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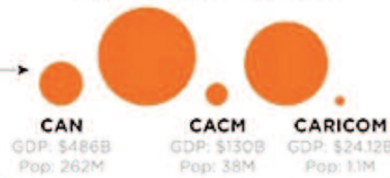
Call to think big on trade

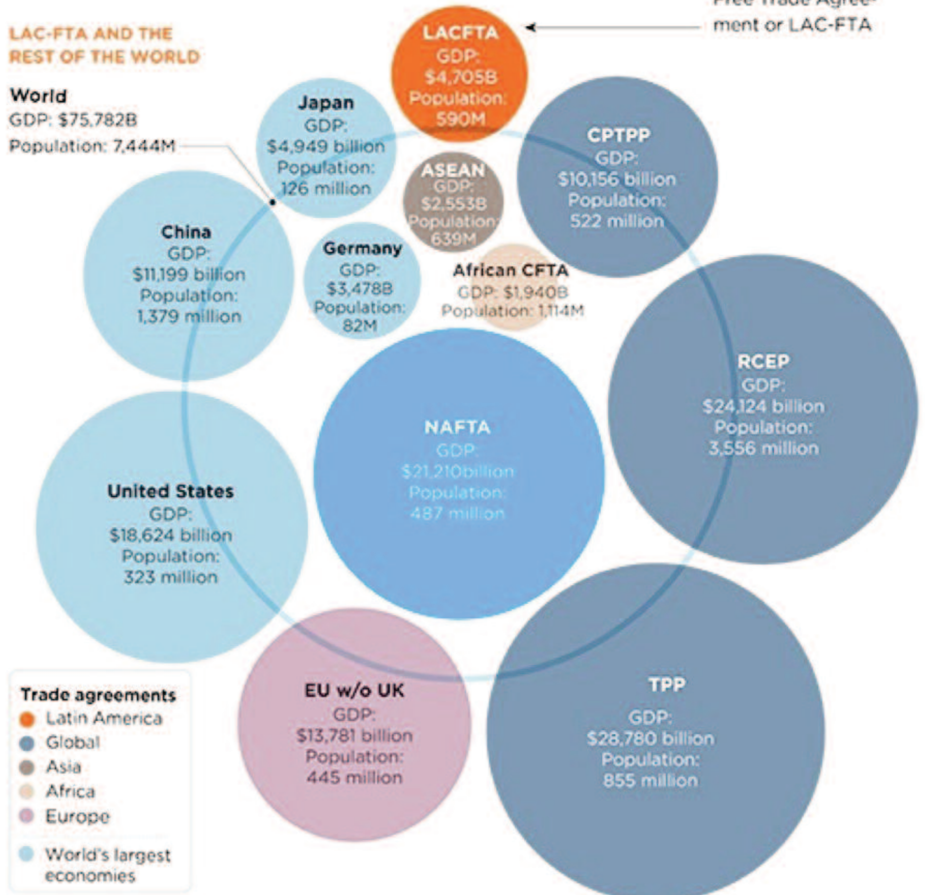
Over roughly the last three decades the Latin America and the Caribbean (LAC) region has been laboriously building up a patchwork of free trade agreements and sub-regional trade blocs. A new report from the Inter-American Development Bank (IDB), *Connecting the dots: A road map for a better integration of Latin America and the Caribbean*, suggests there is a lot more to be done to reap the potential benefits offered by regional integration. In fact, if the existing 33 separate agreements were to be blended into a single trading bloc, the report suggests that US$11bn in additional trade could be generated.

Taking a bird's eye view of the region, the report says that there is a complicated patchwork of preferential trade agreements (PTAs) 'anchored' by two main trading blocs, Mercosur (Argentina, Brazil, Paraguay and Uruguay) on the one hand, and by the Pacific Alliance (Chile, Peru, Colombia and Mexico) on the other. Other smaller agreements include the Caribbean Community (CARICOM), the Andean Community (CAN), and the Central American Common Market (CACM). As they stand these trade blocs are dwarfed by other global deals. Within the region itself they also leave some important gaps. Just about 20% of regional trade is not covered by preferential agreements and much of this is concentrated in trade between Mercosur countries and Mexico, and between CARICOM countries and Latin America.

PTAs have been good, but not good enough. On the plus side, since their inception they have boosted intraregional trade by 64%. Less impressive is that intraregional trade remains disappointingly small for a combined market worth US$5tn. A key additional point of concern is that the PTAs do not seem to have had much impact in making LAC as a whole more competitive within the global economy. This is especially disappointing since being able to compete more effectively at the global level may be the key for future economic development in the region. The report comments "LAC's small, subregional PTAs, whose members share similar comparative advantages, are poorly equipped to generate large enough scale and specialisation gains to move the global competitiveness needle."

It is suggested that a way forward would be to follow a path of convergence among the existing PTAs, such that they will eventually come together to form a single Latin America and Caribbean Free Trade Agreement (LAC-FTA). IDB expert Antoni Estevadeordal warns that on their own, and without critical mass, the existing PTAs face "irrelevancy or even a slow death in the face of major deals already in place in Europe, Asia and North America". But in contrast, by coming together, the PTAs could help boost LAC competitiveness at a time of increasing challenges in the global trade environment.





Source: *IDB*

The report looks at what an LAC-FTA might deliver under different scenarios. One is that the current global environment continues pretty much as it is right now. Within that context an LAC-FTA would deliver an average 9% gain in intraregional trade in intermediate goods, boosting the region's still-underdeveloped value chains. As a result mainly of tariff elimination, an LAC-FTA would increase intraregional trade in all goods by 3.5%, representing an additional US$11.3bn (the numbers have been calculated using a 2017 baseline). Within that, mining exports by the Andean countries would gain 1%, manufacturing exports from Mexico would increase by 8%, and agricultural exports from Central America would gain 21%. An alternative global scenario is one where there will be "increasing trade frictions" (in other words, growing protectionism). In this context, Estevadeordal says "A free trade agreement of this sort could mitigate the negative impacts of global trade frictions on LAC exports by as much as 40%."

The report acknowledges that attempts to create a single regional free trade deal (for example in the 1990s) ran into multiple political and technical difficulties. However, it points out that 90% of intraregional trade is already duty free, meaning that much of the work has already been done. It also notes that

the political situation is now different, with a stronger regional consensus on the desirability of free trade. Whether the political will is there to create a single LAC-FTA remains to be seen, however. The IDB recommends a road map that would first create an FTA focused on goods and services, with other more complicated issues (intellectual property, the treatment of labour, and environmental issues), to be added later. There should also be agreements designed to reduce transportation and transaction costs.

The report suggests that just three countries – Argentina, Brazil, and Mexico – could exert important leverage and generate critical mass towards the creation of a LAC-FTA. Their combined US$4.3tn market value represents 81% of regional GDP. It is surprising, the report says, that the three lack their own comprehensive FTA (Argentina and Brazil are members of Mercosur while Mexico is part of the Pacific Alliance). They could follow a cautious, step-by-step approach, or a more aggressive strategy tackling multiple product rules of origin. But Mauricio Moreira, the report's coordinator, warns, "If governments in the region are really committed to strengthening both the political and the economic cases for integration, time is unfortunately not on their side."

REGIONAL ECONOMY REVIEW

REGION

Currencies take a hit

The largest economies in Latin America have been affected by instability in global financial markets in recent weeks, which forms part of broader aversion towards emerging markets' currencies. With many developed economies, including the US, tightening monetary policy – either by raising interest rates or withdrawing fiscal injections – global financing conditions are tightening. With the US dollar strengthening as a result, many local currencies in Latin America have registered sharp sell-offs, sparking concerns about the domestic feed-through on inflation and growth.

Latin American currencies are by no means the only ones to be registering volatility in recent weeks: the iShares MSCI Emerging Markets Currency Index has been on an overall downward slide ever since a late-January peak, with early-June levels representing losses of around 11% since then. However, some Latin American economies are among the worst hit of all emerging markets. Argentina is a case in point, with the peso registering significant losses in recent weeks. The currency was trading at around Ps20.5:US$1 in early May, broke through the Ps22:US$1 mark just a week later, reached Ps23:US$1 in mid-May, and is currently very close to Ps25:US$1. This marks annual depreciation of around 56%, compared with year-earlier levels of Ps16:US$1.

