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CONTENTS



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# Foreign direct investment down again in 2017

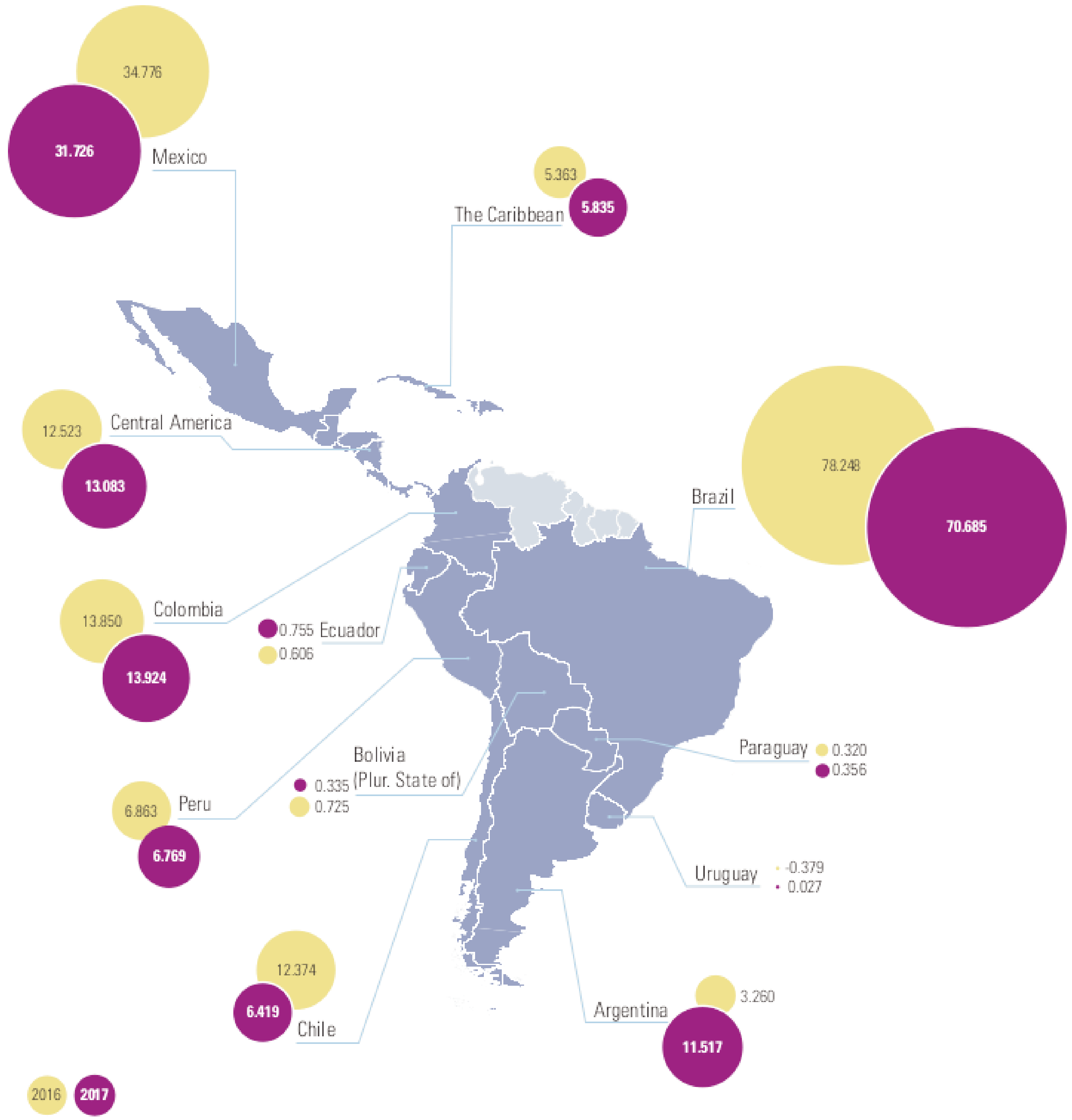
**Foreign direct investment (FDI) flowing into Latin America and the Caribbean fell for the third year running in 2017, down by 3.6% to US$161.7bn, according to a report published in early July by the UN's Economic Commission for Latin America and the Caribbean (Eclac).**

Eclac notes that last year FDI was around 20% below the peak year of 2011. What it calls the "persistent fall" since then is attributed to lower commodity prices, which have reduced the flow of FDI into extractive industries. Another big factor has been the regional recession, which was particularly marked in Brazil (the region's largest economy) in 2015 and 2016. The report says however that both those negative factors began to moderate in 2017. Oil and metals prices began to recover and Brazil returned to growth, albeit in a modest and fragile manner. One effect of this was returns on investment began to improve, encouraging the reinvestment of local profits. In fact, last year most countries in the region saw a rise in FDI, but this was not enough to offset sharp falls in some key countries: among these FDI was down by 9.7% in Brazil, by 8.8% in Mexico, and by a much sharper 48% in Chile.

Some sub regions had a more encouraging story to tell. In Central America FDI rose for the eighth year running to reach US$13.1bn, almost half of which (US$6.1bn) went to Panama. FDI in the Caribbean rose by 20% to US$5.8bn, more than half of which went to the Dominican Republic. Much of the investment in the Caribbean has been channelled into the tourism industry although there was also considerable investment in the extractive sector in Jamaica and Guyana. The main sources of inward FDI were the European Union and the United States. FDI in the services sector was down by 11%, while increasing slightly in manufacturing.

Eclac says there is an opportunity for the region to focus on attracting higher quality FDI, defined as those investment inflows that are technology and employment-rich, and which are oriented to support inclusive and sustainable economic growth. It says rising automobile investment in Mexico and Brazil is one example of this, as is investment in manufacturing and services exports in Central America and the Dominican Republic. According to a case study in the report, the Mexican automotive, electronics, and aerospace industries accounted for 54% of FDI inflows and 85% of exports in 2010-2017. Despite the uncertainty caused by the renegotiation of Nafta, nine out the world's top automobile companies, and many of the top ('Tier One') component suppliers now have operations in Mexico. In Central America Eclac highlights investment in labour intensive assembly operations focused on the US market, including clothing, sportswear, electronics and medical equipment. Labour intensive services – such as call centres – have also expanded.

Latin America and the Caribbean (selected subregions and countries): foreign direct investment inflows, 2016 and 2017
*(Billions of dollars)*




**Source**: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of estimates and official figures as at 6 June 2018.

**Note**: The subtotal for the Caribbean in 2017 excludes Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Eclac suggests that the investment picture is not going to change very radically during the course of this year: it expects overall FDI to be broadly flat. In addition, it warns "Despite the recovery in raw materials prices and interest in new products such as lithium, the great flows if FDI into natural resources seen in the last decade will not be repeated." Meanwhile, FDI outflows from the region dropped by 34% to US$23.4bn, a sign that local companies operating across the region (known as Translatinas) are failing to diversify their strategy beyond extractive industries or move into new markets within the region. This means that "in a context of recession (or low growth, depending on the country) and lower prices for oil and minerals, they have had to restrict their operations or, at least, halt their growth".

## BOLIVIA

### A growing appetite for private consumption

**When MegaCenter opened its doors to the public in 2010, Jordi Chaparros, president of the Spanish consortium which led the venture, proudly boasted that the project had used up enough construction materials to leave La Paz, Bolivia's de-facto capital, without cement for a year. At 80,000 square meters, the shopping centre was the product of a US$24m investment, hailed at the time as the largest commercial infrastructure project in Bolivia's history.**

In 2014, the MegaCenter was overtaken in scale and ambition by Ventura Mall, which at 100,000 square metres, and a US$50m investment, crowned Bolivia's booming lowland city of Santa Cruz as the new reigning capital of consumer culture. Similar projects in various sizes have been sprouting up in metropolitan centres. In a country traditionally known for its informal commerce and large open-air markets, it was becoming apparent that these spaces were becoming part of the new normal. Yet the proliferation of shopping malls is but a single symptom of consumption trends across the country.

