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THEDIALOGUE

FEATURED Q&A

Will Rejoining ICSID Bring Ecuador New Investment?

New President Guillermo Lasso has returned Ecuador to the World Bank's International Center for Settlement of Investment Disputes, or ICSID. An ICSID hearing room in Washington is pictured. // File Photo: ICSID.

Q Ecuador has rejoined the World Bank's International Center for Settlement of Investment Disputes, or ICSID, more than 10 years since it left the arbitration body. The administration of new President Guillermo Lasso said membership in the arbitration tribunal is an important step toward attracting investment and establishing new trade partnerships. How significant is Ecuador's move to rejoin ICSID? What else does the Lasso government need to do to boost investment in the country and secure Ecuador's credibility in the international community? To what extent is the Andean nation likely to join the Pacific Alliance trade bloc, which also includes Chile, Colombia, Mexico and Peru, and what would this mean for Ecuador's potential to increase levels of exports and imports?

A **Jonathan Hamilton and Francisco X. Jijón, partners at White & Case LLP:** "The cycles of Latin American history persist: some countries continue to oscillate between nationalist and market-oriented macroeconomics, with related shifts in international dispute policies. The return of investment protection policies in Ecuador shows that it has come full circle in just more than a decade. In a sign of the times, Ecuador, like most countries in the region, ratified investment protection treaties around the turn of the century and also ratified the ICSID Convention, submitting to international arbitration before ICSID at the World Bank. Ecuador then changed course under the Correa administration, which took strong steps affecting foreign investment and deconstructing the framework for protecting investment, including pulling out of the World Bank arbitration system in 2009 (which became effective

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TODAY'S NEWS

POLITICAL

U.S. Releases List of Allegedly Corrupt Central America Officials

The U.S. State Department released a list of 353 Hondurans, Salvadorans and Guatemalan who it says have engaged in corruption or undermined democracy.

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ECONOMIC

Remittances to Mexico Hit Record $4.5 Billion in May

Mexico's level of remittances hit a record one-month level of more than $4.5 billion in May, according to the country's central bank.

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ECONOMIC

Colombia Loses Investment-Grade Status With Fitch Downgrade

Colombia lost its investment-grade status as Fitch Ratings downgraded its long-term sovereign debt rating for the country to junk status. The move was a blow to President Iván Duque.

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Duque // File Photo: Colombian Government.

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POLITICAL NEWS

State Department Lists Allegedly Corrupt Officials

The administration of U.S. President Joe Biden on Thursday released a list of 353 Hondurans, Salvadorans and Guatemalans who it says undermine democracy or are suspected of having links to corruption in the three Central American nations. On the list are at least 50 current and former high-level officials, including former presidents and active legislators, the Associated Press reported. Among the names on the list are former Honduran President Porfirio Lobo and his wife Rose Elena Bonilla de Lobo and former Guatemalan President Álvaro Colom, all of whom the report alleged "engaged in significant corruption." The three have previously denied wrongdoing. Colom spent nearly six months in jail in 2018 while he was investigated but was freed on bail. The State Department presented the list to the U.S. Congress in compliance with the "U.S.-Northern Triangle Enhanced Engagement Act" that U.S. Representative Eliot Engel (D-N.Y.) pushed last year, the AP reported. "Actions that undermine the rule of law and democracy in Guatemala, Honduras, and El Salvador, and their repercussions on the lives of the people in these countries, contribute to irregular migration and destabilize entire societies," said Secretary of State Antony Blinken. "Corruption undermines democracy and public trust. Better governance means a better future," he added. Addressing corruption in Northern Triangle countries is a key component of the Biden administration's policy seeking to address the root causes forcing hundreds of thousands of citizens to migrate to the United States. The crucial aim of Biden's plan is "the integration of projects resulting in better functioning governments, strengthening democratic institutions and providing security and stability to citizens," Mari Carmen Aponte, former U.S. ambassador to El Salvador, told the Advisor in a **Q&A** published March 12. "This entails prioritizing difficult, tough issues, such as corruption," she said.

