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## FEATURED Q&A

# Will Higher Levels of Growth Return in Panama?



Panamanian President Juan Carlos Varela's government is facing a slowdown in the country's economic growth. // File Photo: Panamanian Government.

**Q** Panama's economy, one of the strongest performers in recent years among Latin America and Caribbean countries, in March recorded its slowest pace of growth since mid-2015 at 3.49 percent, the country's comptroller general's office said. What is behind the slower rate of growth? What is the outlook for Panama's economy today, which most analysts at the start of the year expected to grow more than 5 percent? What headwinds does Panama's economy face over the rest of this year and next?

**A** Nicolás Ardito Barletta, former president of Panama: "Panama had the highest rate of growth in Latin America from 2003 to 2017, some 6 percent per year on average. It decreased from 8.5 percent per year from 2003 to 2014 to some 5.5 percent in recent years. Panama has a small population of about four million people. In order to grow, it relies on relating to wider markets through exports. Its geographic location provides four basic connectivities—maritime (the canal), air (Copa Airlines and some other 26 carriers to Europe and elsewhere), telecommunications (with seven submarine fiber-optic cables, the most of any Latin American country), and a strong regional banking sector. It is a service-based economy. Panama's services exports and its stable banking sector provide great stability for international business. Panama will be adding copper exports next year. Panama invests 27 percent of its GDP on average, the largest proportion in Latin America. All those factors plus a responsible public finance policy have earned Panama an investment-grade rating by the international agencies

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## TODAY'S NEWS

### POLITICAL

## OAS Takes Step Toward Expelling Venezuela

The Organization of American States moved toward expelling Venezuela, passing a resolution to call for a vote on booting the Andean nation from the group.

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### ECONOMIC

## Mexico Slaps Tariffs on U.S. Products

Mexico imposed tariffs on some \$3 billion worth of U.S. steel, pork, cheese and other imports in retaliation against the Trump administration's decision to place tariffs on imported steel and aluminum.

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### POLITICAL

## Ecuador's Foreign Minister Elected President of U.N. General Assembly

Ecuadorean Foreign Minister María Fernanda Espinosa Garcés was overwhelmingly elected as the next president of the U.N. General Assembly.

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Espinosa // File Photo: Ecuadorean Government.

## POLITICAL NEWS

## OAS Takes Step Toward Expelling Venezuela

The Organization of American States passed a resolution on Tuesday to call an extraordinary assembly to vote on whether to expel Venezuela from the group over violating democratic norms and human rights, the Miami Herald reported. The resolution passed with 19 votes in favor, four opposed and 11 member nations abstaining. Under article 20 of the OAS Charter, members may be suspended if they “impair the democratic order” and if diplomatic measures to restore democracy prove unsuccessful. Suspending Venezuela would require 24 members to vote in favor. Venezuelan Foreign Minister Jorge Arreaza blasted the vote, accusing those who voted in favor of Tuesday’s resolution of “supporting military intervention in Venezuela.” Venezuela’s government began the process of withdrawing from the OAS last year and said Tuesday that the organization “has never done anything for our people of the Americas.” The vote came just a day after U.S. Secretary of

State Mike Pompeo ratcheted up rhetoric about Venezuela at the OAS General Assembly in Washington, where he reiterated Vice President Mike Pence’s call last month to suspend Venezuela. “There is no greater challenge [in the Western Hemisphere] today than the full-scale dismantling of democracy and the heart-breaking humanitarian disaster in Venezuela,” Pompeo added.

## ECONOMIC NEWS

## Mexico Imposes Tariffs on U.S. Steel, Agricultural Goods

Mexico’s government on Tuesday imposed tariffs on some \$3 billion worth of U.S. agricultural goods and steel products, NPR reported, citing a decree signed by President Enrique Peña Nieto and published in the country’s federal gazette. The list of targeted steel products includes rolled steel, as well as steel bars, rods and plates from the United States. The move comes as a retaliatory measure following U.S. President Donald Trump’s announcement last

## NEWS BRIEFS

## Nearly 200 Missing After Eruption of Guatemala Volcano: Disaster Agency

Guatemala’s disaster agency Conred on Tuesday said 192 were missing after the violent eruption of the Volcán de Fuego, or Volcano of Fire, on Sunday, the Associated Press reported. Conred said it has found 75 bodies following the eruption, which sent ash 15 kilometers into the air and spewed lava down onto nearby villages. Volcanologists from the Massachusetts Institute of Technology said that the eruption emitted the highest amount of toxic gases of any in the satellite era, Guatemalan daily newspaper Prensa Libre reported.