To situate these trends, the first section of this article links economic growth and inequality reduction as the key drivers of growing internal demand. The second section explores a range of areas which illustrate broader shifts in consumption patterns, including car ownership, restaurant spending, and supermarket shopping. The third section will discuss these changes in the context of government policies aimed at social inclusion and economic development.

#### Growth and economic inclusion

According to data compiled by the World Bank, Bolivia's GDP has increased almost four-fold since President Evo Morales's government came into office, from US$9.5bn in 2005 to US$37.5bn in 2017 (at current US$ dollars). Within South America, Bolivia's GDP growth has been second only to Peru during this period, averaging 4.9%. Since 2013, Bolivia has consistently ranked first by this measure.

Substantial hydrocarbon exports have typically been seen as the main drivers of this growth. Luis Arce, who was economy minister from 2006 to early 2017, also attributed this trajectory to public investment (12.6% of GDP in 2017, the highest in the region) and a strong internal demand, a measure largely constituted by private consumption. Bolivia's Instituto Nacional de Estadística (INE) estimates that, in 2017, this component accounted for 67.5% of GDP.

During this same period, GDP per capita in this country of 11.2m inhabitants has more than trebled, from US$1,046 in 2005 to US$ 3,394 in 2017. Beyond aggregate measures, it is important to note that income distribution has also undergone important shifts, with Bolivia's Gini coefficient falling from 0.59 in 2005 (when it was the highest in the region) to 0.46 in 2017 (now behind Brazil, Paraguay, Colombia and Chile, according to the latest figures compiled by the World Bank) (*see sidebar*). Poverty, measured as the population whose income is insufficient to access basic needs, has been reduced from 61% in 2005 to 37% in 2017. Stated conversely, the middle-income stratum of the population has grown from 35% to 58%, resulting in over 3.2m people entering this group over the past twelve years. These figures have placed this group in the spotlight of socioeconomic analysis surrounding recent trends in private consumption habits.

**Gini coefficient**

The Gini coefficient is the most commonly used measure of inequality, measuring countries' income distribution. A score of 0 represents perfect equality, and a score of 1 represents perfect inequality.

### An appetite for consumption

After eight years of operations, McDonald's closed its eight branches in Bolivia in 2002, reportedly due to poor profit margins. Fast forward to 2018, and Burger King has become established as a popular eatery in Bolivia's metropolitan centres, along with Subway, Starbucks, Pizza Hut, KFC, and more recently the Hard Rock Café. According to figures published by the Ministry of Economics and Finance (Ministerio de Economía y Finanzas Públicas, MEFP), consumption in commercial food establishments increased by 682% from 2006 to 2017, a year in which US$696m were registered in taxable transactions. While undoubtedly high, it is likely this figure somewhat overstates real increases in restaurant spending. Fiscal expansion measures have prompted the registration of thousands of food establishments. Many of these have been transitioning from the informal economy, an arena which has historically caused large portions of the Bolivian commercial activity to slip under the radar.

During the same period, consumption in supermarkets has also increased over six-fold, reaching US$627m in 2017. While the majority of the population continues to buy produce from local street markets, these are often situated on the outskirts of urban areas, where agricultural workers distribute their products wholesale and at low cost. Demographic shifts during the second half of the 20th Century were defined by rapid urban-rural migration, but the more notable trend since the turn of the millennium has been the growth and densification of metropolitan regions. The surge in supermarket spending is a symptom of growing affluence among middle- and upper-income households, and also reflects an increasing reliance on imported products.

The number of cars and motorcycles on Bolivian roads has more than trebled, from 0.54m in 2005 to 1.71m in 2016, and over a third of them are registered in Bolivia's booming lowland city of Santa Cruz. Not all these vehicles have been purchased exclusively for private use. The growing number of minibuses, pickup trucks, and trucks exemplify ways in which private car owners invest in vehicles for commercial use, a largely unregulated source of employment. As can be expected, this explosion in vehicle ownership has brought with it congestion problems in the main arteries of large cities. Owing to colonial origins of many city centres, city planning has seldom allowed for these changes. State-led urban infrastructure projects, such as the Teleférico in La Paz (currently the largest mass-transit cableway transport system in the world), have alleviated some of this congestion.

Another indicative area which has seen large increases in consumption is air transport. Spending on flights increased from US$152m in 2005 to US$439 in 2017, representing a 288% rise. Bolivia's historic airline Lloyd Aéreo Boliviano (LAB), which had been in operation since 1925, went into bankruptcy in 2007. LAB's main competitor, Aerosur, gradually increased its market share until it ceased operating in 2012, also going bankrupt. This left the state-owned carrier Boliviana de Aviación (BOA, founded in 2007) to grow with sparse competition, and it currently stands as Bolivia's flagship airline. A number of smaller airlines also operate in the country, primarily serving in-country routes, which account for most of the growth in this sector. While domestic flight prices have progressively decreased, there are no signs of the budget airline model having made an incursion into the local market.

### Growing demand, lagging supply

Despite large increases in consumption expenditure in Bolivia since 2005, national production has failed to keep pace with demand, particularly with regards to the secondary sector. In a country which continues to be reliant on primary exports, other areas have experienced modest increases, but generally below the level of GDP growth. According to the World Bank, agriculture, forestry, and fishing made up 11.6% of GDP in 2017, slightly down from 11.8% in 2005. Over the same period, corresponding figures for manufacturing decreased from 11.6% to 10.4%.

One contributing factor for these production and consumption trends has been Bolivia's monetary policy. The exchange rate has been fixed at Bs6.96 to the US dollar since 2011, down from Bs8.07 at the start of 2006. Large international reserves have afforded Banco Central de Bolivia (BCB) reasonable control over the currency, whose tendency to devalue the Boliviano was temporarily absorbed by the dollar's devaluation following the financial crisis of 2008. This has decreased the nominal cost of imports, explaining marked increases in spending on consumer durables, in line with rises in disposable income. Bolivia's monetary policy has arguably contributed to economic stability by keeping internal demand buoyant, but has not done much for production beyond mining and hydrocarbon sectors, causing the price of Bolivia's agricultural and manufacturing exports to remain comparatively high.

Due to the combination of economic growth and inequality reduction, the population's standard of living has objectively increased across all measures of human development, as defined by the United Nations. Formerly impoverished sectors of the population have used their new-found disposable income to increase their savings, invest in property, and purchase a range of non-essential goods and services. While it has become commonplace to focus on conspicuous forms of consumption of upwardly mobile social classes in Bolivia, these do not necessarily translate into structural social changes.

One of the key markers of social mobility in Bolivia is tied to private healthcare and education, given that state-provided services have increased their coverage without significantly improving their quality. According to a study published by the United Nations Development Program (UNDP), Bolivian household expenditure in education more than doubled, from 3.2% in 2003/2004 to 7.5% in 2013. This tendency was particularly marked in low-income bands, which increased their spending in education over six-fold during this period, compared with a 28% increase among the highest 5% of earners. Household spending in healthcare has also increased, but at a more modest 21% across the country, from 3.3% in 2003/2004 to 4% in 2013.

During the early years of the current government, much of its rhetoric focused on 'Vivir Bien', a set of ideals tied to communitarian social values and environmental sustainability. This paradigm can be loosely translated as 'Living Well', but is better understood in contrast to 'Living Better', a label associated with individualism and aspirational hyper-consumption. It is questionable whether the country's trajectory of development has placed its population on track towards Living Better; at any rate, this concept is notoriously difficult to measure. What is more clear is that socio-economic inclusion has propelled Bolivian citizens to pursue a higher quality of life through access to goods and services in the market. Having brought about positive changes in these spheres, the more serious challenge for this government and its successors will be to nurture production as well as consumption. To do so, it will have to diversify its production away from the primary sector to increase its chances of creating a sustainable economic model fit for the population's changing needs and expectations.

