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## FEATURED Q&A

# What Do Cabinet Changes Mean for Ecuador's Gov't?



Several new cabinet members have taken office recently in Ecuador, including the country's new finance minister, Richard Martínez. // File Photo: Ecuadorean Government.

**Q** Ecuadorean President Lenín Moreno in recent weeks replaced several members of his cabinet. Among the new ministers are Finance Minister Richard Martínez, Defense Minister Oswaldo Jarrín and Interior Minister Mauro Toscanini. Why did Moreno replace outgoing Finance Minister María Elsa Viteri after just two months on the job? What does Martínez bring to the position, and will he be able to improve the investment and business climate in Ecuador? What will the other new cabinet members mean for Moreno's government and for the country? How are Moreno's appointments affecting his ability to govern the country effectively?

**A** César Coronel Jones, founding partner at Coronel & Pérez in Guayaquil, Ecuador: "The change of finance minister has been widely seen as a positive step. Mainly because María Elsa Viteri had been finance minister when former President Correa defaulted on Ecuador's foreign debt several years ago, her appointment by Moreno was received with coldness and skepticism in the international markets and in the business sector, and was seen as a contradictory signal with Moreno's offers to liberalize the economy and attract investment. The local business sector and foreign investors have celebrated the selection of Richard Martínez. He seems to inspire confidence and has offered transparency in public accounts, has highlighted the importance of prudent management of the economy by reducing public spending and attracting investment, and has recognized the key role of the private sector in generating employment. In addition, the new

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## TODAY'S NEWS

### ECONOMIC

## Truckers' Strike Hits Agricultural Output in Brazil

A truckers' strike stretched into its 10th day in Brazil. The work stoppage is hitting agricultural production, disrupting the country's sugar cane and meat industries.

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### POLITICAL

## López Obrador Extends Lead in Mexico

Just a month before Mexico's presidential election, leftist Andrés Manuel López Obrador widened his lead in a new poll.

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### POLITICAL

## Venezuela's Falcón Seeks New Presidential Vote

Henri Falcón, who unsuccessfully ran against Venezuelan President Nicolás Maduro in the country's May 20 election, petitioned the Supreme Court for a new election. Maduro's critics, including officials in more than a dozen countries, have derided the election as a sham.

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Falcón // File Photo: Venezuelan Government.

## POLITICAL NEWS

## Falcón Seeks New Presidential Election in Venezuela

Henri Falcón, who defied an opposition boycott and ran against Venezuelan President Nicolás Maduro in the country's May 20 presidential election, on Wednesday asked the country's Supreme Court to annul the vote and call for a new election, Venezuelan daily newspaper *El Universal* reported. In a filing with the high court, Falcón blasted "disturbing elements, such as assisted voting and coercion." Falcón also accused Maduro's government of violating campaign rules by using "red spots," tents of the ruling party's color where workers handed out food to voters who presented their identity card. Workers at some of the red spots told *The New York Times* that they did not pressure voters to cast their ballots for Maduro, however. "These elections did not exist," Falcón said in seeking a new election, the Associated Press reported. "They must be declared null." The Supreme Court, however, is stacked with Maduro loyalists and is unlikely to rule in Falcón's favor. Electoral authorities declared Maduro the winner of the election, handing him a new

six-year term. More than a dozen nations have denounced the election in Venezuela, which is suffering from hyperinflation as well as shortages of food medicine and an outmigration crisis. On Wednesday, Canada slapped sanctions on Maduro's government, calling the election illegitimate. However, Cuba's new president, Miguel Díaz-Canel, visited Maduro in Caracas to reaffirm ties between the two countries.

## ECONOMIC NEWS

## Truckers' Strike Continues in Brazil, Will Cut Ag Output

Brazil's truckers' strike, now in its tenth day, will curtail agricultural output in the second quarter, *Folha de S.Paulo* reported today, citing disruptions in the sugar cane and meat industries in particular. Agriculture Minister Blairo Maggi said Wednesday that the livestock industry has already lost an estimated \$348 million because of the strike, Reuters reported, and an estimated 64 million birds have already been culled. The poultry industry will need to cull 24 million chickens a day if suppliers cannot get food to birds because of the strike,

## NEWS BRIEFS

## López Obrador Widens Lead as Mexico Campaigns Enter Final Month

Andrés Manuel López Obrador, the front-runner ahead of Mexico's July 1 presidential election, has widened his lead, a poll released today showed, Reuters reported. In the survey by polling firm Parametria, López Obrador had 45 percent support, an increase of six percentage points as compared to a previous survey in April. The latest survey gives the leftist former mayor of Mexico City more support than his closest two opponents combined. López Obrador's nearest rival is Ricardo Anaya, a former chairman of the right-wing National Action Party, who had 20 percent support, a decline of five percentage points from the previous poll.

