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FEATURED Q&A

Can Argentina's Milei Resurrect His Economic Reforms?



Argentine President Javier Milei wants a raft of economic reforms, but the measures face an uncertain future in Congress. // File Photo: Argentine Government.

Q Argentine President Javier Milei's package of economic reforms is stalled in Congress after the lower house sent the proposed overhaul back to a legislative committee. Milei wants reforms that include provisions to allow for the privatization of state entities and to give the president greater powers, among changes to hundreds of regulations. Even after Milei's administration watered down the measure in an effort to secure its passage, the bill was blocked amid disputes including how states receive federal money. What parts of the reform are most likely to fail, and which could become law? What are Milei's options for moving forward with the reforms? What does the way in which Milei and his administration have reacted to setbacks with the reforms say about his government?

A Kezia McKeague, managing director at McLarty Associates:
"The Milei administration finds itself at a crossroads following the setback in Congress. Publicly, the president is blaming the political establishment, accusing provincial governors and their allied legislators of 'betrayal,' and insisting that no law is better than a bad law. Privately, his team's message to investors is that the executive branch possesses other tools to advance with the deregulation effort (that is, presidential decrees) even as it evaluates alternative legislative strategies, such as breaking up the legislation into smaller bills. Sticking points had already included the adjustment of pensions, privatization of state-owned companies, electoral reform and tax increases to reach the government's all-important goal of fiscal balance in 2024. It remains to be seen whether the president will seek a reset for his young administration,

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U.S. Arrests for Illegal Border Crossings Fall From Record Level

Arrests by U.S. authorities for illegal crossings of the country's border with Mexico fell in January from a record high in December.

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Peru's President Replaces Four Cabinet Ministers

In a cabinet shake-up, Peruvian President Dina Boluarte on Tuesday replaced her ministers of economy, energy, environment and defense.

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Guyana Accuses Venezuela of Violating International Law

Venezuela is violating international law by building up its military presence near a disputed region, Guyanese Foreign Minister Hugh Todd said in an interview published today.

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Todd // File Photo: Guyanese Government.

POLITICAL NEWS

Guyana Accuses Venezuela of Violating International Law

Venezuela is violating international law by building up its military presence along the countries' shared border, Guyana's foreign minister told the Financial Times in an interview published today. "This is not the first time Venezuela has adopted a military posture that appears to be threatening," Foreign Minister Hugh Todd told the newspaper. "We are following the rule of international law, Venezuela is violating it," he added. Todd's comments came after the Center for Strategic and International Studies think tank in Washington last week published satellite images appearing to show a movement of armed patrol boats and light tanks to Anacoco Island. Venezuela is also expanding a military base that is to house as many as 300 troops in the area. The island lies along the border of the Essequibo region, which makes up two thirds of Guyana's territory. Venezuela has claimed the Essequibo as its own for more than a century, but President Nicolás Maduro has intensified the country's claim in recent months; Exxon Mobil discovered huge quantities of oil off the region's coast in 2015. The United Nations' International Court of Justice is examining the dispute and has ordered Venezuela not to take action. However, a final ruling on the dispute is likely to be years away, the Financial Times reported. In December, the two countries signed an agreement during talks on the island of St. Vincent not to use force in the dispute. In a referendum pushed by Maduro's government in early December, Venezuelan voters expressed support for Caracas' claim to the Essequibo region. Guyana's foreign minister accused Maduro of seeking to use the territorial claim to gain support ahead of this year's presidential election in Venezuela, the date for which has not yet been set. On Sunday, Venezuela's government accused Guyana of illegally granting oil concessions in the disputed area, the Associated Press reported. Venezuela said Guyana has granted "illegal oil concessions ...

in a maritime area that is indisputably Venezuelan," the AP reported. [Editor's note: See related Q&A in the Jan. 25 issue of the Advisor.]

