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## FEATURED Q&A

# What Changes Are Needed in Chile's Pension System?



Sebastián Piñera, who returned to Chile's presidency earlier this month, is eyeing reforms to the country's pension system. // File Photo: Chilean Government.

**Q** Chilean President Sebastián Piñera will present lawmakers a proposal to reform the country's Pinochet-era pension system in the first half of this year, his labor and social security minister, Nicolás Monckeberg, said in a recent newspaper interview. Low payout amounts and an aging population mean the private pension system needs urgent changes, said Monckeberg. How well is the system functioning now, and what are the main changes it should undergo? How much legislative and public support will exist for reforms? To what extent will former President Michelle Bachelet's plan for pension reform, such as measures to boost competition among private pension fund managers, or AFPs, be incorporated into Piñera's reform?

**A** Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile: "Chile's fully funded private pension system has been successful in generating attractive returns to participants and has been a pillar of the country's economic success, providing the base for the development of the long-term capital markets and related investment to spur economic growth, resulting in a robust middle class. But the private pension funds, whose role is to effectively manage money invested, were never designed to be a comprehensive solution for the pension needs of all Chileans. Proposals to boost competition are welcome but will not resolve the underlying issues related to providing for adequate pensions. The country's aging population indicates that new thinking and action is required. Recently, the OECD has recommended considering raising the retirement age (including

Continued on page 2

## TODAY'S NEWS

### IN FOCUS

## Colombia's Duque Vows Crackdown on Guerrillas

Iván Duque, the front-runner in Colombia's presidential race, said in remarks at the Inter-American Dialogue that he would force criminals to pay for their crimes.

Page 3

### ECONOMIC

## Maduro Deletes Three Zeros From Bolívar Currency

Venezuelan President Nicolás Maduro said his government would lop three zeros off the end of the bolívar currency. The country is facing quadruple-digit inflation.

Page 3

### POLITICAL

## Vizcarra to Take Office Today as Peru's President

Martín Vizcarra is to be sworn in today as Peru's president. The country's sitting vice president and ambassador to Canada, Vizcarra flew to Peru from Toronto on Thursday, after President Pedro Pablo Kuczynski tendered his resignation.

Page 2



Vizcarra // File Photo: TV Perú.

## POLITICAL NEWS

## Vizcarra to Take Office Today as Peru's President

Peruvian Vice President Martín Vizcarra is expected to be sworn in today as Peru's president, succeeding Pedro Pablo Kuczynski, who tendered his resignation on Wednesday following the release of videos purportedly showing supporters trying to buy the loyalty of a lawmaker in an earlier impeachment attempt against him, *El Comercio* reported. Vizcarra, who has also been serving as Peru's ambassador to Canada flew back to Lima from Toronto late Thursday, his 55th birthday, and arrived back in the Peruvian capital just before 1 a.m. Peru's Congress is expected to decide today whether to accept Kuczynski's resignation or proceed with a planned impeachment

proceeding and remove him from office, a vote some factions have vowed to hold, the Associated Press reported. Such a move has some precedent, as lawmakers in 2000 voted to reject then-President Alberto Fujimori resignation and voted to remove him from



Kuczynski // File Photo: Peruvian Government.

office instead. Kuczynski had been facing a second push to impeach him over \$782,000 in payments that Brazilian construction conglomerate Odebrecht, which has admitted to bribing officials in several countries, paid to his consulting firm a decade ago. Kuczynski has

## NEWS BRIEFS

## Polls Show López Obrador With Strong Lead in Mexico Presidential Race

Leftist candidate Andrés Manuel López Obrador remained the clear front-runner in Mexico's presidential race, according to a new poll released Thursday by *El Financiero*. The former Mexico City mayor leads with 42 percent of the intention to vote, with José Antonio Meade and Ricardo Anaya following with 24 and 23 percent respectively. The poll showed that 38 percent of Mexican voters are still undecided ahead of the July 1 presidential election.

## Chile Argues it Has No Obligation to Negotiate Ocean Access With Bolivia

Chile's government on Thursday argued at the International Court of Justice in The Hague that it has no obligation to negotiate access to the Pacific Ocean with Bolivia, which earlier this week asked the court to force Chile to the negotiating table, Reuters reported. Bolivia argued this week that Chile has not kept diplomatic promises to negotiate over "sovereign access" to the ocean, which would presumably mean a land corridor to the ocean. The landlocked Andean country has sought a route to the ocean in order to increase its exports of minerals and natural gas. Chile has said that Bolivia already has access on favorable terms, the wire service reported.

