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FEATURED Q&A

What Does the Panama Canal's Expansion Mean for the Region?

Q During a visit last month to Panama, U.S. Vice President Joseph Biden and Panamanian President Ricardo Martinelli urged American port cities to upgrade their infrastructure to accommodate the larger ships and increased cargo loads that will be able to pass through the Panama Canal after its $5.25 billion expansion is complete in 2015. Should Latin American ports be doing more to prepare to receive larger ships and more cargo as well? What's at stake? Which ports in the region stand to gain the most economic benefits from the canal's expansion, and which might be left out?

A Robbert Jan van Trooijen, chief executive for Latin America and the Caribbean at Maersk Line: "It is important to Panama and to Americas-related trade that the Panama Canal stays up to date in terms of capacity, operational efficiency and cost levels. The average vessel size has increased significantly in the past years, and the Panama Canal has quite obviously needed an expansion to keep pace. However, it is important to make a clear distinction between trade and investment projects. Trade is driven by countries' economic growth and foreign trade between them. The expanded canal will facilitate trade by helping transport companies achieve economies of scale through the deployment of larger, more efficient ships. But in itself, the expansion of the canal does not increase trade. Over time, growth in both the U.S. and Latin American economies will be the prime mover for larger vessels across the region. Maersk Line, as a user of the Panama Canal and the most important ports in the region, welcomes investments in infrastructure projects that help fulfill our promises to customers. Ports covered in the main trade routes using the Panama Canal should consider improving their infrastructure to accommodate the larger vessels that will eventually be deployed on those routes. Going forward, we continue

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Mexico's Senate Approves Sweeping Political Reforms

Mexico's Senate on Tuesday approved a major package of political reforms, which would allow re-election of federal lawmakers and autonomy for the country's attorney general. The reforms are a major part of President Enrique Peña Nieto's agenda. See story on page 2.

File Photo: Mexican Government.

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NEWS BRIEFS

Brazil's Industrial Output Rises 0.6 Percent in October

Brazil's government announced Tuesday that industrial output rose a higher-than-expected 0.6 percent in October, signaling that the economy may bounce back after contracting in the July-to-September period, Bloomberg News reported. Production increased 0.9 percent in October as compared to the same month last year. The government announced Monday that gross domestic product contracted 0.5 percent in the three-month period that ended in September.

Venezuela's Maduro Blames Power Outage on Sabotage

Venezuelan President Nicolás Maduro appeared on state TV Tuesday showing a picture of what appeared to be a cut conductor cable, which he claimed proved his allegation that the massive power outage that occurred in Caracas on Monday was the result of sabotage by his opponents, BBC News reported. Maduro said he will provide more details today. His opponents have blamed the outages on a lack of investment and poor maintenance.

Guatemala Detains 21 for Alleged Money Laundering

Guatemalan authorities said Tuesday that they have detained 21 people for their alleged involvement in money laundering for Mexico's Sinaloa drug cartel, the *Miami Herald* reported. The group is believed to have used transfers from a Guatemalan to a Mexican agricultural company as a means to launder $46 million, Guatemalan Attorney General Claudia Paz y Paz said. The national banking system reported suspicious deposits and transfers between the companies which led to an investigation.

Political News

Mexico's Senate Approves Political Reform Package

Mexico's Senate on Tuesday approved a sweeping package of political reforms, including re-election of federal lawmakers, establishing new oversight of elections and making the attorney general's office independent from the presidency, the Associated Press reported. While senators approved the overall reform package, they continued debating some details of the legislation into Wednesday's early hours. The reforms still face debate in the Chamber of Deputies. Tuesday's approval allows the Senate to move on to reforms of Mexico's energy sector, which is seen as the most critical part of President Enrique Peña Nieto's agenda for reforms. As passed by the Senate, the political overhaul would allow federal legislators to stay in office for up to 12 years and would let independent candidates run for office. The reforms would not change Mexico's ban on re-election of presidents, who are limited to one six-year term. Supporters of the reforms say allowing legislators to be re-elected and letting candidates run for office even if they do not join a political party would lessen the power of parties and political bosses. The Senate measure would allow lawmakers to be re-elected beginning in 2018. The reform package also would change the name of the Federal Electoral Institute to the National Electoral Institute and would give that body the power to name the head and members of the electoral institutes of Mexico's 32 states. Currently, state congresses have that power. Members of Peña Nieto's Institutional Revolutionary Party, or PRI, rule most of Mexico's states, and opposition politicians say the current system gives state governors too much control of state legislators and electoral officials. In addition to giving the attorney general autonomy, the Senate legislation also includes a requirement that the president submit attorney general appointments to the Senate for approval. The reforms would also allow small parties to qualify for public funding if they garner at least 3 percent of the vote, an increase from the current threshold of 2 percent.

Featured Q&A

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to expect a relentless customer focus, unmatched reliability and efficiencies from our service providers because our customers expect nothing less from us."

Robert R. McMillan, former chairman of the Panama Canal Commission: "Whether the discussion is about ports in the United States, the Caribbean or South America, the bottom line will be whether the global economy expands or goes downhill. An expanding global economy would benefit all of the ports currently receiving Panama Canal traffic. With expanded traffic through the canal, one other factor will emerge—competition. To begin, consideration must be given to the Panamanian ports of Colón and Balboa. With transshipments through the Americas from larger post-Panamax vessels, there is no doubt that those two Panamanian ports will benefit from an expanded Panama Canal. The Port of Buenaventura in Colombia is anticipating increased traffic from the canal's expansion. In addition, ports in Jamaica, Cuba, Costa Rica, Peru and the Bahamas are gearing up for heavier traffic. The challenge will be whether, beyond transshipment of freight, the infrastructure (highways, rail roads, and port equipment) will be able to handle expanded traffic. These factors figure significantly into the overall shipment of goods anywhere in the world. At the same time, keep in mind that the ports of Miami and Jacksonville in Florida will provide competition for the Caribbean ports. Again, it all boils down to competition and the financial picture in using ports for transshipment or off-loading to sup-

