LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Wednesday, March 25, 2020

FEATURED Q&A

Will Latin America See More Supply Chain Disruption?

The Covid-19 pandemic has led companies to question the reliance on China as a source of manufactured goods. A factory in Zhuhai is pictured above. // File Photo: 'Chris' via Creative Commons.

Q Chinese exports plummeted 17.2 percent in dollar terms in the first two months of the year as the Asian giant grappled with the effects of the spread of Covid-19. The coronavirus outbreak has shed light on the risks of companies relying on China as a sole source of manufactured goods, as factory closures and transportation restrictions disrupted global supply chains in sectors ranging from pharmaceuticals to electronics to auto production. To what extent has the Covid-19 outbreak in China interrupted global supply chains, and how much have countries in Latin America and the Caribbean been affected? What lessons can be drawn from the economic effects of the pandemic, and will they prompt long-term changes in the way businesses, supply chains and trade relations are modeled? Which Latin American and Caribbean nations stand to benefit from a possible post-coronavirus global economy that lessens its dependence on China as the world's top manufacturer?

A **Tinglong Dai, associate professor of operations management and business analytics at Johns Hopkins University's Carey Business School:** "The Covid-19 pandemic has caused enormous upheavals in the global supply chain centering around China. According to a March survey by the Institute for Supply Management, 62 percent of procurement and supply chain managers have experienced major supply chain delays in China. At this point, the worst seems over in China, and we have seen positive signals indicative of a reboot of economic activity. However, the situation remains super flu-

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Mexico's government has requested the extradition of former Pemex CEO Emilio Lozoya.

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Mining companies including Drummond and Cerrejón said they would reduce operations in Colombia amid the Covid-19 pandemic.

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Panama Goes on Lockdown to Slow Spread of Coronavirus

Panama became the latest country to severely restrict its residents' movements in an effort to slow the spread of coronavirus. President Laurentino Cortizo forbade people from leaving their homes, except for basic necessities.

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Cortizo // File Photo: Panamanian Government.

POLITICAL NEWS

Panama Goes on Lockdown, Paraguay Closes Borders

Panama on Tuesday became the latest Latin American country to severely restrict its residents' movements in an effort to slow the spread of the novel coronavirus, Agence France-Presse reported. President Laurentino Cortizo declared a total quarantine, forbidding people from leaving their homes, except for necessities such as purchasing food, the wire service reported. The quarantine began this morning and lasts until further notice, Cortizo said in a posting on Twitter. The Central American nation has more than 400 confirmed cases of Covid-19, and six people are confirmed to have died of it there. Meantime, in Paraguay, President Mario Abdo Benítez barred foreigners from entering the country. "People can only leave, not enter," said Paraguay's interior minister, Euclides Acevedo, adding that Paraguayan citizens and residents were exempt from the order but would be quarantined in military barracks upon their return. Officials added that commercial airlines would not be allowed to land in Paraguay while the order is in effect. Paraguay has more than 30 confirmed cases of Covid-19 and three deaths. In Colombia, Avianca, Latin America's second-largest airline, said it was suspending all of its passenger operations. The move followed Colombian President Iván Duque's closure of the country's airspace. Avianca's 10 freight planes will continue operating, the company said. Colombia has more than 300 confirmed cases of Covid-19 and three reported deaths. In Mexico, which has more than 400 confirmed cases of the disease and five deaths, Health Undersecretary Hugo López-Gatell Ramírez said the country is entering "phase two" of its approach to fighting coronavirus, shifting from containment to "mitigation." Mexico is among the few countries in Latin America not to have closed its borders. In Brazil, gangs and militias in Rio de Janeiro's favelas imposed curfews in concern over the pandemic, Reuters reported. The sprawling City of God complex of slums registered its first confirmed case of Covid-19 last weekend. Gangsters in the City of God have been driving around the slums, blaring a recorded message. "We're imposing a curfew because nobody is taking this seriously," the message said, according to Rio de Janeiro newspaper Extra. "Whoever is in the street screwing around or going for a walk will receive a corrective and serve as an example. Better to stay home doing nothing. The message has been given." Brazil, where President Jair Bolsonaro has been accused of not taking the pandemic seriously enough, has more than 2,000 confirmed cases of Covid-19 and 47 confirmed deaths.