## Judge Blocks Trump Organization's Claims in Panama Hotel Case

A New York judge on Thursday blocked a Trump company's arbitration claims aimed at restoring control over a Panama hotel, the Associated Press reported. A Panamanian court had earlier ruled that the owners had a right to fire the Trump Organization firm and strip the U.S. president's name from the hotel due to "gross mismanagement."

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

making the retirement age for women the same as for men), as well as increasing the level of savings (current levels of savings at approximately 10 percent need to be increased significantly). Additionally, efforts need to be made to include more independent workers in the system and to provide solutions for individuals who have gaps in their careers and do not save during these periods. Additionally, there are segments of the population that do not earn enough to save for their retirement, or that have already reached retirement age with insufficient savings. In these cases, the government needs to consider providing for a sufficient social safety net - a matter to be considered within the context of the country's fiscal capacity. It is a positive signal that the newly installed government of Sebastián Piñera has begun to address these issues—issues that are being faced around the globe. Chile begins from a much better place due to its successful private pension fund system. However, the issue is complex and will require long-term focus and solutions."

**A** **Peter M. Siavelis, professor and chair of political science and international affairs at Wake Forest University:** "Like many Pinochet-era market and social policy reforms, the AFP private pension system has delivered far below expectations. Plagued by high costs, low returns, an aging population and insufficient yield to provide a decent retirement, the AFP system has been the victim of widespread calls for reform. A wide-ranging social movement demanding the end of the AFP system has resulted in protests and clashes with police. These demonstrations have been part of a wider wave of protests against institutions and policies inherited from the dictatorship. However, President Piñera finds himself in an uncomfortable reform position. His center-right coalition has long been an advocate of private-sector solutions to public problems. In addition, the president's brother, José Piñera, was the chief architect of the AFP pension system. At the same time, former President Michelle Bachelet was criticized for her inability to

Continued on page 4

repeatedly denied wrongdoing. In his televised resignation speech on Wednesday, Kuczynski blamed his political opponents for relentlessly attacking him and making it impossible for him to continue as president.

## ECONOMIC NEWS

## U.S. to Exempt Some Allies From Tariffs on Steel, Aluminum

The administration of U.S. President Donald Trump announced Thursday that it would temporarily exempt some allies from steel and aluminum tariffs that Trump announced earlier this month, USA Today reported. In proclamations released late Thursday, the White House said tariffs on such imports from Argentina, Australia, Brazil, the European Union and South Korea would be on hold until May 1. The administration previously gave temporary exemptions to Mexico and Canada from the tariffs, which are scheduled to go into effect today. The Trump administration also roiled stock markets on Thursday when it announced tariffs on tens of billions of dollars worth of Chinese imports, The Wall Street Journal reported. China's commerce ministry responded today by saying it would impose tariffs on \$3 billion in U.S. goods including recycled aluminum and pork.

## Venezuela's Maduro Deletes Three Zeros From Currency

Venezuelan President Nicolás Maduro, whose country is facing quadruple-digit inflation, on Thursday announced that his government would redenominate the increasingly worthless bolívar by deleting three zeros from the end of the currency, the Associated Press reported. New banknotes to replace ones such as the 100,000 bolívar note, worth about 50 U.S. cents on the black market, should begin to circulate on June 4, said Maduro. "Let's defend our bolívar!" Maduro said in televised remarks.

## IN FOCUS

## Duque Vows Crackdown on Criminals if Elected Colombia's President

By Michael Spak

WASHINGTON—Colombian presidential candidate Iván Duque vowed to hold criminals accountable, crack down on corruption, and push through sweeping reforms at an event Thursday at the Inter-American Dialogue. Duque, a current senator, said the policies of President Juan Manuel Santos' administration amount to "impunity" and set a dangerous precedent for Colombian society. Duque blasted the 2016 peace deal that Santos' government negotiated with the Revolutionary Armed Forces of Colombia, or FARC, rebels. He said the Santos government must enforce mandatory coca crop substitution policies and ensure that armed groups compensate victims before being allowed to participate in politics.

"The kingpins of the organization have to pay for their crimes," Duque said. Duque also said that if elected he would end negotiations with the National Liberation Army (ELN) until the group ceases military activity.

