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FEATURED Q&A

Is Infrastructure Latin America's Silver Bullet?



Latin American and Caribbean countries can boost economic development by spending more on infrastructure, according to the Inter-American Development Bank. The Puente de la Unidad in Mexico's Campeche State is pictured. // File Photo: State of Campeche.

Q Latin American and Caribbean countries can accelerate increases in per capita income if they boost investment in infrastructure in the industrial, commercial and agricultural sectors to match those of developed OECD countries, according to a recent study by the Inter-American Development Bank. Latin America and the Caribbean not only lag in the amounts invested in infrastructure, but also in their quality, the report said. Should countries in the region spend more on infrastructure projects, and what has held back higher levels of infrastructure spending in the past? To what extent have funds already invested in infrastructure in Latin America been used wisely? Is infrastructure the key to driving economic growth in the region, or should other areas be prioritized?

A Carlos Santillán, president of Mexican infrastructure operations company **ciaO**: "Countries should spend more on infrastructure projects, as one can see in the case of Peru, for example, where growth rates are bigger than in the rest of the region. This can be directly explained by the investment in and development of the country's infrastructure. However, one can see, for instance, that even though in the United States investment has also slowed down (in the interstate roads sector), the growth rate there does not apparently depend on infrastructure development. The difference must be the maturity of each system. What has held back higher levels of spending is the lack of well-planned and formulated projects, which the political environment very much affects. It is necessary to develop institutions that follow the cycle of different phases of infrastructure development, as

Continued on page 3

TODAY'S NEWS

POLITICAL

U.S., Canada Sanction Officials in Nicaragua

The United States and Canada announced they were imposing sanctions against high-ranking Nicaraguan officials in connection with human rights violations in the government's crackdowns on protesters.

Page 2

ECONOMIC

Argentina Posts Largest Monthly Surplus Since 2011

The country last month saw its highest monthly primary fiscal surplus in eight years, reaching nearly 26 billion pesos.

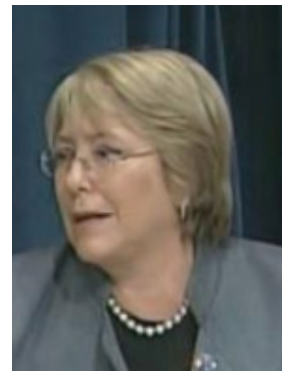
Page 2

POLITICAL

U.N. Rights Chief Calls on Venezuela to Release Jailed Demonstrators

U.N. human rights chief Michelle Bachelet ended a three-day visit to Venezuela by calling on the country's government to release all those who have been detained in peaceful protests.

Page 2



Bachelet // File Photo: United Nations.

POLITICAL NEWS

U.N. Rights Chief Calls on Venezuela to Release Prisoners

U.N. High Commissioner for Human Rights Michelle Bachelet capped off a three-day visit to Venezuela on Friday by calling on the government to release all those who have been detained for peacefully protesting and said that officials from her office would remain in Caracas to monitor the human rights situation. "In my meetings with victims and their families, their deep yearning for justice for grave human rights violations was made painfully clear," Bachelet, a former Chilean president, told reporters just before departing Venezuela, according to the United Nations. "I sincerely hope that our assessment, advice and assistance will help strengthen torture prevention and access to justice in Venezuela." Bachelet added that the government of Venezuelan President Nicolás Maduro had guaranteed that her team would have full access to detention centers in order to speak to detainees and monitor conditions. During the trip, Bachelet met with Maduro and opposition leader Juan Guaidó, whom dozens of countries have recognized as Venezuela's legitimate president. "I also met victims of human rights violations and their families," said Bachelet. "The man who told of his brother's torture, humiliation and killing by hooded FAES security officers in a raid on his house—and the many other heartbroken families whose loved ones suffered a similar fate." Bachelet added that the people with whom she met told her of "how astonishingly the humanitarian situation in Venezuela has deteriorated, including with regards to the rights to food, water, health care, education and other economic and social rights." The health care situation in the South American country "continues to be extremely critical," with rising costs, a lack of medicines, a rise in teenage pregnancies and increases in maternal and newborn mortality rates. Bachelet added that there is a need to address the causes of Venezuela's crises and said she was concerned about U.S. sanctions

on the Andean nation's oil exports and gold trading, which "are exacerbating and aggravating the pre-existing economic crisis," she said. Bachelet visited at the government's invitation, and her trip came ahead of today's opening of a three-week session of the U.N. Human Rights Council, at which Western nations are expected to level heavy criticism at Maduro amid the country's economic crisis and the refugee crisis that it sparked, Reuters reported. Some four million people have fled the country. In remarks on state television Friday night, Maduro said his government was cooperating with Bachelet. "We've taken a first step to bring the Venezuelan state and society toward a fluid relationship of cooperation on human rights," he said, The Wall Street Journal reported. In related news, six members of Venezuela's military and police have been arrested, BBC News reported today, citing activists. Those arrested include an Air Force brigadier general and former police officers. The arrests came amid a crackdown by Maduro's government following a military uprising led by Guaidó that failed to dislodge Maduro from power. More than 700 people, including 100 members of the military, have been detained in Venezuela for political reasons, according to the Penal Forum rights group, BBC News reported.