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id and fragile. By comparison, the Covid-19 pandemic in Latin America is in its early stages, so effects on its supply chain are yet to be seen. It takes time, expertise and resolve to build reliable supplier networks and supporting infrastructures. In the near term, U.S. companies will likely focus their efforts on supporting their existing suppliers—many of which are based in China—to achieve a speedy reboot. In the long term, however, U.S. companies will be pressured to take global risk management seriously; after all, Covid-19 will hardly be the last crisis threatening today's global supply chain. One of the most powerful tools for risk management would be to diversify supplier networks through, for example, near-sourcing. Mexico is among the top trading partners of the United States. Plus, its exports are beyond raw materials and are increasingly high value-added. Given its geographic proximity to United States, it seems reasonable to expect Mexico to benefit greatly from many U.S. companies' growing emphasis on risk management in the coming years. It is difficult to assess the impact on other Latin American and Caribbean nations, especially those relying heavily on resource exports."

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NEWS BRIEFS

Mexico Requests Extradition of Former Pemex Chief Executive

Mexico's government has formally requested the extradition of Emilio Lozoya, the former chief executive of state oil company Pemex, who was arrested in Spain in February, the foreign ministry said Tuesday, the Associated Press reported. Lozoya, who led Pemex from 2012 to 2016, stands accused of receiving bribes in exchange for an illegal contract while at the company. A Spanish judge ruled he remain jailed while his extradition case was heard, considering him a flight risk.

Ecuador's Bonds Rise as Gov't Says it Will Complete Debt Payment

Ecuador's bonds rose after the government on Tuesday said it would complete a $325 million debt payment, Bloomberg News reported. The bonds matured today. At the same time, Fitch Ratings downgraded Ecuador's long-term foreign currency issuer default rating to CC from CCC, citing its "expectation that a default of some kind was probable following announcement … of [authorities'] intent to renegotiate the terms of commercial debt liabilities while using the grace period on bond coupons due this week." [Editor's note: See **Q&A** on Ecuador in Tuesday's Advisor.]

Paykii, WorldRemit Partner to Offer New Bill Payments Service

Bill payments hub Paykii, which offers its service to more than 20 countries, including in Latin America, has formed a partnership with online international money transfer company WorldRemit to offer an international bill payments service via WorldRemit's website and app, the companies announced Tuesday. The partnership will allow WorldRemit customers to direct money toward the payment of bills.

BUSINESS NEWS

Mexico's Credijusto Raises $100 Mn in Financing

Mexico-based Credijusto has raised $100 million in financing from Credit Suisse, which it plans to use to extend more loans to small- and medium-sized businesses, Reuters reported Tuesday. The deal was being planned before the coronavirus pandemic intensified, and it closed amid upheaval in the financial markets surrounding Covid-19, the fintech start-up's co-chief executive officer, David Poritz, told the wire service. Small- and medium-sized companies have struggled to raise capital from Mexican banks, and that difficulty could worsen if banks respond to the pandemic and the market turmoil by being more conservative with loans. With the financing from Credit Suisse, Credijusto can now help provide loans and bridge that gap, said Poritz.

Poritz // File Photo: LinkedIn.

Mining Companies to Scale Back Colombia Operations

Colombian mining companies will reduce operations in a bid to slow the spread of coronavirus, the sector's guild, the Colombian Mining Association, or ACM, said on Tuesday, Portafolio reported. ACM represents 55 companies in the industry. The decision stems from a "commitment to protect employees and contractors, minimizing as much as possible the concentration of people," according to the report. This represents about 15,000 workers, plus around 18,000 indirect employees, who will pause their work but retain their positions, the ACM said. The association did not provide an estimate of the economic impact the move would entail. In a separate statement, Drummond and Cerrejón, the two largest coal producers in the Andean nation, said they would also temporarily reduce operations in their mines in northern Colombia. A contingency team will live on-site to avoid workers entering and leaving its mining operations in the César province, Drummond said, Reuters reported. "These workers will make sure we continue to meet environmental standards, that deterioration of the mine, equipment and infrastructure is avoided and that obligations for exporting coal are met," the company said. Colombia is the world's fifth-largest coal exporter, and coal is its second-largest generator of foreign currency after oil.

THE DIALOGUE CONTINUES

Why Is Argentina Raising Taxes on Agriculture?

