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FEATURED Q&A

What Issues Are Driving Panama's Presidential Election?

Q Juan Carlos Navarro, the presidential candidate of Panama's Democratic Revolutionary Party (PRD), earlier this month named former electoral judge Gerardo Solís as his running mate. Vice President Juan Carlos Varela of the Panameñista Party and Democratic Change party candidate José Domingo Arias are also vying to replace current President Ricardo Martinelli, who is constitutionally barred from running again. What issues are driving the race? Who is best positioned to be elected? How will Panama's dispute with the consortium leading the Panama Canal expansion affect the country's politics?

A Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: "The main aspects driving the presidential race in Panama are the government's claim that it has produced more welfare, jobs, infrastructure and economic development in the country than in the past 40 years of previous administrations. The opposition Panameñista and PRD parties are claiming that Martinelli's administration has been extremely corrupt and authoritarian, affecting all of the country's democratic institutions, including the Supreme Court and legislative branch. The opposition is also accusing the administration of racking up enormous debts while raking in record tax revenues from the economic bonanza and tax reforms. Up until now, the government's message seems to have resonated more with Panamanians than has the opposition's. Several cash-transfer programs directed to different sectors of the population, massive public investments in infrastructure, transportation, housing and health services are having a positive impact. During the last six months, José Domingo Arias (the ruling party candidate) has had a lead of between 6 and 13 points, according to leading pollster Datexco. Unless something extraordinary happens, the ruling party candidate has a

Continued on page 2

Chile's Bachelet Names Members of Cabinet

Chilean President-elect Michelle Bachelet on Friday named 23 members of her incoming cabinet. Among the appointees was Alberto Arenas, who Bachelet tapped to head the country's finance ministry. See story on page 2.

File Photo: Chilean Government.

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NEWS BRIEFS

Regional Leaders Begin Arriving in Cuba for CELAC Summit

Regional leaders began arriving Sunday in Havana for a meeting of the Community of Latin American and Caribbean states, the regional grouping that includes every nation in the Western Hemisphere except for the United States and Canada, the Associated Press reported. The CELAC summit is the first since the death last year of perhaps its top advocate, Venezuela's Hugo Chávez. The bloc's meetings, which begin Tuesday, are to focus on poverty and inequality in the region.

Argentina Backtracks on Currency Control Details

Argentina's economy minister, Axel Kicillof, said in an interview Sunday with local newspaper *Página 12* that the government will not lower the tax rate on credit card purchases made in dollars from 35 to 20 percent, as had been previously announced, the Associated Press reported. Prompted by high inflation and the largest fall in the peso's value since the country's 2002 economic crisis, Argentina announced Friday that it would lower restrictions on purchasing U.S. dollars. Other measures announced are still expected to take effect today.

At Least 1,000 Protest in São Paulo Against World Cup

At least 1,000 protestors demonstrated Saturday in São Paulo against the World Cup, which is scheduled to begin in Brazil in June, the Associated Press reported. Anonymous Rio organized "Operation Stop the World Cup" to demand better public services. Approximately 50 people protested in Rio de Janeiro, with small demonstrations occurring in other cities.

Political News

Colombia's FARC Condemns Attack by Own Guerrillas

The Revolutionary Armed Forces of Colombia, or FARC, on Friday delivered a rare rebuke of some of its own guerrillas in condemning a car bomb attack that happened earlier in the week, Agence France-Presse reported. In a message posted on its Web site, the rebel group's central command "repudiated and condemned" the attack that left one civilian dead and more than 20 injured when the bomb went off outside a police station in the town of Pradera in the western Valle del Cauca region. "Those responsible never intended to cause injury to the non-combatant civilian population," the FARC secretariat said in the statement, adding that the attack showed a "lack of foresight." The statement appeared to show divisions in the rebel group, which has been engaged in peace talks with the Colombian government since November 2012. The two sides have reached agreement on two of the six points of their agenda. "It's the first time that they have condemned an attack. Not only did they reproach it, but they also said that it is not the way to do war," Jorge Alberto Restrepo, director of the Conflict Analysis Research Center, told AFP. The car bomb attack "showed some form of dissidence among FARC's mobile columns" over which the group does not have "total logistical control," he added. The FARC's rebuke came after Colombian Defense Minister Juan Carlos Pinzón accused the guerrilla group of "acting like Al-Qaeda" and President Juan Manuel Santos criticized its "irrational and contradictory way of acting." After the FARC's statement on Friday, Santos said he appreciated that the rebel group "recognized being the perpetrators of this attack."