## MEXICO

### Nafta deal looking more likely

**If the state of the Nafta renegotiations could be represented on a car's dashboard, perhaps with a needle pointing to different states of being, over the last month the needle would have swung back and forth wildly pointing to 'no deal', to 'stalemate', to 'separate bilateral US deals with Canada and Mexico' and to 'deal'. But in the last ten days of July the needle seemed to spend rather more time hovering around 'deal'.**

One of the big changes over the last month is that Mexico now has a president-elect, Andrés Manuel López Obrador, who takes office on 1 December and who is already represented on his country's Nafta negotiating team. There also seems to be something of a honeymoon in relations between AMLO, as López Obrador is known, and US President Donald Trump. Both men have exchanged letters and phone calls. AMLO's letter called joint action to reduce illegal immigration from Central America, and specifically for an effort to conclude the Nafta negotiations since prolonged uncertainty would affect investments and growth. In response, Trump said he thought a Nafta deal would lead to more jobs and higher wages on both side of the border "but only if it can go quickly, because otherwise I must go a much different route".

Politically, there are indications that Trump may need a Nafta deal done before the US congressional elections in November. That has not prevented Washington from continuing to blow hot and cold, which some believe has been an essential part of its negotiating strategy all along. Trump himself suggested separate deals with Mexico and Canada might be better. The US is also considering applying a 25% tariff on imported cars and parts, which would put a Nafta deal at risk. That said, a whole range of officials have indicated they are "optimistic" about some kind of a deal being done. Mexican economy minister Idelfonso Guajardo said a deal might be possible by the end of August. US Agriculture Secretary Sonny Perdue talked of a deal before the end of September. US Treasury Secretary Steven Mnuchin said a deal could be done "very soon".

Although both Canada and Mexico have rejected the idea of separate deals, the indications were that US-Mexico talks were advancing at a faster pace. As this issue went to press, a second US-Mexico ministerial meeting was due to be held in Washington, to be attended among others by Guajardo, Jesús Seade (AMLO's representative in the talks), US Trade Representative Robert Lighthizer, and Jared Kushner, Trump's son-in-law and adviser. The first meeting a week earlier had been described as positive and constructive.

It was not yet clear how the different parties would compromise to get a deal done. Discussions on the automobile industry, where Trump wants to secure higher US content, have always been central to the negotiations. Some sources said the US side was considering a 40% North American local content requirement, on condition that it be sourced from areas paying salaries of at least US$16 an hour. Such a provision would limit Mexico's ability to attract assembly plants purely on the strength of low wages; it might also chime with AMLO's desire to increase wage levels across Mexico. US Commerce Secretary Wilbur Ross seemed to give weight to these reports, commenting, "Our immediate, most close-to-completion negotiations are with Nafta, particularly with Mexico. There is a pretty good chance that we could be on a pretty fast track with the Mexican talks," he said.

## COLOMBIA

### Alberto is the man

**Colombian President-elect Iván Duque has appointed Albert Carrasquilla as his finance minister, as well as completing other key appointments to his cabinet ahead of his inauguration on 7 August. Duque has also shed some additional light on his future economic policies.**

Announcing Carrasquilla's appointment. Duque said he had also been in conversation with the Colombian central bank and agreed with its board on the need to bolster economic growth and strengthen the middle classes. Carrasquilla held the same job previously in 2003-2007, during the right-wing presidency of Alvaro Uribe; he has also worked as an economist for the Central Bank and for the Inter-American Development Bank (IDB), and studied at Universidad de los Andes in Bogotá and at the University of Illinois in the US. The president-elect highlighted Carrasquilla's expertise on monetary policy, tax issues, and budget management.

Other economic team appointments include Andrés Valencia Pizón at agriculture and rural development, José Manuel Restrepo at foreign trade, and Gloria Alonso as national planning minister. There will be significant business expertise in the wider cabinet. Nancy Gutiérrez, the new interior minister, has experience in the telecommunications sector. Mining minister María Suárez has a background in banking and energy. In a surprise move Duque appointed businessman Guillermo Botero as the new defence minister. Botero is head of retail association Fenalco and has no prior political or defence experience. Addressing the first meeting of his ministers-designate, Duque asked them to work with cross-cutting departmental priorities in mind, such as infrastructure, environmental sustainability, and innovation. He has also promised the governors of Colombia's departments that they will have input into a national regional development plan. Some had earlier been complaining of what they described as "a dangerous re-centralisation trend" in governance.

In office as finance minister, Carrasquilla will need to conduct a balancing act. Duque has promised tax cuts and support for the country's extractive industries (such as coal mining and oil and gas) to boost growth. However, this could lead to a widening fiscal deficit and in a worst-case scenario might even risk Colombia's investment grade status with the ratings agencies. In his previous stint in the job Carrasquilla helped deliver both growth and a narrowing fiscal deficit, but at the time oil prices were rising strongly and many analysts expect now them the be flat or even to fall over the next few years, making his job that much more difficult. The tax reform challenge is complex. The incoming government wants to cut the tax rate for large corporations but to increase overall tax revenue by simplifying a sprawling system of special rates and exemptions and by introducing digital transformation reforms in the tax system to crack down on evasion. While the government will have a larger congressional majority than its predecessor, getting the new approach approved will still be difficult. Some suggest it may end up being postponed to late 2019 or even to 2020. Also on the agenda are pension reform (Duque has promised greater coverage and a fairer system), along with health, education and agriculture reforms.

Duque has said his government will face big challenges and won't be able to perform miracles. Yet it will nevertheless, through hard work, seek to simultaneously increase economic growth, and reduce drug trafficking, violence, and inequality. An unexpected announcement came on 25 July when Duque told a meeting of the agriculture and livestock association that his government would sign no new free trade agreements (FTAs). Farmers have been worried over reported Colombian plans to sign FTAs with Australia and New Zealand, home to some of their competitors. Instead, Duque said his priority would be to ensure that Colombia's existing FTAs are working to the country's benefit.

GDP growth was 2.8% in the first quarter of this year, but with government revenue falling the fiscal deficit has widened to just under 3.5% of GDP. While this is undoubtedly a problem, the good news for Duque, for the moment anyway, is that he is inheriting an economic recovery. According to a private sector survey, the Encuesta de Opinión Industrial Conjunta (EOIC), industrial production grew by 2.2% in the first five months of this year (versus a fall of 0.7% in the same period last year); total sales were up 2.9% (versus a fall of 1.4% last year) and domestic market sales grew 2.4% (versus a fall of 2.3% in the first five months of 2017). Meanwhile, statistics institute Dane's economic activity index (Índice de Seguimiento de la Economía, ISE) was up by 3.8% year on year in May. Private sector economists believe growth will accelerate for the rest of this year, but may lose pace in 2019 because of lower oil prices, creating additional fiscal pressures.

## CUBA

### Signs of movement?

**According to new President Miguel Díaz-Canel big changes are on the way in Cuba. Work on the new constitution is moving ahead: the latest draft no longer mentions communism, recognises private property, sets term limits on the presidency and allows same-sex marriage. The government says it is also planning to lift the freeze on the registration of new small businesses. But despite this raft of announcements, analysts think the pace of economic change is still going to be very slow.**

The problem is that even with a new president, Cuba remains bureaucratic and in the eyes of some critics, obsessed with micro-managing the economy and, at all costs, preserving political control. This means that changes take years to debate, and longer to implement. A new constitution, to replace the 1976 document, has been promised since 2011 and is widely seen as the work of Raúl Castro, who remains a key figure and leader of the ruling Communist Party. Over the weekend of 21 and 22 July the National Assembly discussed the latest draft. It does propose some important changes.

Although Cuba is to remain a one-party state, a reference to building communism is dropped in favour of what is described as "prosperous and sustainable" socialism. The draft also recognises private property – a change from the current constitution, which only acknowledges state and cooperative property (the latter encompassing farms, personal property and joint venture companies). There is also an acknowledgement of the role of foreign investment in the country. A prime ministerial role is introduced and the president is to serve a maximum of two consecutive five-year terms. The draft also implicitly accepts same-sex marriage, simply by stating that couples, irrespective of gender, may marry. The draft constitution, consisting of 224 articles, is to be submitted to popular consultation between August and November, will be discussed and possibly amended again by the National Assembly, and then will be submitted to a referendum at a date yet to be established.

