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## FEATURED Q&A

# What's the Cause of Ecuador's Troubles With Contraband?



Ecuadorian President Lenín Moreno has said he plans to use the country's military to fight contraband. // File Photo: Latin America Advisor.

**Q** Facing a growing problem with contraband, Ecuadorian President Lenín Moreno last month said he would deploy the armed forces to support customs and national police in combating illegal trade. According to industry leaders, in some categories more than half the products sold in Ecuador are now contraband, ranging from tobacco and alcohol to textiles and cosmetics. As a result, Ecuador's government is losing hundreds of millions of dollars each year in tax revenue, and formal employment may be dropping, industry executives say. What factors are behind Ecuador's problems with contraband? How does the country compare to others in the region and elsewhere in the world in addressing it? What strategies work best to stop flows of contraband, and what are the best solutions for Ecuador? Will the armed forces be able to address the problem or are other measures necessary?

**A** Alberto Acosta-Burneo, editor at Grupo Spurrier: "Ecuador ranks among the countries in worst condition to fight against illicit trade in Latin America. According to the 2018 Illicit Trade Global Environment Index conducted by The Economist, Ecuador held position number 60, behind Peru, Colombia, Argentina and Chile. Cigarettes represent 29 percent of seized goods, followed by textiles at 21 percent, electronic products at 14 percent and alcoholic beverages at 5 percent. Contraband is generated due to the price differences between the goods in Ecuador as compared to those abroad. According to the World Bank, in 2018, the retail price for a pack

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## TODAY'S NEWS

### POLITICAL

## Trump Orders New Restrictions on Immigrants

U.S. President Donald Trump has issued new restrictions on asylum seekers at the Mexican border, including application fees and work permit restraints.

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### ECONOMIC

## Argentina Strike Targets Transport

Argentina's largest labor union has called for a nationwide strike today that aims to shut down transportation systems. Domestic and international flights have been canceled, and port activity will be diminished.

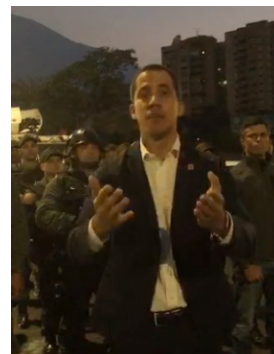
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### POLITICAL

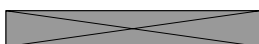
## Venezuela's Guaidó Calls on Troops to Rebel

Venezuelan opposition leader Juan Guaidó posted a video early this morning calling for a military uprising against the government of President Nicolás Maduro. Tear gas was reportedly fired at a highway overpass near a Caracas air base.

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Guaidó // Photo: @jguaido via Twitter.



## POLITICAL NEWS

## Venezuela's Guaidó Calls on Troops to Rebel, Tear Gas Fired

Venezuelan opposition leader Juan Guaidó posted a three-minute video early this morning calling for a military uprising against the government of President Nicolás Maduro, Fox News reported. Saying he has begun the "final phase" of his plan to unseat Maduro, the 35-year-old lawmaker claimed numerous soldiers had joined him and others who took the streets would be acting to protect Venezuela's Constitution. "The national armed forces have taken the correct decision, and they count on the support of the Venezuelan people," Guaidó said in the video, which is posted on Twitter. "The moment is now," he added, surrounded by soldiers and accompanied by opposition leader Leopoldo López, who said supporters had earlier "freed" him from house arrest. In his first public appearance since being imprisoned in 2014 for leading anti-government protests, López said that the military assisted in his release and called on all Venezuelans to peacefully take to the streets today. Minutes after the video was shared, Maduro's government said it was putting down a small coup attempt by military "traitors" working with the opposition, according to the report. Tear gas was reported-

ly fired at a highway overpass near the Caracas air base where Guaidó's video was shot. "It's now or never," said one of the soldiers with Guaidó, his face covered in a blue bandanna in solidarity with the several dozen troops who stood alongside Guaidó and López, the Associated Press reported. Diosdado Cabello, a former official in Maduro's government, called on supporters to amass at the presidential palace to defend Maduro, although he downplayed the significance of the military rebellion, saying the Carlota air base had not been touched. A White House official told Fox News this morning that "things are moving in Venezuela" and that U.S. President Donald Trump has been informed of the developments.

