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FEATURED Q&A

What Would OECD Membership Mean for Colombia?



Colombia's process of accession to the OECD "has initiated several institutional reform processes and triggered very important internal reflections," Colombian President Juan Manuel Santos has said. // File Photo: Colombian Government.

Q Colombia's bid to join the Organization for Economic Co-operation and Development, or OECD, has been cleared by most of the OECD's 23 committees. Should Colombia be allowed to join the OECD? What would membership in the organization mean for Colombia and its economic development? Are there any drawbacks to Colombia joining the OECD?

A Oscar Ardila, senior associate at Avenida Capital: "Considering the fact that after decades of internal conflict, Colombia managed to re-emerge as an economic powerhouse in Latin America, it is remarkable to see its performance in lifting people out of poverty, strengthening public institutions, maintaining fiscal and monetary discipline, and preserving the stability of democracy, despite political swings. Colombia is by no means a country without major pitfalls, and there is still a long way to go in the quest for inclusive economic development and access to opportunities for all. Nonetheless, given that we live in an increasingly globalized world, one with shared opportunities and threats, Colombia's experiences can cast light on potential alternatives to seemingly intractable conflicts and deeply rooted social issues that all other nations face, all while promoting sustainable economic growth. Thus, the OECD has as much to benefit from Colombia's accession as Colombia has benefited and will continue to benefit from the accession process and potential membership to the organization. Colombia has weathered the impact of commodity price declines through a disciplined macroeconomic framework. That stability

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TODAY'S NEWS

POLITICAL

Protests Flare in Honduras as Vote Count Drags On

Election officials blamed the slow vote count following Sunday's presidential election on technical problems, but protesters suspect fraud in favor of incumbent President Juan Orlando Hernández.

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ECONOMIC

Brazil's Economy Expands for Third Straight Quarter

Latin America's largest economy grew 1.4 percent in the third quarter as compared to the same quarter a year ago, as it is seen emerging from its deep recession.

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POLITICAL

Venezuelan Agents Arrest Former Oil Minister, PDVSA Chief

Government agents arrested Eulogio del Pino and Nelson Martínez, who earlier this week were dismissed from their posts as Venezuela's oil minister and head of state oil company PDVSA.

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Del Pino // File Photo:
@delpinoeulogio via Twitter.

POLITICAL NEWS

Venezuela Arrests Ex-Oil Minister, PDVSA Head

Venezuelan agents on Thursday burst into the homes of Eulogio del Pino and Nelson Martínez, who earlier this week were dismissed from their jobs as the country's oil minister and president of state-run oil company PDVSA, respectively. Del Pino and Martínez are the highest-ranking officials who have been accused of corruption or sabotage and detained in a series of arrests involving the state oil company and its U.S. refiner, Citgo. More than 50 people so far have been arrested, The New York Times reported. Venezuela's attorney general has touted the arrests as a crackdown on corruption, but others have seen the arrests as a move by President Nicolás Maduro to consolidate power ahead of his run for re-election in a vote planned for next year. Martínez, who was oil minister before leading PDVSA, was charged with seeking debt refinancing contracts without government approval, according to Attorney General Tarek William Saab. Del Pino was slapped with charges including falsifying production figures and committing sabotage that cost the company millions of dollars in lost revenue, Saab said. The attorney general accused the two men of operating a "cartel" that "bit by bit was delivering blows to the oil industry and causing national damage."

He added, "We're going after unscrupulous officials and businessmen who have damaged the country's interests, reducing the oil output and affecting the economy," The Wall Street Journal reported. In a video that was apparently recorded before his arrest and posted on Twitter, Del Pino said he was the victim of an unjustified attack, The New York Times reported. Corruption has long been a fixture at PDVSA, analysts say, but what has changed is that Maduro is seeking to remain in power despite chronic shortages of food and medicine, a crumbling economy and looming debt defaults that could be catastrophic. "Why the focus on this so suddenly?" political science professor David Smilde of Tulane University told The New York Times. "There's a need to find a scapegoat for the country's economic crisis."