Massive depreciation of Argentinian peso

Argentina has been hit so badly because it is shouldering large twin deficits – in other words, shortfalls in both its current account, as well as in the budget balance. To close the current-account deficit and prevent a run-down of international reserves, the authorities are dependent on capital inflows, but investor alarm has prompted outflows of portfolio capital, while concerns about the longer-term outlook have made investors wary of committing to physical investment projects in the country, which has affected inflows of FDI. The fact that the government has been struggling to correct deep macroeconomic imbalances, particularly high levels of inflation, has aggravated the situation.

The Argentinian authorities have responded with a number of policy tools, including intervening with sales of US dollars, as well as a massive 12.75

percentage point increase in the benchmark interest rate, to 40%. In a bid to boost investor confidence about its ability to stem sharp peso losses, the government resorted to seeking a stand-by loan arrangement (SBA) with the International Monetary Fund (IMF) – a politically-unpopular move, given public sentiment towards the Fund (*see our Argentina article in this issue: Making love or war with the IMF?*). However, these moves were all introduced in early- to mid-May and have failed to stem further currency depreciation.

In early June, new measures were unveiled, with the authorities stating that they were seeking to expand a currency swap agreement with China that allows both countries to exchange payments in one currency for the equivalent amount in the other currency. This will increase Argentina's ability to pay for imports from China in yuan, rather than US dollars, and Argentina will also be able to use yuan to build its stock of international reserves. The government hopes that this will have the effect of boosting US dollar availability, providing some support for the ailing peso.

Brazil and Mexico affected too

The Brazilian real has also suffered losses, albeit less steep. After trading at BRL3.5:US$1 at the beginning of May, the real hit BRL3.7:US$1 on 20 May. It recovered some ground in the following week, but has since reversed those gains and was trading at over BRL3.8:US$1. This marks year-on-year depreciation of just over 16%. In Brazil's case, the economy is also shouldering twin deficits, with the budget shortfall particularly large. The current-account deficit is smaller as a share of GDP, but extremely large in nominal terms, contributing to the country's large financing requirement. Recent political instability has also contributed to currency volatility, as has the fact that the Brazilian Central Bank has been cutting interest rates since 2016, from 14.25% to 6.5%, which has also exposed the real. This is because differentials between Brazilian and US interest rates are now much narrower, particularly given that the US has been raising rates, which weakens the comparative attractiveness of Brazil's currency.

Recent local currency depreciation in Mexico has been affected by wider investor caution directed at emerging markets and the strengthening of the dollar, but uncertainty over the future of the North America Free Trade Agreement (Nafta) remains the main driver of peso movements. The peso stood at just under Ps19:US$1 in early May, before depreciating to close to Ps20:US$1 on 20 May. Similar to the real, the Mexican peso recovered some ground in the following week, but has since weakened again, trading at close to Ps20.5:US$1. This marks year-on-year depreciation of 12%.

These trends mirrored developments in the latest round of Nafta negotiations, which ended in mid-May with little sign of progress on the main sticking points (which include US calls to include a 'sunset clause' into the treaty, requiring members to renew their commitment to Nafta every five years for it to remain in place, as well as rules-of-origin for automobile manufacturing) (*see the Mexico article in this issue: Nafta renegotiation in difficulties again*). The decision in early June by the US government to introduce tariffs on Mexican steel and aluminium imports, which prompted retaliatory measures by the Mexican government on US imports of steel and certain agricultural products, has soured bilateral relations and will likely inject further complications into ongoing Nafta discussions. Coupled with the emerging possibility that the left-wing firebrand Andres Manuel Lopez Obrador, who is leading the opinion polls ahead of the 1 July presidential election, might actually manage to secure a congressional majority, has also contributed to currency volatility. Although AMLO has long led polls of voting intentions, markets had always assumed that he would lack a working majority, which would severely constrain his ability to roll back some of the pro-market reforms introduced under the current administration, led by President Enrique Pena Nieto.

Depreciation set to lift inflation and weaken growth

Aside from Argentina, Brazil, and Mexico, other economies in the region have also sustained currency losses. The Colombian peso weakened from Ps2,800:US$1 in early May to Ps2,920:US$1 in late May, although it made a partial recovery to Ps2,850:US$1 in early June. The Peruvian sol weakened by around 3% in the course of a month between early May and early June, to close to S3.3:US$1, while the Chilean peso depreciated from Ps615:US$1 to Ps633:US$1 over the same timeframe.

For the region, the recent bout of currency depreciation is raising concerns about the pass-through impact on inflation, as well as the appropriate monetary policy response. Given that some of the main causes of volatility are rooted in global financial markets and developments in other economies, intervention on the part of central banks to prop up local currencies may be of limited impact. The impact on inflation will be particularly marked for net oil importers, since these countries are already experiencing upward pressure on inflation as a result of rising global oil prices this year. Given that underlying economic growth was already fairly weak in 2017, many governments will worry that rising domestic inflation will constrain private consumption and thus rein in overall growth prospects for 2018.

VENEZUELA

Economic crash after the elections?

Venezuela's transition from relentless, rolling crisis to total economic collapse has been predicted many times: despite that the government has managed to stumble on regardless. Yet after the re-election on 20 May of President Nicolás Maduro, in polls widely seen as illegitimate, there seem to be only two realistic options: things will either continue as they are, or they will get even worse.

After the elections Venezuela-based economist Luis Oliveros told Colombian newspaper *El Tiempo* that it is hard to see any improvement in the Venezuelan economy. This is because the re-elected government has a track record of policies that have intensified hyperinflation and increased shortages. In addition the US and the European Union may intensify sanctions. Although record numbers of Venezuelans joined the opposition-led election boycott, President Maduro won with a claimed 68% of the vote. He offers a continuation of the ruling party's "21st century socialism". In practice this appears to mean a combination of massive fiscal deficits, hyperinflation, corruption and falling output. New versions of old policies can be expected, such as the introduction of further exchange rate tiers, experimentation with digital currencies, and redenomination of the Bolivar (basically removing three zeroes from the currency).

The president has suggested that the oil revenues on which the country is almost totally dependent may begin to improve. However, although international prices are expected to harden a little this year (to US$62.31 a barrel, according to the IMF) it is hard to see the country benefiting as there have been years of underinvestment and production continues to dwindle. Maduro's main electoral opponent, Henri Falcón (who despite leading in the opinion polls gained only 21.2% support according to the official results) proposed much more radical medicine: he recommended a shock programme to attack hyperinflation by dollarising the economy.

Edward Glossop, Latin America economist at London-based Capital Economics, wrote in a research note that the elections will have three main economic consequences. First, as he put it, "real solutions to the economic and humanitarian crisis are unlikely to be forthcoming". He estimates that

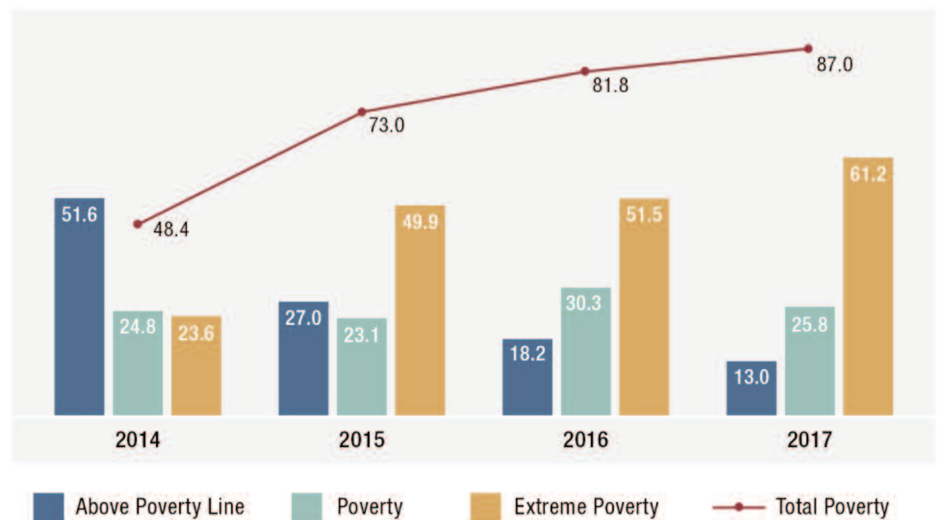
GDP fell 8%-10% in the first quarter and that inflation is running at an annual rate of 8,900% (some other estimates range much higher than that). Second, Glossop expects US sanctions against Venezuela to be intensified. He notes there is a debate within the White House over whether to maintain the current approach – financial sanctions targeting individual members of the regime – or to begin to block oil sales to the US. Oil sanctions are opposed by those who say they will only intensify the suffering of the Venezuelan people without sufficiently weakening the regime. Credible data now suggests that over four out five Venezuelans are living in poverty.

