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FEATURED Q&A

Will PPK Be Able to Complete His Term in Peru?



Peruvian President Pedro Pablo Kuczynski last month survived an impeachment attempt and then controversially pardoned former President Alberto Fujimori. // File Photo: Peruvian Government.

Q Several public officials in Peru have resigned in the wake of President Pedro Pablo Kuczynski's near-impeachment and his subsequent pardoning of former President Alberto Fujimori, who was serving a 25-year prison sentence for abuse of power and human rights violations. The pardon led to street protests, leaving Kuczynski's presidency on shaky ground despite surviving the impeachment vote in December. Will Kuczynski be able to complete his five-year term? How can he regain public confidence and political influence? Will Peru's fractured politics throttle back investment and economic growth this year?

A Cynthia McClintock, professor of political science and international affairs at The George Washington University: "The odds are against President Pedro Pablo Kuczynski (PPK)'s completion of his term. PPK is dangerously isolated. Not only did he incorrectly deny dealings with Odebrecht, provoking the impeachment vote, but most Peruvians believe that he traded his survival of the impeachment vote for the pardon of former President Alberto Fujimori. Many Peruvians voted for PPK in the 2016 runoff because he was not in bed with fujimorismo, and they now feel betrayed. PPK has lost three of his best ministers and three of his party's 18 legislators. Although PPK has promised a cabinet of 'reconciliation,' recruitment among members of small parties, grassroots politicians and progressive intellectuals—to whom PPK should have turned more at the start—will be difficult. The largest sector of fujimorismo, led by Alberto's daughter Keiko, has consistently interpreted PPK's efforts at accommodation as weakness and

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TODAY'S NEWS

ECONOMIC

More Crews, Supplies Headed to Puerto Rico for Recovery Effort

More work crews and supplies are due to arrive in the coming weeks in Puerto Rico, which was battered by Hurricane Maria in September, U.S. officials said. Much of the island remains without power nearly four months after the storm struck.

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BUSINESS

Walmex Reports Slower Sales Growth for 2017

Walmex reported sales growth of 7.7 percent last year, its slowest rise since 2014. The year's sales totaled \$29.6 billion

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POLITICAL

Ecuador to Audit Debt Incurred Under Correa

Ecuador's comptroller's office said it would audit debt incurred during the last five years of former President Rafael Correa's term to determine its legality.

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Correa // File Photo: Ecuadorean Government.

POLITICAL NEWS

Ecuador to Audit Debt Incurred Under Ex-President Correa

Ecuador's comptroller's office on Monday said it would be auditing any debt contracted in the last five years of former President Rafael Correa's term in order to determine if the operations and use of the funds were legal, Reuters reported. The announcement followed a report by the comptroller's office that revealed that some of the documentation related to debt operations had been kept secret, and that



Moreno // File Photo: Ecuadorean Government.

some of the government's official reports on public debt during the Correa administration had excluded certain debt operations. Since his election last year, President Lenín Moreno, who had been a protégé of Correa and was a member of the former president's political party, has criticized his predecessor's handling of the economy and has made efforts to roll back certain reforms enacted by Correa. The former president has said Moreno's efforts amounted to a "coup" against him. The audit will be carried out by a team of economists, lawyers and businessmen, who will analyze debt operations from January 2012 to May 2017, and are set to present recommendations to the government this April. Comptroller Pablo Celi said Correa and former officials from the Finance Ministry have been notified of the investigation. Correa took to Twitter to condemn the investigation, which he said was headed by several "haters" of his political movement. In a later speech, the former president said the probe amounted to "persecution."

ECONOMIC NEWS

More Crews, Supplies Headed to Puerto Rico for Repair Effort

Efforts to repair Puerto Rico's energy infrastructure and restore power to the U.S. territory in the wake of Hurricane Maria will be getting a boost in the coming weeks with more work crews and supplies due to arrive at the island, federal officials said, the Associated Press reported Monday. The U.S. Army Corps of Engineers said it would be acquiring its own barge to ship needed materials that it requested months ago to rebuild infrastructure. Col. John Lloyd, who is overseeing the efforts to restore power, said officials over the weekend discovered some needed equipment in a previously overlooked warehouse owned by the island's public utility, the Puerto Rico Electric Power Authority (PREPA). "We're doing everything we can to increase [PREPA's] ability to do this as fast as possible for the people of Puerto Rico," Lloyd said. Certain materials, including transformers, splices and hundreds of necessary smaller pieces, had delayed the energizing of certain power lines. He said that his agency is still waiting for the shipment of hundreds of thousands of poles, transformers, fuses, towers, insulators, bolts and other pieces, as well. More than 40 percent of PREPA's customers remain without power nearly four months after the hurricane battered the commonwealth, killing dozens of people and causing an estimated \$95 billion in damages.

