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FEATURED Q&A

Will Piñera's Plan Strengthen Chile's Pension System?



Chilean President Sebastián Piñera last month announced his plan to reform the country's pension system. // Photo: Chilean Government.

Q President Sebastián Piñera on Oct. 28 unveiled his plan for pension reform in Chile, where many citizens have been dissatisfied with insufficient payments from the system. Piñera said employers would be asked to contribute an extra 4 percent to workers' plans, while the government would also increase its contribution to a pooled fund from 0.8 percent of gross domestic product to 1.12 percent. Additionally, the government would contribute extra money to women, the middle class and workers who delay retirement. To what extent would Piñera's plan strengthen the country's pension system and meet the expectations of participants? What are the drawbacks to the reform? Will it win approval in Chile's Congress?

A Eduardo Fajnzylber, professor in the school of government at Adolfo Ibáñez University: "The proposed reform allocates new resources (public and private) to increase the low replacement rates of women and those uncovered by the solidarity pillar. This is good news. However—and conceding that the details of the proposal have yet to be made public—the additional benefits, increasing with the number of contributions, seem an ad-hoc response to the difficult question of how to increase pensions of current middle-class retirees. As such, it will most likely create some unprotected groups (like those negatively affected by financial crisis) and provide incentives to under-declare covered wages. We do not know the relative impact (and the subsequent approval) the proposed reform would have on different types of individuals. From a political standpoint, it is unlikely the proposed reform could provide middle class workers with subsidies of a higher mag-

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TODAY'S NEWS

ECONOMIC

Three Million Venezuelans Have Fled Since '15: U.N.

The Venezuelans have fled amid economic and political crises, creating a burden for other countries in the region, according to the U.N. High Commissioner for Refugees and the International Organization for Migration.

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ECONOMIC

Judge Blocks Construction of Keystone Pipeline

The judge said the Trump administration "simply discarded" the effect the project would have on climate change.

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POLITICAL

U.S. Court Rules Against Trump's Effort to End DACA Program

The court upheld a federal district judge's ruling that U.S. President Donald Trump lacked the authority to end the program, which protects undocumented immigrants brought to the country as children.

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Trump // File Photo: White House.

ECONOMIC NEWS

Three Million Have Fled Venezuela Since 2015: United Nations

Three million Venezuelans have fled since 2015 amid their country's economic collapse and political crises since 2015, according to a United Nations estimate released Thursday, The Washington Post reported. The figure makes the exodus comparable in size to the ones that have hit war-ravaged countries, the newspaper reported. The total was arrived at through the use of data from national migration authorities, said the U.N. High Commissioner for Refugees and the International Organization for Migration. By comparison, as of the end of last year, there were 6.3 million refugees from Syria, the world's worst refugee crisis. There were also 2.4 refugees from Afghanistan and 2.4 million from South Sudan. Most Venezuelans have not fled their country because of the same type of armed conflict that has occurred in Syria or Afghanistan, but they could be considered refugees under the 1984 Cartagena Declaration on Refugees, which was signed by 14 countries in Latin America, said William Spindler, a spokesman for UNHCR. "Venezuelans are leaving their country for a combination of reasons, including insecurity and violence, lack of access to food, medicine and essential services, as well as loss of income and lack of effective national protection systems as a result of the current political and socioeconomic situation," said Spindler. Approximately one million of the Venezuelans who have left went to Colombia, while more than 500,000 went to Peru, more than 220,000 went to Ecuador, 130,000 to Argentina, more than 100,000 to Chile and 85,000 to Brazil, according to the report. Many Venezuelans have also fled to Central American and Caribbean countries, the U.N. report added. Some of the Venezuelans have also gone to the United States. The number of Venezuelans applying for asylum last year soared 88 percent, according to data from the U.S. Citizenship and Immigration Services. The number of Venezuelans fleeing to

other countries has quickened over the past six months, Spindler added. He also urged greater efforts by the international community to ease the strain the migration crisis has placed on neighboring countries in Latin America, Reuters reported. Eduardo Stein, a former Guatemalan vice president and the UNHCR-IOM joint special representative for refugees and migrants from Venezuela, also called for greater support for countries that have seen an influx of Venezuelans. "Countries in Latin America and the Caribbean have largely maintained a commendable open-door policy," said Stein, the wire service reported. "However, their reception capacity is severely strained, requiring a more robust and immediate response from the international community." Government officials from the region are scheduled to meet Nov. 22-23 in Quito in order to discuss the crisis and humanitarian efforts to address it.

