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## FEATURED Q&A

# Is Panama Better Off Now Than When Varela Took Office?



Panamanian President Juan Carlos Varela is to leave office this year, completing his five-year term. // File Photo: Panamanian Government.

**Q** **Outgoing Panamanian President Juan Carlos Varela is to leave office this year, concluding a five-year term, during which the Central American country completed a major expansion of the Panama Canal and had among the highest economic growth rates in the hemisphere. However, the country continued to struggle with inequality and experienced a series of high-profile scandals, including the “Panama Papers” data leak and U.S. sanctions against members of the prominent Waked family, which highlighted concerns about Panama’s ability to fight financial crimes. Is Panama in a stronger position now as compared to when Varela took office? How much is the expansion of the canal paying off, and was the project worth the investment? What are the biggest challenges awaiting the country’s next president, who will be elected in May?**

**A** **Joaquín E. Jácome Diez, former minister of trade and industry in Panama and senior partner of Jácome & Jácome:** “Panama’s macroeconomic outlook remains strong and positive. There are several key projects in tourism, logistics, mining and infrastructure that could provide vital foreign direct investment to foster a healthy growth in the years to come. However, the 2014-19 period has been somber in many aspects. On the economic front, there was a slowdown from the 2009-14 bonanza years that has been accentuated by the current administration’s style of management, lack of transparency in the judicial system (which has been used selectively depending on political objectives) and weak political will to fight corruption. All these factors, plus the Panama Papers, the Waked affair and corruption in the

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## TODAY’S NEWS

### POLITICAL

## Mexico Detains Hundreds of Migrants in Raid

Mexican authorities detained hundreds of Central American migrants in the southern state of Chiapas in the largest raid on a migrant caravan since the groups began moving through the country toward the United States last year.

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### BUSINESS

## Avianca Brasil Cancels 1,045 Flights After Returning Planes

The airline, which is facing bankruptcy proceedings, returned the planes to leasing agencies because it failed to make necessary payments.

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### POLITICAL

## Maduro Calls for Counterprotests in Venezuela

Venezuelan President Nicolás Maduro called for two pro-government protests to counter planned opposition demonstrations on May 1.

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Maduro // File Photo: Venezuelan Government.

## POLITICAL NEWS

## Mexican Authorities Detain Migrants

Mexican authorities on Monday detained hundreds of Central American migrants in the southern state of Chiapas in the largest raid on a migrant caravan since the groups began moving last year through the country toward the United States, the Associated Press reported. Police and immigration agents forcibly pushed men, women and children who were in isolated groups at the end of a caravan containing 3,000 migrants into patrol vans and trucks, the wire service reported. Reporters on site heard screams from the group, and after the detained migrants were driven away, clothes, shoes, strollers and suitcases were left strewn at the scene. As many as 500 people were detained in the raid, which happened near the city of Piñijapan. The agents encouraged migrants who



Caravans of migrants have been moving through Mexico toward the United States. // File Photo: Notimex.

had been walking in the heat for hours to stop and rest, and when they regrouped to continue trekking north, officers detained them. One migrant, 27-year-old Kevin Escobar, avoided being detained by fleeing onto private property nearby, from which he yelled at agents, "Why do you want to arrest me?" the Associated Press reported. A Honduran, Escobar vowed never to return to his hometown, San Pedro Sula. "The gangs are kidnapping everyone back there," he told the wire service. Officials of Mexico's National Human Rights Commission observed the raid from some distance away. "We are documenting what is happening," said commission official Jesús Salvador Quintana. "We cannot tell authorities in charge what to do, but yes, we are documenting and we will

investigate." The raid followed a series of detentions last Friday in which Mexican agents took migrants into custody as they awaited the normalization of their migration status in the town of Mapastepec. The detentions followed demands by U.S. President Donald Trump that Mexico do more to stop migrants from trekking to the United States, where they have overwhelmed agents at some border crossings. Trump recently threatened to shut down the entire U.S.-Mexico border.

