INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Catterton Aimara

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Latin America

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig A. Kelly
Director, Americas International Gov't Relations,
Exxon Mobil

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Policy Advisor,
Chatham House

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

Roberto Sifon-Arevalo
Managing Director, Americas Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

How Will Higher Import Tariffs Affect Ecuador's Economy?

Q Ecuador's government announced last month that it will impose tariffs of as high as 45 percent on nearly a third of the country's imports in an effort to protect its economy from a rising dollar and falling oil prices. Ecuador's minister of foreign trade said the tariffs will be charged for 15 months. What effects will the tariffs have on Ecuador's economy? Which businesses will be most affected? Will the government be able to wean itself off the higher tariffs in 15 months, or will they wind up becoming permanent?

A Efraín Baus, charge d'affaires ad interim at the Ecuadorean Embassy in Washington: "The government of Ecuador has taken a number of temporary measures to safeguard our economy from the effects of changes in the international economic environment, such as low oil prices, appreciation of the U.S. dollar and the depreciation of the currencies of our trading partners. As a dollarized economy, Ecuador cannot use traditional monetary policy tools such as floating exchange rates to deal with external shocks that undermine the liquidity of the economy. This is a unique and exceptional situation that imposes serious restrictions in the implementation of monetary policy. Instead, the country has adopted a temporary balance of payment safeguard (BoP) in the form of a tariff of between 5 percent and 45 percent on select imports into Ecuador. More than 77 percent of U.S. exports to Ecuador are not subject to the BoP safeguard, including 'essential' goods such as raw materials, inputs, indispensable capital goods, as well as certain massive consumer goods that have been excluded. Only so-called consumption products could be temporarily affected for a maximum period of 15 months. The safeguard will be evaluated quarterly so that it can be applied and revised as needed. It will be removed when no longer needed. It is compliant with World Trade Organization rules, which

Continued on page 2

Haiti's First Lady Files to Run for Senate Seat

Haiti's first lady, Sophia Martelly, has filed to run for a Senate seat in the country's August elections. There had been speculation that Martelly would seek to succeed her husband, President Michel Martelly. See brief on page 2.

File Photo: Haitian Government.

Inside This Issue

FEATURED Q&A: How Will Higher Import Tariffs Affect Ecuador's Economy? 1

Thousands Demand Resignations of Guatemala's President, VP 2

Brazil's Consumer Confidence Ticks Up in April 2

Spain Sending Ambassador Back to Caracas 3

Colombia's Stock Exchange Eyes Brazil Deal in Integration Move 3

The Dialogue Continues: Why Is the Peruvian Premier's Office a Revolving Door? ...3

Copyright © 2015, Inter-American Dialogue

NEWS BRIEFS

Brazil's Consumer Confidence Ticks Up in April

Brazil's level of consumer confidence grew over the past month, to 85.6 in April from 82.9 in March, the Getúlio Vargas Foundation announced today, Dow Jones reported. However, the uptick was more a result of a low comparison last month than significant improvement in the country's economy. A level of 100 is considered neutral consumer sentiment.

Haitian First Lady Files to Run for Senate

Haitian First Lady Sophia Martelly, whose husband Michel Martelly begins the last year of his five-year term in May, filed Thursday to run for a Senate seat representing the West department, which includes capital city Port-au-Prince, the *Miami Herald* reported. There had been speculation about whether the first lady would run for Senate in the Aug. 9 elections or seek to replace her husband in the first round of the presidential election on Oct. 25.

Ferry Companies Apply to Run Florida-to-Cuba Service

At least five shipping companies betting that U.S. moves to normalize relations with Cuba will eventually lead to an end on the ban on tourism have applied for permission from the U.S. State Department to restart once-popular overnight ferry service from ports in Florida, executives familiar with the matter told *The Wall Street Journal* on Friday. While the U.S. Treasury's Office of Foreign Asset Controls now allows visit for a number of purposes, including education and family visits, tourist visits to the island are still prohibited.

Political News

Thousands Demand Resignations of Guatemala's President, VP

Thousands of people on Saturday flooded the square in front of the National Palace in Guatemala City to demand the resignations of President Otto Pérez Molina and Vice President Roxana Baldetti amid a corruption scandal involving officials including the vice president's private secretary, Agence France-Presse reported. Earlier this month, Guatemalan and international authorities said they had issued warrants for the arrests of 22 people in connection with an alleged scheme to accept bribes in exchange for lowered customs duties. The scandal is believed to have cost the government $130 million, TeleSur reported. The officials arrested included the current and former heads of the Central American country's tax service and the president of daily newspaper *Siglo XXI*. Baldetti's private secretary, Juan Carlos Monzón, is believed to have been the leader of the alleged scheme and is believed to have fled to Honduras, AFP reported. Baldetti, who denies wrongdoing, told reporters that Monzón disappeared after she informed him of the charges against him and instructed him to surrender to authorities. However, protesters on Saturday expressed the belief that Baldetti tipped Monzón off to the charges so that he could flee the country. "Clearly we could see that Baldetti covered up Monzón's escape," Alejandro Rodríguez, a student leader at Guatemala's University of San Carlos, told AFP. During the demonstration, protesters banged pots and pans, blew whistles and held up signs demanding that Baldetti and Pérez Molina step down over the scandal. "We don't want the thieves to govern anymore," protester María Letona, 70, told the wire service.

