Mexico Investments: AMLO

Mexican President Andrés Manuel López Obrador on Wednesday said that U.S. companies are planning to invest \$40 billion in the country between now and 2024, Reuters reported. The Mexican president made the statement at a meeting with U.S. and Mexican executives to address concerns over Mexico's investment climate following his visit to the White House the previous day to meet with U.S. President Biden. Mexican billionaire businessman Carlos Slim said that there is an urgent need for large investments in Mexico to aid in the reduction of the country's dependence on imports, the wire service reported. "The president's position was very positive in this sense, of needing to

NEWS BRIEFS

U.N. Security Council Postpones Vote on Extending Haiti Mission

The United Nations Security Council on Wednesday postponed its vote on the extension of the U.N. political mission to Haiti after China requested closed consultations on the proposed resolution, which the United States and Mexico are drafting, the Associated Press reported. Last October, the Security Council reached a compromise with China to only extend the mission by six months rather than one year, and the mission is set to end this Friday. Gang violence that erupted last weekend in Port-au-Prince has left at least 50 people dead, and protesters have taken to the streets and blocked roads amid fuel shortages that the gang clashes have worsened, Reuters reported.

Argentina Hikes Tax on Card Purchases in Foreign Currency Made Abroad

The Argentine government on Wednesday raised the tax applied to card purchases made abroad in foreign currency by 10 percentage points to 45 percent, Reuters reported. The decision came as Argentina is seeking to push down its high rate of inflation and protect its low level of reserves. The increased tax rate also applies to international travel fares if the completion of the transaction depends on the central bank-regulated foreign exchange market, the wire service reported.

U.S. Approves American Airlines' Request to Expand Service to Cuba

The U.S. Department of Transportation on Wednesday approved a request by American Airlines to add flights to Cuba, the Associated Press reported. The airline will now be able to resume flights to Santa Clara, Varadero, Holguín, Camagüey and Santiago de Cuba, which the Trump administration had curtailed in 2019.

FEATURED Q&A / Continued from page 1

Silvina Batakis emerged as the consensus candidate, most likely because she was the one option not vetoed by the vice president. The negative market reaction owed to her close links to kirchnerismo and expectations for a policy mix of tougher financial repression and import restrictions, though her initial statements sought to reassure investors by committing to the IMF program and clearly communicating her goal of a balanced budget. Yet her first press conference was sparse on details on the path forward, and there is skepticism among financial market participants that she will prioritize

the reforms needed to address Argentina's macroeconomic imbalances (or even meet the IMF targets for this year). Most importantly, it remains to be seen how Fernández de Kirchner will respond to Batakis' initial commitment to implement spending cuts and maintain hikes on utility tariffs—policies that reflect a similar interpretation of Argentina's economic challenges as that espoused by Guzmán. While it is too early to determine the long-term impact on Argentina's economy or politics, it will be a rocky road to the 2023 presidential elections."

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facilitate foreign and Mexican investment,” Slim told reporters following the meeting. Announcing the news of the prospective investments on Twitter, Mexican Foreign Minister Marcelo Ebrard called it “great news for Mexico,” Al Jazeera reported. Billions of dollars in foreign investments for Mexico have been delayed due to disputes between companies and López Obrador’s government amid the Mexican president’s effort to tighten state control of the energy sector, Reuters reported. Ken Salazar, the U.S. ambassador to Mexico, said last month that the investments involving U.S. companies that are working through disputes are worth approximately \$30 billion.

BUSINESS NEWS

Mercedes-Benz to Build Electric Buses in Brazil This Year

Germany-based automaker Mercedes-Benz Group is set to start the assembly process for its first electric bus in Brazil between November and December of this year, a company executive said on Wednesday, Reuters reported. There is an electric bus demand of 1,000 buses for next year, and the company is expecting demand for 3,000 buses in 2024, said Walter Barbosa, Mercedes-Benz’s bus sales and marketing director. Most of the electric buses are set to be operated in the city of São Paulo, which aims to own approximately 2,600 of the vehicles by 2024, the wire service reported. While the automaker did not state the cost of each electric bus, the prices are expected to be three to 3.5 times higher than conventional diesel-fueled buses. “Last year was tough, with few customers able and willing to buy,” Barbosa said. “This year is completely different, customers want to buy,” he added, the wire service reported. In related news, Brazil is seeking to buy as much diesel as possible from Russia, according to Carlos França, the country’s foreign minister, Reuters reported Tuesday. “We have to make sure that we have enough diesel [for] the Brazilian agribusiness and, of course, for Brazilian drivers,” he said.