## U.S. Judge Overturns Jury Verdict Against Bolivia's Sánchez de Lozada

A federal judge in Florida on Wednesday overturned a jury's \$10 million award and verdict that found former Bolivian President Gonzalo Sánchez de Lozada and his defense minister responsible for killings during street protests in 2003, the Associated Press reported. U.S. Senior District Judge James Cohn in Fort Lauderdale upheld a defense motion that there was insufficient evidence to support a jury's April verdict in favor of Bolivians whose family members were among those killed.

## Massive Anti-Government March Ends With Shooting in Nicaragua

An anti-government march that drew thousands to the streets of Managua on Wednesday ended when gunmen opened fire on demonstrators, the Associated Press reported. About a dozen people were reportedly wounded. More than 80 people have been killed amid a government crackdown on demonstrations since mid-April, according to human rights groups.

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chiefs of the IRS and Customs generate confidence given their prestige and professionalism. Minister Martínez was a determining factor in their designation. The new cabinet members give credibility to the pledges for dialogue, professionalism and openness to investment that the government announced. There is a climate of optimism and satisfaction with the new ministers. Jarrín is a security expert who has given credibility to the need to handle in a professional and efficient manner the problems raised on the northern border with FARC dissidents who have recently carried out serious attacks in Ecuador. Finally, it is important to note that this climate of optimism was reinforced when President Moreno announced to the

National Assembly a draft economic bill addressing investment attraction, employment generation and fiscal sustainability."

**A** Francisco X. Swett, dean of the School of Economics and Business at Universidad Espíritu Santo in Samborondón, Ecuador and former Ecuadorean minister of finance, member of Congress, and central bank president: "It's the economy, stupid' resonated ever louder as it became clear that the 'empty table' characterization that President Moreno made of the economic mess he inherited was not only not being resolved but was in fact getting worse. Eight consecutive months of price deflation signal that

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and the government will need to bail out the hardest-hit producers, Maggi added. Federal police on Wednesday began dismantling roadblocks set up by truckers demanding lower prices for diesel fuel, which have risen 50 percent over the past year. Forty-six poultry and pork slaughtering plants that had been quiet for days have resumed operations, Bloomberg News reported. For now, the delivery of feed to poultry farms is slowly being restored, according to the report. The strike comes as Brazil's economy continues to recover from its deepest recession in history, with the agricultural sector growing rapidly in the first quarter from the previous three-month period, Brazil's state-run statistics agency said Wednesday, The Wall Street Journal reported. Gross domestic product grew a seasonally adjusted 0.4 percent in the first quarter from the last three months of 2017, rising 1.2 percent from the same period a year earlier. The agricultural sector grew 1.4 percent in the first quarter from the last three months of 2017, while contracting 2.6 percent from the same period a year earlier. In related news, workers at state-run oil company Petrobras began a 72-hour strike on Wednesday, Reuters reported. The oil strike was declared illegal by Brazil's top labor court on Tuesday, but union officials said that its members did not show up at work Wednesday at eight refineries nationwide. Union leaders are demanding the resignation of Petrobras Chief Executive Pedro Parente, who has put in place unpopular market-based fuel pricing policies.

## BUSINESS NEWS

### Southern Copper Mulling Deal With Peru's Buenaventura

The chief executive of Peruvian miner Buenaventura told Reuters Wednesday that Southern Copper is evaluating its proposal to jointly develop Southern's \$2 billion Michiquilay copper project. "They were receptive ... but it's up to them to evaluate the preliminary proposal," Victor Gobitz told the news service at a conference in Lima. The two companies jointly