## Ecuador’s Espinosa Elected President of U.N. General Assembly

In a decisive victory Tuesday, Ecuadorean Foreign Minister María Fernanda Espinosa was elected president of the 73rd United Nations General Assembly, BBC News reported. Espinosa, only the fourth woman to hold that position, defeated Honduran U.N. Ambassador Mary Elizabeth Flores Flake in the race, which was slated to elect a leader from Latin America or the Caribbean. Espinosa will assume the role on Sept. 18.

## IMF Officials Arrive for Talks in Barbados

A delegation of International Monetary Fund officials have arrived in Barbados for talks with the government of Prime Minister Mia Amor Mottley, other top officials and private-sector representatives, the Barbados Advocate reported today. Mottley said the talks with the IMF officials are needed as her government is seeking to stabilize the economy following a 0.7 percent contraction in the first quarter. The Caribbean nation is facing ballooning debt, a large fiscal deficit and low economic growth levels.

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since 2010. In 2018, the first quarter growth rate was slower, but the IMF and World Bank expectations were for 5.4 percent for the year, still the largest in the region. Yet a one-month strike by construction workers has forced a review of those figures. The IMF now projects 4.6 percent for the year. The first quarter slowdown was due to internal factors, such as wholesale and retail commerce, and construction and housing sales. But most projections predict a strong 2019 growth rate. Corruption cases, mostly the notorious Odebrecht case, have affected the economic environment, but the attorney general’s office is pursuing the case diligently. In the last year, Panama has complied with OECD international requirements to keep high international standards. Panama has

a good outlook, and these key international performers will remain strong. This is also a pre-election year. Presidential and congressional elections will take place in May 2019. Parties are already in the process of having primaries, and will choose candidates in the last quarter of this year. Investors and businesses are becoming more cautious about their investments and activities.”

**A** **Bryan S. Bloom, partner and chief financial officer at ENODO Global:** “Fallout from the Panama Papers and negative public sentiment are responsible for Panama’s slow economic growth rate. Panama’s economy will continue to face significant headwinds until it addresses concerns from

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week that his administration would be placing tariffs on imports of steel and aluminum from Mexico, Canada and the European Union. The products targeted by Peña Nieto's decree include foodstuffs such as cheese, pork and potatoes, as well as Tennessee and bourbon whiskey. Almost all of Mexico's new tariffs will be levied at rates between 15 and 25 percent.

**Nearly all of Mexico's new tariffs will be levied at rates between 15 and 25 percent.**

On Monday, Mexico announced that it would complain to the World Trade Organization over the U.S. measures, saying that the United States had violated the WTO agreement's established procedure for implementing such tariffs. Mexico's economy minister, Ildefonso Guajardo, defended the retaliatory tariffs to reporters on Tuesday, saying that his country had not violated the WTO or NAFTA agreements. "Within the context of the rights that the existing accord gives us, we are answering," Guajardo said, Bloomberg News reported. In related news, National Economic Council Director Larry Kudlow said Tuesday that Trump is "seriously considering" renegotiating NAFTA with Mexico and Canada on bilateral terms, in two separate processes. The Mexican peso fell for the fourth consecutive day following Kudlow's comment.

## BUSINESS NEWS

### Former Chairman Ponce Rejoins Chile's SQM as an Advisor

Chilean billionaire Julio Ponce Lerou has rejoined lithium producer SQM as an advisor in an effort to exert more control following the sale last month of a significant stake of the company, which he first joined in 1987, to a Chinese rival, the Financial Times reported Tuesday. Ponce had stepped down as chairman

## THE DIALOGUE CONTINUES

### What Factors Will Decide Colombia's Presidential Runoff?

**Q** Right-wing candidate Iván Duque, a former senator and opponent of Colombia's peace accord with the FARC rebels, and leftist former mayor of Bogotá Gustavo Petro were the top vote-getters in the first round of the country's presidential election on Sunday. The two candidates will face each other in a June 17 runoff. What factors will decide the election between now and then, and which of the two candidates is most likely to receive the votes of the third-place finisher, Sergio Fajardo? Will either Duque or Petro take the country in a radically different direction in terms of economic policy or the business environment? What will be the future of the country's peace deal with the FARC, and peace talks with the ELN rebels, under a Duque presidency versus under a Petro presidency?