Protests Flare in Capital as Honduras Vote Count Drags On

The count of votes in Honduras' presidential election dragged on for a fifth day on Thursday as protesters took to the streets of the capital, Tegucigalpa, setting fires, blocking roads with burning tires and with some marching up a main boulevard toward the election institute where the votes were being counted, the Los Angeles Times reported. "This is fraud, pure and simple, and we plan to confront it," said student Alfredo Ramírez, 24. Challenger Salvador Nasralla had an early lead of five

NEWS BRIEFS

Mexican Ruling-Party Candidate Trails Challenger by 14 Points

Presidential hopeful and former Mexican Finance Minister José Antonio Meade lags leftist candidate Andrés Manuel López Obrador by 14 points, an opinion poll by daily newspaper Reforma showed Thursday, Reuters reported. Meade resigned from his position as finance minister on Nov. 27 in order to seek the nomination as the candidate of the ruling Institutional Revolutionary Party, or PRI. Thursday's poll showed Meade with only 17 percent support, whereas López Obrador saw 31 percent support in the poll.

Brazil's Economy Expands for Third Consecutive Quarter

Brazil's economy grew for the third consecutive quarter in the three-month period through September, with gross domestic product expanding 1.4 percent as compared to the third quarter of 2016, government statistics agency IBGE announced, the Financial Times reported. The country's GDP contracted 3.6 percent last year and shrank 3.8 percent the year before.

Venezuelan Government, Opposition Restart Talks

The Venezuelan government and the opposition Democratic Unity Roundtable, or MUD, coalition plan to re-start negotiations today with the goal of eventually finding a solution to the country's crippling economic and political crisis, the Associated Press reported. The talks come as the pressures of international sanctions, unpaid debt the upcoming presidential election loom large for the country. The two-day session that will take place in the Dominican Republic will be the first formal talks since the months anti-government protests abated in July, during which more than 120 people died and thousands were detained.

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has been achieved through the enactment of key reforms in line with OECD best practices, in areas including tax and justice systems, governance, green development and investor protections, among others. Thus, the accession process has already proven beneficial, and an eventual membership will help the country reap additional benefits in terms of economic cooperation with other members and a more active, and much needed, leadership role in the region."

A **Alberto Bernal, chief emerging market and global strategist at XP Securities:** "Colombia should be admitted to the OECD. The country has proven to be a good enough partner of the market economy in the past, and ensuring Colombia's entrance to the OECD will increase the probability of it refraining from taking the populist route at some point in the future. Having an OECD membership is analogous to receiving a

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percentage points, but that lead has evaporated, with election officials now saying that incumbent President Juan Orlando Hernández is in the lead. Late Thursday afternoon, the electoral court said 8 percent of ballots still needed to be counted, and that Hernández was leading by 41,593 votes. The court has said technical problems have delayed the count, and it denied that it was manipulating votes in the president's favor.

Argentine Navy Gives Up Hope of Finding Missing Submarine

After searching for a missing submarine for 15 days, Argentina's navy said it has given up hope of finding its 44 crew members alive and called off the rescue mission, The Guardian reported. "No one will be rescued," said Argentine Navy Captain Enrique Balbi. "More than double the number of days that it would have been possible to rescue the crew have passed." A reported explosion on Nov. 15 most likely sunk the ARA San Juan to the bottom of the Atlantic Ocean off the coast of Patagonia. Despite receiving international support, Argentina was unable to locate the vessel. Balbi added that the search for the sub would continue. Many of the relatives of crew members had already given up hope that they would be reunited with their loved ones. Relatives said they were upset by the misinformation they said they received from government officials that they believe were attempts at keeping their hopes up that the submarine would be found.

BUSINESS NEWS

Chevron to Study Gulf of Mexico Oil Block

U.S. oil company Chevron plans to focus on studying the geology of Block 3 in the deep-water Gulf of Mexico, to which the company won the rights in an auction late last year as

THE DIALOGUE CONTINUES

How Important Is NAFTA to Farmers?

Q **In the 23 years since the enactment of the North American Free Trade Agreement, or NAFTA, U.S. agricultural exports have increased by 265 percent to Canada and by 298 percent to Mexico, U.S. Senate Agriculture Committee Chairman Pat Roberts (R-Kans.) said in a recent speech. He added that Canada and Mexico have ranked in the top three destinations for U.S. agricultural exports since 2001. How important is a deal to renegotiate the trade accord to farmers and other agricultural interests in the three NAFTA countries? What would be the impact on agricultural interests in the United States, Mexico and Canada if the three countries cannot reach an agreement? Will political pressure from farming states that helped elect President Donald Trump push his administration toward a deal?**