ECONOMIC NEWS

Mexico's Remittances Hit Record Level, $4.5 Billion in May

The amount of money that Mexicans abroad sent back home topped $4.5 billion in May, a record monthly level, the country's central bank announced Thursday. In March of last year, remittances to Mexico surpassed $4 billion for the first time, and now Mexicans abroad regularly send more than that amount back home, the wire service reported. The record level in May followed records in March and April. May is traditionally a strong month for remittances to Mexico because of Mother's Day. So far this year, the amount of money transfers sent to Mexico fell below $4 billion only in January and February, which are traditionally slow months for remittances. For the first five months of this year, Mexico's remittances amounted to $19.2 billion, a 21.7 percent increase as compared to the same period last year. If the current trend continues, Mexico could take in some $45 billion in remittances this year. Only manufacturing exports bring Mexico more foreign income than do remittances, which surpass the country's income from oil exports and tourism. Mexico's level of remittances also has set records for five consecutive years, the AP reported. The $40.6 billion that Mexicans abroad sent back home last year roughly equaled the budgets of the Mexican government's ministries of education, health, labor, welfare and culture combined. Approximately 98.5 percent of Mexico's remittances come from the United States, nearly all via bank transfers or wire transfers. Cash accounts for only about 0.7 percent of the country's remittances, the wire service reported. Factors including a "competitive" dollar/peso exchange rate as well as a "deep contraction of activity and employment in Mexico" have helped to fuel remittances from the United States to Mexico, Alberto Ramos, managing director and head of Latin America economics at Goldman Sachs, said in a note. "The robust activity and income growth profile in the U.S. should keep remittances flow

NEWS BRIEFS

Colombia Loses Investment-Grade Status as Fitch Downgrades

Colombia on Thursday lost its coveted investment-grade status, which it had held for a decade, as Fitch Ratings downgraded its long-term sovereign debt rating for the country to junk status, the Financial Times reported. Standard & Poor's took similar action in May. Fitch said its decision was due to factors including a deterioration in Colombia's public finances and rising government debt.

El Salvador's Bukele Seeks 20% Minimum Wage Hike

Salvadoran President Nayib Bukele on Thursday requested the country's minimum wage be increased by 20 percent from August, saying the impact of global inflation has hurt Salvadorans, Reuters reported. In a video posted on Twitter, Bukele also said the government would subsidize micro, small and medium-sized firms for 12 months to cover the wage hike, in a bid to shelter consumers from price increases. "We can do little to change the rules of the world market, but we can do some ethical things," Bukele said in the video.

Chile Reaches Deal for Bond Listings on Euroclear Platform

Chile has reached a long-awaited deal with Europe's largest securities settlement house, Euroclear, to include the Andean nation's corporate bonds on the firm's international investor platform, Reuters reported, citing Andrés Pérez, the Chilean finance ministry's coordinator for international finance. Although Chile's government bonds had earned so-called "Euroclearability" in 2017, its addition to the $20 billion-$25 billion domestic corporate bond market had lagged due to government changes and technical issues including tax treatment, according to the report.

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strong in 2021," said Ramos. "Solid workers' remittance flows have been adding support to the current account and to private consumption, particularly for low-income families, who have a high propensity to consume and are the overwhelming recipients of such transfers."

BUSINESS NEWS

Top Oil Companies Eye Plans to Drill in Colombia: Minister

Some of the world's largest oil companies have plans to start drilling in Colombia this year and next year, Energy Minister Diego Mesa told Bloomberg News in an interview published Thursday. Mesa said Royal Dutch Shell is set to start drilling off the coast of the Andean nation this year, while ExxonMobil and Spain's Repsol, in addition to Colombian state oil company Ecopetrol, plan to do so in 2022. "International oil companies are more focused on the offshore potential," Mesa said in the interview. "They are working on getting the rigs for next year." Spokespeople for Exxon and Repsol did not immediately respond to the news service's request for comment. Explorers, including Brazilian state firm Petrobras, have found oil and gas in Colombia's deep water, but none of the fields have begun production. Exploration and development off Colombia's coast is crucial for the country to reverse dwindling oil and gas reserves and strengthen energy security in the near future, according to the report. In similar news, earlier this week Mesa announced that Colombia is planning to launch a plan to develop the production and use of hydrogen as an energy source, Mesa told Reuters in an interview. The government in September is set to publish a road map for the next 30 years establishing the production, use and export of hydrogen, Mesa said. Colombia has the sixth-largest quantity of renewable water resources in the world, which Mesa said would put it in an ideal position to produce green hydrogen, which is made by splitting water.

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in 2010), as well as by terminating bilateral investment treaties, some of which are still in force under survival provisions. Now, under the new Lasso administration, Ecuador has signed up to resume participation in the same World Bank dispute resolution mechanism. This step is subject to ratification. Ecuador is also seeking to enter into new investment treaties and the Pacific Alliance. It is almost as if the Washington Consensus is back on track in Quito. Ecuador's shift emerges, however, at a time of disruption to globalization, the assumptions of the Washington Consensus and investor confidence in the region. Investors, and internationalists, will embrace Ecuador's step as a hopeful sign. Time will tell."