Pérez Molina

File Photo: Guatemalan Government.

"They see us as toys. It's shameful what they're doing to the people of Guatemala." Pérez Molina, who was on an official visit to eastern Guatemala during the protest, told reporters he would not step down. "I ask all Guatemalans to act sensibly," said Pérez Molina, who has not been implicated in scheme. "All have the right to express themselves, but we must respect the institutions" that are investigating the matter, he said. Pérez Molina added that it was his government that launched the investigation into the tax fraud. The United Nations' International Commission

Featured Q&A

Continued from page 1

allow members to adopt measures to safeguard their external financial position and to protect their balance of payments through the adoption of BoP safeguards, including consultations with the IMF that Ecuador is in the process of conducting. Through these measures and others, such as efficient tax collections, opening new markets and economic diversification, Ecuador is well-equipped to navigate the global economic situation and to remain one of the most stable countries in the region, projected to expand at more than double the rate of all of Latin America and the Caribbean this year."

Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress, and central bank president: "With the stroke of a pen, the government of Ecuador managed to turn the country into a nation of scarcity and sky-high prices. It has managed to alienate important trading partners such as the European Union, Chile, Peru and Colombia whose exporters have seen their sales plummet by some $500 million in the first quarter. Aside from compelling technical arguments, it is not at all clear that Ecuador has proper justifi-

Continued on page 4

Copyright © 2015, Inter-American Dialogue

Against Impunity in Guatemala, or CICIG, aided the investigation at a time that Pérez Molina and others expressed doubts about how long it would exist in Guatemala. Supporters say the country's institutions need help in fighting crime and impunity, while critics say Guatemala must solve its own problems and that the body is an affront to the country's national sovereignty. Pérez Molina, however, last week announced that he was asking the United Nations to extend the commission's mandate, a request to which U.N. Secretary General Ban Ki-moon said the United Nations would favorably respond. [Editor's note: See Q&A on CICIG in the April 16 issue of the *Advisor*.]

Spain Sending Ambassador Back to Caracas

Spanish Foreign Minister José Manuel García-Margallo said Sunday that the country's ambassador to Venezuela would return to Caracas after the countries seemed to patch up a diplomatic spat, EFE reported. Spain last week summoned Ambassador Antonio Pérez Hernández back to Madrid for consultations after

> "In all probability, the ambassador will return in the next few hours."
>
> — *José Manuel García-Margallo*

Venezuelan President Nicolás Maduro accused Spain of "supporting terrorism" in the South American country and being part of a conspiracy to destabilize Maduro's government, allegations Spain has denied. However, García-Margallo said Maduro had made diplomatic gestures toward Spanish Prime Minister Mariano Rajoy. "The normal thing is for the ambassador to be in Caracas. When the circumstances are normal, you act normally and so, in all probability, the ambassador will return in the next few hours," García-Margallo said Sunday, EFE reported.

The Dialogue Continues

Why Is the Peruvian Premier's Office a Revolving Door?

Q Peruvian President Ollanta Humala earlier this month named Pedro Cateriano as his new prime minister, just days after Congress voted Prime Minister Ana Jara out of office amid revelations involving the government's DINI spy agency. Cateriano is the seventh prime minister Humala has named in his less than four years in office. Why have Humala's prime ministers had such short times in office, and what does that mean for his government's agenda and stability? Will Cateriano's tenure as premier also be short-lived? What does Cateriano bring to the job, and will he have more success in dealing with Congress than did his predecessors?

A Maria Luisa Palomino, Latin America analyst at the Eurasia Group: "Since taking office in 2011, President Ollanta Humala has failed to strike a balance in his cabinet between technocrats and political figures able to negotiate with a Congress in which he lacks a majority. Furthermore, his prime ministers have had little power of their own. The recent censure against former Prime Minister Ana Jara represents a major blow for the government and points to a deteriorated political climate ahead of the 2016 elections, yet it will not necessarily lead to a shift in policymaking from the president or Congress. Humala's new prime minister, Pedro Cateriano, still has to secure a vote of confidence, which is scheduled for today. Cateriano's fate will largely depend on legislators' willingness to avoid a potential dissolution of Congress, which the president can do if two of his cabinets fail to obtain support. As the president is no longer entitled to dissolve Congress in his last year in office, Cateriano's permanence thereafter will depend on the government adopting a conciliatory tone ahead of the 2016 vote, electoral dynamics and Humala's level of support for the prime minister."