## Trump Orders New Rules on Immigrants

U.S. President Donald Trump on Monday issued new restrictions on asylum seekers at the Mexican border, including application fees and work permit restraints, The Washington Post reported. In a memo sent to the Department of Homeland Security and the Attorney General's Office, Trump also directed that cases in immigration courts be settled within 180 days. More than 800,000 cases are pending, with an average wait time of almost two years, The New York Times reported. "The purpose of this memorandum is to strengthen asylum procedures to safeguard our system against rampant

## NEWS BRIEFS

## Latin America Contributes Bigger Share of Profits for Spain's Santander

Spain-based Banco Santander said Monday that its operations in the Americas, including the United States, contributed 52 percent of underlying profit in the first quarter of the year, the most since 2013, Bloomberg News reported. Despite higher expenses in Argentina, the bank saw stronger growth elsewhere in Latin America, especially Mexico. Santander said it will increase investment in its Latin America business to 30 percent of risk-weighted assets.

## Public Investment in Brazil Could Fall to Record Low: Treasury

Brazil's public investment could drop to a new record low of less than 0.5 percent of GDP this year if the government is forced to cut discretionary spending, the Treasury said Monday, Reuters reported. While the central government's primary deficit shrank over the first quarter of this year, Treasury Secretary Mansueto Almeida said the improvement is "temporary," warning that an uncertain revenue outlook and non-discretionary spending commitments such as social security payouts could constrain public investment, which stood at 0.7 percent of GDP last year.

## Honduras: Protesters Set Fire to Gov't Buildings

Demonstrators set fire to at least four buildings in the Honduran capital of Tegucigalpa on Monday in protest of new legislation they say will privatize health services and public education, Reuters reported. Riot police used tear gas against hooded protesters, who lit mayoral offices on fire. Teachers' and doctors' unions have been on strike since Friday to protest the new law, which the government of President Juan Orlando Hernández denies would privatize education and health services.

## FEATURED Q&amp;A / Continued from page 1

of a best-selling cigarette brand in Colombia was 32.3 percent of the price in Ecuador. In Peru, the price of the best-selling cigarette was 65.2 percent of the Ecuadorean price. The solution to the contraband problem doesn't include deploying the armed forces, nor increasing the number of customs and national police officers. The solution requires dismantling the import substitution model that has steeply increased internal prices and destroyed competition. Ecuador's tariffs and taxes on products are too high, as compared to those of neighboring countries. Reducing them would be more effective in

eliminating contraband. The only way to destroy contraband is by making it uneconomical. By reducing the abysmal price differentials, contraband will cease to be a lucrative business and will perish."

**A** **Ramiro Crespo, president of Analytica Securities in Quito:** "Arbitrage is the simultaneous buying and selling of the same asset in different markets in order to benefit from price differences. The practice ends when the prices are equalized. Ecuador has

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abuse of our asylum process," Trump said in the memo. As with other Trump policies, the new restrictions are expected to be contested by immigrant advocates in court. Julián Castro, a Democratic presidential candidate from Texas, called the new orders "truly sickening." Officials have 90 days to draw up regulations that would carry out the orders.

## ECONOMIC NEWS

### Argentina Strike Targets Transport

Argentina's largest labor union has called for a nationwide strike today that aims to shut down transportation systems, La Nación reported. Hugo Moyano, the head of the powerful CGT labor confederation, said the strikers will mobilize at the Plaza de Mayo in Buenos Aires in order to protest the economic policies of conservative President Mauricio Macri. Domestic and international flights have been canceled, and port activity will be diminished, according to La Nación. In response to reports that some protesters overnight had set fire to a bus to block a highway, Minister of Security Patricia Bullrich said this morning she had ordered "an intense deployment" of security forces and pledged to keep open the country's highways and national transportation corridors. Not all unions decided to join the strike, however. Most of the country's major banking associations said Monday they will remain open to the public today. Facing elections in October, Macri has struggled to pull the country's economy out of recession while inflation continues to rise at troubling rates. On Monday, the central bank said it would ease limits on its foreign exchange market interventions, signaling its willingness to sell reserves of U.S. dollars to control the volatility of the peso, the Associated Press reported. The International Monetary Fund, which last year backed Macri's policies with more than \$50 billion in loans, endorsed the central bank's move. "We support these measures, which are well calibrated to the challenges facing Argentina," IMF spokesman Gerry Rice said.