Poverty and malnutrition in Venezuela

Poverty according to income levels (poverty line)

Poverty level	2014	2015	2016	2017
Above poverty line	51.6	27.0	18.2	13.0
Poverty	24.8	23.1	30.3	25.8
Extreme poverty	23.6	49.9	51.5	61.2
Total poverty	**48.4**	**73.0**	**81.8**	**87.0**

Source: Survey on Venezuelan living conditions 2017 (ENCOVI 2017)



Source: *WEF*

In third place Glossop concludes, "a messy debt default and restructuring is now inevitable". Both the government and state-owned oil company PDVSA are already in technical default, having missed around US$1.8bn in bond repayments due since November last year. Bondholders have chosen to tolerate the missed coupon payments without demanding immediate repayment in full, perhaps to wait and see what type of restructuring the sovereign may offer in the post-electoral period. But with a new bunching of repayments due from September-December this year, the note concludes, "we think that a full-blown debt default is only a matter of time".

BRAZIL

Truckers' strike erodes confidence

An 11-day strike by truck drivers, followed by a short stoppage by petroleum workers, has led to the resignation of Pedro Parente, chief executive of Petrobras (the state-owned oil company), weakened the government, had a negative impact across the economy, and increased investor worries ahead of the October presidential elections.

There are about 2m truck drivers operating across Brazil. Around 60% of the country's cargo is carried by road, so the 11-day stoppage had a significant negative multiplier effect across the economy. At the peak of the strike the

truckers had blocked highways in over 1,000 different locations on the national highway network. Activity at many of the country's main ports, including key commodity export terminals such as Santos and Paranaguá, ground to a standstill. Widespread fuel shortages forced businesses and airports to close. There were also shortages of food and consumer goods. Soya, coffee and other exports were held up. Speaking on 30 May as the strike was beginning to draw to a close, Lucas Trindade of exporting lobby Anec, said, "A week, maybe 10 days will be needed for grain shipments to resume at the ports."

Although there were sharp political overtones, the strike was principally about fuel prices in general, and about the high cost of diesel in particular. Since 2016 the government has been phasing out fuel subsidies, allowing petrol stations to adjust their charges at more frequent intervals in line with market forces. Diesel prices grew by 9.2% in the month to early May. Rising global oil prices and a depreciating Brazilian currency mean that diesel prices have increased by roughly 50% over the last year. The government showed itself to be a weak negotiator in its response to the truck drivers, who were strongly supported by public opinion (according to one poll, 87% of the population expressed support for the truck drivers). It made various concessions, including a promise to freeze diesel prices for 60 days at 12% below their recent peak.

It is clear that the strike will have dented Brazil's economic recovery in May and June. An optimistic interpretation, however, suggests that there could be a rebound in July. This is if Brazil follows the same pattern seen during a truck drivers' strike in neighbouring Colombia in July 2016, which caused activity levels to slump, after which they then strengthened notably in the following month of August. While this means the economic damage may prove less than feared this year, it is nevertheless undeniable that the strike was an important setback. The extra diesel price subsidy the government will have to pay is estimated at BRL9.6bn (US$2.55bn). Because of the fiscal responsibility law – which freezes real term government spending – the government has said it will have to make offsetting spending cuts across various departments (ironically the ministry of transportation will have to bear a big proportion of the cuts). There were also reductions in export subsidies and cuts to support for beverage producers.

The main oil workers' union (Federação Única dos Petroleiros, FUP) announced a 72-hour stoppage to support the truck drivers and also demand an end to market-based pricing for fuels. In addition FUP also sought employment guarantees and expressed its opposition to privatisation in the oil and gas sector. This strike was called off early after a labour court declared it illegal as it was judged to have been called to pursue "politico-ideological aims". Although short-lived, it did achieve what was potentially its key demand, the removal of Petrobras CEO Pedro Parente. The chief executive announced his resignation on 1 June. His departure worried the markets, which saw it as another sign of retreat from pro-market policies.

Parente had in fact been relatively successful in turning around the scandal-ridden Petrobras. Under his leadership the company followed a four-year restructuring programme, sold off various assets, and cut costs. Total debt was reduced from BRL369.5bn (just under US$100bn) to BRL260bn (US$71.7bn). Among the assets being sold is the Pasadena refinery in the US, a disastrous earlier investment in which the Brazilian company incurred major losses. Total asset sales in 2015-2016 were US$13bn. In Q118 Petrobras announced a BRL6.9bn (US$1.83bn) profit, the first since 2014. According to Adriano Pires of CBIE, the Brazilian infrastructure centre, "Parente leaves a very positive legacy. During his tenure Petrobras market value increased three times over. He brought a different mindset to the company, one based on meritocracy, efficiency, and respect for investors."

Although President Michel Temer moved quickly to appoint chief financial and investor relations director Ivan Monteiro as the new chief executive, promising a degree of continuity, the suspicion is that a lame duck government may be moving away from the principle of market-based energy pricing (Temer suggested the policy might be reviewed). The mood in the country has changed. Analysts note the current weakness of centre-left or centre-right pro market candidates in the election campaign. Pro-market policies are simply not very popular with Brazilian voters right now, as for a variety of reasons they are perceived to have failed.

Parente, for example, was frequently criticised by presidential candidates of both the right and of the left. The greatest political beneficiary of the truckers' strike appears to be far-right populist candidate Jair Bolsonaro. He made a point of applauding them for fighting "extortionist" taxes levied by a "corrupt" government. Some of the strikers expressed support for Bolsonaro and called for a military coup. According to Rafael Cortez of Tendencias consultancy, "The truckers' strike knocked down the last pillar of hope Temer's government had of electing a successor that will continue its policies. This climate of radicalisation benefits the extremes." One sign of the changing mood is that the government is less likely to secure congressional approval for the privatisation of state-owned power utility Eletrobras. "That was already a tough sell. Now it becomes almost impossible," said Lucas de Aragão of consultancy Arko Advice.

ARGENTINA

Making love or war with the IMF?

After a major run on the Argentine peso the government announced on 8 May that it was seeking a financial support agreement with the International Monetary Fund (IMF). According to unofficial reports the total package could be worth around US$30bn. There are at least two scenarios for what happens next: love (a successful stabilisation and resumption of growth for the economy) or war (a return to the long and acrimonious history of failed austerity programmes). Here we look at the prospects.

The government's view is that the IMF deal is necessary to counter adverse short-term market conditions and strengthen its fundamentally sound 'gradualist' economic adjustment programme. President Mauricio Macri has said that IMF support is necessary to extend the positive growth already experienced over the last seven consecutive quarters. On 31 May an IMF spokesman said the talks were progressing well. Treasury minister Nicolás Dujovne (whose powers have now been elevated to that of a 'super-minister') has been in Washington working on the outlines of the package.

Supporters of the government stress that the IMF deal is 'preventive' and will protect Argentina against future exchange rate turbulence. Some calculate that a package worth around US$30bn would mean Argentina would not need to tap international money markets for the next 18 months. In other words, it could buy the government a breathing space, lock in borrowing at a favourable rate, and reduce the country's exposure to the effects of an expected tightening in lending rates to global emerging markets. The timing is important because elections are due in October 2019, with a new government set to take office in December of that year. How the economy performs over the next 16 months could therefore be decisive in determining whether Macri or another member of his centre-right coalition will be able to win a new four-year term at the end of next year.

In parallel with the IMF talks the economic team is seeking to reassure lenders that it has the necessary discipline to reduce the fiscal deficit. The target for the deficit this year has been narrowed from 3.2% of GDP down to 2.7%. Dujovne has announced additional public spending cuts worth 20bn pesos (US$800m) a year, including a two-year freeze on public sector employment and controls on overtime and expenses. He says that the deficit target for next year will be reduced to under the current guideline of 2.2% of GDP – although the precise number has not yet been determined.