U.S. Arrests for Illegal Border Crossings Fall From Record Highs

Arrests by U.S. authorities for illegal crossings of the country's border with Mexico fell in January from record highs in December, U.S. officials said Tuesday, the Associated Press reported. Higher enforcement rates and seasonal declines led to the reduction, said Troy Miller, the acting commissioner of U.S. Customs and Border Protection. U.S. authorities have also praised Mexico's government for a crackdown that it launched in December on migrants heading north to the United States. Last month, the U.S. Border Patrol arrested 124,220 people for illegal border crossings. That number fell 50 percent from December, when it hit a record monthly high of 249,735. The figures were released the same day that the Republican-led U.S. House of Representatives voted to impeach Homeland Security Secretary Alejandro Mayorkas over his handling of the border. The articles of impeachment accused Mayorkas of "willful and systemic refusal to comply with the law," and the action marked the first time in nearly 150 years that a U.S. cabinet secretary has been impeached, CBS News reported. The effort to remove Mayorkas from office, however, is likely to fail in the Senate, which has the final say over dismissing cabinet members.

ECONOMIC NEWS

Peru's Boluarte Replaces Four Cabinet Ministers

Peruvian President Dina Boluarte on Tuesday announced a major reshuffle of her cabinet, naming replacements of four key ministers, Reuters reported. Economy minister Alex

NEWS BRIEFS

Brazil's Lula Begins Week-Long Trip to Africa With Visit to Cairo

Brazilian President Luiz Inácio Lula da Silva arrived today in Cairo to start a week-long visit to Africa, according to the Brazilian Report. During the visit, Brazilian and Egyptian officials plan to sign agreements on bioenergy and innovation, according to the news service. Lula is also planning to attend the African Union Summit in Ethiopia, where he will hold several bilateral meetings with other heads of state.

Petrobras Seeking to Finalize Deal With Mubadala on Refinery

Brazilian state oil firm Petrobras is seeking to finalize an agreement with Mubadala, the state-owned holding company of the Emirate of Abu Dhabi, to take back control of a refinery owned by Mubadala by the end of this year's second quarter, Petrobras' CEO, Jean Paul Prates, said Tuesday, Reuters reported. The Landulpho Alves Mataripe Refinery, located in Bahia state in northeastern Brazil, would be part of a larger partnership between Petrobras and Mubadala for biofuels projects, Prates told Reuters.

Freudenberg Medical to Build Second Plant in Costa Rica

Medical equipment maker Freudenberg Medical today announced plans to construct a second manufacturing site in Costa Rica. The project will entail a \$25 million investment. The facility is set to become operational at the start of 2025 and will be focused on production of devices such as catheters and other medical products requiring precise manual assembly. "The investment in this new site underlines Freudenberg Medical's confidence in Costa Rica" said Róger Gómez, Freudenberg Medical's Costa Rica general manager.

Contreras announced his resignation in a social media post, and Boluarte named his successor as economist José Arista. Arista briefly served as economy minister under former President Manuel Merino. Boluarte also announced Romulo Mucho as the new energy and mining minister; Mucho previously served as vice minister of the same ministry two decades ago. The other new appointments included Juan Carlos Castro as environment chief and Walter Astudillo as defense minister.

BUSINESS NEWS

China's BYD Plans Electric Vehicle Plant in Mexico: Executive

Chinese multinational manufacturing firm BYD Company Limited plans to construct a new electric vehicle factory in Mexico, BYD's Mexico head, Zhou Zou told Nikkei Asia in comments published today. BYD, which surpassed Tesla as the number-one seller of electric vehicles in the world in the fourth quarter of 2023, is now positioning itself to become a major exporter to the United States. The company's sales have long been concentrated in China, but recent years have seen the firm increasingly turn toward building plants in foreign nations and increasing exports. "Overseas production is indispensable for an international brand," Zou told Nikkei. U.S. firms have raised concerns about their ability to compete with Chinese carmakers, with Tesla CEO Elon Musk last month saying that Chinese automakers would "demolish" their competition without trade barriers, Reuters reported. "The introduction of cheap Chinese autos—which are so inexpensive because they are backed with the power and funding of the Chinese government—to the American market could end up being an extinction-level event for the U.S. auto sector," the Alliance for American Manufacturing wrote in a soon-to-be released report, Reuters reported. BYD also plans to construct a new industrial complex in Brazil, investing 3 billion reais (\$620 million) in the project there.

