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FEATURED Q&A

## Are Japan's Ties to Latin America Getting Stronger?

Ecuadorean Foreign Minister José Valencia was among the officials with whom Japanese Foreign Minister Taro Kono (L-R) met during Kono's trip to Latin America. // Photo: Ecuadorean Government.

**Q Japanese Foreign Minister Taro Kono visited Latin America Aug. 11-19, with stops in Ecuador, Peru, Colombia and Mexico. Kono's priorities during the trip were strengthening economic cooperation and trade ties with the region, particularly the Trans-Pacific Partnership, and seeking support on diplomatic issues, including those related to North Korea, NHK reported. What did he accomplish during his tour? Where are Japan-Latin America relations headed? Does Japan have a clear and coherent strategy in Latin America? Which sectors and countries in the region are of greatest importance for Japan, and what is driving that interest?**

**A Sadayuki Tsuchiya, Japan's ambassador to Peru:** "During his tour of Latin America, Minister Kono confirmed with his counterparts the importance of promoting free trade as well as consolidation in the international community as partners that share fundamental values such as freedom and democracy. In the context of his visit to Peru, it was Japan's first ministerial visit with the government of President Martín Vizcarra. Peru and Japan have had relations for more than 140 years; it is Japan's oldest diplomatic link with the countries of Latin America and the Caribbean, and they have become strategic partners. Having talked with President Vizcarra and Minister of Foreign Affairs Popolizio, they reaffirmed the intention to further collaborate for the prompt entry into force of TPP-11. Minister Kono showed a desire to contribute to Peru as well in the fields of disaster prevention, urban transport infrastructure, education and medicine using communication and information technology. Also, Minister Kono explained that Japan supports

**Continued on page 3**

**TODAY'S NEWS**

ECONOMIC

### Confusion Reigns as Venezuela Rolls Out New Currency

Customers and store owners struggled to understand the value of Venezuela's new currency amid continued spiraling inflation in the South American country.

Page 2

POLITICAL

### Mexico Opens Record Number of Homicide Investigations

Authorities opened 2,599 homicide investigations in July. Last year was the country's most violent since comparable data collection began in 1997.

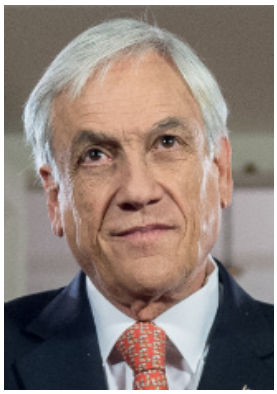
Page 3

ECONOMIC

### Tax Reforms Would 'Modernize' Revenue System: Chile's Piñera

Chilean President Sebastián Piñera said in a televised address that his government's tax reform would lead to a "simpler and more equitable and fully integrated tax system" for companies.

Page 2



Piñera // Photo: Chilean Government.

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ECONOMIC NEWS

# Venezuelan Stores Shuttered, Confusion Reigns Over Prices

The day after Venezuelan President Nicolás Maduro's government launched a new currency and economic plan was marked across the country by economic turmoil. On Tuesday, shuttered stores and widespread confusion reigned over the cost of basic goods as customers and businesses struggled to understand the value of the new currency amid skyrocketing inflation, The New York Times reported. Even with the help of a new conversion app, shoppers were befuddled when attempting to understand the value of the new currency, the "sovereign bolívar," which has five fewer zeros than the old currency, the "strong bolívar." Shoppers were perplexed about the new currency when walking into stores, some of which listed prices in the old currency and the new currency. Venezuelans lined up at ATMs to get new banknotes, but withdrawals were limited to barely enough cash to buy three dozen eggs, The Washington Post reported. "I will just have to pay and then get home and figure out how much I actually spent," chef Zoraya Mago, 60, told the newspaper in an eastern Caracas market. Under a devaluation plan that Maduro announced on Friday, 3,600 new sovereign bolívars would equal one petro, a digital currency that his government created in February and which officials of the U.S. Treasury have called a scam. One petro equals the price of a barrel of oil, so one dollar equals approximately 60 units of the new currency or six million of the old one. By Tuesday, there were already signs that Maduro's plan had failed to stabilize the crisis-wracked economy. Before he announced the new plan on Friday, a kilo of peaches cost 1.1 million old bolívars, The Washington Post reported. By Tuesday, prices had nearly doubled, to 2.1 million old bolívars. The International Monetary Fund has estimated that the country's rate of inflation will hit one million percent by the end of the year. Venezuela's opposition had called for a general strike on Tuesday and while some stores were closed, many others remained open. Opposition leader Andrés Velásquez told reporters that some 60 percent of private-sector workers had participated in the strike. Most supermarkets, shopping centers and bakeries in Caracas seemed to be operating. Among the measures Maduro announced Friday was a 3,000 percent increase in the minimum wage, which led some business owners to worry that they will have to lay off workers in order to adhere to the wage hikes for the remaining ones. Car wash manager Víctor Flores, 56, told The Washington Post that his businesses would likely have to dismiss workers. "There's too much confusion, and the way prices are rising is alarming," he said. 'We're fearful of what's coming for us."