Q **Farmers in Argentina earlier this month held a four-day strike protesting the government's recent hike of export taxes on soybeans and the crop's byproducts from 30 percent to 33 percent. The strike was reminiscent of a previous conflict between farmers and the Peronist government of former President and current Vice President Cristina Fernández de Kirchner, when agriculture producers' protests forced her administration to back down from its attempts to raise taxes on soy sales. What are the reasons behind the most recent tax hikes? How serious are the consequences for Argentina's agriculture sector? What political and economic implications does the farmers' strike have, and is a repeat of the standoff between a Peronist government and farmers in store?**

A **Agustín Crivelli, economist, professor and researcher at the University of Buenos Aires:** "The decision to increase export duties on soybeans responds to both fiscal reasons as well as the need to mitigate inequality by generating multiple exchange rates. The Argentine industry requires a higher exchange rate to export because it has a standard productivity, but not the agricultural sector, which, thanks to the country's climate, pastures and land fertility, it is one of the most competitive in the world. The call for a strike came from a sector with rural leadership, behind the back of small and regional producers, with clear political intentions. The government measure contains a redistributive effect. For large soybean producers, export taxes are raised three percentage points (from 30 percent to 33 percent), while those who produced less than 500 tons during the last season will see a reduction of 12 percentage points, the same as various regional crops. In concrete terms, the increase affects 20 percent of the 66,000 soybean producers. This conflict bears little resemblance to that of 2008. This time, Alberto Fernández has managed to fracture the hegemony of rural organizations through a clever segmentation strategy that favors the smallest producers. In addition, back then, the conflict had an impact on society as a whole, while currently, there is a general exhaustion of four years of Mauricio Macri's government, which destroyed the economy, with rural employers being jointly responsible."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the March 20 issue of the Advisor.

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A **Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue:** "Covid-19 has struck a tremendous blow to global supply chains, the effects of which we are only just beginning to see. Even as China resumes production, having reportedly contained the spread of the virus, international companies continue to face higher overall costs as they grapple with higher freight prices and pay premiums to buy up supply and maintain capacity. As the virus spreads across the globe, even those companies that aren't sourcing from China, or which have relative logistical flexibility, will be affected. Beyond the effects on the region's manufacturers, Latin American and Caribbean (LAC) residents, as end consumers, will face higher prices and supply disruptions for certain products. In addition, many LAC suppliers of raw materials, such as copper producers in Chile, are facing weak demand from China and other major importers. Despite the continued effects of Covid-19 on supply, the world's largest manufacturers will very likely continue to rely on globalized sourcing in the coming years. Doing so will require increasingly robust strategies to deal with a wide range of risks, however, from trade wars to natural disasters and pandemics. In the longer term, Brazilian, Mexican and other LAC manufacturers could possibly benefit from efforts by international companies to develop alternative sourcing strategies. In the meantime, though, all are bracing for impact from Covid-19 disruptions to both supply and demand."

> **Covid-19 has struck a tremendous blow to global supply chains..."**
> — Margaret Myers

A **Antonio Ortiz-Mena, senior vice president at Albright Stonebridge Group and adjunct professor of international relations at Georgetown University and CIDE in Mexico City:** "To paraphrase Charles Dickens, the Covid-19 pandemic could represent the best of times and the worst of times for the Mexican economy. From a Latin American perspective, Mexico seems particularly well-poised to capture foreign direct investment from supply chain relocation. The USMCA, granting it privileged access to the U.S. market, is slated to enter into force in June. Mexico is also a member of the CPTPP, and it is upgrading its trade agreements with the European Union and the European Free Trade Association (EFTA). It has a well-trained workforce and plenty of talent for innovation. What is needed to turn this opportunity into reality? Confidence in Mexico's public health and domestic economic policies. Its response to the pandemic has been haphazard, and the toll might be high and lasting. Despite its robust trade network and vaunted macroeconomic stability, trouble looms ahead. Slow GDP growth (negative 4.5 percent in 2020, according to Bank of America) will result in lower fiscal revenues, yet the government is still betting the farm on rescuing Pemex and construction of the Dos Bocas refinery under collapsing oil prices. The government needs to modify its fiscal targets and delay or cancel unwarranted projects, or risk undergoing a deep recession. It would also benefit from changing the cavalier attitude toward private investment (cancellation of the new Mexico City airport and the renegotiation of gas pipeline contracts, among others) that has undermined confidence. We will soon see if it is the best or only the worst of times."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2020

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
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