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FEATURED Q&A

Is the Expansion of the Panama Canal Paying Off?



The Panama Canal expansion project doubled the waterway's capacity and added a new lane of traffic. // File Photo: Panama Canal Authority.

Q The expanded Panama Canal began commercial operations more than a year ago, in June 2016. The Central American country's project to add an additional lane of traffic to the canal cost more than \$5 billion and took nearly a decade to complete. Is Panama's investment in expanding the canal paying off? Are global trade flows robust enough to have made the project worthwhile and competitive with other shipping channels? What will be the long-term impact of the canal's expansion on Panama's economy?

A Juan B. Sosa, consul general of Panama in Houston and former Panamanian ambassador to the United States: "The expansion of the Panama Canal was undertaken with a high degree of optimism as it became clear that the trend toward bigger ships would limit the canal's possibilities. The results of the first year of the expansion indicate that the vision of Panama's leaders proved correct as the canal has surpassed the estimates. Tonnage has increased by 22 percent, for the first time reaching more than 400 million tons of cargo through the canal. Income grew 12.5 percent, one third generated by the new expanded locks, and Panama's government revenue increased by 60 percent to \$1.6 billion. These are impressive results that bode well for the future. As impressive is the new business that is being created. Transportation of liquefied natural gas, which did not exist with the smaller canal, constituted 9 percent of the NeoPanamax transits, generating new business and making Asia and the west coast of the hemisphere accessible to this U.S. export from the Gulf and Atlantic coasts. But the

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TODAY'S NEWS

POLITICAL

Colombia, ELN Begin Fourth Round of Talks

Colombia's government and the rebel group began the new round of talks in Quito. At the end of the most recent round, the two sides agreed on a temporary cease-fire.

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BUSINESS

Toyota Unveils New Corolla to Be Assembled in Venezuela

In making the announcement, the Japanese automaker acknowledged the waning demand for new cars in the South American country, which is beset by political and economic crisis.

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POLITICAL

Brazil's Temer Again Spared From Graft Trial

The lower house of Brazil's Congress voted for the second time this year to spare President Michel Temer from a trial before the Supreme Court on corruption charges.

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Temer // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil's Temer Again Avoids Trial on Corruption Charges

For the second time this year, Brazilian lawmakers on Wednesday voted to spare President Michel Temer from a corruption trial before the country's Supreme Court, despite his deep unpopularity among Brazilians, the Associated

“This accusation is fragile, inept and worse than the first one.”

— Celso Russomanno

Press reported. To avoid being suspended from the presidency and facing trial on charges of obstruction of justice and heading a criminal organization, Temer needed the support of a third of the 513 members of the lower house of Brazil's Congress. He reached the required 171 votes approximately two hours into the voting. The final vote tally was 251 in support of Temer and 233 against him. The rest were abstentions

and absences. Temer survived a similar vote on a bribery charge in August. “This accusation is fragile, inept and worse than the first one,” said lawmaker Celso Russomanno, who voted to support Temer. However, lawmaker Luiza Erundina voted against the president, saying, “I vote with more than 90 percent of Brazilians who have already convicted Temer's corrupted administration.” Temer spent weeks building support through giving out local projects, favorable decrees and sought-after positions. Earlier on Wednesday, Temer was briefly hospitalized due to a urinary tract infection, but he later emerged from the hospital smiling and giving a two thumbs up sign.

BUSINESS NEWS

Argentina's YPF Eyes Investments of More Than \$30 Bn

Argentine state-run energy company YPF on Wednesday said it plans to invest more than \$30 billion over the next five years to boost the country's energy sector, The Wall Street Journal reported. The company is planning to increase oil and gas output by 5 percent annually through 2022 to 700,000 barrels of oil equivalent per day, and it aims to drill more than 1,600

NEWS BRIEFS

Colombia, ELN Begin Fourth Round of Talks in Ecuador

The Colombian government and the National Liberation Army, or ELN, rebel group, the last active rebel group in the country, began their fourth round of peace negotiation talks on Wednesday in Quito amid a cease-fire between the two sides, Agence France-Presse reported. Representatives from Brazil, Cuba, Chile, Norway and Venezuela also attended the talks. At the end of the third round of talks in September, the two sides agreed to a historic cease-fire that began on Oct. 1 and will last until January.