Mexico's Vehicle Exports to U.S. Reach Record High

Mexico's vehicle exports to the United States reached a record high in 2017, CNBC reported Monday, citing data from the country's auto industry. Mexico exported 2.33 million vehicles to its northern neighbor over the past year, a 9.4 percent increase over 2016. Also, 75

NEWS BRIEFS

Brazilian Police Seek to Question Temer Over Port Regulation Decree

Brazilian police have requested that President Michel Temer respond to 50 questions posed as part of an investigation into whether he took bribes in exchange for influencing a decree that regulates the country's ports, a government spokesperson said, MercoPress reported today. Police are investigating a scheme in which Temer allegedly accepted bribes in exchange for guiding the creation of a decree that would have favorable terms for logistics firm Rodrimar. The allegations are the latest to come out against Temer, who has so far managed to avoid a trial over corruption allegations. Temer has denied any involvement in corruption.

Chile's Bachelet Meets With Castro in Havana

Outgoing Chilean President Michelle Bachelet met Monday in Havana with Cuban President Raúl Castro and vowed to strengthen economic and commercial ties between the two countries, China's state-owned news agency Xinhua reported. During the visit, Bachelet highlighted joint projects with Cuba in the health sector as well as an iron exploration partnership. Bachelet's term is set to end March 11, when Sebastián Piñera returns to Chile's presidency.

Andorra's Andbank Eyes Expansion in Region

Andorran private bank Andbank is looking to grow its Latin America operations by entering Argentina, as well as by growing its operations in Mexico and Brazil, said Carlos Moreno, Andbank's managing director and its head for the Americas, Bloomberg News reported today. Andbank is Andorra's largest bank, with 25 billion euros, or \$30 billion, under management. The bank is seeking to obtain a license to operate as a global investment advisor in Argentina, Moreno said.

percent of the vehicles that were exported from Mexico in 2017 were then sold in the United States, far ahead of the total in Canada, which received just over 8 percent of Mexico's vehicle exports. The increase came amid renegotiations of NAFTA.

BUSINESS NEWS

Walmex Reports Slower Sales Growth for 2017

Wal-Mart de México, or Walmex, as Mexico's largest retailer is known, on Monday reported sales growth of 7.7 percent to 569.4 billion pesos (\$29.6 billion), The Wall Street Journal reported. The rise in sales growth was the smallest since 2014 and came as a weaker Mexican currency against the U.S. dollar, as well as a rise in gasoline prices, contributed to pushing inflation to its highest level since 2001. The rise in inflation over the past year prompted the country's central bank to hike interest rates, and consumer credit slowed. The higher rate of inflation also lessened the impact of rising wages and partially offset the economic benefits of a higher level of employment. In the 12 months through November, Mexico's economy added 820,000 formal jobs in the private sector. The economy is expected to have expanded 2.1 percent in 2017 as compared to 2.9 percent in 2016. Walmex said Monday that its same-store sales increased 6.7 percent in Mexico in December, while same-store sales grew 4.9 percent in Central America last month. The retailer said an additional Sunday in December and Christmas Day falling on a Monday rather than on a Sunday likely boosted traffic in its stores in December. In addition, Grupo Financiero Banorte said in a note that pay days in Mexico occurred closer to the weekends than they had in December 2016, helping to spur sales. Walmex, which had 2,356 stores in Mexico and 778 in Central America as of the end of 2017, is scheduled to report its full financial results for the fourth quarter on Feb. 15.

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intensified its belligerence. Only the sector of fujimorismo led by Alberto's son Kenji, who spearheaded the pardon effort, appears open to collaboration with PPK. Perhaps most problematic for PPK is that the investigation of his dealings with Odebrecht is proceeding (as it does for Keiko and former President Alan García). Investment delays due to the Odebrecht scandal and political instability are estimated to have cost Peru approximately 1 percent of GDP growth in 2017 and, although mineral prices are up, the cost could be higher in 2018. Ironically, PPK's resignation might be the best way for him to restore Peruvians' trust. If PPK and his two vice presidents were to resign, new elections would be called—the outcome preferred by most Peruvians. Peru's current plight is in part the legacy of the 2016 election, in which a surging centrist presidential candidate was unfairly disqualified and the fujimorista party, with less than 40 percent of the legislative vote, won 55 percent of the seats."