All this suggests Cuba is still on the path of *raulismo* – a move to preserve socialist control but allow a greater subordinate role for the private sector. Progress has been uneven. Speaking at the National Assembly Díaz-Canel said the economy had grown less than expected in the first half of this year – 1.1% – down on the 1.6% growth rate achieved last year, and well below the 2%

target. “The financial situation remains tense…forcing adoption of additional measures to control resources in the second half,” the Cuban president said, citing the impact of a drought, followed by hurricane Irma, and then by a bout of heavy rains. There had also been a drop in tourism and export earnings. Cuba is still struggling with the loss of two key benefactors: the Soviet Union in the 1990s, and decades later, the loss of major Venezuela-funded subsidies (particularly through the supply of cheap oil). Officials say that to fully recover from those two blows the Cuban economy would need to grow at an annual 7% rate for a number of years. Less ambitiously, they also say it would need to grow by at least 3% per annum to purely break even and to service state debts.

It might be argued that in response to these pressures the government could boost growth by moving more decisively to open up to the private sector. That certainly remains the direction of policy but implementation is agonisingly slow. In 2014 the government passed a law intended to diversify the economy and attract US$2bn a year in foreign direct investment (FDI). Officials say they exceeded the target last year, attracting US$2.3bn. But independent analysts say FDI as a proportion of GDP remains low when compared with other Latin American economies. In a Brookings Institute report earlier this year Richard Feinberg argues FDI has been held back by “the control obsession of the Cuban authorities”.

For a deeper analysis of the need for Cuban currency reform, and the options available, see our 2013 white paper: *Cuba's dual currency system: the need for urgent reform*.

Government ambiguity is particularly evident in policy on small businesses, run by so-called *cuentapropistas* (the self-employed). There are about 567,000 cuentapropistas or micro business entrepreneurs, but registrations of new businesses has been suspended since August 2017. The government has been concerned that the success of small businesses – particularly those linked to tourism – is creating inequality, with some individuals earning many times the income of average state employees, which is about US$25 a month at the official exchange rate. The government introduced 20 new regulations in December: while recognising the role of small businesses, many simply create further obstacles for the sector. Cuentapropistas can now only operate one business per person (meaning a restaurant owner can’t operate a related business like a bar). Tax and registration requirements have been made more onerous. There is still no government authorisation for wholesale markets, considered essential for Cuba’s small businesses to have reliable supply chains.

Perhaps the biggest obstacle to more balanced Cuban economic growth remains the twin currency system (where there is a low-value domestic currency, the peso or CUP, operating alongside a much higher-value US-dollar linked trading currency, the convertible peso or CUC). The current exchange rate is 24 CUPs to a CUC. The dual rate has been used to heavily subsidise uncompetitive state companies. The government has been talking about merging the two currencies for years but is scared of the social and political cost of doing so (*see sidebar*).

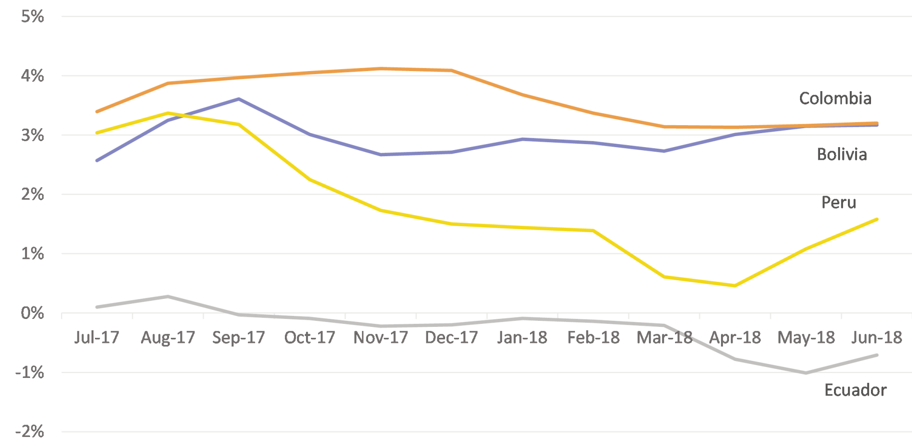
Cuban economist Omar Everley Pérez states flatly “it will be impossible to achieve significant and sustainable improvement in the economy without currency reform” but adds that reunification will not happen this year. Most reunification scenarios involve painful adjustment: higher inflation and even the collapse of some of the weaker state companies. Another economist, Dagoberto Valdés, from the Centro de Estudios Convivencia think-tank, says, “We think currency unification could have a devastating economic impact, the strongest in 60 years of the revolution.” Other economists make the point that while currency unification is essential for long-term development, it will be disruptive in the short term, and is best done when the government has a buffer – such as high foreign currency reserves – which it notably lacks right now.

# ECONOMIC HIGHLIGHTS

## ANDEAN COUNTRIES

**Andean Countries: Inflation rate (%)**

*Percentage variation (year-on-year)*



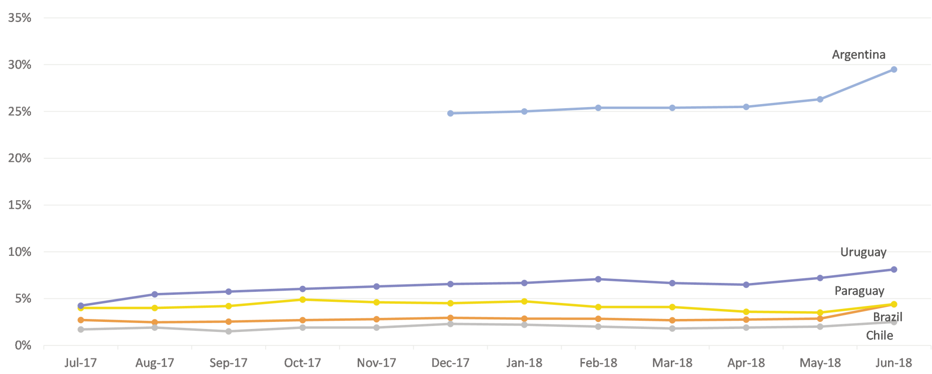

***Source:*** *Local central banks. No reliable data available for Venezuela.*

| Andean Countries: GDP growth (%) | | | | | | |
|---|---|---|---|---|---|---|
| *Quarterly figures are year-on-year growth* | | | | | | |
| **GDP** | **end 2017*** | **2018 forecast**** | **Q2 2017** | **Q3 2017** | **Q4 2017** | **Q1 2018** |
| Bolivia | 3.9% | 4% | 3.9% | Not available yet | Not available yet | Not available yet |
| Colombia | 1.8% | 2.6% | 1.3% | 2% | 1.6% | 2.2% |
| Ecuador | 1% | 1.3% | 3.3% | 3.8% | 3.0% | Not available yet |
| Peru | 2.5% | 3.5% | 2.4% | 2.5% | 2.2% | 3.2% |
| Venezuela | -9.5% | -5.5% | No data | No data | No data | No data |
| **Figures from the United Nations Economic Commission for Latin America & Caribbean December 2017* | | | | | | |
| ***Figures from the United Nations Economic Commission for Latin America & Caribbean April 2018* | | | | | | |
| *Quarterly growth based on figures from the local central banks. Bolivia has ceased providing quarterly y-o-y GDP data.* | | | | | | |