There are two reasons, one technical and one political, for why things may not work out as the government would hope. The technical reason is simply that it is very hard to combine public sector austerity with continuing economic growth. The spending cuts announced so far this year represent around 1.8% of GDP; benchmark interest rates, increased to emergency levels (40%) during the run on the peso, are unlikely to come down quickly, thereby reducing domestic demand.

A number of small and medium-sized retail businesses have been forced to close because still-high inflation has eroded purchasing power. The current account deficit, at 5% of GDP, remains dauntingly large. All this points to a recession in 2018. According to the IMF's latest World Economic Outlook (published in April) the Argentine economy grew by 2.9% in 2017 and was set to expand by a further 1.9% in 2018. Now, some analysts are predicting that GDP will actually contract by 0.5% this year. In the medium term the adjustment policy may still be sound, but a recession in the short term appears unavoidable.

It is on the political side that complications are already emerging. Argentina's track record of IMF-supported programmes has been long and unhappy. By one estimate Argentina has applied around 20 IMF adjustment programmes in the last 60 years, many with disastrous results for the governments of the day. Writing in Forbes, Kenneth Rapoza commented, "If history is any guide, the government that opens the door to the IMF, even for a peek inside to look at the kitchen countertops, is usually kicked out the door with the IMF, never to be seen again." He added, "Argentina needs the best IMF deal ever, or it is curtains for Macri in 2019." While IMF officials are keen to emphasise that the organisation now is more sensitive to issues of social protection and poverty reduction, the reality is that Argentina's political opposition has much to gain by portraying the government as ruthlessly pursuing 'neo-liberal' anti-poor, and unpopular IMF-supported policies.

The initial political skirmishes have already begun. There have been demonstrations against the (as yet unfinished) IMF deal, and threats of a general strike. It does not help that the government lacks a majority in congress. On 30 May the Argentine senate passed a bill, already approved by the lower house, which would roll back electricity, gas, and water utility rates to November 2017 levels, and place a ceiling on future increases.

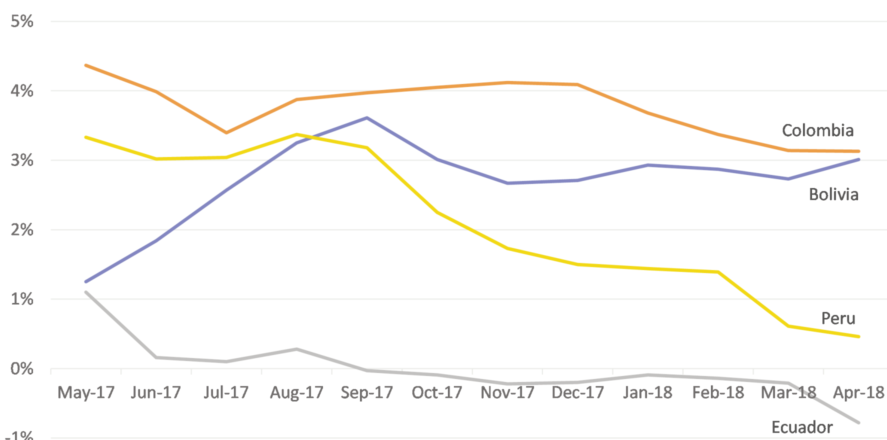
Administration officials say rates were kept artificially low for years under previous governments and must gradually be brought up to unsubsidised levels. President Macri therefore vetoed the bill, which officials said would have cost the government 115bn pesos (US$4.61bn). The president said that holding tariffs at uneconomic levels would make Argentina go the way of Venezuela "where the population doesn't even have reliable water supplies". The opposition in congress may re-submit the bill setting up a confrontation with the executive.

ECONOMIC HIGHLIGHTS

ANDEAN COUNTRIES

Andean Countries: Inflation rate (%)

Percentage variation (year-on-year)



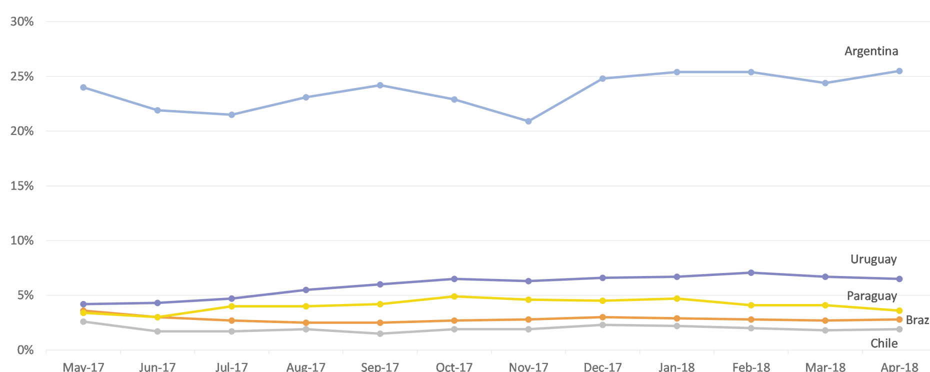
Source: *Local central banks. No reliable data available for Venezuela.*

Andean Countries: GDP growth									
Quarterly figures are year-on-year growth									
GDP	**end 2017***	**2018 forecast****	**Q3 2016**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**
Bolivia	3.9	4	4.7	4.2	3.8	3.9	-	-	-
Colombia	1.8	2.6	1.2	1.6	1.2	1.3	2	1.6	2.2
Ecuador	1	1.3	-1.6	1.5	2.2	3.3	3.8	3.0	-
Peru	2.5	3.5	4.5	3	2.1	2.4	2.5	2.2	3.2
Venezuela	-9.5	-5.5	-	-	-	-	-	-	-
**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)



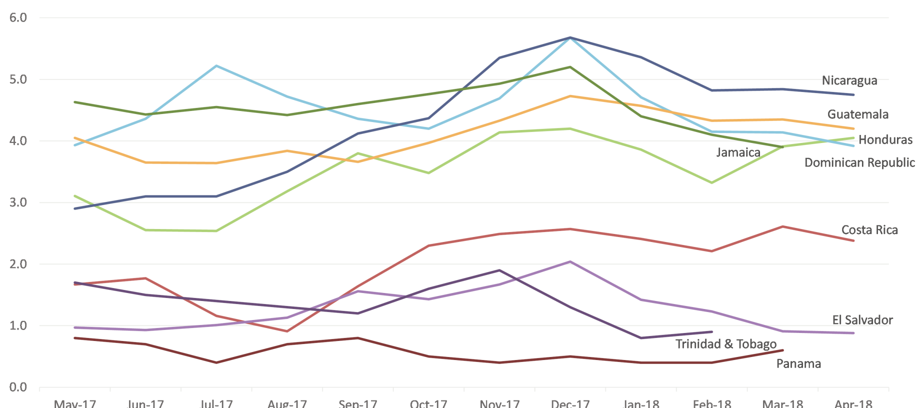
GDP growth (%)								
	End 2016 (from CEPAL August 2017)	**2017 (from CEPAL October 2017)**	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**	**Q1 2018**
Argentina	-2.20%	2.40%	-1.90%	0.40%	2.90%	4.20%	4.0%	-
Brazil	-3.60%	0.70%	-2.50%	-0.40%	0.30%	0.10%	2.1%	-
Chile	1.60%	1.50%	0.50%	0.10%	0.90%	1.50%	2.2%	4.2%
Paraguay	4.10%	4.00%	-0.30%	3.40%	-2.40%	3.00%	-	-
Uruguay	1.50%	3.00%	N/A	4.40%	2.80%	2.20%	2.0%	-
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)