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potentially with a cabinet shakeup and/or a more formal alliance with former President Macri. His critics say that confrontational rhetoric and a lack of interest in negotiating with the opposition are to blame for the failure of the ambitious reform package. Despite the government's weak legislative position, however, Milei does enjoy a popular mandate for change. His approval ratings remain high, though societal patience with austerity measures may soon wane if the monthly inflation rates do not start to show a downward trend. We will know more about the revised strategy when Milei addresses Congress on March 1, the day of the opening of regular sessions. In the meantime, markets will be watching closely. The decision to withdraw the omnibus bill during extraordinary sessions has already strengthened existing doubts about Milei's ability to assemble congressional majorities to pass structural reform."

A Jimena Blanco, senior research director and chief analyst at Verisk Maplecroft: "The defeat of Milei's omnibus bill speaks volumes about the government's political inexperience and is the consequence of his attempt to push through all reforms in a single mega-bill. The move by the Libertarian minority bloc to hold a session—without having brokered agreements to ensure the bill's crucial articles would have the necessary votes—effectively buried the proposal and forced Milei to pull it and reconsider his strategy. But going back to square one will not come for free. The government will need to consider other measures to sacrifice or review. A key mistake was the government's assumption that the 56 percent of the vote secured in November would be enough to force the 'caste'—as President Milei refers to the political establishment—to approve the omnibus bill or expose itself to being punished in opinion polls and future elections. But in Argentina's federal system, governors play a major role in shaping congressional

debates and voting outcomes, and none were ready to grant the president extensive emergency powers in the economic, social and cultural spheres without receiving anything in exchange, especially in the context of a major economic shock plan that will deplete their provincial coffers. Any subsequent reform attempt will face the aggravating factor that the initial willingness of certain opposition blocs to negotiate and collaborate with the executive has been eroded. Milei will have to either negotiate more reliable support—brokering a formal alliance with some blocs—or face the prospect of obstructionism by those who consider that his strategy amounts to legislative amateurism."

A Peter Baumgaertner, partner, and Francisco Bianchetti, associate, both at Holland and Knight: "Argentina's biggest obstacle for growth is its recurring and growing fiscal deficit. Without regular access to international debt markets, governments have resorted to monetary stimulus, which has produced incessant and escalating inflation. After this legislative setback, President Milei will likely focus on fiscal reforms. Milei believes fiscal balance is urgent, even more urgent than the content of the blocked bill. That's why fiscal reforms are more likely to become effective soon. He can either pass tax reform in Congress or continue to reduce public spending and adjust the transfer of funds to provinces, which he can do unilaterally without Congress, a path already unfolding. Next, he will likely focus on easing foreign exchange restrictions, which if executed carefully could boost economic activity through inbound investment. For this, he won't need Congress either, but he'll need the economy to react favorably to his initial measures. Privatizations and deregulation will have to wait. If Milei manages to improve the economy by reducing spending and inflation, and opening the foreign exchange market, this, and high

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public support, can provide him leverage to compel Congress to pass a similar or even more aggressive version of his ambitious bill. Milei's approach is unorthodox, but he continues to show determination to transform the country's economy and business culture. He will not compromise on issues that are at the heart of his program. Only time will tell if Milei's bold strategy will bring lasting transformation."

A **Facundo Albornoz Crespo, professor at the University of Nottingham:** "At this moment, no part of the reform will become law as Milei unexpectedly decided to send the bill back to committees without realizing that this meant the process had to start from scratch. That technical error turned into a declaration of war against Congress, and bridges were burned with legislators who supported parts of the reforms but had doubts about some excessive aspects of the law. In this context, options are few, and all involve ignoring (or antagonizing) Congress as much as possible. Many aspects of the reforms are being carried out without the need for a law, and the government is diluting state expenses in a situation of very high inflation. All of this leads to a very sharp

drop in the fiscal deficit, and the promise of a fall in inflation is real. Of course, this is achieved by enduring an unprecedented recession and impoverishment. The question then is, how long will society endure? If it withstands at least a year, the political fruits of reducing inflation and a potential economic recovery will empower Milei in next year's legislative elections. The government can also bolster its legislative power by aligning with PRO, former President Macri's party, while weakened, still has a strong congressional representation. A good legislative outcome next year and an alliance with PRO could give Milei the power to extend the reforms as much as he wants. If society cannot bear it, the scenario is open and grim. However, it would allow a progressive leader to emerge and impose reforms to aspects of the Argentine economy that have support in society and in the political class. This would happen without the pain, conflict and stress that Milei is imposing with his verbal violence and extremism in the implementation of economic liberalization and public spending cuts."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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