## BRAZIL & SOUTHERN CONE

**Brazil & Southern Cone: Inflation rate (%)**

*Percentage variation (year-on-year)*



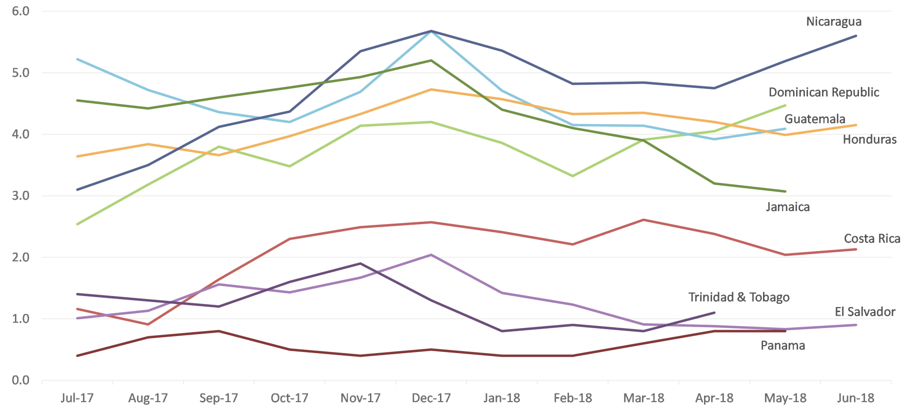

| GDP growth (%) | | | | | | |
|---|---|---|---|---|---|---|
| | **End 2017*** | **2018 forecast**** | **Q2 2017** | **Q3 2017** | **Q4 2017** | **Q1 2018** |
| Argentina | -1.30% | 2.20% | 3.00% | 3.80% | 3.90% | 3.60% |
| Brazil | -0.90% | 2.00% | -1.21% | -0.17% | 0.99% | 1.29% |
| Chile | 1.50% | 2.80% | 0.50% | 2.50% | 3.30% | 4.1% |
| Paraguay | 4.00% | 4.50% | 1.50% | 3.10% | 4.50% | 4.10% |
| Uruguay | 3.00% | 3.20% | 2.80% | 2.20% | 2.00% | 2.20% |
| Annualised quarterly growth based on figures from local central banks. | | | | | | |

# ECONOMIC HIGHLIGHTS

## CENTRAL AMERICA & CARIBBEAN

### Central America & Caribbean: Inflation Rate

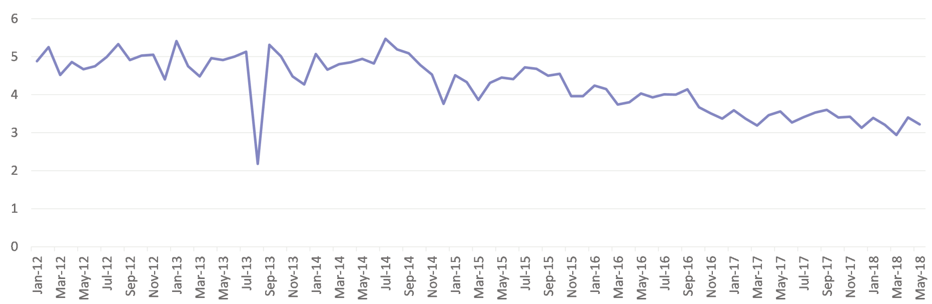
*Percentage variation (year-on-year, selected countries, latest available data)*




| Central America & Caribbean, selected countries: GDP growth (%) | | | | | | |
|---|---|---|---|---|---|---|
| *Quarterly figures are year-on-year growth* | | | | | | |
| **GDP** | **end 2017*** | **2018 forecast*** | **Q2 2017** | **Q3 2017** | **Q4 2017** | **Q1 2018** |
| Costa Rica | 3.9% | 4.1% | 2.7% | 2.8% | 3.2% | 3% |
| Dominican Republic | 4.9% | 5.1% | 3% | 3% | 6.5% | 6.4% |
| El Salvador | 2.4% | 2.5% | 2.3% | 2.4% | 2.4% | 3.4% |
| Guatemala | 3.2% | 3.5% | 2.3% | 2.7% | 2.9% | 2% |
| Honduras | 3.9% | 3.9% | 4.5% | 6.5% | 3.6% | 3.1% |
| Nicaragua | 4.9% | 5% | 4.3% | 3.2% | 4.3% | Not available yet |
| Panama | 5.3% | 5.5% | 5.4% | 5.4% | 4.9% | 4.2% |
| Jamaica | 1.2% | 1.3% | -0.1% | range of 0.5%-1.5% | range of 1.0%-2.0% | range of 1.0%-2.0% |
| Trinidad & Tobago | -2.3% | 0.5% | -3.4% | 2.7% | -1.2% | Not available yet |
| **Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017* | | | | | | |
| *Quarterly growth based on figures from the local central banks* | | | | | | |

### Mexico's unemployment rate

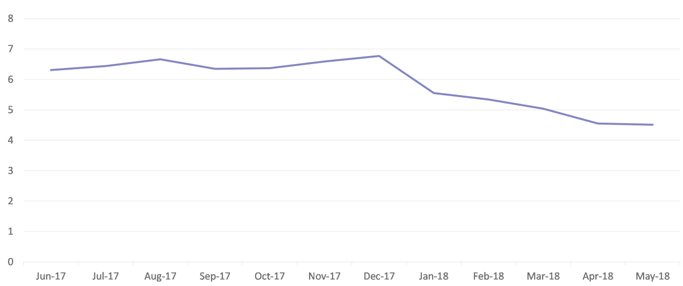
*Economically active population*




## MEXICO & NAFTA

### Mexico's inflation rate

*Percentage variation (year-on-year)*




### Mexico's GPD

*Percentage variation (year-on-year)*


***Source (all Mexico Highlights data):*** *National Statistics Institute (Inegi)*

## The recovery is getting tougher for some

**Latin America is still on a recovery path: after a surge in consumption in 2017, investment is finally beginning to pick up. But while growth is accelerating in some countries, conditions have become tougher in others, including some of the larger economies. That is the view of Alejandro Werner, Western Hemisphere director at the International Monetary Fund (IMF).**

In a blog published on 23 July and titled 'A tougher recovery', Werner said the IMF was reigning back some of its growth forecasts made last April. It now expects the region to grow by 1.6% this year, rising to 2.6% in 2019. This is lower than the April forecast which had been for 2.0% growth in 2018 and 2.8% in 2019. The reason for the tougher outlook was that market pressures at a global level had been amplified by what Werner called "country specific vulnerabilities". Despite strong growth in the US and a recovery in commodity prices, there were concerns over global demand and financial conditions, he said. The growth in demand had been less than expected, and monetary conditions were gradually tightening. Escalating trade tensions and conflicts were increasing downside risks. This came at time when there was a degree of domestic uncertainly associated with country-specific electoral cycles.

In Argentina the IMF is now forecasting that growth will turn negative in the second and third quarters of this year, due to a drought in agricultural areas and the currency crisis of May-June which took a toll on investor confidence and forced the country to sharply raise interest rates. This year's growth forecast has been cut back sharply to 0.4% (down from 2.0% in April) with a gradual recovery predicted for 2019 and 2020 based in part on an IMF-supported stabilisation programme.

In Brazil on the other hand, moderate growth will be led by private consumption and investment. The forecast has nevertheless been reduced because of tighter global conditions and the recent truckers strike. Uncertainty over the outcome of the October elections could weigh down further on growth, Werner said. Also on the downside was the fact that much-needed pension reform has been postponed until after the elections. In Chile in contrast, forecasts have been raised due to a strong rebound in business and consumer confidence. Colombia has benefited from rising consumption and exports and a recovery in oil prices. Growth in Peru is also coming in stronger than expected due to higher commodity prices and fiscal and monetary stimulus.

Venezuela remains a case apart – a country in deep and severe crisis. The IMF is now predicting a massive 18% fall in GDP this year with an incredible inflation rate: close to 1 million per cent by the end of 2018. Werner notes that this is comparable to Germany in 1923, and that "The collapse in economic activity, hyperinflation, and increasing deterioration in the provision of public goods (health care, electricity, water, transportation, and security) as well as shortages of food at subsidised prices have resulted in large migration flows, which will lead to intensified spillover effects on neighbouring countries."

For the second year running Werner says Mexico's outlook is clouded by uncertainty over its trading relationship with the US and uncertainty over the renegotiation of Nafta (which is one of the big issues facing President-elect Andrés Manuel López Obrador). However, growth is still expected to accelerate in 2018 relative to 2017 because of a stronger US economy. The forecast for 2019 growth has on the other hand been cut back to 2.7% because of the impact of the prolonged trade-related uncertainty on investment. In Central America and the Dominican Republic growth remains robust because of strong US growth and higher remittances (linked to uncertainty over US immigration policies). The crisis in Nicaragua is nevertheless negative; Panama's predicted growth rate has also been trimmed back because of a long construction strike. The Caribbean also benefits from strong US growth and tourist inflows.