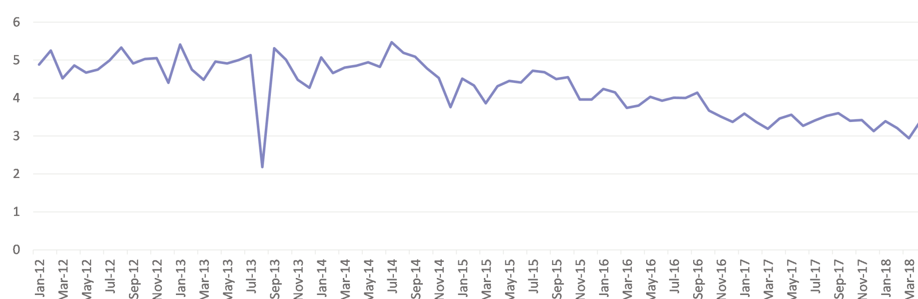


Central America & Caribbean, selected countries: GDP growth							
Quarterly figures are year-on-year growth							
GDP	**end 2017***	**2018 forecast***	**Q4 2016**	**Q1 2017**	**Q2 2017**	**Q3 2017**	**Q4 2017**
Costa Rica	3.9	4.1	4.1	2.9	2.7	2.8	3.2
Dominican Republic	4.9	5.1	5.9	5.3	3	3	6.5
El Salvador	2.4	2.5	2.6	2.3	2.3	2.4	2.4
Guatemala	3.2	3.5	3	3	2.3	2.7	2.9
Honduras	3.9	3.9	4.4	5.9	4.5	6.5	3.6
Nicaragua	4.9	5	3.8	6.6	4.3	3.2	4.3-
Panama	5.3	5.5	4.5	6.2	5.4	5.4	4.9
Jamaica	1.2	1.3	1.4	0.1	-0.1	range of 0.5%-1.5%	-
Trinidad & Tobago	-2.3	0.5	-6.9	-6.9	-3.2	3.1	-
**Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017*							
Quarterly growth based on figures from the local central banks							

MEXICO & NAFTA

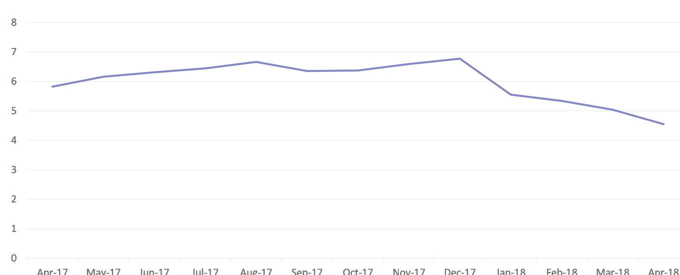
Mexico's unemployment rate

Economically active population



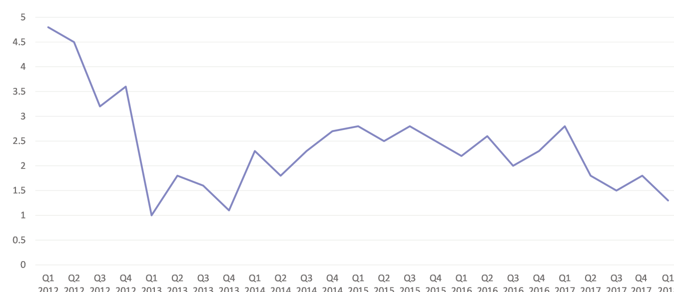
Mexico's inflation rate

Percentage variation (year-on-year)



Mexico's GPD

Percentage variation (year-on-year)



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

MEXICO

Nafta renegotiation in difficulties again

The unilateral US decision on 31 May to impose steel and aluminium tariffs on Mexico, Canada, and the European Union (EU) appears to have delivered a major blow to attempts to renegotiate the North American Free Trade Agreement (Nafta). It is now almost certain that there will be no Nafta deal before the Mexican presidential elections on 1 July.

Before the tariff announcements, the Nafta negotiations, which began in August last year, were already looking troubled. On 17 May US Trade Representative Robert Lighthizer said Nafta members Canada, Mexico, and the US were "not even close" to an agreement, remaining far apart on a range of issues including intellectual property, access to agricultural markets, labour, and energy. The parties were separately reported to be still at odds over vehicle content rules in the automobile industry. Significantly, 17 May was a missed deadline – the last date for an agreement to be registered for approval by the current, Republican party-dominated US Congress.

Despite that, on 24 May Mexican President Enrique Peña Nieto said he remained optimistic that a deal to renegotiate the 1994 Nafta treaty would eventually be done. The following day Mexican economy minister Idelfonso Guajardo, who has led his country's negotiating team, said he believed there was a 40% chance of reaching an agreement before 1 July (the date of the Mexican presidential elections). If that deadline was missed, Guajardo claimed there was much better "80% chance" that a deal would be done before the US mid-term congressional elections in November.

Yet prospects for a deal worsened dramatically on 31 May when the US said that effective from midnight that day, it was imposing respectively 25% and 10% ad valorem tariffs on steel and aluminium imports from Canada, the European Union (EU) and Mexico. The US had also earlier announced a so-called Section 232 investigation into whether imports from around the world are harming its automobile industry. These decisions appear to have convinced the country's Nafta partners that it is moving in a protectionist direction, fundamentally at odds with the concept of a free trade agreement. Both Canada and Mexico immediately announced retaliatory measures. Canada, the largest supplier of steel to the US market, said it would impose tariffs on US$12.8bn worth of imports from the US, including whisky, orange juice, steel, aluminium and other products.

Mexico announced what it described as "equivalent" measures on imports from the US of pork legs, apples, grapes, cheese, steel and other products. The products appear to have been carefully chosen, targeting exports from US states that supported Trump in the 2016 election. Guajardo said the Mexican response was "appropriate and proportional". "It sends a clear message that this kind of thing does not benefit anybody," he said, adding that "In the end the effect will fall on voters and citizens that live in districts where the people have a voice and vote in the US Congress." Officially, however, Mexico said it would continue negotiating with the US on a new Nafta agreement, despite the "unjust and unilateral" measures announced by Washington. Uncertainty over the future of Nafta was increased further when US President Donald Trump suggested on 1 June that his country might seek to replace it with two separate trade agreements, one with Canada and another with Mexico.

COLOMBIA

Economic suggestions for the next president

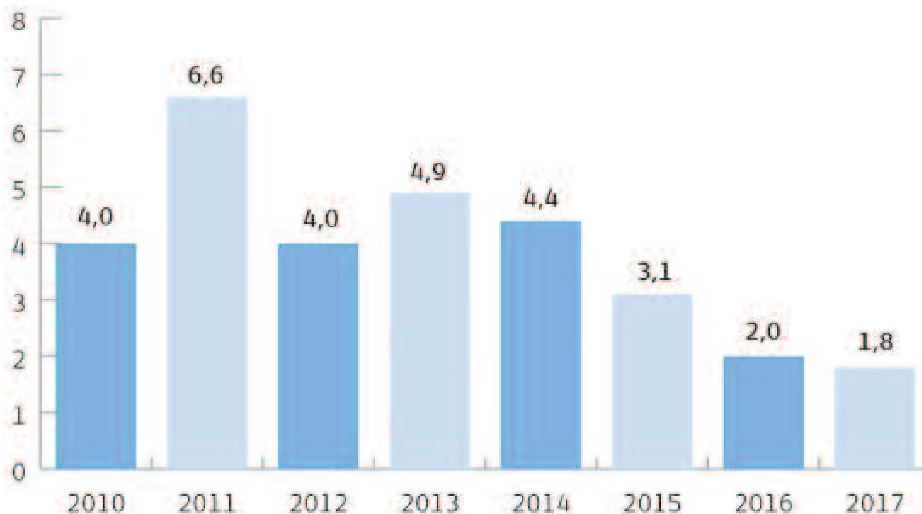
On 7 August a new president of Colombia will move in to the Palacio de Nariño, the seat of government, planning to stay for at least the next four years. It will either be right winger Iván Duque (the current favourite) or left-winger Gustavo Petro – the choice is to be decided in a second-round run-off ballot due to be held on 17 June. What type of economy will the next president inherit, and what would the Colombian business community like him to do?

The next president will have to "peddle very hard" to try to cover a big fiscal deficit, says Sergio Clavijo, head of financial lobby group Asociación Nacional de Instituciones Financieras (Anif). For him, the headline story facing Colombia is still how it finds a way to recover from the collapse of international oil prices in 2015-2016. That cost the country an estimated US$25bn in lost revenues and is a major reason why the fiscal deficit is currently running at around 2.5% of GDP. Current finance minister Mauricio Cárdenas insists "the worst is over". While that may be the case, the new president will face a big challenge: getting GDP growth back up to the 4%-5% average of recent years. In reality, growth averaged 4.5% in the six years to 2015, but slumped to 2.0% in 2016 and to 1.8% last year.

There are indeed signs that the economy is on the mend. The year-on-year GDP growth rate in Q118 was 2.2%, up from 1.8% in Q417. Performance may have been even better: on 28 May President Juan Carlos Santos said first-quarter growth was really 2.8% because statistics institute DANE had not taken full account of the number of working days. However calculated, growth in the first quarter was helped by retail sales (shops have now absorbed last year's VAT increase) and professional services. Construction and mining continued weak: however the improvement in international oil prices should inject some dynamism into the mining sector over the coming months. Recent interest rate cuts and low inflation should also play a part.