LEGAL BRIEFS

ICSID Tribunal Awards Aunor 5% of Damages Sought in Case Against Peru: Sidley Austin

Law firm Sidley Austin announced Monday that it has obtained what it called “an outstanding result” on behalf of its client, the Republic of Peru, in an arbitration case at the World Bank’s International Centre for Settlement of Investment Disputes, or ICSID. The dispute was brought by construction contractor Autopista del Norte, or Aunor, and centered on delays in a project to upgrade a portion of the Pan-American Highway, the law firm said. In its final award, an ICSID tribunal awarded Aunor only 5 percent of the \$150 million in damages it had claimed for alleged cost overruns that it and subcontractor OHL Construcción had claimed, Sidley Austin said. Sidley partners Marinn Carlson and Jennifer Haworth McCandless led the case, which also included senior managing associates María Carolina Durán and Courtney Hikawa, the law firm said.

King & Spalding Hires Suárez as Partner in Miami

King & Spalding announced Monday that it has hired Fradyn Suárez as a partner in its corporate, finance and investments practice group in its Miami office. Suárez’s practice will focus on cross-border corporate, infrastructure and project finance work, and she will be focused on the transportation and renewable energy sectors, the law firm said in a statement. She is experienced in representing lenders, export credit agencies and multilateral companies “on complex transactions and restructurings, and regularly acts as finance counsel to energy and infrastructure companies with investments in the United States, Latin America and the Caribbean,” King & Spalding said. Suárez previously co-led the global project finance subpractice at law firm Jones Day.

Duclos Tapped as Head of Latin America Practice at Covington & Burling

Nicole Duclos, an arbitration partner at Covington & Burling, has been named head of the firm’s Latin America practice, Latinvex reported July 7. Based in New York, her experience includes construction, energy, mining, agroindustry and finance, among other industries. Duclos recently represented a European joint venture in an International Court of Arbitration case arising from the design and construction of toll roads in South America.

Harper Meyer’s Villalba Named Chair of International Law Section at Florida Bar

Jacqueline Villalba, a partner at Harper Meyer in Miami, has been named the chair of the International Law Section at The Florida Bar, the firm announced Tuesday. Villalba is a specialist on immigration and nationality law, representing foreign nationals and U.S. and foreign-based multinational corporations with regard to U.S. immigration and nationality law matters, among other areas.

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A Lisa M. Schineller, managing director and lead analyst for sovereign and public finance ratings at S&P Global Ratings:

“Since assuming office, President Fernández has faced challenges in leading the Peronist coalition given various constituencies and the power base of Vice President Fernández de Kirchner. From the onset of the administration, there were mixed signals on economic policy and no clearly defined economic plan backed by all factions of the coalition. After restructuring the commercial debt in 2020, former Minister Guzmán focused on renegotiating the 2018 IMF agreement. This brought to the forefront and heightened

“**The party’s losses in the midterms exacerbated the political pressures.**”

— Lisa M. Schineller

tensions within the coalition about policy execution ahead of the 2021 midterms and the terms of any new program. The party’s losses in the midterms exacerbated the political pressures. While the president backed the economic team and negotiation of an extended fund facility in early 2022, political support eroded as inflation rose above 60 percent and social discontent mounted. This in turn raised questions on sustainability of the economic team’s ability to comply with the IMF program and on prospects for policy after the 2023 elections. Ultimately, this led to increased pressure in local capital markets: on the peso’s parallel rates and terms of rolling over peso debt. S&P’s ratings on Argentina reflect pronounced macroeconomic imbalances, policy uncertainty and vulnerabilities in managing debt repayment; maintaining confidence in the small local capital market (given no global market access) and access to IMF financing is critical.

The outlook for the 2023 election remains uncertain amid economic distress and polarization across the political spectrum.”

A Benjamin N. Gedan, acting director of the Latin American Program at the Woodrow Wilson International Center for Schol-

ars: “Argentina’s economy shouldn’t be this bad. It has renegotiated its crushing debts to bondholders and the International Monetary Fund. Prices for its farm exports are through the roof, and its energy resources are also in high demand. Yet, its economy was in a shambles even before Finance Minister Martín Gúzman’s abrupt resignation on July 9. The origins of Argentina’s latest troubles and its grim prospects are largely attributable to policy missteps, including chronic overspending that could push inflation to 80 percent this year. But dysfunction in the Peronist coalition government is also responsible for bringing the country to the precipice of another economic crisis. From the first days of Alberto Fernández’s administration, he has been in constant conflict with his powerful vice president, Cristina Kirchner, and her allies throughout the government and in La Cámpora, a youth movement led by her son, Máximo. In calmer times, these irreconcilable differences merely paralyzed decision-making and deprived Argentina of an economic strategy. Now, the Peronist circular firing squad has triggered a governability crisis that imperils the country’s solvency. The president clearly lacks the political capital to meet his commitments to fight inflation by reining in spending—including on costly energy subsidies—and slowing the printing of pesos. Moreover, Fernández’s weakness further sullies Argentina’s investment climate. Fernández and Guzmán were never seen as champions of the private sector, but their repeated defeats at the hands of Kirchner and her acolytes could now send even the most intrepid investors running for the hills.”

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