U.S. Judge Blocks Construction of Keystone XL Pipeline

A U.S. federal judge in Montana late Thursday blocked construction of the disputed Keystone XL oil pipeline, saying the Trump administration "simply discarded" the effect the project would have on climate change, The New York Times reported. The ruling by Judge Brian Morris halted one of Donald Trump's first acts as U.S. president in 2017, when he signed an executive order approving the pipeline, which is intended to bring vast amounts of oil from Canada's tar sands to refineries as far as the Gulf of Mexico. His predecessor, President Barack Obama, had blocked the privately funded project over climate change and environmental concerns. With construction on the \$10 billion project slated to begin next year, Judge Morris' ruling declares that no work can go forward until the government more fully reviews potential environmental consequences. Pipeline opponents hailed the news. "Keystone XL would be a disaster for the climate and for the people and wildlife of this country," Jackie Prange of the Natural Resources Defense Council said Thursday in a statement. Advocates for the

NEWS BRIEFS

Lawyer Denies Ecuador's Correa Has Requested Asylum in Belgium

An attorney for former Ecuadorean President Rafael Correa denied that his client has requested asylum in Belgium, where he has lived since leaving office last year, Reuters reported Thursday. A report by Belgian news agency Belga said Correa had requested asylum as he faces prosecution in Ecuador in connection with the brief kidnapping of an Ecuadorean opposition lawmaker in 2012. However, the attorney, Caupolican Ochoa, said the report was untrue. "There is nothing about asylum. A moment ago President Correa told me there was not a request," Ochoa told the wire service. On Wednesday, an Ecuadorean judge ordered that Correa stand trial in the case, though he would have to return to Ecuador for it to proceed.

Mitsui in Talks to Acquire Brazil's SuperVia: Report

Japan's Mitsui is in talks to acquire Brazilian railway company SuperVia, Reuters reported Thursday, citing sources with knowledge of the matter. Negotiations to sell the suburban rail company are being led by Brazilian creditors of conglomerate Odebrecht, as the corruption-tainted company faces pressure to sell assets and reduce debt. SuperVia carries around 180 million rail passengers each year.

Albemarle Postpones Two Lithium Projects in Chile

North Carolina-based chemicals company Albemarle Corp. has postponed two expansion projects to produce more lithium in Chile, Reuters reported. CEO Luke Kissam told investors in a conference call Thursday that Chilean regulators want to see more evidence that a new technology and process the company said it plans to use to increase output will work before granting approval to move ahead, according to the report.

project say it would serve to integrate the North American energy market and provide more price stability, safer transport of oil and a secure source of supply to help meet increased continental energy demand. [Editor's note: See related [Q&A](#) in the Feb. 10, 2017 issue of the weekly Energy Advisor.]

POLITICAL NEWS

U.S. Court Rules Against Trump's Effort to End DACA

A three-judge panel of the U.S. Court of Appeals on Thursday agreed with a federal district judge's decision in January that President Donald Trump lacked the authority to end an Obama administration program that protects undocumented immigrants brought into the country as children, the Associated Press reported. The decision leaves in place for now the Deferred Action for Childhood Arrivals program, known as DACA. More than 700,000 undocumented immigrants have avoided deportation and can access work permits under the program. The panel found that Trump's rescission of DACA was "arbitrary, capricious or otherwise not in accordance with law." The Justice Department is likely to appeal the ruling to the Supreme Court, according to the report. Last January, Trump called on Congress to pass his immigration reform plan, which includes the creation of a path to citizenship for 1.8 million immigrants who were brought illegally to the United States as children. [Editor's Note: See related [Q&A](#) in the Feb. 12 issue of the Advisor.] In related news, thousands of Central American migrants decided to depart Mexico City early today and head toward Tijuana, the Associated Press reported. The group of some 5,000 migrants is opting for the longer but likely safer California route to the United States, as opposed to the shorter but more dangerous Texas route. The White House is soon expected to limit processing of asylum requests to those made at official ports of entry, The Guardian reported today.

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nitide than those delivered by the solidarity pillar. Therefore, the impact on this group, in terms of replacement rates, is fairly limited. In addition, it is not clear how a government that has struggled to pass a new growth-promoting tax reform will be able to finance the proposed benefits. Finally, the proposed reform will face a strong resistance from most opposition parties, who will build on an important citizen mistrust regarding pension fund managers (privately owned and with lucrative historic revenues). In fact, the proposed measures could improve their current situation, providing them a larger amount of resources, with little influence on the level of competition they currently face."