Santos

File Photo: Colombian Government.

Chile's Bachelet Names Members of Cabinet

Chile's Michelle Bachelet named members of her incoming cabinet on Friday, a month and a half before she is to return to

Featured Q&A

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fair chance of becoming Panama's next president. I do not foresee the dispute between the Panama Canal Authority and the GUPC Consortium having any impact on the current political campaigns. However, it could have a great impact after the current electoral cycle is over."

Jaime Figueroa Navarro, secretary of internal affairs and a member of the board of directors of the Panama Business Executives Association: "Since the overthrow of the Noriega regime in 1989, five presidents have been democratically elected in Panama for five-year terms. They include Guillermo Endara, who won by a landslide in the May 1989 elections, which the Noriega regime did not recognize. Panamaian law does not allow for immediate re-election of the incumbent president and no political party has won a re-election bid. Notwithstanding, polls indicate that the ruling Democratic Change party's candidate, José Domingo Arias, is favored to win in May, changing this norm. This is due to several factors. First, the current government under the leadership of Ricardo Martinelli, a supermarket magnate, has embarked on major changes in Panama's infrastructure. It dug the first metro system in Central America, one of the key components in an aggressive public works endeavor that has modernized the country's logistics, health and education systems, dubbed 'more in four (years) than

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the South American country's presidency, Reuters reported. Bachelet, who served her first term as president from 2006 to 2010, is to be sworn in on March 11. "It is a team chosen on the basis of conditions of leadership, skill [and] commitment to the program," Bachelet said Friday in presenting the 23 ministers, EFE reported. She named advisor Alberto Arenas, an economist and member of the Socialist party, as finance minister, Reuters reported. Arenas has helped Bachelet prepare her package of tax reform proposals, highlighting that a tax-system overhaul would be among Bachelet's top priorities, Pedro Tuesta of the **4Cast** consultancy told Reuters. Arenas said the reform would be high on his agenda. "Now we will get to work on, among other things, the tax reform and bills so we can send them to Congress when President Bachelet is ready," he said. "Another of the tasks will be an agenda of productivity, innovation and growth." Chile, whose mining industry has helped drive the economy in recent years, faces cooling demand and lower levels of investment. In foreign policy, one of the most immediate tasks for Chile will be handling a World Court ruling expected today on a maritime border dispute with Peru. Bachelet's nominee for foreign minister, Heraldo Muñoz, will have to help manage the after-effects of the ruling. Muñoz is a former Chilean ambassador to the United Nations. Bachelet also tapped businessman and politician Maximo Pacheco as energy minister and relative unknown Aurora Williams as mining minister, EFE reported. Rodrigo Peñailillo was named interior minister and economist Nicolás Eyzaguirre was chosen to head the education ministry. The new cabinet includes include six members of the Party for Democracy, five Christian Democrats, three from Bachelet's Socialist Party, two from the Radical Party, six independents and one Communist. Nine of the incoming ministers are women.

> "It is a team chosen on the basis of conditions of leadership, skill [and] commitment to the program."
>
> — *Michelle Bachelet*

The Dialogue Continues

What Is Behind the Problems in Latin America's Prisons?

Q The United Nations' human rights agency called earlier this month for a probe into violence at the overcrowded Pedrinhas penitentiary in Brazil's Maranhão state after a violent video was posted showing inmates gloating over the decapitated bodies of three other inmates. Overcrowding and violence are common problems at prisons in Brazil and elsewhere in Latin America. What is behind the problems at Latin America's prisons, and what kinds of reforms are needed? What's been standing in their way?

A Peter Sufrin, independent Washington-based analyst: "In response to the *Latin America Advisor*'s Q&A regarding prison systems in Brazil, one should note that the tragic reality of violence is apparent not just in contemporary developments in the region, but is rooted in historical causes. Pien Metaal notes that a disfunctional judiciary and prison overcrowding are among the main contributors to this dire situation. She is right to assert that drug legislation and prison reform are necessary for alleviating endemic violence. In addition to Metaal's observations, one must consider the legacy of slavery and authoritarianism as serious contributors to violence in the prison system. In particular, it is black Brazilians who suffer most from discrimination, and who must bear the brunt of punishment that is often rooted in racial bias. Furthermore, the governing PT's neglect of the matter reveals serious political inertia in coping with abuse. The central issue, perhaps, hinges on the nature of democracy in Brazil. Can the historical trends of violence be assuaged through the improved efforts of the government, and principally the judiciary, to address the critical reality? The future bodes well for a need for reform."