Editor's note: The above is a continuation of a Q&A published in the April 17 issue of the Advisor.

Company News

Colombia's Stock Exchange Eyes Brazil Deal in Integration Move

Colombia's stock exchange, **Bolsa de Valores de Colombia**, has informally discussed selling a stake to Brazilian counterpart **BM&FBovespa** in an effort to partially integrate the regional market, Bloomberg News reported last week. Bolsa de Valores de Colombia President Juan Pablo Córdoba told the news service in an interview that no formal discussions have been held, but that BM&FBovespa would prefer a process that would lead to a board position. "Should they do something in Colombia, they want to do something that's an agreed-upon process of conversation and road map and strategy," he said. "We'd be delighted if that materializes." BM&FBovespa, Latin America's largest securities exchange, declined to comment on the statements, but said last year that it is looking to purchase up to 15 percent stakes in the bourses of Mexico, Colombia, Chile, Peru and Argentina. It purchased a 2 percent stake in Chile's exchange last month. Córdoba said that Brazil should be included as part of a regional market that goes beyond the Latin American Integrated Market (MILA), which allows investors to trade stocks from Mexico, Chile, Peru and Colombia on a single platform. Discussions to expand the platform to other Latin American countries began in January, he said, and while Brazil has not been part of those conversations, "if we want to do something significant for Latin America, we cannot ignore Brazil."

Copyright © 2015, Inter-American Dialogue

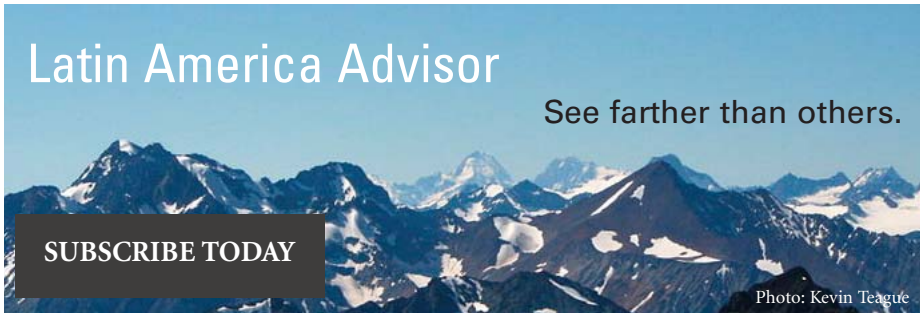
Featured Q&A

Continued from page 2

cation to do what it has done, and we are still awaiting the IMF's report to the WTO. In the meantime, Ecuador's regressive policy has instigated smuggling (particularly in border areas), it has provided undue protection to inefficient local producers who enjoy the induced-scarcity high-rent market, and it is in the process of knocking out the commercial sector, which is by far the largest contributor of government income. The end game is a policy that protects inefficiency, is of dubious legality, is fiscally ruinous and has economy-wide inflationary and growth impairing effects. The Correa government once again fails to understand that the problem lies in its ill-conceived aggressive public spending design that drives aggregate demand (and therefore imports). It also fails to understand that there are options for the balance of payments transition (access to an IMF contingent loan), that the dollar valuation is both cyclical and temporary, that fiscal support can be had by revising fuel subsidies and that tampering with international trade is about the worst option possible. It is a loser's approach that evokes the collapse and widespread failures to be found in other countries of similar ideological bent."

Ramiro Crespo, president of Analytica Securities in Quito: "The government scaled back the series of tariffs and quotas imposed on imports coming from Colombia and Peru after the Andean Commonwealth of Nations (CAN) ruled against Ecuador. Given the current composition of imports, it will be difficult to target imports of consumer goods alone, with measures likely to affect the normal flow of raw materials, intermediate and capital goods, with negative consequences for the private sector. The first victims will most likely come from among auto retailers, particularly small- and medium-sized dealerships that will struggle with a greater than 50 percent cut in the number of imported units permitted for sale compared with 2014. The impact for local auto assembly plants will be more moderate thanks to direct negotiations with the government for a slighter cut in auto parts. Impacts of varying intensity are likely for other sectors. Excessive public expenditure is responsible for these measures: the government is crowding out the private sector. To avoid retaliations and adverse rulings to the new tariff scheme, the government started by asking the IMF for a certification that the country faces major risks in its external accounts. Then, the government presented its case to the World Trade Organization in early April, arguing that trade measures for balance-of-payments purposes are fully justifiable under current circumstances and that there are no better options. Complaints, however, are rising, and it will be difficult to maintain tariffs restrictions in place beyond the original deadline if they are not removed even earlier."

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



Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2015

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Jeffrey Puryear, Senior Fellow
Lisa Viscidi, Director, Energy Program

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Copyright © 2015, Inter-American Dialogue