Polls released Thursday by Invamer and Centro Nacional Consultoria showed Duque with a widening lead in Colombia's presidential race, with 45.9 and 42 percent support respectively, El Tiempo reported. In the polls, Leftist former Bogotá Mayor Gustavo Petro trailed with 26.7 and 26 percent, respectively. On Thursday, Duque called himself an "extreme centrist." He is allied politically

with conservative former president and current senator Álvaro Uribe and his Democratic Center party. On Thursday, Duque also said corruption is a major source of frustration among Colombians. He proposed lengthening sentences for corruption, strengthening the government's capacity to seize assets and improving transparency in government contracts.

Duque criticized Santos for failing to denounce Venezuela at the International Criminal Court in The Hague and promised to do so if elected and create "international pressure that accelerates the process of a democratic transition in Venezuela."

Duque advocated for the creation of a humanitarian fund to aid Venezuelans who have poured into Colombia fleeing hunger and political turmoil. Duque also proposed energy-sector reforms, calling for two billion barrels of new oil reserves in the next 36 months. He also said Colombia must diversify by expanding renewables.

Duque resigned from the Senate earlier this week in order to devote more time to his campaign ahead of the first-round presidential vote on May 27. If no candidate receives an outright majority in the first round, the top two vote-getters will compete in a runoff. On Thursday, Duque and his running mate, former Defense Minister Marta Lucía Ramírez, met with lawmakers on Capitol Hill to discuss issues including drug trafficking, trade and cooperation with the United States.



Duque spoke Thursday in Washington. // Photo: Ben Raderstorf, Inter-American Dialogue.

## FEATURED Q&amp;A / Continued from page 2

reform or eliminate the beleaguered system in favor of the adoption of a greater role for the state in guaranteeing Chileans a comfortable and dignified retirement. In this sense, a complete scrapping of the system in favor of a state-run system is unlikely. The most tenable type of reform will be one that includes measures to boost contributions and competition among the private pension providers and the possible creation of a state AFP. The reform of the AFP system will be one of the first critical tests of the Piñera government as he embarks on his pledge to 'transform Chile into a developed country' in eight years."

**A** **Mark Manger, associate professor of political economy and global affairs at the Munk School of Global Affairs at the University of Toronto:** "Chile's pension system was overhauled in 1980 and based on personal retirement accounts (AFPs) with a mandatory contribution of 10 percent of gross earnings. The system functions relatively well in aggregate. Nonetheless, most pensioners only achieve a pension equivalent to 50 percent of their average salary, considerably below the OECD average, and many only receive a pension that is less than half of the minimum salary. Women are particularly affected because their average earnings are lower than men's. Under the Bachelet government, a minimum public pension was introduced that is supposed to prevent 'poverty in old age,' but many Chileans still feel that they are forced to save in a system that results in insufficient pensions. Another problem is the harmonization of longevity tables, which has inadvertently introduced a regressive element: because wealthier individuals tend to live longer, the contributions of those with lower incomes subsidize the pensions of those with higher incomes, as former pensions regulator Álvaro Gallegos has pointed out. High fees due to a lack of competition—the main target of Piñera's reforms—are partly

responsible for the problems. But the most successful private pension systems—such as those in Australia and Canada—include an element of risk-sharing absent in Chile, and the 10 percent contribution is clearly too low, as life expectancy is now higher in Chile than in the United States. Piñera has proposed a 4 percent contribution by employers and incentives to raise the retirement age, but many problems remain because incentives work against higher contributions and broader coverage of workers."

**A** **Manuel Agosin, dean of the School of Economics and Business at the Universidad de Chile:** "Chile's defined-contribution pension system works well as far as it goes. Those who contribute into it during their entire working lives end up with a reasonable pension (about 70 percent of their final pay). The problem is that many people don't contribute enough, because they have low wages or long spells of unemployment, they work in the informal sector, or they alternate between the formal and informal sector. Women are particularly affected, since they have to take time off to rear children. There are two solutions. One is to strengthen the non-contributory pillar, designed for the poorer segments of the labor force funded from general government revenues, which could have a higher minimum pension for those who have not contributed enough. The other is to set up a parallel system into which all workers would also contribute and which would guarantee minimum pensions, regardless of contributions. The Bachelet reform was more in line with the latter solution, and it is probable that the Piñera reform will veer toward the former. There are other problems that need to be fixed: the present system is poorly regulated, and commissions are too high. This is a regulatory problem, but allowing more actors into the market for pensions could also bring about more competition and lower commissions."

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