A **Francisco Durand, professor of political science at the Catholic University of Peru:** "Kuczynski is safe, for now. No political analyst can predict if he will finish his term in office. The 'political pardoning' of former President Alberto Fujimori on dubious arguments (a tit for tat to get 10 votes from a fujimorista faction loyal to Alberto and avoid vacancy for 'moral incapacity') caused a storm; cabinet resignations, congressional losses in his own party, international condemnation and mass mobilizations with a strong participation of young people. Another consequence, more serious, is the president now looks as he really is: a transnational businessman willing to make deals with the devil. The universal condemnation of the 'lobbyist president' has further weakened his already weak position. The consequences of the perception that the emperor has no clothes are unpredictable and may determine his chances to remain, either because

Congress tries and succeeds in organizing another impeachment process or because of continuing street demonstrations. The worst-case scenario may be avoided, due to a deeper fragmentation of political parties. Most notable is Fuerza Popular, led by Keiko Fujimori, who now cannot ignore the opinions or pressures from her father, the 'historic leader,' and Kenji, her younger brother, who organized the pardoning agreement. But also, the APRA party, which has lost its traditional discipline to vote along party lines, will be a factor. Luckily for Kuczynski, the economy has good prospects, mostly due to rising mineral prices and a few large copper investment projects (Michiquillay, Quellaveco). The question that no one can answer yet is whether political infighting will neutralize the positive effect of better terms of trade; whether Kuczynski remains weak, but viable, thanks to the 'peace agreement' with Alberto/Kenji's fujimorista faction that steals the absolute majority Keiko had in Congress and thanks to the weakening of mass demonstrations; or if Peru is now in the eye of a perfect storm. All heavens will break loose, and both the political class and the business class will become increasingly isolated once the Odebrecht corruption scandal enters a new phase of damaging revelations that affect former Presidents Toledo, García, Humala, Keiko Fujimori and Kuczynski."

A **Carlos Arata, partner in the corporate practice at Rubio Leguía Normand in Lima:** "For sure, Kuczynski will finish out his term, even if some political factions seek his ouster again, due to the pardoning of Alberto Fujimori. I don't expect such efforts to be successful. Fujimori's recent freedom has split Fujimori's party, Fuerza Popular, in such a way that it no longer has an absolute majority in Congress. Also, the party has lost a recurrent subject in Peru's political world for the last 15 years: Fujimori's freedom. It now needs to get closer to the government,

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which is closer than any other party to its political views. Otherwise, the population will confirm it as an obstructionist. The government needs to get things done, and Kuczynski in particular needs to clarify his situation regarding the Odebrecht corruption scandal. With the latter, he will get a burden off his back. Regarding getting things done, there are many things that need to be done and on many fronts. One major task is the reconstruction of the north of the country and the awarding of major infrastructure projects; a year has passed, and the north hasn't seen any major work done. The precarious living conditions are still there. Also, no major public-private partnership projects have been awarded, and the country still has a huge infrastructure gap. Another important front is the Odebrecht scandal. So far, no big fish have been imprisoned; Alejandro Toledo is still hiding in the United States. Once the government starts with new projects and the reconstruction, the opposition will have few options but to support Kuczynski."

A **Julio Carrión, associate professor of political science and international relations at the University of Delaware:** "PPK's move to pardon Fujimori salvaged his presidency in the short-term but has severely debilitated his overall position. He was already a weak president, with a tiny congressional representation (18 seats in the 130-seat unicameral Congress) and a runoff victory with the smallest of margins in Peru's electoral history. The clumsy way in which the pardon was handled incensed his allies and many of his voters, who believed his promises that he would not pardon the former president. He lost two able operators in his cabinet (Carlos Basombrío and Jorge Nieto), and three of the most respected members of his

congressional representation (Gino Costa, Vicente Zaballos and Alberto de Belaunde) quit the party. Nuevo Perú, the left-wing party that abstained in the impeachment vote, feels betrayed. Prominent supporters like Mario Vargas Llosa have voiced their deep disappointment. There is a sense that PPK is not the above-board technocrat that many believed, and some wonder if he is trying to protect himself from further revelations related to the Odebrecht scandal. His

“There is a sense that PPK is not the above-board technocrat that many believed...”

— Julio Carrión

credibility has been irreparably damaged. It is painfully clear that the continuation of his presidency relies now entirely on the willingness of the fujimoristas to keep him there. PPK will likely offer the fujimoristas an even greater share of the institutional power they already have in exchange for keeping him in office. This is not the outcome that those who voted for PPK in 2016 wanted. He could have refused to use the pardon as a bargaining chip and then allowed his vice president to take office. Instead, he chose to save his presidency by striking a pact that makes not only his presidency—but also Peru's democracy—a hostage to the fujimoristas' political calculations."

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