A return to 'business as usual' will be welcome but some look to the next president to do more than just administer a recovery. Alejandro Reyes, economist at BBVA Colombia says the next government should change its "computer chip" and pay much greater attention to the need "to grow through competitiveness and productivity, so that we end up better linked to the global and digital economy". For that to happen he wants action to reduce labour-sector informality (around 60% of the work force is outside the tax and benefits system). He also wants to see a fall in unemployment (which stood at 9.9% in the quarter to April). President of the Cali Chamber of Commerce Esteban Piedrahita agrees that the biggest challenge for the next government is to achieve GDP growth rates of 4% or higher, as it did during the last oil boom, so as to increase household income and reduce poverty. The problem, as he puts it, is that this time there won't be a helpful oil boom: Colombia will have to find other, productivity-led ways of growing.

Colombia's economic growth rate



That will mean getting the best value for money out of public investment and, through tax reform, finding a way to reduce the dependence of government income on the ups and downs of the mining sector. The tax burden currently represents only 15% of GDP, one of the lowest levels in Latin America. A number of analysts say one of the biggest issues in public-sector finances is how to manage and contain the cost of the pension system. There are also calls to do more to diversify exports. Here too there are signs of a cyclical up-turn. Javier Díaz, president of exporters' association Analdex forecasts a significant export surge this year, which could take total value up to US$45bn (which would represent an increase of 19% on the US$30.77bn exported last year).

An upbeat assessment of the tasks facing the next president came from *Diálogo a Fondo*, a blog published by the IMF in early June, which stated, "After recovering from the large oil shock of 2015-2016 that put a break on high growth, pushed up inflation, and widened the current account deficit, Colombia is at a turning point towards a favourable outlook." As with the local economists, the IMF also highlighted a long to-do list for the next president. It includes increasing infrastructure investment, reducing red tape, reducing labour market informality, improving education quality and coverage, and lowering barriers to trade.

The business community clearly favours Duque as the more market-friendly of the two remaining contenders in the presidential race. However, his economic policy platform does not elicit unanimous approval, just as Petro's does not bring forth 100% opposition. Duque proposes a big corporate tax cut, six 'VAT free' shopping days a year, and spending cuts equivalent to around 1% of GDP. This would clearly help the cyclical recovery, but will fail to tackle the problem of a low tax base that is highlighted by many economists. On the downside his pledge to review and toughen the terms of the peace settlement with rebel guerrillas could put it at risk, limiting the so-called peace-dividend for the economy. Petro, on the other hand, has spoken of moving away from an "extractive economy" to one more focused on renewable energy and production: yet many of those in the business community who agree with the need for diversification have doubts over the fiscal impact of the left-wing candidate's plans to expand public sector spending.

Colombia joins OECD

Colombian President Juan Manuel Santos said he had received a telephone call on 25 May (two days before the first round of the presidential elections) to say Colombia had been admitted to the Organisation for Economic Cooperation and Development (OECD), the group representing some of the world's most developed economies. The accession document was signed on 30 May in Paris. The country becomes the 37th member of the organisation and the third from Latin America (the other two are Mexico and Chile). Membership came despite opposition from the United States which has been critical of what it says is Colombia's insufficient commitment to protecting copyright and intellectual property (IP). As part of membership requirements Colombia has agreed to meet OECD standards in a wide range of areas including the justice system, the management of state-owned enterprises, anti-bribery standards, and trade. President Santos said he hoped OECD membership would bring greater investment more funding for infrastructure, and a better credit profile.

REGION

Export growth strong but slowing

Latin America and the Caribbean (LAC) exports grew by 10.6% in the first quarter of this year, but there are signs that the pace of expansion is beginning to slow.

According to a report by the Inter-American Development Bank (IDB), *Trade trend Estimates in Latin America and the Caribbean, 2018 edition*, exports grew by 10.6% year-on-year in Q118, boosted by intra-regional and European Union demand. But the export recovery may be slowing – growth was a little bit down on the 11.9% rate registered in Q417. This is attributed to the fact that prices for a number of key commodities such as coffee, soya, sugar, and iron ore appear to have reached plateaux, and have flattened out or begun to fall. Export volumes continued to grow at around 4% led by Brazil, Mexico, Colombia, and Argentina.

Paolo Giordano, the report's coordinator, commented, "After a long period of declining trade, the rise in export volumes is good news. However, the

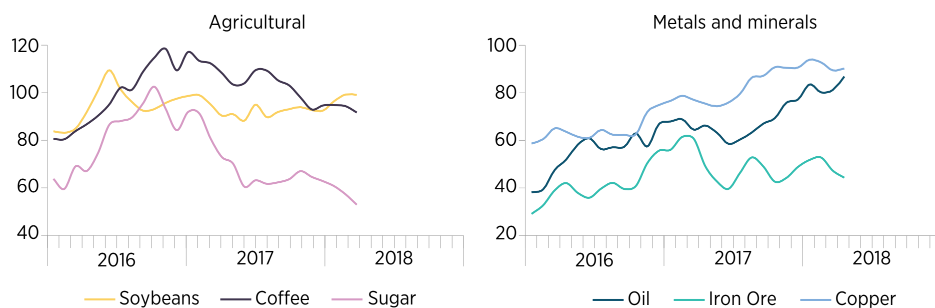
region must integrate and diversify more to be better prepared against volatility in commodity prices." Export growth last year had been supported by rising demand from all of LAC's main trading partners, but in the first quarter of this year shipments to China slowed down, while those to the EU accelerated. Within the LAC sub-regions, South American exports rose by 10.4% in Q118, after 14.9% growth in 2017 as a whole. Here, export levels are still around 25% below their historical peak reached in 2011. The recovery of commodity markets in 2017 began to dwindle towards the end of the year. In Q118 commodity prices remained volatile with some falling significantly. Exports increased to all partners but growth rates slowed for those going to the US, China, and the rest of Asia.

In Mesoamerica (Central America plus Mexico) Q118 export growth was 10.8%. This reflected strong growth of Mexican exports (+11.5%) and a weaker performance by Central American exports (+4.8%). For this sub-region exports are now at an all-time peak. Mexican export growth has been largely due to increased demand from the US and, to a lesser extent, from the EU. Central American exports to the US continue to grow, but were doing so at a more moderate pace in early 2018. Caribbean exports grew by 5.3% in 2017, although they were marked by considerable volatility (strong growth in the first half of 2017, followed by contractions during most of the second half).

LAC imports grew by 14.3% in the first quarter, faster than the 9.6% average achieved in 2017. Import growth has consistently exceeded export growth throughout 2017 and early 2018.

Prices of the main export products of Latin America and the Caribbean

(Index 2010 = 100, 2016–2018)



Source: IDB Integration and Trade Sector with data from Bloomberg.

JAMAICA

More encouraging prospects

After registering virtually no growth in 2017, there are signs that the economy is picking up pace. Preliminary data from the Planning Institute of Jamaica (PIOJ) revealed that real GDP grew by 1.2% in the first quarter, compared with the fourth quarter of 2017.

According to the PIOJ, the firm GDP result was driven by a number of factors, including strong demand from Jamaica's main trading partners. Goods-producing sectors registered quarter-on-quarter growth of 3%, with all main industries registering improvements. The mining & quarrying sector registered particularly rapid growth of 25.5%, reflecting higher bauxite and alumina production after activity at the Alpart refinery restarted. Firm overseas demand for bauxite exports also stimulated production. No results were given in the press release about other goods-producing sectors, but a reference to improved weather conditions indicates that agricultural production rose. Services-producing sectors registered weaker but positive growth of 0.7% quarter on quarter, with financial services posting growth of 1% and hotels & restaurants of 1.6%. This latter result comes as little surprise given that the tourism sector has been faring well, with continued increases in tourist arrivals – both stopover (which contribute more to the local economy) and cruise arrivals.