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El Salvador Investigating $10 Million Donation From Taiwan to Flores

President Mauricio Funes has asked El Salvador's attorney general to open an investigation into a $10 million donation that the Taiwanese government made to then-President Francisco Flores a decade ago, the Associated Press reported Tuesday. Funes told reporters that the request for the investigations stems from information El Salvador received about a U.S. Treasury Department investigation involving suspicious operations. Flores received a total of $10 million in checks that were drawn on a Taiwanese government account in 2003 and 2004, Funes said, citing the Treasury Department report. The money was intended for a government agency in El Salvador that was registering the land of poor farmers, Funes said, adding that the funds never reached the agency. Flores denied wrongdoing in an interview with a local newspaper, the AP reported.

Company News

Sirocco Mining Temporarily Suspending Chile Operations

Vancouver-based **Sirocco Mining** said Tuesday that it is temporarily halting its operations in Chile because of the falling prices of iodine, The Canadian Press reported. The company said that it will delay the installation of a grinding mill and that operations of its agitated leach plant and slurry plant in Aguas Blancas will be stopped. Halting the operations is expected to cost the company $1 million, and Sirocco said it will lay off 150 employees. The company added that it may restart the operations in early 2015.

The company is laying off 150 employees.

In Focus

Colombia's Development Hinges on Success of Peace Talks: Santos

By Megan Cook

WASHINGTON—A successful peace process is integral to improving prospects for Colombia's development, Colombian President Juan Manuel Santos said Tuesday, after discussing possibilities for U.S.-Colombia collaboration in a post-conflict society with U.S. President Barack Obama.

In their meeting at the White House, Obama expressed support for Colombia's peace talks, which Santos' government began in November 2012 with the Revolutionary Armed Forces of Colombia, or FARC, rebels in an attempt to bring an end to the 50-year armed conflict. The Colombian president highlighted the progress the Andean nation has made in the last few years, pointing to declining inequality and 40 straight months of job growth.

Santos met with Obama Tuesday at the White House. *Photo: Colombian Government.*

A peace deal would mean a better future for Colombia and the region, said Santos. "Security is the basis for progress," he said in a speech at the National Press Club. Santos' government has also been investing in social programs, which he said has led to declining inequality levels and economic growth. "The hope is that if we reach a peace agreement, we can focus more resources on social inequality," he added.

A peace agreement would also have profound implications for the U.S.-Colombia relationship, Santos said, noting that even over the last decade the relationship has shifted from an agenda heavily focused on security to broader cooperation, including a free-trade agreement. One point of the peace talks focuses on ending the FARC's participation in the trafficking of illegal drugs, much of which is destined for the United States. Santos said he also hopes to increase technological cooperation with the United States, for example, in the government's attempt to connect all of Colombia's municipalities to broadband and fiber optics and leverage the connections to better combat poverty.

Critics of the negotiations, including outspoken former President Álvaro Uribe, under whom Santos served as defense minister, have argued that the peace talks legitimize the rebels and that the government should continue fighting them. However, Colombia has been addressing this conflict militarily for 50 years with no end in sight, and "every war has to end through some kind of negotiation," Santos said. "The way to end a conflict of this sort is by sitting down and negotiating a final agreement. And that is what we are trying to do."

"I am today more optimistic than I was a year ago," Santos said of the outlook for the peace talks, though he added that his optimism is "cautious" because the peace process is complex. Santos shied away from setting a deadline by which he wants to see negotiations concluded. "Fatal deadlines are not helpful," he said, adding that negotiations are "moving in the right direction." The government and the rebels have reached agreement on two of the six points on their agenda, agricultural and land reform and the FARC's political participation, and talks resumed last Thursday on the agenda's third point, the drug trade.

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Featured Q&A

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ply nearby cities. It will take some time to have ports realize the financial impact of an expanded Panama Canal."

Jean-Paul Rodrigue, professor in the Department of Global Studies and Geography at Hofstra University: "Discussions about the impact of the Panama Canal expansion have ranged from 'game changer' to 'business as usual.' The impact is region-specific. For North America, it is likely to be business as usual with the possibility of some adjustments to the advantage of the ports on the East and Gulf coasts. For Latin America, the expansion could be a game changer. However, these changes must be seen in conjunction with other more significant trade forces such as comparative advantages, global demand, outsourcing and offshoring to Latin America and other trade facilitation strategies such as free-trade agreements. For container shipping, the expansion will incite the setting of circum-equatorial routes with the usage of high-capacity/New Panamax containerships. Maritime shipping companies are looking at the canal expansion in terms of what it involves for their network configuration and the ships used to service ports of call. This will likely give them opportunities to establish additional Pacific/Atlantic all-water routes as well as the use of transshipment hubs in Panama and the Caribbean. From these hubs serviced by high-capacity New Panamax ships will converge feeder services. In this context, transshipment hubs are likely to gain in traffic while Latin American container ports will have the double benefit of seeing organic growth from the development of their economies as well as better connectivity to global trade. For bulk shipping, improved economies of scale will render use of the Panama Canal more economic for the trade of commodities such as coal, iron ore, oil and grain. The matter will be the location of that demand. If core Asian economies continue their growth at a level similar to the last decade, this augurs well for the Latin America commodity-exporting ports on the Atlantic side of the canal. It is therefore safe to say that the Panama Canal expansion will create a more beneficial environment for the growth of Latin American ports. How this growth will materialize itself for individual ports is more a matter of the development of their economic hinterlands than the expansion of the Panama Canal per se."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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