A **Clifford Sosnow, partner at Fasken Martineau in Canada:** "Agriculture has a serious vested interest in the NAFTA negotiations. NAFTA has nearly quadrupled agricultural trade in North America, with trilateral trade reaching nearly \$1 trillion in 2016. Every year, \$85 billion in agricultural trade flows between the three nations. Agricultural interests in the United States, Mexico and Canada are highly diverse. Wheat crosses borders relatively freely between Canada, Mexico and the United States. Dairy moves duty-free between the United States and Mexico. Access of dairy from the United States or Mexico into Canada is limited. The sector is not a monolith that speaks in one voice. But the overall impact of failure to

reach an agreement and the termination of the agreement would be severe. NAFTA has created deep integration of North American agricultural markets, with robust cross-border trade in raw materials, intermediate inputs and outputs, higher foreign direct investment and greater agriculture policy cooperation. For many U.S. agriculture interests, the losses from the termination of NAFTA would be costly, and the pain would be great. Canada is the top market for U.S. agricultural exports, and by far the largest U.S. market for high-value consumer-oriented products. Bilateral agricultural trade reached \$47 billion in 2016. Terminating NAFTA means duties would rise to pre-NAFTA tariffs. The cost increase to trade could be significant. For example, poultry tariffs by Mexico could rise to 75 percent. In the United States, agricultural and border states could see more of an impact. Politically, the administration's responsiveness to some U.S. agricultural interests, while perhaps understandable domestically, may increase the difficulty in reaching a deal. The president wants to have special anti-dumping rules on perishable and seasonal fruits and vegetables that Mexico is not likely to be accept. Similarly, the Trump administration wants full elimination of import tariffs in the dairy, poultry and egg sectors, which are politically sensitive in Canada, and which it is likely to vigorously rebuff."

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

part of a consortium with Mexican state oil company Pemex and Japan's Inpex, rather than drilling wells during the first four years of the contract, Chevron's top executive for exploration and production in Mexico, Evelyn Vilchez, said Thursday, Reuters reported. "Block 3

is very complicated, and we want to use these first few years to better understand the geology," Vilchez said. The block is located on the U.S.-Mexico maritime border. It will likely take between 10 and 16 years for commercial production to begin at the block.

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'good conduct' certificate. For a country to be able to show that it has successfully complied with the requirements to be an active member of the OECD implies that it has 1) clear rules for conflict resolution for private-sector entities; 2) a clear understanding of the value of having macroeconomic stability; 3) an understanding of the relevance of having good practices in the provision of national statistics; and 4) respect for the possibility of companies deciding in favor of looking for international arbitration instances, if there is no room to deal with a conflict internally. There are costs to joining the OECD, not least of which are increased compliance and regulation costs. However, the benefits of having increased credibility with the international investment community more than outweigh any possible cost to joining this high-level international organization."

A **Maria Velez de Berliner, president of Latin Intelligence Corporation:** "Unlike Mexico and Chile, which acceded before the Tequila Crisis of 1994 and the commodities boom, respectively, Colombia will accede to the OECD at a time of economic deceleration, high informal employment, and extreme political polarization and uncertainty, as the FARC's leaders enter the 2018 presidential and senatorial races. Foreign direct investment, one of the major attractions of OECD membership, has declined for the last three years. Despite the government's hopeful predictions of an increase in 2018, and the promised investment of \$100 million by the UAE in mining, the overall downward trend is expected to continue, due to high levels of insecurity, taxation and interest rates that constrain credit, and a broad lack of technical and scientific skills, a non-negotiable requirement within the global economy. The highest levels of corruption in Colombia's history trump the OECD's transparency requirements. Colombia is now riddled by

corruption scandals that involve influential politicians and leaders of industry and financial institutions. That said, Colombia's free-market tradition meets the open-market requirement for accession. Geography and a lack of government support for advanced research and development limit the growth of Colombia's market. However, OECD membership might lead Colombia to increase research and development funding to stem the brain drain of scientists who have left, or are leaving, the country for more propitious environments. The OECD's rules on transparency might help Colombia realize that anti-corruption campaigns must be more than expedient political slogans and tools against opponents; and that corruption, grand or of the garden variety, undermines confidence in the institutions that must undergird open and transparent markets, locally and internationally. Therefore, if the OECD's transparency requirements help Colombia make believable and dependable inroads against corruption, membership will have helped Colombia greatly."

A **Carlos de Sousa, senior economist for Latin America at Oxford Economics:** "The accession process into the OECD has been very positive for Colombia since the process began in 2011, as the government has made efforts to improve the quality of its institutions and the rule of law. But as in the cases of Chile and Mexico, we do not think there will be an immediate measurable impact on the economy after the OECD officially accepts Colombia into the group. In fact, it could be a positive driver of reform momentum if the country is required to make further improvements in some areas before being officially accepted."

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