Editor's note: The above is a continuation of a Q&A published in the Jan. 23 issue of the Advisor.

Company News

PepsiCo to Invest $5 Billion in Mexico Over Next Five Years

Drink and snack-food maker **PepsiCo** announced Friday that it will invest $5 billion in Mexico over the next five years. "PepsiCo brands have been enjoyed by Mexican consumers for more than a century and we see tremendous opportunities to further expand our food and beverage business," the company's chairman and CEO, Indra Nooyi, said in a statement. "We're confident in Mexico's future and we believe this investment will create significant value for PepsiCo, our customers, our shareholders and for Mexico as a whole." The company, based in Purchase, N.Y., said the move would create 4,000 jobs in Mexico. It added that the investment would focus on innovation and brand building, infrastructure, strengthening partnerships with local farmers and investing in local communities. "PepsiCo is committed to growing in Mexico, for Mexico," Nooyi added. PepsiCo's investment comes despite Mexico's move to slap higher taxes on soft drinks and junk foods. Also last week, Switzerland's **Nestle** announced that it was investing $1 billion in Mexico over five years, creating 700 jobs, Reuters reported. Also, networking equipment maker **Cisco Systems** said it would invest $1.35 billion this year in manufacturing operations and a support center in Mexico.

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Featured Q&A

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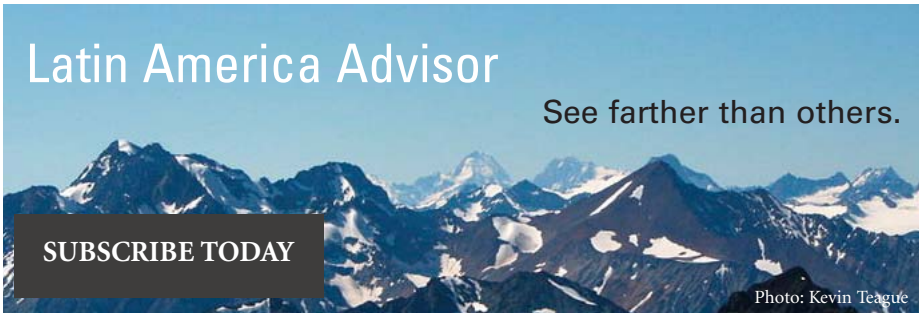
in 40.' Amid the allegations of corruption and graft, forever present in Panamanian politics, the fact is that voters (and everyone that visits Panama) can witness very significant changes in the country's modernization that are unlike any other period in Panama's history. The Panama Canal expansion project, one of the largest earth-moving undertakings in global history (and surpassing the original canal), is under threat due to the contractor's 'low-bid and addendum' strategy that has somersaulted given the Panama Canal Authority's integrity and demand that the contractors respect the original contract, galvanizing the entire country against what seems to be a very crooked group. Amid the work slowdown, which has led to significant delays, it seems as if the authority, and not the contractors, will finalize the work. This should have no effect in the country's politics, as any candidate that shows support for the contractors would be shooting himself in the foot."

A Lucila Broide, director in the sovereign group at Fitch Ratings: "Panama's main challenge is how to broaden and sustain the extraordinary growth of the last few years. The country's breadth and pace of growth is a testament to policy continuity in its growth strategy to leverage its unique asset, the canal. Panama's society and political parties gravitate to the center, which should grant some policy continuity. Fitch's base case is that elections will be held without disruption to governance, and power will be transferred smoothly. The canal expansion is converting the country into a regional logistics hub and promoting it as a tourist destination. This model, if well administered, will establish a solid foundation for sustainable growth over the medium term. Strong growth has led per-capita income to more than double in seven years. Still, income disparity remains a prominent feature of Panama's economy.

> "Panama's main challenge is how to broaden and sustain the extraordinary growth of the last few years."
>
> *— Lucila Broide*

This, combined with the fact that corruption remains the weakest governance indicator relative to peers, could become a source of political discontent and increased fiscal pressures in the medium term. While the next administration is likely to have a natural consolidation bias as the current administration's investment cycle eases, Panama's fiscal framework remains vulnerable. The fiscal responsibility law (FRL) ceilings have been adjusted upwards several times. These changes have rendered debt dynamics less sensitive to the country's high growth rates. In this context, a delay in the expansion of the canal will make the next administration's consolidation efforts more difficult."

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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