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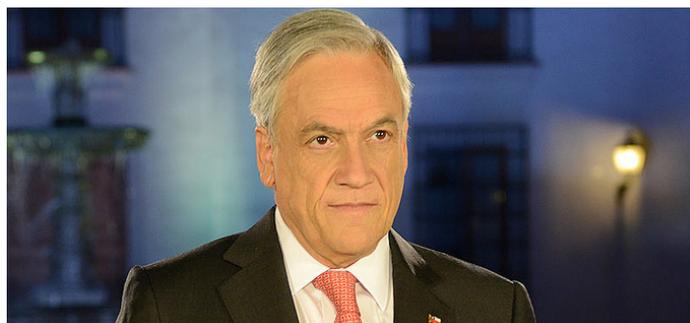
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## FEATURED Q&A

# Will Chile Be Latin America's First Developed Country?



Chilean President Sebastián Piñera, who took office in March, recently said that he expects Chile to become Latin America's first developed country. // File Photo: Chilean Government.

**Q** Chile's economic activity rose 4.6 percent in March, year-over-year, the sharpest gain in five years. Rising consumption and a stronger mining sector helped boost growth, the central bank said. Are conditions right for Chile's economy to surge ahead? What tailwinds support the administration of Sebastián Piñera, who took office in March, and what challenges lie ahead? Is Chile on track to become Latin America's first developed country by 2025, as Piñera told Miami Herald columnist Andrés Oppenheimer earlier this year?

**A** Sergio Bitar, nonresident senior fellow at the Inter-American Dialogue and former Chilean minister of mining, education and public works: "Many political leaders have declared in the past that Chile could become a developed country by 2020, 2025 or 2030. These statements are not new. The question, however, is what exactly it means to become a developed country. If a nation pursues an integral strategy that contains simultaneous progress on the political, economic and social fronts, as Chile has promoted under democratic governments, it is a reachable goal. If the current government maintains such a strategy and seeks wider political agreements, the goal will become viable. An imbalanced approach will not succeed. Chile should continue to expand equality of rights for women and indigenous people and enhance institutional change for political participation. The country needs to strengthen its policies of social inclusion (in education, health, pensions and security) in order to reduce inequality and discrimination. For achieving sustainable economic growth, Chile should aim at trans-

Continued on page 3

## TODAY'S NEWS

### ECONOMIC

## Brazil Truckers' Strike Stretches Into Fifth Day

Truck drivers in Brazil continued their strike, blocking roads in several states. President Michel Temer's government reached a deal with some unions to cut a fuel tax, but one major union rejected the proposals.

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### BUSINESS

## Canadian Court Rules in Favor of Chevron Canada

The Ontario Court of Appeal sided with the oil major in a long-running case involving pollution in Ecuador.

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### POLITICAL

## Venezuela's Maduro Sworn in for Second Term

Venezuelan President Nicolás Maduro was sworn in for a second term, following Sunday's election that his opponents criticized as rigged. In his inaugural speech, Maduro vowed to free some opposition activists.

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Maduro // File Photo: Venezuelan Government.

## POLITICAL NEWS

## Venezuela's Maduro Sworn in for Second Term Following Vote

Four days after an election derided as a sham by Venezuela's opposition, the United States and other international actors, President Nicolás Maduro was sworn in Thursday for a second six-year term, vowing to free some opposition activists, boost oil production and begin talks with business leaders, Venezuelan daily newspaper El Universal reported. "There is a group of people detained for political violence. I want them to be released and given the opportunity for a process of national reconciliation—those who have not committed serious crimes," Maduro told members of the Constituent Assembly, the powerful legislature that Maduro's government created last year, sidelining the opposition-controlled National Assembly. Maduro did not give details about which activists would be freed, and opposition leaders have previously questioned his past announcements about freeing prisoners, pointing out that prominent politicians, including Leopoldo López remain either behind bars or on house arrest, Reuters reported. Earlier on Thursday, human rights group Penal Forum said 15 senior officials of Venezuela's military were jailed around the time of Sunday's presidential election, adding to scores of arrests in what Maduro's critics have said was a purge of the country's armed forces. At his swearing-in, Maduro also vowed to boost Venezuela's oil production by one million barrels per day, but he gave no details on how that would be accomplished. The country's oil production is currently at 30-year lows, Reuters reported. Maduro said he directed state oil company PDVSA's president, Major General Manuel

### SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Monday, May 28 in observance of the Memorial Day holiday in the United States. We will resume publishing on Tuesday, May 29.