Falling inflation prompts further cuts to interest rates

Meanwhile, there have been other supportive developments, including a fall in unemployment. Although still comparatively high, the Statistical Institute of Jamaica (Statin) revealed that unemployment fell to 9.6% in January, which marked the lowest figure recorded in over a decade. It is likely that this is supporting somewhat stronger domestic demand, which in turn will lift underlying GDP growth. Despite firmer demand, inflation dynamics have also been supportive, with the consumer price index falling for the third consecutive month in April. In annual terms, inflation has declined from 4.8% in January to 3.2% in April, bringing inflation just below the Central Bank's target range of 3.5%-6.5%.

This has facilitated a further easing of monetary policy, which the authorities hope will create a virtuous cycle whereby lower borrowing costs stimulate demand, in turn lifting GDP growth. In mid-May, the Central Bank announced another 25 basis points cut to the benchmark interest rate, taking it to just 2.5%. The Bank has now eased monetary policy by a cumulative 150 basis points in just over a year. Given that inflation is continuing to fall, it is possible that there may be scope for further interest rate cuts, although the fact that rates remain very low in nominal terms reduces the likelihood of a continued and sustained period of monetary easing. This is particularly true given that rising interest rates in the US are increasing rate-differentials, which may lead to pressure on the local currency. As in many other countries in the region, the Jamaican dollar has weakened in recent weeks, from J$124:US$ in early May to over J$127:US$ in early June.

CHILE

Pinera unveils economic plans

Just under three months after taking office, President Sebastian Pinera used the annual state of the nation address on 1 June to unveil his economic policy objectives for the duration of his term in office.

The main take-away from the speech was that the president has, for now at least, abandoned a campaign pledge to reduce the level of corporation tax, which had been raised to 27% by his predecessor, Michelle Bachelet. This was justified in the context of needing to reduce the fiscal deficit, which has risen sharply in recent years, coming in at 2.8% of GDP in 2017. The government had already outlined plans in May to cut spending by US$5bn over the next four years, but the authorities clearly felt that cutting the corporation tax rate would deprive them of much-needed revenue. However, President Pinera did say that he planned to simplify the corporation tax system in order to provide investors with greater legal certainty, in line with his administration's pro-business stance. Holding the corporation tax rate unchanged will free up funds for public spending in other areas. Although overall the fiscal policy stance will become more austere, the president stated that he planned to increase spending on public works projects to a total of US$20bn over his four-year term, in a bid to improve the quality of the country's infrastructure.

Other policy priorities outlined in President Pinera's speech include changes in the way that the military is funded, to put an end to partial funding from the state copper firm Codelco, as well as changes to financial lending to university students and to regulation of private healthcare providers. The president also stated that he planned to amend the processes related to evaluating the environmental impact of potential investment projects. Coming on the back of new plans to create an executive office to cut red tape and accelerate investment, this reflects broader efforts to lift investment. Despite the fact that the president faces a fractured congress, in which neither his centre-right coalition nor the centre-left opposition has a working majority, there was little in his speech that garnered widespread criticism, suggesting that the new administration is likely to make progress – if relatively slowly, owing to the need to build a working majority for each bill – on the objectives outlined in Pinera's speech.

MEXICO

Business calls time over violence

Mexican business groups are unhappy with the government they've got – and worried about the next that they are going to get (it will be chosen in the general election on 1 July). The top problem right now is violence and poor security.

A chorus of business associations and top entrepreneurs say violence and crime are out of control in Mexico: they are demanding that the outgoing government of President Enrique Peña Nieto, and whoever succeeds him in December this year, take urgent action to improve security. The Consejo Coordinador Empresarial (CCE) said that high levels of violence had become the greatest single obstacle to economic activity. Employers' federation Confederación Patronal de la República Mexicana (Coparmex) said the problem could not be left to the next government to solve. It added that the lack of security was reducing Mexico's ability to attract foreign investment and create employment. "Time is running out for this government, as is the public's patience. This is the last call," it said in a statement. Industry association Canacintra said small and medium-sized enterprises (SMEs) now spend 6% of their income on security, roughly double what they did ten years ago.

The complaints come after a series of incidents and difficulties experienced by a range of companies. Dairy producer Grupo Lala closed a distribution centre in Tamaulipas. Soft drink bottling company Coca-Cola Femsa said it had been forced to announce the indefinite closure of a distribution centre in Guerrero state, with the loss of 160 jobs. Canadian-owned mining company Pan American Silver Corp said it was scaling down operations at its Dolores silver mine in Chihuahua state because of security incidents. Mining and infrastructure conglomerate Grupo Mexico said seven recent freight train derailments between Veracruz and central Mexico were due to sabotage and had caused it US$16m worth of losses. Truck drivers on Mexico's roads have also become a target for attacks. Companies like brewery Grupo Modelo and South Korea's LG Electronics have deployed satellite and geo-location technology to try and track and protect their drivers. One of them commented, "Roads are getting more and more dangerous, you try not to stop."

The American Chamber of Commerce of Mexico (AmCham Mexico) attributes the closures to a spate of extortion, theft, attacks on supply chains, and physical assaults on employees. AmCham's Luis Gerardo del Valle told *Reuters* news agency, "Corruption, public insecurity, and an inadequate justice system definitely impact the cost of investment. Last year saw a record number of homicides and this year's crime indicators continue to rise. According to government data there were 227,780 common robberies in the first quarter of this year, of which 21% targeted business and transport. Attacks on trains were up 19% to 852.

Successive governments have struggled and largely failed to find a lasting solution to the problem of criminal violence and powerful drug trafficking cartels. But the business community has not been short of suggestions. They have included a programme to professionalise the country's police, the creation of a fully independent prosecutor's office, much greater investment in crime prevention, the reduction of impunity, reform of the judiciary and of the prison system.

Business-AMLO relations still prickly

Relations between some top business leaders and the front-runner in the presidential race, left wing populist Andrés Manuel López Obrador (AMLO), remain difficult. They seem to have settled into a pattern of successive flare-ups and subsequent partial gestures of reconciliation. In the latest development, in a speech on 3 June, AMLO sought to reassure the private sector, saying "Business people will have no problem during our government, they will be respected. We will seek a convergence between the public, private, and social sectors." Earlier AMLO had accused business leaders Germán Larrea and Alberto Bailléres of conspiring against him.

Larrea, head of mining and rail company Grupo México, in turn wrote an open letter to his companies' employees and shareholders urging them not to vote for a "populist". The letter said, "If this populist economic model, in which everything supposedly belongs to and comes from the state, and in which people are given things without working for them, ends up being imposed on Mexico, investment will be disincentivised, seriously affecting jobs and the economy." For his part Bailléres told his staff that a change in Mexico's economic model, along the lines proposed by AMLO, would be bad for the business. Not all business leaders oppose López Obrador. Real estate entrepreneur Marcos Fastlicht (who is also father in law to Emilio Azcárraga, head of the powerful Televisa media group) and Alfonso Romo are considered to be close advisors to the candidate.

Will Morales surf the lithium wave?

In April Bolivia's state owned lithium mining company (Yacimientos Bolivianos de Litio, YBL) announced a major agreement with ACI Systems GmbH of Germany, which is to invest US$1.3bn in a partnership to manufacture and market lithium-ion batteries. Bolivia has some of the largest lithium reserves in the world, and demand for the batteries, which are used in smart phones and the new generation of electric vehicles (EV), is expected to surge. Developing lithium mining in the Salar de Uyuni salt flats is seen by many as part of an ambitious plan by President Evo Morales to turn Bolivia into "the Saudi Arabia of lithium". Others are more sceptical, and point to a range of practical difficulties that may prevent or limit the new boom.

Along with Chile and Argentina, Bolivia forms part of the three-country 'lithium triangle' which is thought to hold the world's largest concentration of lithium deposits. Bolivia's lithium reserves in the Salar de Uyuni are the largest, but the country trails its neighbours in industry production and development. Prices are certainly rising – they have more than doubled from under US$10,000 a tonne in 2015 to around US$25,000 now. President Evo Morales has a vision that the industry could be developed by a public sector-led partnership, achieving not just extraction and export for the benefit of Bolivia, but also ensuring that a range of value-added activities (such as battery production and related manufacturing) are kept within the country.

According to Carlos Montenegro, head of YLB, ACI Systems has been chosen as the key strategic partner. In April Montenegro said he expected a joint venture to be formed shortly, and to start lithium-ion battery production operations in around 18 months' time. When up and running the project is expected to generate US$1bn a year in net profits, he said. There have been other announcements. In May it was revealed that Chinese company Maison Engineering had won a contract to build a lithium carbonate production facility at the Salar de Uyuni, valued at US$96m. Earlier in the same month it was also announced that YLB will be transformed into a holding company, bringing together various operating subsidiaries, one of which will be the joint venture with ACI Systems.