ECONOMIC NEWS

Argentina Posts Largest Monthly Surplus Since 2011

Argentina registered its largest monthly primary fiscal surplus in eight years in May, reaching nearly 26 billion pesos, or roughly \$600 million, the government said Friday in a statement. The figure amounts to approximately 0.2 percent of GDP and is the highest amount posted since 2011, La Nación reported. In the same month last year, Argentina had a primary fiscal deficit of 7.8 billion pesos. The government of President Mauricio Macri, who is running for a second term in the country's October election, has been implementing an austerity program to

NEWS BRIEFS

U.S., Canada Sanction Nicaraguan Officials

The U.S. and Canadian governments have imposed new sanctions on top Nicaraguan officials in connection with the Ortega government's crackdown on demonstrators, the Associated Press reported Friday. The United States said it was sanctioning National Assembly President Gustavo Porras, telecommunications institute director Orlando José Castillo, Health Minister Sonia Castro and Transportation Minister Óscar Mojica. Canada did not name the officials it was sanctioning.

Ecuador's Constitutional Court Rejects Referendum on Mining Projects

Ecuador's Constitutional Court has unanimously rejected a request calling for a referendum to decide on mining projects in several communities, Mining Journal reported Friday. The magistrates rejected the petition on the basis of technicalities. The vote would have affected miner SolGold's Cascabel project, which the company has said has the potential to become one of the world's largest copper, silver and gold mines. SolGold's share price rebounded following the decision.

Paraguayan Businessman Extradited to Miami in Money Laundering Case

Paraguayan businessman Nader Mohamad Farhat, the operator of one of the largest currency exchange businesses in the Tri-Border Area of Paraguay, Argentina and Brazil, has been extradited to Miami, where he will appear in federal court this week on charges including conspiring to launder money from drug-trafficking proceeds, the Miami Herald reported. Farhat stands accused of laundering hundreds of millions of dollars in connection with drug traffickers and other criminal groups with suspected ties to the Hezbollah terrorist group.

help meet objectives included in a \$57 billion deal with the International Monetary Fund last year. The newly released data marks a “major step” toward meeting the targets with the international lender, the Treasury said, Reuters reported. The IMF is currently carrying out its



Macri // File Photo: Argentine Government.

fourth review of Argentina’s program, after which it is expected to release nearly \$5.5 billion in funds. The first quarters of the year tend to be periods of lower spending, which is expected to surge in the coming months, La Nación reported. [Editor’s note: See related Q&A in the April 15 issue of the Advisor.]

BUSINESS NEWS

Petrobras Paying Vantage \$200 Million in Contract Case

Brazilian state oil company Petrobras has paid \$700 million to Houston-based oil services provider Vantage Drilling in connection with a case regarding a contract that Petrobras had terminated, the U.S. company said Friday in a statement. The move followed a decision by a U.S. court in Texas denying Petrobras’ request to cancel an earlier arbitration ruling in the Netherlands, which Vantage had pursued after Petrobras terminated a drilling contract in 2015, Reuters reported. Petrobras at the time claimed the contract had been awarded to Vantage “by way of corruption,” according to discoveries made in Brazil’s massive “Lava Jato,” or Car Wash, corruption probe. Vantage denied the accusation, arguing instead that the contract was “wrongfully terminated.” It won the Dutch arbitration case, and Petrobras ap-

FEATURED Q&A / Continued from page 1

opposed to administrative cycles of governments—I can say this at least for Mexico. For the same reason, investment has not been used wisely in all cases. But there is also a huge lack of focus in general that confuses things. Infrastructure is often confused with its construction phase, which is only a relatively small phase in the whole process of infrastructure development: planning and—mostly—operating the infrastructure are of essence in the success of a project’s development. So, in this sense, infrastructure is a key factor of development, if it is managed and viewed integrally as a whole—planning, building and operating—and, more exactly, if it really focuses on improving the quality of life of the people who demand it and is not viewed just as a construction or financing business.”