## ECONOMIC NEWS

## Antitrust Regulator Investigating Four Brazilian Banks

The Administrative Council for Economic Defense (CADE), Brazil's antitrust regulator, said Monday it is investigating four banks for allegedly creating competition hurdles to digital banking newcomer Nubank, Reuters reported. Some of the largest banks operating in the country, such as state-run Banco do Brasil and Caixa Econômica Federal and private banks Santander Brasil and Bradesco, have been denying requests to schedule automatic payments from Nubank clients who also were account holders at those banks, according to the filing. In a statement, Nubank said it hoped "regulatory authorities will continue to protect and stimulate industry competitiveness by ensuring that new entrants will continue to have room to innovate." CADE said the banks would be given a chance to defend themselves ahead of a final ruling. Last year the Brazilian Association of Cryptocurrency and Blockchain (ABCB) filed a complaint with CADE over banks blocking new fintech, cryptocurrency and other new market entrants from doing business. The banks maintain that they are concerned about the origin of money that flows through accounts, and that their motivations are to comply with anti-money laundering regulations, not curbing competition. Regulators across Latin America have been experimenting with ways to address new market entrants. Eco-

## NEWS BRIEFS

## Twenty-Five Killed as Bus Plunges Into Ravine in Western Bolivia

Twenty-five people were killed in western Bolivia Sunday night when the bus they were traveling in crashed trying to pass another vehicle and fell down a ravine. Writing on Twitter, President Evo Morales urged bus drivers to take more care, saying he was "very sad about the terrible accident." Some 1,000 people die and 40,000 are injured in accidents on Bolivia's roads every year, EFE reported.

## Venezuela's Maduro Calls for Massive May Day Counterprotests

Venezuelan President Nicolás Maduro on Monday called for two marches to counter massive May Day rallies being organized by opposition leader Juan Guaidó, Agence France-Presse reported. One of the marches, on Saturday, will mark Venezuela's official exit from the Organization of American States, two years after Maduro made the decision to leave the bloc, accusing it of being a puppet of the United States. On April 9, the OAS recognized opposition leader Gustavo Tarre as Venezuela's representative to the group until new elections are held in the South American country.

## Latin America Helps Drive Halliburton's Int'l Revenue to 11 Percent Rise

Houston-based oil services company Halliburton said Monday that its international revenue in the first quarter of 2019 rose to \$2.5 billion, an 11 percent increase year-over-year, primarily due to increased stimulation and fluids activity in Latin America. Revenue from the region in the first quarter reached \$587 million, a 28 percent increase year over year, due largely to higher activity in Mexico and Argentina. Growth within the region was partially offset by reduced drilling and testing activity in Brazil.

conomic uncertainty has led to a flurry of digital currency trading that has reached an all-time high in several South American countries, particularly Brazil, The Rio Times reported last week. The recorded trading volume in the country surpassed 100,000 Bitcoins earlier this month—a new Latin American record, according to data from the CoinTrader Monitor. [Editor's note: See related [Q&A](#) in the April 19-May 2 issue of the Financial Services Advisor.]

## BUSINESS NEWS

# Avianca Brasil Cancels Flights After Returning Planes

Facing bankruptcy proceedings, Avianca Brasil has canceled more than 1,045 domestic flights this week because it had to return 18 aircraft on Monday to leasing agencies for lack of payment, the Associated Press reported. Brazil's National Aviation Agency said the customers can either get refunds for canceled flights or rebook through partner airlines. Earlier this month, the airline canceled several international routes from São Paulo to New York, Miami and Santiago. Avianca Brasil, which licenses its name from Colombian flagship carrier Avianca Holdings, filed for bankruptcy in December after failing to pay leases on its aircraft. It has also struggled to pay airport fees. Formerly known as Ocean Air, the company functions separately, both operationally and financially, from the holding company, although Colombia's Efromovich family owns both. Local competitor Azul Linhas Aéreas Brasileiras recently backed off a \$105 million nonbinding agreement signed last month that would have given it control of 30 of Avianca Brazil's A320 aircraft in addition to 70 airport slots, Wings Herald reported Monday. Other airlines, such as JetSmart, GOL and LATAM, continue to consider bidding on its assets, according to media reports. Avianca Brasil had been the fourth-largest airline both in domestic and international traffic in Brazil.

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executive, legislative and judicial branches have created a strong sentiment of repulsion to all established political parties. Even though Varela's personal style of government has brought quieter times than the tumultuous Martinelli years, it can't be said that the country has advanced much. Public institutions have suffered greatly and require urgent constitutional changes. In 2018, the Panama Canal Authority contributed \$1.7 billion to the Treasury, the highest amount ever. This was possible because of the successful expansion project, which is producing the predicted revenues with the transit of Neopanamax vessels. Unfortunately, the exact cost of the expansion must be calculated once various arbitrations and claims are settled. Polls show the presidential candidate of the Revolutionary Democratic Party, Laurentino Cortizo, with a sizable lead. However, this is the first time that three independent candidates—of 10 in total—are participating in the electoral process. In particular, Ricardo Lombana is gaining traction, especially in urban areas. It remains to be seen whether the frustration of the population with the establishment could be translated into enough votes to overcome the biggest political machinery of the country. Whoever wins is going to have little room to maneuver. There are many challenges ahead, such as reforming the constitution, the pension system, social security, education, bringing economic growth and, most importantly, wealth distribution."