**A** Luz Ángela Sánchez, senior director at Llorente y Cuenca in Bogotá: "Over the coming weeks, the Democratic Center party will win the support of Colombians who are afraid that Colombia will become another Venezuela, and Gustavo Petro will win support as the candidate for peace

among voters who fear that the survival of the peace accord with the FARC could be in danger with Iván Duque as president. Sergio Fajardo recently announced that he will not endorse a candidate. His votes are unlikely to transfer to either Duque or Petro because the values of his coalition focus on an independent centrist ideology. What will happen is that more people will cast blank ballots in the second round. Petro is the candidate who can take the country in a different direction because he is proposing to swap the extractive economy, which is based on oil and mining, for an economy that is based on food production and clean energy in efforts to halt global warming. For Duque's part, the only differences would be structural changes to the peace agreements, lower taxes and more benefits for businesses. Petro has said that the agreement to demobilize the FARC would be respected and that he will be the candidate for a definitive peace, which will be in danger if Duque is elected."

**EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the May 29 issue of the Advisor.**

of SQM three years ago amid a scandal over improper payments to politicians, agreeing to give up his voting control over the company. He will have an office at the Santiago-based company and will advise management in the new role, but not work full time, according to the report. China's Tianqi Lithium agreed to buy a 24 percent stake in SQM for \$4.1 billion last month, making it the second-largest shareholder after Ponce. The deal still needs to be approved by Chilean regulators. Last week, Canadian fertilizer company Nutrien auctioned its remaining stake in SQM for nearly \$1 billion, the last step in meeting Canadian regulatory

commitments after the company was formed in January by the merger of Agrium and Potash Corp., Reuters reported. Nearly 20.17 million B-series shares were sold on Chile's IPSA stock exchange for just over \$49 per share. SQM said last month that it would invest \$525 million to more than triple its lithium production capacity in Chile through 2021 as demand for the key ingredient in electric vehicle batteries continues to surge. In a statement accompanying its first quarter results, SQM said that it expected global demand for the white metal to grow "close to 20 percent this year and next year," Reuters reported.

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the international community and Panama's citizens. Panama has not taken proactive measures to address corruption and manage international community concerns. Repercussions from news articles regarding fraud, tax evasion and international sanctions culminated in the European Council decision to include Panama on its tax haven black list. Panama temporarily avoided sanctions when it was removed from the black list a month later. However, it remains on a 'gray list' until it adopts E.U. standards, and no public statements from the Panamanian government have been made to date. The failure to address corruption and lack of transparency is not lost on Panamanians. They believe corruption and mismanagement are the driving forces that underpin the country's economic woes. When combined with negative sentiment associated with the tax system that benefits the wealthy (all earnings abroad are not taxed), a perception emerges that the government and wealthy individuals profit from opaque tax shelters, while overburdening the middle class and poor with a disproportionate tax burden. The Panamanian government must alleviate citizen and international community concerns to restore market confidence. Until underlying concerns are addressed, economic growth rates will remain below than 5 percent. Moreover, continuing to proactively understand and engage existing and future stakeholders will ensure Panama stays ahead of headwinds and remains an economic leader among Latin American and Caribbean countries."

**A** **Marco Gandásegui Jr., professor at the University of Panama and research associate at the Center of Latin American Studies (CELA):** "Panama's construction sector lost its dynamic leverage in the first three months of 2018. Its growth rate crashed, losing 39.9 points as compared to the same period in 2017. This surprising situation

sent the whole economy into a tailspin. The government and other analysts were expecting a growth rate between 5 percent and 6 percent in the first quarter. However, growth

“**Panama's economy depends on its service sector, mainly its logistical activities, such as the Panama Canal, ports and transit services.**”

— Marco Gandásegui Jr.,

was down to 3.5 percent and unemployment surged. There are two ways this situation can be explained. On the one hand, it can be attributed to an accident. On the other, it can reflect a tendency that has been in motion since 2015. Panama's economy depends on its services sector, mainly its logistical activities, such as the Panama Canal, ports and transit services. The external front—the Panama Canal and its dependent areas—are doing well. Construction sector numbers, however, reflect a long-term situation. The government has suspended many 'mega-projects' that were programmed to invest billions of dollars. The speculation boom has also lost impetus, leaving Panama City's explosive skyline at rest for the moment. The recent April-May construction workers' strike, which lasted 28 days, will surely have a negative impact on the numbers for the second quarter. Many analysts are hoping the upcoming Chinese investments agreed upon by both governments will give Panama's economy a shot in the arm, not only to get over the apparent downswing, but rather to push it to record-breaking heights in the immediate future."

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

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