## MEXICO

### AMLO's signals

**Elected on 1 July, future president Andrés Manuel López Obrador (AMLO) has another four months to go (to 1 December) before he is sworn into office. Putting the Nafta issue to one side (see our separate article), here we look at the economic policy signals he has been sending to Mexican and international markets.**

Broadly speaking, during the campaign and in his first month as President-elect AMLO has moved in a carefully calibrated way from radical leftist to responsible centrist. Of course the details of how far he is moving between those two positions and where he currently stands are themselves fluid. Here we seek to present a snapshot of the various areas where the president-elect has made specific recent comments or commitments.

**Fiscal balance:** On the fiscal front AMLO is presenting himself as a conservative, but his spending plans have been outlined in greater detail than the proposed funding mechanisms. López Obrador has spoken of spending more on pensions, of boosting youth programmes (not least to create alternatives to crime and drug trafficking), of developing infrastructure, and of investing in the poorer, southern areas of the country. In general terms he has ruled out increased taxes and said that extra spending will be funded through 'Republican austerity' – eliminating wasteful public spending – and by cracking down on corruption. Post-election speeches have stressed the austerity message. On 14 July the president-elect said he aimed to make savings totalling MXN500bn (US$26.8bn) to reinvest in social programmes. This would help double pensions for the elderly and guarantee the right to study or to work for 2.6m young people.

The planned austerity programme includes cutting the federal government wage bill as well as reducing spending on consultants, political advisors, cars, and official advertising. The president-elect has said that his own salary will be MXN108,000 (US$5,800) a month, about 40% of the salary of outgoing President Enrique Peña Nieto. In a separate move AMLO also said he would cancel plans to buy eight military helicopters from the US at an estimated cost of US$1.36bn. Finance-minister designate Carlos Urzúa has been working with his outgoing counterpart to submit the 2019 budget to congress by 15 September.

**Oil sector:** Critical of the current government's liberalisation of the energy sector, during the campaign AMLO said he would request a pause in oil and gas exploration and production contract auctions, to check there had been no corruption in existing contracts. The oil regulator has subsequently postponed the remaining auctions due in September and October this year to February 2019. This has been criticised by businessman Gustavo de Hoyos, president of employers' federation Coparmex, who said "We think it is unfortunate that political criteria imply an interruption in the rhythm of decisions in the energy sector." Separately, the president-elect says he wants to build a new 160,000 barrel per day (bpd) refinery in Dos Bocas Paraíso, Tabasco (his home state) starting in 2019 at an estimated cost of MXN160bn (US$8.6bn). He has also spoken of further investment to build or upgrade existing refineries and of spending MXN75bn (US$4bn) on upstream exploration in the first year of his government with the aim of boosting output from 1.9m bpd to 2.5m bpd.

**The Airport:** During the campaign AMLO was highly critical of the US$13bn plan to build a new international airport in Mexico City. He said it was too expensive and potentially corrupt. After the elections he said he would hold a public consultation on whether to scrap the project entirely, operate it as a concession, or continue as at present. The state-controlled body in charge of the project, Grupo Aeroportuario de la Ciudad de Mexico (GACM), said on 25 July that it was cancelling four tender auctions until a decision was taken on how to proceed. Existing tenders would be honoured and construction work would proceed.

**Regional Development:** AMLO wants to stimulate various regions. Along a 30km deep strip running parallel to the frontier with the United States he wants to cut value added tax (VAT, down to 8% from 16%), and boost the minimum wage so as to encourage employment, investment, and technology. In the south he wants to create a bi-oceanic transport corridor across the Tehuantepec isthmus. He also wants to boost tourism in the Mexican Caribbean by building a high speed rail link between Cancún, Tulum, Bacalar, Balakmul, and Palenque.

**4% Growth Target:** López Obrador has said his aim is to double the rate of Mexican economic growth from roughly 2% per annum now to 4% on average during his six-year term in office. This has set off a debate among economists over whether the target is realistic or not. According to Alfredo Coutiño of Moody's Analytics, existing capacity allows the economy to grow at a maximum rate of 2.5%. He believes it would be wrong to use fiscal and monetary policy to "force" a higher rate, as that would create distortions (such as higher inflation). A better course would be to invest in expanding capacity – something that would necessarily take time – to raise the trend growth rate over time. Another sceptic is Tyler Cowen of George Mason University in the US, who argues that the only way to raise the Mexican economy's trend growth is by investing more in education and productivity – actions which will yield results only in the long term.

## BRAZIL

### Problems stored up for next government

**With less than three months to go before the elections, and five before handing over power to his successor, it is widely agreed that President Michel Temer is a lame duck. Congress is also winding down. So most of Brazil's economic problems will have to wait until the new government tackles them in early 2019. It is quite a long list.**

The future president of Brazil could usefully spend some time reading the conclusions of the IMF's latest Article IV consultation mission to the country, which was published on 11 July. The mission has good things to say about the country's "mild recovery", about the improvement in the current account deficit (which has narrowed from 4.2% of GDP in 2014 to 0.5% in 2017), about the fall in inflation (down by more than half in 2017 to 2.9%) about good foreign currency reserve "buffers", and about the floating exchange rate system which gives the country the capacity to react flexibly to external shocks. The banking system is also described as resilient. But a lot of the rest made it clear rapid and perhaps radical intervention is needed.

The mission says that despite the recovery the economy is underperforming, public debt is high and increasing, and medium-term growth prospects remain uninspiring in the absence of further reforms. Growth was 1% in

2017, and the Fund projects a moderate increase to 1.8% this year and 2.5% in 2019. But it warns that even if the outgoing Temer administration meets its constitutionally-mandated target of freezing public spending in real terms, public debt is expected to continue rising, peaking at 90% of GDP by 2023. Fiscal consolidation is therefore deemed to be a top priority. Between 2016 and 2017 alone, non-financial public debt soared from 78.3% of GDP to 84%.

IMF Directors are reported to have concluded that for Brazil "fiscal consolidation is of paramount importance". Top of the agenda is reform of the country's loss-making pension system, a revision of which the Temer government tried, but ultimately failed, to push through congress. It is also suggested that Brazil needs to make "decisive efforts" to contain the public wage bill while protecting public investment and social programmes. Tax simplification would also be helpful. More generally, further reforms were deemed essential to raise productivity and future growth. They included reducing state intervention in credit markets, strengthening trade integration, developing public infrastructure, and combating corruption and money laundering.

The next president may also be concerned over signs that, as attention focuses on the political noise of the election campaign, fiscal discipline is quietly slipping. Federal guidelines for the 2019 budget (known as Lei de Diretrizes Orçamentárias or LDO) have been prepared. Congress must approve the budget by the end of December, and it will set what the new government can do in its first year in office. According to the guidelines the primary deficit will be larger than planned and could put the next government in, or close to, violation of two fiscal rules: the spending cap and the so-called 'golden rule' (which bans debt issuance to fund current spending). The LDO language also appears to dilute earlier commitments to freeze public sector hiring and control public sector wages.

## REGION

### Making the case for e-government

**Paying taxes and dealing with Latin American governments in all sorts of different areas is time consuming, bureaucratic and often deeply frustrating. But a new Inter-American Development Bank (IDB) report says taking the process online, though what it calls digital transactional public services, could cut the time required by 74%, cost less, and help reduce corruption. So why isn't there more e-government?**

Latin Americans live in fear of the *trámite*. Any trámite is a piece of business conducted with the government: it could be to get a birth certificate, a driving licence, register a property, or to pay taxes. Each trámite or transaction may have various different procedural steps, including the submission of other documents or payments. The IDB report, titled 'Wait no more: red tape and digital government in Latin America and the Caribbean' says there is a really powerful business case for increasing e-government in the region. At present, completing a single transaction with the government takes an average of 5.4 hours across the region, and in some countries can take up to 11 hours. On the government side, providing a face-to-face transaction – such as an official to sign or stamp documents – costs 40-times more than carrying out the same piece of business online. The benefits of taking the process online are significant: according to Ana María Rodriguez Ortiz of the IDB, using digital tools "promotes competitiveness, trust in government, and social inclusion through agile citizen-state interaction".