Quevedo, to seek help from OPEC, China, Russia and Arab nations for help if necessary. Maduro also blasted his critics for blaming him for Venezuela's economic crisis, adding that U.S. sanctions would lead to "great difficulties." Venezuela is facing shortages of food, medicine and other basic goods, an outmigration crisis and inflation that, according to the International Monetary Fund, could exceed 13,000 percent this year. [Editor's note: See related [Q&A](#) in Tuesday's Advisor.]

## ECONOMIC NEWS

## Brazil Truckers' Strike Stretches Into Fifth Day

Brazilian truck drivers continued their strike for a fifth day today even after unions reached an agreement with the government, Folha de S.Paulo reported. Representatives of President Michel Temer's administration met with truckers' unions on Thursday and acceded to several demands, including eliminating a fuel tax and prolonging a two-week 10 percent reduction

**Truckers have blocked roads in 20 of Brazil's states to protest rising fuel prices.**

in diesel prices by state oil giant Petrobras to one month, The Wall Street Journal reported. The Brazilian Association of Truckers, which represents around 700,000 drivers, rejected the government's proposals. The strike began on Monday as truck drivers blocked highways and other roads in 20 of Brazil's 26 states to protest an uptick in fuel prices, which have increased by 16 percent in comparison to the same period last year, The Wall Street Journal reported. Petrobras' shares dropped 13.7 percent on Thursday, before the agreement was announced, amid investors' concern about increased government intervention in the

## NEWS BRIEFS

## Colombians Head to Polls Sunday for First Round of Presidential Election

Colombians will head to the polls Sunday for the first round of the country's presidential election. If no candidate receives a majority, a runoff is scheduled for June 17. Right-wing candidate Iván Duque maintained his lead in an Invamer poll released last Saturday, ahead of rivals Gustavo Petro and Sergio Fajardo.

## Honduran Official Vows to Continue Fighting Gangs Despite Trump's Threat

A day after U.S. President Donald Trump threatened to cut off aid to Northern Triangle countries battling widespread gangs, Honduran security minister Julián Pacheco told reporters that Honduras remains committed to fighting the violent groups, Reuters reported Thursday. Trump said on Wednesday that he was planning to "radically" change U.S. assistance to Central American countries he deems have not done enough to curb illegal immigration of MS-13 gang members to the United States, Reuters reported.

## Assange's Refuge at Ecuador Embassy Reportedly 'At Risk'

Julian Assange's refuge at the Ecuadorean Embassy in London is at risk, which would potentially leave the WikiLeaks founder vulnerable to extradition to the United States and arrest by British authorities, CNN reported today, citing unnamed sources. The report came after the Ecuadorean government announced President Lenín Moreno's decision to cut "additional security" at the embassy, reportedly under increasing U.S. pressure, El Comercio reported last week. Extensive and costly security measures had been put in place by former President Rafael Correa for Assange's protection since 2012.

company. The roadblocks have disrupted the country's already sluggish economic recovery, causing food and gas shortages in Rio de Janeiro and São Paulo, according to Folha de S.Paulo. Brasília International Airport has also reportedly run out of reserve fuel, the Brazilian newspaper reported.

## BUSINESS NEWS

# Court Rules in Favor of Chevron Canada in Ecuador Case

The Ontario Court of Appeal ruled on Wednesday that Chevron Canada will not have to pay \$9.5 billion to Ecuadorean villagers, The Globe and Mail reported. Indigenous groups in Ecuador presented an appeal against a ruling issued by the Ontario Superior Court of Justice earlier

**The villagers say they are planning to appeal to Canada's Supreme Court.**

this year that declared Chevron Canada was not guilty for polluting practices carried out by Texaco, which Chevron has owned since 2000, affecting an area of the Amazon rainforest beginning decades ago. Indigenous villagers had originally sued Texaco in 1993 and won their case against Chevron in an Ecuadorean court in 2013, which the oil giant contends was done fraudulently, The Globe and Mail reported. Villagers then sued the company in both Canada and the United States. The Court of Appeal recognized that "through no fault of their own, the appellants have suffered lasting damages to their lands, their health, and their way of life," but ultimately upheld the Superior Court's ruling that Chevron Canada is a different entity than Chevron and thereby not responsible for recompensing Ecuadorean villagers, according to The Globe and Mail. The villagers say are planning to bring the case to the Supreme Court of Canada, The Toronto Star reported.