## THE DIALOGUE CONTINUES

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

**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 Urzua, associate professor in the Department of Economics at the University of Maryland:** "The Chilean economy grew by 4.2 percent year-over-year in the first quarter of 2018, the fastest expansion since 2013. The improvement largely stems from stronger household consumption (3.9 percent year-over-year). At the same time, gross fixed capital formation increased by 3.6 percent year-over-year, and the construction sector has been showing positive signs as well, with investments growing by 2 percent year-over-year, the first gain since the first quarter of 2016. All in all, after four disappointing years, Chile's economy seems back on track, at least in the short run. However, to secure long-lasting results, the

country will have to revisit its own successful strategy to development: the implementation of well-designed economic and social reforms. For example, Chile's structural balance fiscal rule, which guided fiscal policy for more than a decade, needs a lifting. The new administration must strengthen fiscal institutions. Chile's corporate tax rate (27 percent) is higher than the average rate of 25 percent among OECD countries. This gap is not helping the country's competitiveness. To improve human capital formation, Chile's recent educational reform must be revised, and its ancient and inefficient training system (a bottleneck to improving workers' productivity) must be re-designed. Chile must focus its efforts on exploiting opportunities to promote sustainable economic growth and social development. Will Chile be Latin America's first developed country by 2025? This seems unlikely. However, the lessons from decades of economic success and, more importantly, from four years of discouraging results should guide the process that former Finance Minister Alejandro Foxley has labeled as Chile's second transition."

**EDITOR'S NOTE:** The comment above is a continuation of the [Q&A](#) published in the **May 25 issue of the Advisor.**

own the Coimolache mining company in Peru. Buenaventura already operates a large open-pit gold mine in the same northern Andean region where Southern Copper, which is controlled by Grupo Mexico, will develop Michiquilay. Peru's mining industry is awaiting environmental permits to move ahead with some \$2.95 billion in new projects, according to a government estimate, Business News Americas reported this week. Peru's Energy and Mines Minister,

Francisco Ísmodes, said this week that 12 mining projects worth \$14 billion "might be implemented in the remainder of 2018," state news agency Andina reported, citing plans for construction at the Quellaveco project involving \$4.88 billion and the Toquepala expansion with \$1.25 billion in investment. Local community opposition has halted progress on projects in the past. [Editor's note: See related [Q&A](#) in the April 20 edition of the Advisor.]

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consumption has taken a beating. The debt problem looms large: the 40 percent-of-GDP limit on government debt was surpassed long ago and effectively shuts Ecuador off from the capital markets. Even then, debt is so dear that it can only serve to postpone a fundamental problem of the country's public finances. Tax performance is mediocre. Investment is at a standstill, for the government lacks resources and the private sector lacks trust. The only bright spot is the price of oil which is some 40 percent above initial calculations, and those of other exports which despite the strength of the dollar have continued to expand. In this context, Ms. Viteri's credentials were quite inadequate. She is remembered as the 'hair cutter' of record by the bond markets, and her understanding of economics is flimsy at best. Her poor public relations performance in and out of the country and support of former President Correa's policies put her at odds with public opinion and condemned her to a brief stay on the job. Now enter Mr. Martínez, the exact opposite of his predecessors of the last 10 years. His close ties to the private sector and his academic, professional and personal credentials present him and the country with an opportunity, and a formidable challenge to reverse course."

**A** **Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito:** "As could be expected from an oil-rich country with a history of defaults, Ecuadorean country risk tends to fall when oil prices rise. During María Elsa Viteri's short stint at the Finance Ministry (69 days), oil prices rose 13 percent, but country risk rose 250 basis points. This is because she never grasped the seriousness of the country's economic situation and never

proposed the required solutions. Viteri never published the real figures of public debt and was in a constant denial mode when analyzing the fiscal deficit for 2018. During her time at the ministry, no data on public debt was published at all, and only after she left, official data revealed that public debt was

“ [Martínez's] biggest challenge will be to overcome the political hurdles...”  
— Vicente Albornoz

approximately 50 percent over the legal limit (and also 50 percent over the numbers Ms. Viteri used to cite in interviews). The reasons for her dismissal are evident. Richard Martínez, Viteri's successor, will undoubtedly have a clearer understanding of the complex problems the Ecuadorean economy is facing, and he will try to create a better investment climate. His biggest challenge will be to overcome the political hurdles, especially considering the opposition he may generate for being a clear representative of big businesses. The other changes in the cabinet, that brought Jarrín and Toscanini to the Defense and Interior Ministries, respectively, are related to the failure of their predecessors facing the growing threat of Colombian FARC-dissidents to the northern border of Ecuador. All these changes seem to be positive for Moreno's government."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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