Brazilian Central Bank Slashes Key Interest Rate

Brazil's central bank on Wednesday slashed its benchmark Selic interest rate by 75 basis points, to 7.5 percent, close to its lowest level ever, The Wall Street Journal reported. A quick slowdown in price increases has allowed policymakers to lower the Selic rate from 14.25 percent over the past year. Brazil's annual inflation rate was 2.5 percent last month, below the central bank's 4.5 percent target.

Toyota Unveils New Corolla to Be Assembled in Venezuela

Toyota on Wednesday unveiled a new model of its Corolla sedan, which the Japanese automaker said it would be assembling in Venezuela, a bright spot for a beleaguered economy and its struggling auto sector, Reuters reported. The company is currently producing 20 units per month of the new car, which will only be sold in Venezuela, but added that it plans to increase production next year. Toyota executives acknowledged the waning demand for new cars amid the country's crippling economic crisis, but said they were confident the company could overcome the obstacles.

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greatest impact has been in the container traffic that makes up half of the canal's income. This ability to transit large quantities of containers is paving the way to the creation of new trade routes that will also help Panama to become a premier logistics global hub. The expanded canal is reinforcing the traditional strategic partnership between Texas and the Port of Houston and Panama. Today, 51 percent of the tonnage going through the canal comes from the Asia—U.S. Atlantic/Gulf Coast route, with the Port of Houston as the top destination.

This makes Houston and Texas' other ports

more accessible to Asia and vice versa, creating an opportunity for Texas to become a gateway to the central region of the United States, expanding business opportunities. A change of trade routes takes time, but the expansion of the Panama Canal has already affected trade routes and will have a bigger impact in the future as ports become compatible with the expansion, infrastructure is reinforced and expanded, and companies show even more interest in taking advantage of the economies of scale that the canal brings.”

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wells in order to facilitate conventional oil output. The company is also planning to invest heavily in the Vaca Muerta shale formation, one of the world's largest shale oil and gas fields. YPF is aiming to increase unconventional output by 150 percent, and to have shale oil and tight gas make up half of the country's total production. The decision to ramp up investment came after President Mauricio Macri's Cambiemos coalition won sweeping victories in Sunday's midterm elections, bolstering its presence in Congress and likely giving Macri's agenda a boost in the next two years of his presidency.

Brazil Earnings Help Boost Profits of Spain's Santander

Spain-based Banco Santander saw a jump in earnings in Brazil in the third quarter, benefiting the lender as it took a hit from one-off restructuring costs as it absorbed Banco Popular Español, Bloomberg News reported today. The net income of Spain's largest lender fell to 1.46 billion euros, or \$1.7 billion, from 1.7 billion euros during the same period a year



Álvarez // File Photo: Banco Santander.

before, the bank said. Putting aside the 515 million euros in charges Santander saw in the third quarter, underlying profit rose 17 percent to 1.98 billion euros, and Brazil contributed to about a third of the profits. Profit in Brazil rose 35 percent to 659 million euros in the third quarter, up 4 percent year-over-year. "The numbers came in better than expected in most of Santander's divisions," said Daragh Quinn, an analyst at Keefe Bruyette & Woods. The bank raised its profitability target this month, citing a more positive outlook in Latin America and

THE DIALOGUE CONTINUES

Will U.S., Mexican and Canadian Negotiators Be Able to Rework NAFTA?

Q **The fourth round of negotiations for the North American Free Trade Agreement, or NAFTA, ended on Oct. 17 with U.S., Mexican and Canadian negotiators deciding to prolong the talks through next March, abandoning their goal of reaching an agreement by year-end. Will negotiators be able to strike a deal amenable to all three countries? Will Trump administration demands, blasted as "poison pill" proposals by the head of the U.S. Chamber of Commerce, doom the talks? How will next year's U.S. midterm elections and Mexico's presidential election affect the renegotiations? If NAFTA disappears, what would be the consequences for North America's businesses and economies?**