# Failure to Build Mexico Airport Would Cost Billions: IATA

The International Air Transport Association, or IATA, said Tuesday that Mexico risks losing long-term passenger growth and billions of dollars if it does not finish constructing the new airport in Mexico City, Reuters reported. Peter Cerda, regional vice president in the Americas for IATA, said Mexico would lose some 20 million passengers from flying to its capital starting in 2035, year over year, without the new airport to ease congestion. Additionally, not building the new hub would bring a $20 billion long-term loss in the country's GDP and cost some 200,000 jobs, Cerda said. He added, "If you don't build an airport that's able to meet

> **"If you don't build an airport that's able to meet the needs of the next 50 years, you just cannot continue to grow."**
>
> **— Peter Cerda**

NEWS BRIEFS

## Tax Overhaul Would 'Modernize' Chile's Revenue System: Piñera

Chilean President Sebastián Piñera said Tuesday that his government's tax reforms would "modernize" the country's revenue system and also boost investment by both domestic and foreign companies, Reuters reported. In a televised address, Piñera said the changes would calibrate the taxes that are paid by technology companies and more traditional companies. Digital commerce companies such as Netflix and Uber are likely to be affected.

## Mexico's Competition Authority Fines Pemex Unit $22 Million

Mexico's Federal Commission for Economic Competition, the country's competition authority, said Tuesday it had fined a unit of state oil company Pemex for a one-year delay in presenting an annual report on antimonopoly measures, Reuters reported. Pemex's Industrial Transformation unit will have to pay $22.1 million for the late report, which Pemex had committed to in 2016 as part of Mexico's opening of the fuel market.

## Brazil's Real Drops to Lowest Level Since February 2016

The Brazilian real dropped 1.4 percent to four per U.S. dollar on Tuesday, the lowest since February 2016, as electoral polls show little support for the most market-friendly candidates in the largely undefined presidential race, Bloomberg News reported. New polls continue to show former President Luiz Inácio Lula da Silva, who is jailed and expected to be barred from running, in the lead. Lula's Workers' Party opposes labor and pension reforms that investors see as necessary to solve Brazil's budget problems.

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the needs of the next 50 years, you just cannot continue to grow." President-elect Andrés Manuel López Obrador said Friday he would allow voters to decide whether to continue with the infrastructure project, the biggest of current President Enrique Peña Nieto's administration and which López Obrador opposed during his campaign, through a survey or possibly a referendum, El Universal reported. Instead of building the new $13 billion-dollar hub, López Obrador has proposed keeping the existing Benito Juárez International Airport and expanding a military airport near the capital.

**POLITICAL NEWS**

# Mexico Opens Record Number of Homicide Probes

Mexico opened 2,599 homicide investigations, an average of 84 a day, in July, the country's national public security agency said Tuesday, the Los Angeles Times reported. It was the highest number of murders for any month on record, surpassing the 2,535 homicides reported in May, La Jornada reported. Last year was the country's most violent since comparable data collection began in 1997, and there was a record-breaking surge in homicides in the first six months of this year, increasing 16 percent over the same period last year, the Associated Press reported in July. The last three administrations in Mexico have declared war against the country's drug cartels, fragmenting criminal groups but leading to heightened violence among them for control of drug trafficking routes and illegal markets, the Los Angeles Times reported. This, in turn, has resulted in a steady rise in the number of killings in Mexico since 2015. "Years ago, you had large cartels that were fairly dominant in many areas and it was fairly tranquil. Now there's so much friction, it leads to violence across the board," Scott Stewart, a Mexico analyst for Texas-based intelligence company Stratfor, told the newspaper. [See related **Q&A** in the Aug. 1 issue of the Advisor.]

**FEATURED Q&A** / Continued from page 1

starting the review for Peru's participation in the OECD, and he has expectations that strengthening relations with the OECD would boost Peru's domestic reform efforts and lead to further improvement of the business environment. In addition, Minister Kono and Minister Popolizio both confirmed firm cooperation, not only in bilateral relations, but also for Security Council reform in the United Nations, as well as in the issues of nuclear disarmament, North Korea and Venezuela. By 2019, the 120th anniversary of the immigration of Japanese citizens to Peru will be marked, and we will celebrate the Year of Peruvian-Japanese Friendship. In this sense, the visit of Minister Kono will accelerate the development of commemorative events."