A **Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates:** "This week, President Piñera sent to Congress his proposal for reforming Chile's private pension system. There is near universal consensus within Chile among industry, government and citizens on the urgent need to address shortcomings in the pension system that have adversely affected pension levels. Despite the consensus, there is significant controversy on how best to address chronic underinvestment in the system; an extended congressional debate is expected. Introducing a new employer contribution rate is certainly part of the solution, and Piñera's proposal to require employers to contribute 4 percent with funds going directly to individual pension funds is a positive step. In addition to the employer contribution, Piñera proposes increasing government contributions to boost the solidarity pillar for the most vulnerable Chileans, help fund pensions for the middle class and strengthen reserves for women to compensate for lower workforce participation and lower salaries. While the proposal does not include changes to the retirement age, it does introduce important financial incentives to encourage workers to remain in the workforce after age 60 while also permitting access to retirement funds.

Piñera's proposal would also permit the 4 percent employer contribution to be managed by entities outside traditional pension fund managers (known as AFPs), such as insurance firms, mutual funds, banks and even non-profit organizations. Care must be taken

“There is significant controversy on how best to address chronic underinvestment in the system.”

— Gabrielle Trebat

to avoid potential conflicts of interest and/or mismanagement of funds that could arise when broadening pension fund management to non-AFP actors that operate under different financial oversight rules. Certainly, the debate in Congress will result in changes to Piñera's proposal given the diversity of views on AFP reform. That said, all stakeholders should agree that protecting and strengthening the pension funds of Chileans must be the top priority."

A **Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile:** "President Piñera announced new legislation to enhance Chile's pension system in response to popular pressures experienced over the past several years that were not resolved under the previous government. The key elements of the reform involve increasing the obligatory contribution rate from 10 percent to 14.2 percent with the additional 4.2 percent being financed by employers—4 percent going to each employee's individual account and the remaining 0.2 percent to finance insurance against the possible cost of care in old age; an increase in government funding from 0.8 percent to 1.12 percent of GDP to strengthen the solidarity

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pillar (minimum pensions for vulnerable populations) of the pension system; pension gap insurance for periods of unemployment; and incentives for individuals to work longer and for women. Increased competition would be allowed in the management of the additional 4 percent individual savings. The plan will be phased in over nine years and has an estimated cost of \$3.5 billion once in full operation, which should be achieved while maintaining fiscal discipline—something to be monitored over time. The plan appears to be a good one and builds upon the success of Chile's internationally respected private system that has put it on a stronger footing to better face the challenge of ensuring adequate pension levels for Chileans. It is clearly a step in the right direction, but should not be considered a final solution to the country's long-term pension challenges. This is the beginning of what is expected to be a long and vigorous conversation in the legislature where consensus building will be key to the initiative's success. Discussion is likely to center on the issues of enhancing competition in the market, as well as the need to provide for intergenerational wealth transfers, the extension of the retirement age and higher obligatory levels of savings beyond the proposed 14 percent."

A **Mark Manger, associate professor of political economy and global affairs at the Munk School of Global Affairs at the University of Toronto:** "Piñera has adopted many ideas proposed by his predecessor, Michelle Bachelet, in particular those that reflect the more socially progressive attitudes of Chile's society today, but has shied away from redistributive elements. Piñera's pension reform plan introduces employer contributions beyond those for disability pensions. Major improvements are better

survivor pensions, such as when a spouse with a higher pension dies first, and a few incentives for middle-income earners and those who delay retirement. Civil unions are finally recognized for pension purposes. Other measures take aim at pension fund



Since 2010, the average AFP return has been a meager 3.96 percent."

— Mark Manger

governance problems. Unfortunately, experiences in other countries suggest that savers do not necessarily make better decisions or exercise their right of choice just because they have more information. Ultimately, only three measures will make a difference in the pensions Chileans can expect: bigger contributions, lower costs and some risk sharing. The proposal includes the first, but does very little for the other two. Since 2010, the average AFP return has been a meager 3.96 percent, in part because of high costs. The additional 4 percent can be directed to a range of new providers, but it is unclear if this will induce much competition. Although arithmetically this is a 40 percent increase, typical pensions will remain disappointingly low. Although the plan includes an increase in the basic pension, without a more redistributive element, it likely remains insufficient. For the same reason, passage in Congress is by no means assured."

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