**A** **Marco A. Gandásegui Jr., professor at the University of Panama and research associate at the Center of Latin American Studies (CELA):** "Panama has not been able to shed its deep dependency on the world economy. Its economy is weak, and its social problems are titanic. President Varela surprised everybody by announcing diplomatic relations with China and accepting promising commercial deals. The Panama Canal's turnover in 2000 and the

construction of larger locks signaled a boom for the economy. Its growth rates surpassed 10 percent for several years in the early 2010s but have since lost steam. The three presidential administrations since 2004 have seen the economy grow at a steady pace, but crucial areas such as education, health care and employment have been left behind. National income has not been wisely invested, and corruption has been an important factor in steering the country in the wrong direction. Since the Panama Canal was built, local businesspeople have catered to U.S. and West European off-shore interests. Panamanian law firms are experts in servicing foreign corporations and their executives. The next government will have its hands full of problems and a complicated political scenario. The most likely winner will try to keep the same course as the current president. The next president will be friendly to foreign investment, especially with China, maintain deregulatory policies, follow Washington's lead vis-a-vis regional affairs and keep a lid on popular demands (such as lower food and medicine prices as well as more and better jobs). There are no prospects for change."

**A** **Orlando J. Pérez, associate dean of the College of Arts, Humanities and Social Sciences at Millersville University:**

"President Varela is poised to leave office with a 15 percent approval rating. While economic growth has remained relatively high as compared to other Latin American countries, it has slowed from the peak in 2011. GDP grew 3.7 percent in 2018, declining from 5.3 percent in 2017. From 2010 to 2018, the economy grew an average of 7.2 percent, reaching an all-time high of 12.2 percent in the second quarter of 2011 and a record low of 3.1 percent in the second quarter of 2018. Despite the growth, Panama continues to be one of Latin America's most unequal countries. Panama's Gini index of per capita household income is 51.9, which

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is much higher than any country in Asia and double in average than the figures found in developed countries. Clientelism remains a major problem and continues to shape citizens' relations with the state. The \$5.5 billion expansion of the Panama Canal has been a major source of economic activity. For Panama, the project guarantees the viability of the country's most important asset. However, questions remain about the ecological impact and Panama's ability to service the debt incurred. Despite Varela's campaign promise to improve Panama's notoriously corrupt judicial system, and the administration's efforts to bring former President Martinelli to justice, the president has been plagued by scandals ranging from the selection of Supreme Court justices to accusations that his campaign received illicit contributions from Odebrecht. Corruption remains the biggest issue, but little serious debate has occurred. Recent polling shows former deputy and minister of agriculture Laurentino Cortizo, of the opposition PRD, leading by double digits."

**A Manuel Domínguez, director general at Llorente y Cuenca Panamá:** "Panama is in a much better position because the country, before the Panama Papers, had been developing a series of reforms in the area of financial transparency, including the approval of seven new laws that define new crimes, as well as the regulation of nonfinancial sectors. By 2019, Panama will grow more than 6 percent, according to World Bank estimates, one of the largest growth rates in Latin America. The investment in expanding the Panama Canal was not only strategic but also profitable. Today, 45 percent of the canal's revenues are due to the expansion. It is a demand that could not have been met without the expansion. The great challenge of the next president is to consolidate the institutionality of the three

branches of the government and to reinforce compliance with the law."

**A Jaime A. Jácome de la Guardia, Panama-based partner at Diaz, Reus & Targ LLP:** "Panama has the second-highest economic growth rate in the region, the highest rate of foreign investment, more efficient public services than average, good transportation infrastructure, communications and energy, a dollarized economy, a sophisticated financial community and a stable liberal democracy. These elements contrast with weak institutionality that is loaded with bureaucracy, corruption and lack of planning and accountability, a slow and unreliable justice system and a populist legislative power. From an economic perspective, whatever the electoral result, the new government will be forced to face a serious economic slowdown. It will also have to face the transformation of the economic model, historically sustained in the financial and logistic services sector and the harmful reputational effect of the 'Panama Papers.' Despite this apparently bleak outlook, the recent improvement in the risk rating and the exclusion from the E.U. grey list are positive messages. The new government should review the institutional framework, solve serious deficiencies in the administration of justice, give transparency and efficiency to public management, leave aside the hegemony of political parties, encourage citizen participation and address the causes of poverty. Panama has all the necessary elements to become a first-world nation; it only has to change the political leadership model. If it does not, it will continue to travel along the path of popular disillusionment that inevitably leads to populism and fanaticism."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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