While lithium mining and battery production presents a clear opportunity for Bolivia, a number of analysts question whether the government's emerging strategy will be successful. Efforts to date have had very mixed results. In the last nine years YLB has invested around US$450m in a range of pilot projects. Officials had originally said they would achieve monthly production of 40 tonnes of lithium carbonate by 2011; now, in 2018, output remains at only 10 tonnes/month. Meanwhile, Chile produces 70,000 tonnes per year (about 5,800 tonnes a month) while Argentina's output is 30,000 tonnes (2,500 a month). YLB's Montenegro says this is of little concern since "The important thing for us is the results we are going to see in 2018 and 2019."

Some, such as Bolivian lithium analyst Carlos Zuleta, question whether ACI Systems is the right partner. "Germany is not at the leading edge of technology in many aspects. I think by now most people know where the tech is, it is in the US with Tesla," he recently told *Americas Quarterly*. Germany produces relatively small volumes of lithium ion batteries, compared for example, with the US and China. Simon Moores of Benchmark Mineral Intelligence agreed, saying "If Bolivia were serious about getting large volumes of lithium out of the ground and into EV (electric vehicle) batteries, they would get a major producer involved." Robert Baylis of consultancy Roskill Information Services said some big mining companies have kept clear of Bolivia because of the fear that their operations there might eventually be nationalised.

There are also some technical challenges. Waldo Pérez, chief executive of Neo Lithium, a miner operating in northwest Argentina, says high levels of

magnesium make it difficult to extract lithium from the Uyuni flats. The ratio of magnesium to lithium is about four times greater in the Uyuni flats than in Chile's Atacama Desert. "Everybody and his dog have tried this before. In the lithium tech community, we usually joke that we will print a T-shirt that says 'I tried Uyuni too'," he said. Zuleta also questions whether Bolivia could play the desired 'Saudi Arabian' role, using a big market share and a capacity to ramp exports up or down to influence international prices. He points out that on current projections the country won't have a big market share. President Morales has been talking of taking production up to 15,000 metric tonnes per annum after 2020 - this would still be only one-fifth of Chile's output and half of Argentina's.

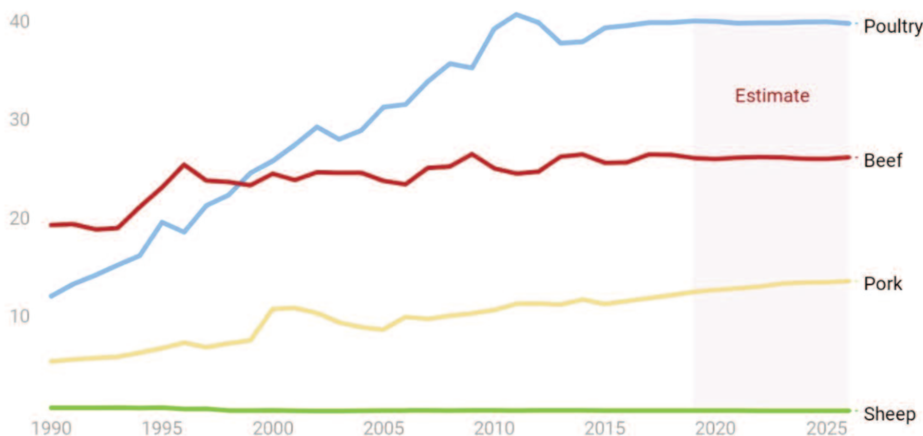
BRAZIL

Vegetarians in the home of beef

While Brazil is widely seen as a carnivorous society, one of the world's largest producers and consumers of beef, a surprising new trend is beginning to make itself felt: the growth of vegetarianism.

Writing for website *The Brazilian Report*, journalist Ciara Long has pointed out that the number of vegetarians and vegans in Brazil is rising. According to a survey in April by polling company Ibope, 30m people, equivalent to 14% of the total population, now describe themselves as either vegetarian of vegan. Per capital meat consumption (whether of poultry, beef, pork, or mutton) appears to have reached something of a plateau. Indicative of growing interest in vegetarianism, a group of four schools in Bahia have committed to reducing meat, egg, and dairy intake by 25% each semester, aiming to get it down to zero in two years' time.

The ministry of health has expressed interest in the project, called Escola Sustentável (Sustainable School), bearing in mind that over half the total population is now considered to be either obese or overweight. One-third of Brazilian children aged between five and nine years are said to be facing health risks as a result of their weight; research suggests an excessive meat intake may be just as likely to cause obesity as sugar. The vegetarian trend is likely to create significant business opportunities. According to one estimate, plant-based companies are growing by 40% every year. In big urban centres such as São Paulo there are now a range of vegetarian restaurants. Recife will hold its third week-long vegan food festival later this year. The fashion industry is also seeing strong growth in animal-free products ranging from foot wear to make-up.



Source: The Brazilian Report

REGION

Corporate Radar

Steemit attracts Venezuelans: Caught in an economy that is reeling from the combined blows of recession and hyperinflation, many Venezuelans are seeking out internet-based survival strategies. According to website *Caracas Chronicles* some are finding that dealing in crypto-currencies can earn them a better living than 'real world' employment in the country. It gives the

example of Mario Pérez Chacín, a journalist who was earning the local currency equivalent of US$1 a month, and who was moonlighting as a taxi driver to try to supplement his income. Chacín discovered Steemit, a US-based social network that pays its users for the time they spend on it, posting comments, photographs, sharing or commenting. The users are paid in two crypto-currencies (Steem Dollar and Steem) that can be exchanged online for Bitcoin and ultimately for Venezuelan bolívares. Chacín says he began taking part on Steemit in December and by January "I could see I was earning more per week than what I earned in my former job in a month." To earn the necessary credits he now spends extra time online at night and at weekends. According to the *Caracas Chronicles* Steemit cannot really provide a main source of income in countries with a stable economy, but it can be profitable for some users in poor areas in countries like India, Haiti or Venezuela. It also requires a long-term commitment to building up a popular online profile. Another Venezuelan user, Liseth Freitas, said she had used Steemit to save money and pay for an operation needed by her mother.

Panamanian group develops residential islands: Grupo Los Pueblos, a Panamanian real-estate developer, is launching residential properties on two man-made islands off the coast of Panama City. Chief executive Alfredo Alemán says the idea could catch on elsewhere in Latin America. The opportunity for the 'Punta Pacífica' project came when, through a Mexican company with a Panamanian highway-building project, there was an opportunity to purchase large quantities of sand and rock to create the artificial islands. Alemán says the Panama City living environment can be "tense" with many people suffering congestion and living in 50-60 floor tower blocks. "Our marketing proposition was to create the absolute antithesis of that – a low density, seaside community development," Alemán told *América Economía*. The overall project required US$80m worth of investment. One island offers 72 plots on 10.2 hectares, while the other has 66 units over 8.7 hectares. The company says it believes similar residential islands would be viable in other large coastal Latin American cities.

Mobike hits trouble in Mexico City: Mobike, a Chinese bike-sharing company (which is also the world's largest) began operating in part of Mexico City earlier this year but says it is encountering difficulties over bike theft. The company says subscriptions to its service have increased by as much as 70% week-on-week since it launched in February. But it is now suffering from bicycle shortages and strong competition from Mexican rivals VBike and EcoBici (the latter run by the Mexico City government). Mobike users in the Hidalgo district (where it has been initially authorised to operate) complain that it is hard to find a free bike.

Nissan cuts back in North America: At the end of May Japanese carmaker Nissan Motor said it was looking at a 20% production cutback across its plants in North America as a result of lower sales there. The company said it had already begun cutting assembly operations in two US plants and three Mexican ones. The working week was being shortened, so far without any labour reductions. In the financial year to 31 March Nissan's US sales were down by 9.2%. After the 2008-2009 global financial crisis, Nissan had focused on increasing its share of the US auto market, something it was able to achieve for nearly a decade until its sales fell back into negative territory last year. The company has also been affected by uncertainty over Nafta and over its ability to use Mexico as a production base from which to supply the US market. It is hoped dwindling sales will recover with the launch of the new Altima model in the (northern hemisphere) autumn.

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