**Antoni Estevadeordal, manager of the integration and trade sector at the Inter-American Development Bank:** "Minister Kono's visit aimed to shore up relations with some of Japan's closest partners in Latin America and advance its economic goals in three strategic areas: trade, investment and cooperation. Japan has longstanding trade ties to Latin America, which has been a crucial source of natural resources for Japan since the 1960s. In recent years, Japan has played a leading role in deepening the trans-Pacific trade architecture, helping revive the TPP, in which Chile, Peru and Mexico participate, after the U.S. withdrawal in 2017. Colombia has officially expressed its interest in joining the TPP-11, and Japan's support will be crucial for its successful entry. Japan has also actively supported the Pacific Alliance. The alliance is currently exploring options to deepen its ties to Mercosur, Latin America's other major sub-regional trade bloc. Closer regional integration in Latin America would greatly benefit Japanese firms operating in the region, creating the opportunity for more efficient cross-border value chains and complementing the newly-minted TPP-11. As this suggests, FDI is central to Japan's economic strategy in the region. Japanese firms invested a total of $77.2 billion in the region between 2003 and 2017, making Japan the largest Asian source of FDI in Latin America by far. Around 40 percent has gone to manufacturing industries, such as automobiles, electronics and machinery. Over the past decade, leading Japanese firms have invested in high-tech areas, such as cloud computing, data storage and telecommunications networks. Consolidating its position as a market leader in these frontier areas, where new entrants such as China and Korea are also looking to gain a foothold, is a central goal for Japan in the region. Beyond trade and investment, Japan has carried out a robust agenda of technical cooperation in the region. Japanese technology, know-how and financing have a long history in Latin America. It helped turn Brazil's cerrado into one of the world's most productive agricultural regions and launch Chile's salmon export industry. Japan's development cooperation in Latin America is currently emphasizing new areas, including natural disaster preparedness and urban planning, among others, leveraging the country's leadership in new digital technologies."

**Carlos Aquino, professor of international and Asian economics at the Universidad Nacional Mayor de San Marcos in Lima:** "Japan aims to increase its relations with Latin America as China, South Korea and even India are racing to have a major presence in the region. Japan was a traditional major partner in Asia for Latin America, but China has surpassed it—unavoidably, since Japan is no longer a place where many manufacturing goods are produced, and its factories have moved to cheaper locations in China and India. This can be seen in the fact that Peru lately has been buying Suzuki cars that are made in India. That is why India last year became Asia's third-largest trading partner for Peru, ahead of Japan and behind South Korea and China. Moreover, because of its smaller manufacturing industry,

Continued on page 4

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**FEATURED Q&A** / Continued from page 3

Japan's need for raw materials from Latin America is not as big. In this context, one way for Japan to try to gain some advantage over other Asian countries is through the signing of a more comprehensive free trade agreement, such as the TPP. This is what Minister Kono proposed to Colombia, for example. Japan is also interested in investing in infrastructure to try to compete with China's Belt and Road initiative. Japan's interest in the region is diverse. Brazil and Mexico are seen as big manufacturing facilities. Other countries are seen more as markets for its goods—but, in this regard, Japan encounters huge competition from other Asian countries selling cheaper products. Additionally, Japan cannot compete with China giving loans and foreign aid. That's why it is looking for closer relationships with countries with which it has a long history of friendship, such as Mexico, Brazil and Peru. With the announcement of setting up a Japan foundation office for South America in Peru, the Asian country is trying to increase its cultural presence in the region to counter the growing existence of Chinese Confucius institutes and Korean cultural expansion through k-pop and TV dramas."

**Mikio Kuwayama, managing director at the Japan Association of Latin America and the Caribbean and research fellow at Kobe University:** "Kono's mission was to send Latin America the message that with concern over the global rise of anti-globalism and protectionism, Japan is prepared to play an active role in preserving the multilateral trading system, as exemplified by its leading role in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP, negotiations and the recent signing of the Japan-E.U. economic partnership agreement. In Japan's view, both mega-agreements will increase the likelihood of the United States returning to the Trans-Pacific Partnership, while avoiding a bilateral free trade agreement with the United States. So far, three countries have finalized the CPTPP domestic ratification procedures, and Mexico was the first one to do so, even before Japan and Singapore. Reassurance from President-elect López Obrador on his backing of the CPTTP—Mexicans see the CPTTP a counter-proposal to NAFTA—and prompt ratification by Chile and Peru is a high priority on Japan's diplomacy. Japan also wants Colombia's new government to renew its interest in joining the CPTTP, expressed earlier by the Santos administration. Once Colombia joins the CPTTP, Japan's relations with the Pacific Alliance can be realigned—Japan-Colombia economic partnership agreement negotiations have been on a standstill since 2015. Ecuador, not enthusiastic about engaging in free trade agreement networks with Asia-Pacific countries so far, has indicated interest in joining the Alliance. However, Japan's commercial interests in Latin America go beyond the CPTTP and the Pacific Alliance. There has been a renewed interest in a Japan-Mercosur economic agreement. Recently, both the Pacific Alliance and Mercosur have intensified their free trade agenda with extra-regional partners. Japan does not want to miss out on these opportunities."

> **"Japan's commercial interests in Latin America go beyond the CPTTP and the Pacific Alliance."**
>
> **— Mikio Kuwayama**

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at* **gkuleta@thedialogue.org**.

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