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FEATURED Q&A

Is Panama Making the Right Move by Recognizing China?



During a visit last month to the Inter-American Dialogue, Panamanian President Juan Carlos Varela defended his government's decision to switch his country's diplomatic recognition to China from Taiwan. // Photo: Missy Reif/Inter-American Dialogue.

Q Panamanian President Juan Carlos Varela on June 21 defended his country's decision the week before to give diplomatic recognition to China, effectively cutting off diplomatic relations with long-time ally Taiwan. He said the move was "the right thing to do," adding that it would bring investment and trade to the country. Did Panama make the right decision in giving diplomatic recognition to China? What will be the consequences for Panama, China and Taiwan? How likely is it that other Central American or Caribbean countries will follow suit?

A Bethany Allen-Ebrahimian, contributing writer for Foreign Policy: "This move was more about China putting a diplomatic squeeze on Taiwan than anything else. China and Panama have successfully done business together for decades without having official ties. There was clearly no true economic need for this diplomatic switch to occur. Rather, this was most likely the chosen punishment that Beijing meted out to Taiwan as its independence-minded President Tsai Ing-wen has maintained her coolness toward China, in stark contrast to her Beijing-friendly predecessor Ma Ying-jeou. By poaching Panama, one of Taiwan's few remaining diplomatic partners, China is demonstrating how it can easily continue to reduce the self-governing island's space in the international community. That being said, President Juan Carlos Varela did agree to the switch, so there must have been something in it for Panama. That something is very likely favorable business or trade deals. China is deeply invested in Pacific-Atlantic trade and has made moves to control land and ports around the Panama Canal,

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TODAY'S NEWS

POLITICAL

At Least 28 Killed in Mexico Prison Gang Fight

The fighting broke out in an overcrowded prison in Acapulco, in Guerrero State. It happened on the same day that U.S. Homeland Security Secretary John Kelly was visiting the state.

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ECONOMIC

Colombia, Brazil Crops May Mean Coffee Shortages

Heavy rains and lower prices have affected Colombia's coffee crop, while Brazil is facing a lower-yielding part of its two-year cycle of the crop.

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POLITICAL

Venezuela Has Arrested At Least 102 Troops

At least 102 members of Venezuela's military have been arrested since a wave of deadly anti-government protests began in early April. President Nicolás Maduro has relied on the military to battle the protesters almost daily.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

At Least 28 Killed in Acapulco Prison Riot

At least 28 inmates were killed Thursday after a fight between rival gang members erupted in a prison in the Mexican resort city of Acapulco, Reuters reported. The unrest began in the prison's maximum-security wing, said Roberto Álvarez, the security chief for Guerrero State. In addition to the 28 who were killed, three people were wounded. Authorities responding to the fight discovered bodies throughout the maximum-security wing, as well as inside and near the kitchen and in an area used for conjugal visits, said Álvarez. Four of the dead

The prison was built for 1,624 inmates, but was housing more than 2,000.

were decapitated, an unnamed law enforcement official told Reuters. The prison was nearly 30 percent over-capacity, Álvarez said, adding that the facility had been built for 1,624 inmates but was housing 1,951 men and 110 women. There were reports of gunfire inside the prison, but all of the deaths were the result of stab wounds from improvised weapons, he added. The deadly riot happened the same day that U.S. Homeland Security Secretary John Kelly was visiting Guerrero State, where the prison is located. Kelly, who arrived in Mexico on Wednesday, met with Mexican President Enrique Peña Nieto and other top officials during the trip. He also met with the country's army and navy chiefs on Thursday during a stop in Acapulco. While there, he discussed efforts to fight drug trafficking and also observed a deployment of Mexican troops to destroy opium poppy crops, according to Mexico's defense ministry. Mexico's number of homicides has risen sharply this year to more than 11,000, with murders rising nearly 30 percent in the first five months of 2017, as compared to the same period last year. A power vacuum left by

the January extradition to the United States of Sinaloa cartel leader Joaquín "El Chapo" Guzmán has led drug gangs to battle for control. On Wednesday, at least 14 people were killed in a gunfight between rival gangs in Mexico's Chihuahua State. Last Friday, police in Mazatlán, in Sinaloa State, fatally shot 17 suspected gang members. Thursday's prison fight in Acapulco was the deadliest prison melee since 49 people were killed early last year in a fight between rival gang members in Monterrey. [Editor's note: See [Q&A](#) on Mexico's battle against organized crime in the April 11 issue of the Advisor.]

Venezuela Has Arrested At Least 102 Members of Military

At least 102 members of Venezuela's armed forces have been arrested since a wave of deadly anti-government protests began in early April, the Associated Press reported Thursday, citing military documents it had obtained. Most of the soldiers are being detained in the Ramo Verde prison near Caracas, with the majority being held for alleged offenses such as desertion and abandonment of duty, the wire service reported. Thirteen are being detained on charges of rebellion and treason. President Nicolás Maduro has depended on the military to crush almost-daily protests that have left at least 90 people dead. [Editor's note: See related [Q&A](#) in the May 26 issue of the Advisor.]