Yet Latin American governments are hardly rushing to take up the new opportunity. In only three countries (Brazil, Mexico, and Uruguay) can more than half of government transactions currently be done online. In the

European Union by contrast, around 81% of transactions can be carried out online. In Latin America, according to a survey conducted by the IDB, only 7% of respondents said they had conducted their last government transaction online. One of the problems is simply that many Latin American citizens are not connected. Only 66% said they had a subscription to mobile broadband, and 11% said they had fixed broadband. Only 40% had a debit card, essential for making online payments.

When governments do offer online transactions, they are often poorly designed and not user friendly. Only half of all transactions can be completed in one session: 25% require three interactions or more, which increases the time and cost of accessing basic services such as education, health, paying taxes, or obtaining a birth certificate. Forty percent of those surveyed said their last attempt to conduct an online transaction with the government had failed; governments at the same time make little effort to understand the citizens' online user experience.

There is also evidence that the current mix of online and face-to-face transactions discriminates against the poor. Low-income people are more likely to have to attend in person to carry out a transaction, meaning they lose precious income by having to take time off work. Thirty percent of low-income respondents said they had had to pay a bribe to successfully conclude a face-to-face transaction, compared with 25% among higher income respondents. The report concludes that governments should do a lot more to understand the needs of online users; they should simplify transactions and eliminate unnecessary stages in the process; they should invest in broadening access to online transactions; and they should improve the quality of in-person provision.

## CHILE

### Growth forecast up, but Moody's still downgrades

**There was a mix of good and bad news for Chile in July. On 10 July the government said it was boosting this year's economic growth forecast to 3.8%, up from 3.5% before. But on 26 July US-based agency Moody's Investors Service announced it was downgrading Chile's credit rating; there are also worries over the impact of a potential trade war between the US and China.**

In a speech to congress finance minister Felipe Larraín said the increased growth forecast for this year reflected the momentum of the local economy and improved international copper prices (copper is the country's largest export). If confirmed, this would represent the country's highest growth rate since 2014, when GDP expanded by 4.0%. He expected copper prices to average US$3.12/lb, significantly above the assumption of a US$2.88 average that had been built into the 2018 government budget. Larraín said Chile remained a very open economy, exposed in three distinct ways: to global economic growth, to the international price of copper, and to any volatility of global financial markets. Larraín also made some small adjustments to his ministry's other forecasts: domestic demand is now expected to grow 4.8% this year (up from 4.1% previously), while inflation will rise to 2.9% (up from 2.8% before).

The improved outlook was not enough, however, to prevent Moody's from announcing later in the month that it was cutting Chile's credit rating to A1, down from Aa3, and shifting the outlook from negative to stable. Moody's said the change reflected "the gradual but broad-based deterioration in Chile's credit profile". It noted that the debt-to-GDP ratio had increased by more than 15 percentage points to 23.6% in the 2010-2017 period. While acknowledging "near term improvements" the agency said it did not anticipate a quick recovery of the earlier rating. It cited a persistent deterioration in the country's fiscal position, lower income levels from commodity exports, and a medium-term GDP growth average which it expected to fall to around 3%. The downgrade follows similar ratings decisions late last year by Fitch Ratings and by S&P.

The government was clearly irked by the decision. Larraín said he was "surprised" by the downgrade, coming "just as the Chilean economy is accelerating and fiscal revenues are exceeding market expectations". President Sebastián Piñera also weighed in, saying the downgrade reflected policies associated with the previous centre-left government. As he put it, "Chile is paying the consequences for the fiscal deterioration and slow growth over the past four years." The president had met Moody's in April and June, but appears to have been unsuccessful in his attempts to head off the downgrade. It seems clear that the agency has its doubts about Chile's future economic performance. In its statement it had said "Debt metrics are likely to stabilise, but a reversal in the deterioration of fiscal and debt metrics is unlikely."

Another factor that could take some of the shine off Chile's current recovery is the possibility of a trade war between the US and China. Only days after Larraín had lifted his copper price forecast to US$3.12/lb, the state copper commission (Cochilco) cut its own forecast from US$3.06 /lb down to US$3.0/lb citing the potential disruption to global trade. Copper accounts for over 50% of Chile's total exports, and it has been calculated that a one US cent change in the annual average price can add or subtract US$45m worth of government revenue and US$92m worth of balance of payments financial flows.

## GUATEMALA

### Out of the car and onto the train

**The urbanised area including Guatemala City and its immediate neighbourhoods is the most populated in Central America, with around 2.9m inhabitants. It is also heavily congested and polluted. The government has a plan to try to make things better: a north-south light railway called Metro Riel.**

Light passenger rail services are becoming popular in Central America. Panama has led the way, with the first, 15.8km line of the Panama Metro system coming into operation in 2014. The second line is under construction – eventually up to eight lines are envisaged, building a network that will include Tocumen International Airport. Guatemala City commissioned a feasibility study by Idom of Spain that proposed a 21km north-south track, part of which would use an abandoned railway running through the city. Using 35 electric trains it would be able to carry up to 250,000 passengers a day and make a significant contribution to reducing the city's reliance on carbon-emitting passenger cars. According to the Idom study, once it is up and running Metro Riel will take around 10,500 cars a day off the city's roads.

However, at this stage it is not entirely clear whether it will be built or not. The initial signs look good. The city authorities have signed a letter of intent to build the railway with the government agency for public-private partnerships (Agencia Nacional de Alianzas para el Desarrollo de Infraestructura Económica – Anadie) and two state-owned rail companies (Ferrocarriles de Guatemala, Fegua, and Ferriovías). An initial timeline suggests contractors could be pre-qualified in September, expressions of interest could be finalised by January, and a tendering process might open in March 2019. A winning consortium could be chosen by the second half of next year, perhaps with work starting in 2020. A group of international companies, including France Alstom, Siemens of Germany, Samsung, Hyundai and LG of South Korea, and Spanish and Chinese groups, is said to be interested. The cost of the project has been valued at nearly US$800m.

But there are at least three serious problems that will need to be resolved. The first is that a number of families are living in informal dwellings along the proposed route. According to newspaper *Prensa Libre*, at Atanasio Tzul, between city zones 12 and 21, around 80 families live in dwellings built along the disused rail track. They – and any other families – would need to be resettled for construction of the new railway to go ahead. Local residents said there was an attempt to move them out eight years ago that came to nothing. Officials at Fegua say they are analysing social housing resettlement options.

The second problem is corruption. Guatemala continues to be considered as one of the most corrupt countries in Latin America and there is a history of kickbacks associated with major civil engineering projects. Popular anger over corruption led to the forced resignation and subsequent imprisonment of President Otto Pérez Molina in September 2015. Brazilian civil engineering company Odebrecht has admitted to paying large bribes in Guatemala associated with a highway project. Alvaro Arzú, the late mayor of Guatemala City (and also a former president) was being investigated for city-level corruption at the time of his death in April this year. Although the incumbent president, Jimmy Morales, got himself elected on the slogan that he was "neither corrupt nor a thief" he has been investigated over various allegations of impropriety, and is currently politically unpopular. This project would also be one of the first to be conducted as a public-private partnership (PPP) project in the country. There are doubts whether everything is in place to run a high-quality public procurement process. Amid a politically charged atmosphere many officials are nervous about exposing themselves to potential charges of corruption.

Finally, there is a change of government on the way. Elections are due in June next year, with a new government due to take office in January 2020. The new administration would need to inherit the Metro Riel and manage it as an ongoing project. In fact, in Guatemala and elsewhere there is a long tradition of new governments turning against the big projects they have inherited from their predecessors. In Mexico President-elect Andrés Manuel López Obrador has already criticised the multi-billion dollar plan to build a new airport inherited from the outgoing government, and promises to reassess it. So whether Guatemalan commuters can look forward to leaving their cars at home and letting the train take the strain may well depend on who wins next year's presidential race.