## TECH BRIEFS

### Uber, Didi Criticize New Regulations in Mexico City

Uber, Didi and other online apps that offer transportation services last week complained of new regulations in Mexico City that, among other things, prohibit drivers from accepting cash payments, Reuters reported. The rules also require drivers to register with the local government and establish a limit on the value of the vehicles they can use. "It worries us that, as proposed, this reform creates a series of entry barriers that will have serious repercussions on the economies of families and individuals that today have an income thanks to mobility applications," Uber, China's Didi, Spanish company Cabify and Greece's Beat said in a joint statement. The firms added that they had agreed to work with Mexico City authorities to update regulations in February, but that officials decided on the new rules unilaterally. In a separate statement, Uber said the regulation violates a ruling by Mexico's Supreme Court last year that allowed the ride-hailing application to accept cash payments in a different Mexican state. The U.S. company has previously said cash payments are important in order to provide its services to millions of customers in Mexico, where more than half of the population lacks a formal bank account. Mexico City Mobility Secretary Andrés Lajous said the new rules seek to eliminate corruption and level the playing field for all online transportation services.

### China's Xiaomi Opens First Store in Chile

Chinese electronics company Xiaomi last week opened its first physical store in Santiago, Chile, FayerWayer reported. The Beijing-based firm said it was planning to expand its presence in Chile, with a goal of opening six more stores by the end of the year. Among other products, Xiaomi sells cellphones and accessories as well as electric scooters and domestic appliances. The store opened as Chilean President Sebastián Piñera spoke at an investment forum in China, where he said Chile's objective was to attract more investment from Chinese companies in technology, electric vehicles, telecommunications and e-commerce, Reuters reported. "We want to transform Chile into a business center for Chinese companies, so that you can, from Chile, reach out to all of Latin America," Piñera told investors in Beijing.



Piñera // File Photo: Chilean Government.

### SoftBank Close to Investment in Colombia's Rappi

Japan's Softbank is close to making a \$1 billion investment in Colombian delivery company Rappi, Bloomberg News reported Monday, citing a source familiar with the matter. A deal could be announced as soon as this week, the source said. The investment is likely to be headed by the company's Innovation Fund, which was recently created to focus on technology investments in Latin America. Rappi, which was valued at more than \$1 billion in its last fundraising round in September, is an on-demand delivery service with presence in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay.

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subsidized the consumption and contraband of gasoline, diesel and liquefied gas since the 1970s. Their sale has been at much lower prices than in Colombia, Peru and Chile. Has organized crime been using arbitrage for 50 years, has it been so powerful that it influences elections and debate on public policies? Does it also influence which public companies—such as Petroecuador—do not have updated and audited financial statements, and prevent the elimination of subsidies and fuel price increases to eliminate arbitrage? This corrupting structure would

“Ecuador has subsidized the consumption and contraband of gasoline, diesel and liquefied gas since the 1970s.”

— Ramiro Crespo

allow organized crime to smuggle to and from neighboring countries—it would have the money and logistical capacity. Subsidies, protections, lower taxes and a local currency allowed the growth of local industries. Dollarization, high costs and low labor flexibility, a small financial system, high taxes to finance the state—the ‘philanthropic ogre’—depreciation and amortization policies and a market of uncompetitive inputs now make local production too expensive, unless it has enormous comparative advantages. Ecuador must eliminate these subsidies, reduce and simplify import tariffs, make the labor market more flexible, attract foreign banks, develop its stock market and reduce the cost of social security. Use of the armed forces is a temporary and a dangerous solution: they can be corrupted.”

**A** **Fernando Carrión, professor and researcher in the Department of Political Studies at FLACSO in Ecuador:**

“Contraband has changed substantially in Latin America, thanks to globalization and the development of new communications technology. Previously, smuggling was about ‘complementary asymmetries’ between bordering countries; today it operates, on the one hand, through regional centers of product distribution, and, on the other hand, with the use of technological applications that blur country limits. There has also been a change in the organization of such crimes. While before it was handled by smugglers who become strong because they knew both border territory and border institutions, today, there are traffickers operating in a global network that not only moves a product from one side of the border to another, but that also does this between distant territories and with criminal sectors linked to drug trafficking, irregular migration, human trafficking or the sale of human organs. For this reason, confronting an economic issue with national security policies (using armed forces and police) will produce an increase in complementary asymmetries and the products’ prices. Moreover, approaching the global criminal network from a nationalist stance will not have positive results. In the case of Ecuador, the situation is aggravated by the rigidity introduced by the absence of a monetary policy, since its currency is the U.S. dollar—a devaluation in Colombia or Peru generates large distortions. If special economic policies in border areas are not introduced, if the ‘methodological nationalism’ is not overcome, and if we don’t incorporate border communities, the issue will continue to grow.”

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**Erik Brand**

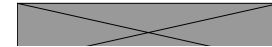
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