## FEATURED Q&A / Continued from page 1

forming and diversifying its productive structure, increasing innovation and technological progress, and creating new industries and services: green copper, lithium and batteries, desalination, solar energy, food, aquaculture, silviculture and tourism. The recent increase in the rate of economic growth is a result of the resurgence of investment in the mining sector and the rise in the price of copper, and the reduction of political tensions stemming from a series of reforms launched by President Bachelet. These reforms, which Congress has already approved, have affected the level of private investment. Confusing this short-term trend with long-term development would be a mistake. A successful path requires innovation, significant expansion of investment in science and technology (which is today less than 0.5 percent of GDP), substantial improvements in technical education, digitalization, infrastructure and, very importantly, a state capable of coordinating main actors, the private sector and universities, and pushing forward to become competitive in new activities."

**A Joydeep Mukherji, managing director of Latin American Sovereign Ratings at Standard & Poor's in New York:** "Chilean GDP growth will surprise on the upside in 2018, thanks to a recovery in copper prices and better business confidence after the election of President Piñera. A badly implemented tax reform a few years ago hurt private sector sentiment and increased the complexity of the tax system, constraining investment. Piñera has focused on investment and growth, after a period when the political priority shifted away from growth to issues such as education, health, pensions and labor laws. Chile will benefit from an energy sector reform undertaken by the past administration to increase competition, encourage investment in generation and promote renewable energy. Energy costs will decline substantially in coming years, boosting the competitiveness of the Chilean econ-

omy (including the energy-intensive mining sector). However, sustaining higher growth depends on speeding up the bureaucracy and regulatory processes, as Piñera is trying to do. Only two Latin American nations, Chile and Uruguay, could become developed coun-

**“ Chilean GDP growth will surprise on the upside in 2018...”**

– Joydeep Mukherji

tries over the coming decade, if they sustain GDP growth, improve social conditions and strengthen governance. Chile already has a history of stability in key economic policies after changes of government, reflecting political maturity. Its institutions are strong by regional standards but weaker and less effective than those of fully developed countries. A large recent expansion of tertiary education brings Chile's social profile in line with developed countries, but the quality of education remains weaker on average. Finally, Chile is now dealing with an unprecedented inflow of immigrants, both skilled and unskilled, in common with most developed countries."

**A Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Chile's economy is strongly rebounding this year, confirming a recovery. The strong annual growth is the result of the low comparison base of last year and also the increase in the volume of production. On the one hand, production has normalized after an interruption caused by a worker strike in the mining sector during the first quarter of last year. The comparison of the low level of production last year and normalized levels

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this year produces an amplified effect on the annual growth rate. On the other hand, mining production advanced at an annual rate of 19 percent in the first quarter, while non-mining activity advanced at 3 percent. Beyond the mining statistical rebound, the rest of the economy has returned to

“Chile’s economy is strongly rebounding this year, confirming a recovery.”

— Alfredo Coutiño

a growth rate more consistent with the reduced potential. The arrival of a new presidential administration this year, with a more market-friendly approach, is helping restore business confidence. This follows a four-year reticence of private investment due to discontent with the way the government managed structural reforms and economic policy. If activity continues to perform at a sustained pace in 2018, the economy will leave behind a four-year deceleration. However, if the country is not able to restore and accelerate the accumulation of capital, then the recovery will remain limited. The main challenge for the new administration continues to be the expansion of production capacity through the acceleration of capital accumulation. If investment increases, in

both physical and human capital, then the economy will be able to return to higher and more sustained growth. For Chile to start opening the door to become a developed country, the economy needs to advance at a rate of at least 5 percent per year in the next decade, which will only be possible by increasing the investment-output ratio to at least 26 percent of GDP, from 22 percent at present.”

**A** Manuel Agosin, dean of the School of Economics and Business at the Universidad de Chile: “Chile should be experiencing stronger growth in 2018 and 2019 than it did between 2014 and 2017, when growth averaged barely 1.7 percent. Copper prices are rebounding, ensuring that copper revenues will be significantly higher. As a public corporation, Codelco exports about 35 percent of Chilean copper, and non-tax government revenues will be substantially higher. Also, investment in the mining sector is picking up. So is consumption and investment more generally. Will this alone make Chile a developed economy in the medium term? I don’t think so. As long as the economy continues to rely on one commodity, copper, which accounts for 50 to 65 percent of exports (depending on the price), Chile will continue to be an ‘emerging economy.’ Chile needs to diversify its production and export basket and improve the skills of its labor force, if salaries are to rise (the basis of shared growth) and growth is to become more self-sustaining.”

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**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Anastasia Chacón González**

Reporter  
[achacon@thedialogue.org](mailto:achacon@thedialogue.org)



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Subscription inquiries are welcomed at [fretrial@thedialogue.org](mailto:fretrial@thedialogue.org)

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