Francisco Jarrín, president of the Chamber of Industries of Guayaquil: "Rejoining ICSID is a clear message to the international community of Ecuador's commitment to creating a new business environment for foreign investors. Most bilateral international treaties (BITs) use ICSID for state-investor disputes, so being part of it is a necessary step to subscribe to new investment treaties including with the United States and European countries. It is extremely important that the new government and legislature improve the country's competitiveness and business environment. On the one hand, the government must eliminate all procedures that excessively hinder companies' operations as well as tariffs that affect production costs. On the other hand, the government and the National Assembly should work together to pass labor, tax, finance, monetary and stock market reforms, as well as investment promotion, among others. The new government must focus on restructuring and optimizing public spending to reduce the pressure to increase public debt, as well as eliminate all distorting taxes. We have high expectations that Ecuador will subscribe to a trade agreement with Mexico. The negotiations are advanced and expected to conclude before year-end. This negotiation is important not only because it will allow us to take advantage of the potential trade opportunities but also because it will open the door to entering the Pacific Alliance, which is one of the most successful integration schemes in recent times. Beyond the expansion of trade, the significance of the Alliance to Ecuador lies in the investment opportunities that improved business conditions bring as part of the country's commitments, as well as the opportunity to participate in future trade negotiations, especially with Asian countries."

Leonardo Stanley, associate researcher in the economics department of the Center for Study of State and Society (CEDES): "The 1990s witnessed a surge in economic and legal reforms that prioritized markets over government in allocating economic resources. The new framework favored foreign investors, installing a top-down, quantitative approach to FDI. Unexpectedly, the benefits of bilateral investment treaties (BITs) proved minimal, and damages for alleged breaches increased. Criticism of these agreements erupted, with the argument that such deals can potentially undermine investment. Meanwhile, environmental NGOs pleaded with international organizations for changes toward a more holistic perspective on growth, saying development should be socially inclusive and environmentally sustainable. Civil society pressure regarding implementation of social and environmental development goals came to challenge the top-down approach, paving the way for a new, bottom-up, qualitative approach. FDI quality (not quantity) is becoming mainstream, and, due to constituencies' pressure, mandatory for governments around the world. Lasso's decision looks toward the past; unfortunately, he is not alone. Latin America's global insertion remains correlated to natural resource exploitation, with Ecuador relying on exports of fossil fuels. Climate change challenges governments

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around the world; the energy transition requires structural change for oil-exporting countries. The neoliberal discourse remains a cornerstone of Latin America's international insertion, relying on a static comparative model and a traditional, neoliberal financial viewpoint. The oil industry lobby undermines any attempt at change. A mix of political weaknesses and ideological prejudices prevents any progress toward a strategy of productive diversification. Rejoining ICSID, passively entering into new BITs and empowering investors (mostly coming into the oil sector) is bad, sad news—for Ecuadoreans, for the environment and for the world."

Siobhan Morden, managing director at Amherst Pierpoint Securities: "The announcement of Ecuador rejoining the World Bank's arbitration body follows a broader strategy under the Lasso administration to reopen the economy to international trade and investment. This builds upon an initial reopening under the former Moreno administration to transition from autocracy back to democracy and depart from the inward isolation of Correísmo. The improvement in U.S. diplomatic and trade relations should further capitalize on already high integration under dollarization with a push to broaden global trade agreements. The current constraints of weak dollarization should force policy pragmatism with friendly creditor relations and policy orthodoxy as necessary criteria to access external credit and foreign direct investment. There are few options for the large gross financing needs and near saturation of local funding markets. It's too soon to say whether the Lasso administration will succeed in attracting capital inflows and overcoming the reputational stigma of repetitive crisis and policy mismanagement. The important test is whether there is broad social and political awareness of what is necessary to defend dollarization. This will require commitment to controversial economic reforms to reduce the structural fiscal imbalance and improve labor market flexibility. The elections weren't so much an endorsement of an economic reform agenda under the Lasso administration but rather a rejection of the corruption and autocracy of Correísmo. The burden is on the political team to raise social awareness and broad support for the reform agenda, which is no easy task in the aftermath of the pandemic and the regional pushback to austerity measures."

Ramiro Crespo, president of Analytica Securities in Quito: "Even Ecuadoreans barely trust Ecuador's judicial system. There is a big effort underway to clean it up. However, it is a herculean effort—there are too many incentives for corruption and moral hazard. For example, state-owned enterprises, which are monopolies in-so called 'strategic' sectors, are black boxes: they do not have externally audited financial statements, they lack competent oversight, and many times they are run by people who become politicians to access businesses in the oil, telecommunications and electricity sectors in a significantly corrupt fashion. Hence, a clear example of adverse selection of politicians that brings poor governance. In this corrupt environment, independent and impartial judges are critical. Investors are aware that ICSID has ruled against Ecuador several times, so it will be unimaginable to have first-order foreign investors with no arbitration treaty of this kind. Furthermore, Ecuador needs to sign a trade agreement with the United States and Mexico and join the Pacific Alliance, which is very likely to occur before the end of the year. This will lead to the diversification and growth of the nation's imports and exports. Additionally, Lasso's government needs to follow Brazil and Colombia's example of bringing oil and other state-owned companies to global financial markets in the shape of public-private partnerships (PPP), and create a local equivalent of a strong securities and exchange commission (SEC)."

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

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Subscription inquiries are welcomed at
ebrand@thedialogue.org

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