## REGIONAL BUSINESS REVIEW

### REGION

### Free trade rules (maybe)

**It could be called a turning point. Leaders of Latin America's two main 'rival' trading blocks, the Pacific Alliance (Chile, Colombia, Peru, and Mexico) and Mercosur (Argentina, Brazil, Paraguay and Uruguay) met on 23 and 24 July in Puerto Vallarta, Mexico proclaiming their commitment to free trade and regional integration. But it would be wrong to assume protectionism has been expelled from the region.**

Two important positives came out of the Puerto Vallarta meeting. First, leaders of countries representing about 80% of the region's GDP for the first time made a joint commitment to a 'road map' that could eventually lead to a single continent-wide free trade area. This was particularly striking since it appears to end the old rivalry between a pro-market Pacific Alliance and a more protectionist Mercosur (domestic political changes mean Mercosur has now also swung into the market-friendly camp). Second, it appeared that the

**Big increase in Brazil**

Brazilian agriculture minister Blairo Maggi said on 23 July that the country was set to raise its grains production by 30% over the next ten years. He predicted that the grains harvest would rise from the current 232m tonnes to 302m in 2028. Most of the increase would come from increased soya and maize production. Brazil is also one of the world's largest meat producers and Maggi said he was expecting a 27% increase in meat production over the next ten years, taking it from 27m tonnes to 34m. Over the same period he expected meat exports to rise by 30.7% from 6.5m tonnes to 8.5m. The minister said it was possible that by 2028 Brazil would account for 10% of global trade in agriculture and livestock. He was, however, worried that the emerging trade war between the US and China might have negative effects for Brazil. At the same time Maggi acknowledged that there could also be short term gains – additional Chinese tariffs on US soya shipments could increase Brazilian soya exports and prices – although that could also increase costs for Brazilian livestock producers using soya as an animal feed.

region was explicitly rejecting the 'new protectionism' emanating from Donald Trump's administration in Washington and signalling that it will not be drawn into trade wars.

Yet there are also lots of reasons to be cautious and to conclude that protectionist-led influences – from both outside and within – are still very much present in Latin America. The Puerto Vallarta declaration was largely rhetorical, since five of the eight countries present are getting new presidents during the course of the next 18 months. They include the presidents of the region's top two economies, Brazil and Mexico. In Mexico, left-wing President-elect Andrés Manuel López Obrador has never been a champion of free trade; in any case he faces a difficult renegotiation of Nafta with the US and Canada – how well-disposed he will be after that to any new Latin American free trade initative remains to be seen. The Brazilian elections (in October) are looking unpredictable and could well be won by an anti-establishment nationalist. Even Iván Duque, the market-friendly president-elect of Colombia has just announced he does not intend to sign any new free trade agreements during his four-year term in office (partly to reassure worried Colombian farmers). Tellingly, the 'road map' to greater cooperation has no formal start date. For the moment the countries attending the Puerto Vallarta summit have committed only to carry out technical studies on a wider agreement.

There is an argument that says growing US protectionism is an opportunity for Latin America to diversify its exports and rely much more on intra-regional trade. Clearly, the threat of some kind of global trade war is real. According to Alicia Bárcena, executive secretary of the Economic Commission for Latin America and the Caribbean (Eclac), the latest wave of increased tariffs and other trade restrictions triggered by the US amount to U$200bn in extra costs, equivalent to 1% of global trade. If the US goes ahead with its threat of imposing a 10% increase of tariffs on another US$200bn-worth of imports from China in September, "we could end this year with restrictions on US$1tn of imports worldwide, almost 6% of global trade in goods," Bárcena said. Latin America would not easily escape the negative effects of that, nor from what she described as "an erosion of support and respect for the rules-based multilateral trading system embodied in the World Trade Organisation (WTO), and a move toward power-based trade relations…. [A] negative development for all of us who support multilateral cooperation over unilateralism."

While there is therefore a strong case for bolstering intra-regional trade, the reality is that despite all the rhetoric Latin America has so far made little progress on this front. Eclac officials say the Pacific Alliance sends only 2.8% of its exports to the Mercosur countries, and buys only 4.0% of its imports from them. Likewise, Mercosur ships only 6.4% of its exports to the Pacific Alliance countries, from whence it acquires only 6.6% of its imports.

## REGION

### Agro sector set to grow

**Latin America's agriculture, livestock, and fisheries output is set to grow by 17% over the next ten years, according to a joint report by the Organisation for Economic Cooperation and Development (OECD) and the UN's Food and Agriculture Organisation (FAO). While this is good news for the region's exporters, the report also suggests that global over-supply means prices will remain relatively flat.**

The report, 'Agricultural Outlook 2018-2027', says that regional production will increase by 17%, with more than half the growth (53%) coming from rising crop production, over a third (39%) coming from livestock, and the remainder

(8%) coming from fisheries. In terms of output value the Americas will be second only to South and East Asia. Total crop production in Latin America is set to grow at an average annual rate of 1.8% until 2027. Most of this expansion is attributed to improving yields, which will be particularly marked in cereals and oilseeds. Expansion of the cultivated area will also play a part in output growth. In all, agricultural land use is expected to increase by 11m hectares across the region, most of which will be dedicated to soya cultivation.

While the report underlines Latin America's ability to continue expanding its food production, there is also a clear message that there is little chance of a return to booming agricultural commodity prices. The FAO and OECD say that a decade after the food price spike of 2007-2008, global production has reached record levels in cereals, meats, dairy products and fish, while demand growth is beginning to weaken. Foodstuffs import demand from China has begun to level off. As a result, prices of agricultural commodities are expected to remain low; the current high levels of stocks mean that a rebound of prices is "unlikely within the next few years".

**Off-On Eletrobras privatisations:**

Brazilian private company Equatorial Energia won the tender for the privatisation of the first of six distribution units put up for sale by state-owned electricity company Eletrobras. Equatorial was the only bidder and paid a symbolic BRL50,000 (US$13,513) for Cepisa, the distribution company that operates in the northeastern state of Piaui. Cepisa is considered to be in a 'precarious' condition. It has 3,000 employees, registered 2017 losses of US$134m, and has debts totalling some US$649m. Under the terms of the privatisation Equatorial is committed to making additional capital investments of around US$195m. The Eletrobras privatisations have been subject to repeated legal challenge. In June the supreme court ruled that privatisations required specific, case-by-case approval by the legislature. However, the chamber of deputies passed a new bill that authorised the Eletrobras divestments. Then a judge froze the divestment process after a legal challenge from the power workers union, but this ruling in turn was overturned by an appeals court.

## REGION

### Corporate Radar

**Uber says Mexico investment US$500m:** US ride-hailing company Uber Technologies said in July that it had invested more than US$500m in its Mexican operations since launching there in 2013. The figure included contributions to government mobility funds, "social responsibility projects", and unspecified security spending. Analysts believe Mexico is particularly important to Uber since it is facing regulatory challenges in Europe and increased competition in the US and Asia. Chinese competitor Didi Chuxing Technology has begun operating in Toluca and says it shortly plans to offer its service in other Mexican cities. Mexico is currently Uber's fourth-largest market when ranked by the number of rides taken, coming in behind the US, Brazil, and India. It is currently operating in 21 of Mexico's 32 states, but will struggle to expand further because of tough regulatory conditions in the states where it is not yet present, a source in the Mexican subsidiary told *Reuters* news agency.

**Plateau Energy announces lithium find:** Canadian mining company Plateau Energy Metals said in late July that it had discovered 2.5m tonnes of high-grade lithium and 124m lbs of uranium at its Falchani hard rock deposit in Puno, southern Peru, operated by subsidiary Macusani Yellowcake. Company officials said the find might turn Falchani into one of the world's fifth- or sixth-largest lithium mines. Ore grades were said to be six or seven times richer than those in the salt flats of Chile and Bolivia. While company sources said they would like to start developing the mine quickly (with production to start as early as 2020) there may be opposition on environmental grounds. Mining proposals in the area were turned down in 2008 as they were judged to threaten over 100 local sites of cave paintings and petroglyphs (rock drawings or carvings) thought to date back up to 5,000 years. Plateau Energy Metals CEO Ian Stalker said "We are cognisant of the need to fully comply with all environmental, archaeological and community related issues as regulated in Peru."

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