A **James R. Jones, member of the Advisor board and chairman of Monarch Global Strategies:** "Answers to these questions depend on what happens to the yet-unknown Republican tax proposal. The Trump administration has yet to score a victory on any of President Trump's campaign promises, with his biggest defeat being the pledge to 'repeal and replace Obamacare.' Now the White House and Republican Congress are fully focused on tax reform/cuts that they want to complete before the end of the year. If the tax legislation passes, that will be considered a big win for Trump. Since U.S. Trade Representative Lighthizer was the one who asked for the four-month extension into next year of the NAFTA negotiations, it indicates that the United States would like to

see a new NAFTA completed. I can see compromises even among the more radical U.S. proposals, so that a successful conclusion can be reached early next year. But if the tax proposal also fails, I suspect the president will notify his intention to withdraw from NAFTA and call that a big win. In that case, several lawsuits could be expected to determine whether the president has authority to withdraw or whether a vote from Congress is also required. So NAFTA will be in limbo for several months before a legal opinion is final. That time of uncertainty probably will see a dip in cross-border economic activity, while companies make alternative supply arrangements and adjust to new realities. If the United States ultimately leaves NAFTA, Mexico will suffer some short-term negative economic effects, but I expect it will bounce back fairly quickly as it utilizes its many free-trade agreements to establish new economic relationships to replace the significant amount of trade it does with the United States under NAFTA. It would be a shame if such a scenario happens. North America is the richest area in the world for labor and natural resources. If we continue to integrate our economies without sacrificing sovereignty through extending and improving NAFTA, we will continue to be the dominant economic force for decades to come."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in Wednesday's issue of the Advisor.

positive trends in Europe, as well. Analysts at Deutsche Bank said eight of Santander's 10 core markets saw revenue growth in the three months through September, Reuters reported. Positive results for the bank are expected to be overshadowed by the independence standoff

between the Spanish government and Catalonia, where the lender has a 13 percent market share of deposits. Santander CEO José Antonio Álvarez said the situation in Catalonia was not good for business throughout Spain, though it was too early to assess the impact on activity.

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A Rogelio Douglas, president of the Caribbean Sustainable Development Group in Limón, Costa Rica: “While the logistics industry throughout the Caribbean, Central America and much of the United States is receiving billions of dollars in badly needed investments in building up to the Panama Canal expansion and the servicing of the much larger New Panamax ships, there are signs of unintended consequences in the ripple effects of a \$5.25 billion investment shockwave. The effects on global trade have been extensively forecast, and time will bear this out. However, just as important are indirect positive effects on other markets with broader economic impact. An excellent multiyear marketing campaign of the multibillion-dollar investment was bound to focus a huge spotlight on the entire region, not only Panama, creating skeptics but more so attracting multinationals looking for new markets as well as general public interest from abroad, which later converts to tourists. Many of the Caribbean coastal cities in Central America are among the least developed and poorest of their respective countries, yet they often provide the primary gateway for the countries’ marine-based commerce, with huge investment opportunities. Cities that have seen unexpected public-private infrastructure investments include Colón, Limón, Bluefields, Puerto Cabezas and San Pedro Sula, to name a few. Investments in new roads, highways, bridges and airports are driving private investments in housing, hotels, commercial and corporate complexes as well as entertainment, which collectively drive tourism. This has translated to an above 10 percent average increase in new business registrations this year in Central America. An important unintended consequence appears to be a regional improvement in economic equity, the standard of living and better opportunities to productively participate in a growing economy for many more citizens.”

A Robert R. McMillan, former chairman of the Panama Canal Commission: “When I attended the ceremonies to transfer the canal to Panama in December 1999, I thought through questions about whether Panama would be able to handle the operation of the canal as well as the United States. At the time, there was no doubt in my mind that Panama would indeed be as effective as the United States. The leadership of the canal has been terrific, and the expansion has been a wonderful experience

“**The canal has broken previous records relating to the number of transiting vessels and the total tonnage.**”

— Robert R. McMillan

for the world’s shipping community. Jorge Luis Quijano, the canal’s administrator, deserves a great deal of credit for the canal’s performance after the expansion. In the last year of operations, after the expansion, the canal has broken previous records relating to the number of transiting vessels and the total tonnage, and it has taken shipping away from the Suez Canal. All of this directly benefits Panama’s economy and is clearly positive for the people of Panama. In addition, plans are currently underway in Panama for a further expansion project to accommodate even larger vessels. It will be interesting to see if China’s exploration of a canal route through Nicaragua ever comes to fruition. Whatever the outcome in Nicaragua, Panama is prepared for the competition.”

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