ECONOMIC NEWS

Coffee Shortages Possible Due to Colombia, Brazil

There may be shortages in the coffee market next season as heavy rains and lower prices affect Colombia's crop and Brazil faces the lower-yielding part of a two-year cycle, China-based agricultural company Cofco International said, Bloomberg News reported

NEWS BRIEFS

Jamaican, U.S. Officials Discuss Trade, Security

Jamaican Prime Minister Andrew Holness met Thursday with top U.S. officials to discuss bilateral ties in the areas of trade, investment, safety and security, according to Holness' office. The U.S. delegation was led by Thomas Shannon, the acting U.S. deputy secretary of state and undersecretary for political affairs. During the talks, Holness said Jamaica is taking steps to ensure order in its fiscal management system. "Jamaica is a textbook case of a country engaged in good fiscal management. We are now ensuring that those are embedded into our laws and practices," he said.

Peru's Buenaventura Sees Drop in Metals Output

Peruvian precious metals miner Buenaventura saw its gold, zinc and copper output fall in the second quarter while silver output increased during the same period, the Lima-based company said Thursday, Platts reported. Gold output fell to 242,599 ounces from 275,467 ounces year-over-year, while zinc output fell to 17,336 metric tons from 18,247 metric tons during the same period a year earlier, and copper at the El Brocal mine dropped to 10,308 metric tons from 11,677 metric tons year-over-year.

Petrobras Seeking to Sell Paraguay Operations

Brazilian state-run oil company Petrobras today disclosed the initial terms of its plan to sell all of its operations in Paraguay, according to a securities filing, Reuters reported. The company is looking to exit the natural gas distribution sector in Paraguay and will also sell the hundreds of gasoline stations and convenience stores it owns in the country. It will also look to sell its operations at three Paraguayan airports and a distribution unit near the city of Villa Elisa.

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and the East Asian giant has deep pockets. It wants access and it wants investment, and it's willing to pay. From a Panamanian perspective, the choice was likely an easy one. Other countries in Central/South America or the Caribbean will follow suit if China brings attractive deals to the table—and if Taiwan decides to refrain from the 'dollar diplomacy' it pursued in the 1990s, when it competed with China for the diplomatic loyalty of numerous allies, sweetening the deal with trade and development aid. But Beijing also knows that the cross-strait status quo is valuable. If it threatens Taiwan too much, stability may break down, and no one wants to see a return to the military hostility that plagued cross-strait relations in the 1990s. Beijing may be bigger and richer than its island neighbor, but it still has much to lose."

A Vincent Wei-cheng Wang, dean of the School of Humanities and Sciences and professor of politics at Ithaca College: "While nations are free to choose friends and allies based on their perceived national interests, only time will test the wisdom of Panamanian President Juan Carlos Varela's decision to terminate a 107-year-old mutually beneficial diplomatic relationship with the Republic of China (Taiwan) in favor of Communist China. As one of Taiwan's 21 diplomatic allies, Panama received hundreds of millions of dollars worth of economic aid, technical assistance and talent training. Taiwan is the 12th-largest user of the Panama Canal, larger than Germany and the United Kingdom. Taiwan's Evergreen Line, one of the world's largest shipping companies, has a major presence in Panama. Many Taiwanese commercial ships fly Panamanian flags of convenience. Both countries also share solidarity as young democracies. Thus, how Varela delivered Panama's change of heart to a faithful 107-year-old ally left much to be desired. Further, his calculation may falter on faulty assumptions: As one of China's 170-plus allies, Panama is unlikely to receive

the same attention after China achieves its immediate goals. It will also soon discover that the economic benefits that China has promised come with strings attached that expand Beijing's geopolitical influence in Western Hemisphere (thus arousing possible U.S. reactions) and corrupt Panama's governance. The last time Taiwan lost a diplomatic ally in this region was in 2007, when Costa Rica abandoned it. Costa Rica wondered why nobody else followed suit."