A **Juan Antonio Cuartero, managing partner of Structuralia:** “In recent years, Latin America and the Caribbean (LAC) has significantly increased investments in the development and construction of infrastructure, but despite this, there is still an infrastructure deficit as compared to OECD countries. Consequently, LAC countries must continue this positive trend investing in construction projects, which in the end will affect both the quality of life of their citizens and economic growth. Indeed, infrastructure is necessary for development and, in the past, the region should have had a higher level of investment in infrastructure projects. Fortunately, the current situation and prospects for the future are quite different, since LAC is one of the most attractive regions for investment. An example of this is the amount of renewable energy projects being carried

pealed the ruling in the Texas court. Petrobras said it decided to make the payment in part to free up assets that had been frozen in the Dutch arbitration case to pressure the company to comply with the ruling, the wire service reported. Petrobras added that the payment

out, which highlights the great potential the region has in this sector. The reality is that the development of infrastructure must be aligned with the needs of each country’s specific territory, as it can be seen, for example, in the immense improvement the region has undergone in terms of transport and electricity distribution networks. Behind any infrastructure project that brings welfare and economic and social development, there is always an important investment

“LAC is one of the most attractive regions for investment.”

— Juan Antonio Cuartero

effort by public administrations and private companies (in models such as public-private partnerships), which is necessary for these projects to materialize. Likewise, it’s important to highlight the role of professionals, architects and engineers, who make projects possible and who are increasingly better prepared and qualified to overcome construction challenges. Undoubtedly, infrastructure development is a key priority for the region’s dynamism and economic growth. According to experts, infrastructure spending is already a highly reliable indicator of a country’s economic health, which shows the great impact construction has on regions’ progress. LAC has a unique opportunity to continue the growth it has had in recent years, in large part due to an increase in infrastructure investment. Such investments, either public or private, will play a crucial role, along with other engines of the economy, in the economic and social development of the LAC region.”

Continued on page 4

does not mean the end to the litigation and defended its position. “We are very pleased with Petrobras’ decision to make payment in satisfaction of the arbitration award and related U.S. judgment,” Ihab Toma, CEO of Vantage, said in a statement.

FEATURED Q&A / Continued from page 3

A Vera De Brito de Gyrfas, partner in the corporate finance and investment practice at King & Spalding: “Countries in Latin America should spend more money on infrastructure projects. The correlation between investment in infrastructure and GDP growth in the region is strong, suggesting the former is a strictly causal factor in the expansion or contraction of the latter. Countries in Latin America desperately need infrastructural investment and certain leaders, such as Macri in Argentina, Bolsonaro in Brazil and Duque in Colombia, know it, announcing broad

“**Approximately 75 percent of projects report around 50 percent of cost overrun...**”

– Federico Villalobos Carballo

economic plans to close their infrastructural gaps within the next two decades. Brazil has an aggressive plan to double investment in infrastructure to approximately \$65 billion per year by 2022. In the past, factors such as recessions, crashes of commodity prices, currency crises, natural disasters, informal economies, political instability and corruption have held back spending on infrastructure projects. With the recent passage of PPP legislation, the rebound of commodity prices and the election of pro-investor governments, certain countries in the region—including Brazil, Argentina, Colombia and Peru—are aggressively working to attract investors with varied success. While investors seem to be cautious, as evidenced by the notable lack of investment growth in Latin American infrastructure compared to that of the Northern Africa and Asia-Pacific regions, countries such as Peru and Colombia are seeing relative ‘booms,’ in turn spurring their growth in GDP. Guided by international

institutions such as the IMF, the World Bank, the IDB and the OECD, investors and Latin American countries are working to combat the uncertainty, informality and corruption in the region, allowing for increased investment in infrastructure.”

A Federico Villalobos Carballo, partner in infrastructure and capital projects Latin America at Deloitte Central America:

“According to the World Economic Forum’s Global Competitiveness Report, the overall quality of infrastructure in Latin America (61.1) is only above South Asia (59.6) and Sub-Saharan Africa (46.3). However, the region exhibits a wide range of performances with countries such as Chile having outstanding results (75.2) due to a sustained public policy on infrastructure investment. From a regional standpoint, these results are driven by insufficient spending and inefficient project execution. During the past three years, infrastructure spending (energy, transport and water) averaged 2.3 percent of GDP, while estimates indicate annual requirements of 7.4 percent. In addition, approximately 75 percent of projects report around 50 percent of cost overrun, and 65 percent report a six- to 18-month delay. These problems are driven by short-term planning, weak project preparation and regulatory uncertainty. Traditionally, governments are focused on ribbon-cutting, thus minimizing efforts on long-term planning and project preparation (technical, legal and financial structuring), which are critical phases to successful infrastructure development. Furthermore, as the region moves to public-private partnerships, governments must strengthen institutional capacity to provide confidence to local and foreign investors.”

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

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