A Guo Cunhai, founder and director of CECLA (Comunidad de Estudios Chinos y Latinoamericanos): "Whether or not the decision was right depends on its contribution to national interests. China is playing an increasingly important role around the world, while Taiwan is falling behind. Even before Panama initiated official relations with China, the two countries had maintained close economic ties. According to China's statistics, bilateral trade reached \$6.5 billion in 2016. China is also the second-biggest user of Panama Canal after the United States. Last but not least, the newly established cooperation mechanism of the China-CELAC Forum and natural extension of One Belt One Road to Latin America and the Caribbean (LAC) bring about new opportunities for LAC. Panama's geopolitical position means it has the upper hand in these projects. Just as President Juan Carlos Varela said, diplomacy with China will open a new era full of opportunities for Panama. For China and Panama, it was a win-win result. The move will lead to closer bilateral economic cooperation and will attract more Chinese enterprises' investment and the establishment of regional headquarters in Panama. Winning diplomatic recognition from Panama expanded China's foothold in Central America and gave an explicit warning to Tsai Ing-wen that any move against One-China consensus will not be tolerated. For the Taiwanese leader and for Taiwan's leading party, DPP, it was an absolute loss—the most significant

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Thursday. Heavy rains in Colombia, which is the second-largest producer of Arabica beans for companies including Starbucks, delayed the maturation of coffee plants and led to a smaller and more spread out flowering of the crop, which may hamper the size of the harvest, according to Joseph Reiner, the global head of coffee at the trading arm of Cofco. "This delay to the mid-crop is a function of excess rainfall and prices that aren't providing the necessary incentive for farmers to sell," Reiner said. Colombian coffee production fell 9 percent in June and 23 percent in May due to heavy rains, according to the Colombian Coffee Federation. Coffee farmers harvest mitaca, a smaller crop, from April and harvest the main coffee crop starting in October. Global coffee production is expected to fall 4.4 million bags short of demand in the 2017-2018 harvest season, which starts in October, according to Marex Spectron Group, and Reiner confirmed that Cofco's forecast is close to that.

BUSINESS NEWS

Walmex Rings Up Sales Gains Following Summer Sale

Sales at Wal-Mart de México, known as Walmex, rose in June from the previous month, amid same-store gains in both Mexico and Central America, the company said Thursday, The Wall Street Journal reported. Walmex also saw June sales increase by 8 percent year-over-year to \$2.4 billion, or 43.4 billion Mexican pesos. The gains brought sales for the first six months of the year to 266.5 billion pesos, up 8.3 percent from the same period a year earlier. Same-store sales rose 7.2 percent in June in Mexico and newly-opened stores accounted for 1.4 percent of sales growth in Mexico. Central America saw sales increase by a total of 10.4 percent in June and by 6.1 percent in same-store sales, El Comercio reported. Analysts said the growth in June was mainly supported by Walmex's "Precios Chaparros" summer sale campaign.

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diplomatic failure in recent decades. Under the former KMT leader Ma Ying-jeou, China reached tacit understanding of a diplomatic truce with Taiwan and declined the requests of some LAC countries' diplomatic recognition to China. After Tsai came into office, she broke the rapport and failed to accept One-China consensus. It turned out that China had to give Tsai a lesson. In this sense, establishment of diplomatic China-Panama relation was the product of Tsai's speeches and moves. In the future, whether or not other Central American or Caribbean countries follow suit is up to what Tsai does next. If she will not change her position and instead intensifies the tendency toward pro-independence, more diplomatic recognitions of LAC countries to China are almost foreseeable."

A **Tom Brymer, principal of Panama Advisory International Group:** "Locally in Panama, all that I have heard are positive sentiments about Panama's decision to give diplomatic recognition to China, and this is also evident abroad. China will undoubtedly bring huge investments to Panama. President Varela made a hard decision, but a very good one for both China and Panama. Panama is a hub, and its strategic location is important for China. China is one of the largest customers of the Panama Canal, and even before the announcement, China inked a deal to develop a \$1 billion new deep-water port by the Canal. Chinese media reports that the establishment of ties between the countries and the future investments that it will bring may finally kill the proposed Nicaragua canal project once and for all. Other countries in Central America will benefit as well, and this may be the beginning of closer ties with China regionally. That could be especially good for some of the struggling countries. In Panama alone, where we have a total trade with China of more than \$1 billion annually, trade with Taiwan pales in comparison, and most economists here and abroad

suggest that this alliance should have been done years ago."

A **Carlos Casanova, economist for the Asia-Pacific region at Coface:** "Taipei and Beijing have been competing for the allegiance of the small states that, to date, sustain diplomatic relations with Taiwan. They do so by providing substantial grants and technical assistance in a stratagem that has been referred to as 'checkbook diplomacy.' While this is not an important component of relations between China and other emerging markets, 11 of the 20 countries that still have full diplomatic relations with Taiwan are in Latin America. Compounded with the

“China is likely to compete for the allegiance of the remaining allies of Taiwan in the region...”

— Carlos Casanova

fact that the region has been trying very hard to tap China's vast pool of financing for infrastructure investments under the Belt and Road initiative, this could help explain the renewed interest in checkbook diplomacy. Panama's pivot toward Beijing is significant, given the country's importance as a global transportation and financial hub, as well as the absence of progress with the Nicaragua canal. Panama was also the largest economy with diplomatic links to Taipei. Going forward, China is likely to compete for the allegiance of the remaining allies of Taiwan in the region, but their bargaining power has waned, following from Panama's shift."

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