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FEATURED Q&A

Will Duque Be Able to Boost Colombia's Economic Growth?



Colombia's new president, Iván Duque, is aiming for annual economic growth of more than 4 percent. // File Photo: Colombian Government.

Q Colombian President Iván Duque, who was sworn into office on Aug. 7, said in his inauguration speech that he would implement "all the structural reforms required for the fiscal sustainability of the nation." Duque also said he would advance a tax system oriented toward investment, savings, productivity and competitiveness, with the aim of achieving a GDP growth that surpasses 4 percent. How likely is it that Duque will be able to boost Colombia's stagnant economy, which grew just 1.8 percent last year? What specific policies is he likely to implement early in his term? What other measures are necessary to revitalize the Colombian economy?

A Daniel E. Velandia Ocampo, director and chief economist for research at Credicorp Capital in Bogotá: "The Colombian economy is already showing clear signs of recovery—the result of higher oil prices, lower inflation and interest rates, the fading of the negative impact from the 2016 tax reform on private consumption and diminished political uncertainty. In fact, sentiment has strongly improved recently, and we expect investment to accelerate in the upcoming quarters as projects that had been postponed until the presidential election start to be executed. Accordingly, we expect the Colombian economy to grow near 3.5 percent in 2019, close to its long-term levels. This, however, is more of a result of a cyclical recovery. Maintaining growth rates above 3 percent in the longer term will require measures to reduce informality and the rigidity of the labor market as well as to unlock the potential of the rural sector. Likewise, further progress needs to be achieved in infrastructure in order to improve competitive-

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TODAY'S NEWS

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Fourteen Arrested in Venezuela Drone Incident

Among the people arrested are two military officers, said Attorney General Tarek William Saab.

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ECONOMIC

Power Restored Across Puerto Rico After Hurricane

Electricity has been restored to all customers across Puerto Rico, nearly 11 months after Hurricane Maria pummeled the island, according to the U.S. territory's power authority.

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POLITICAL

Mexico to Acquire \$41 Mn in Military Equipment From U.S.

Mexico's government is to acquire equipment, including missiles, and technical support from the United States. However, the sale is not yet final, and President-elect Andrés Manuel López Obrador has said he will have an austerity strategy.

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López Obrador // File Photo: López Obrador Campaign.

POLITICAL NEWS

Fourteen Arrested in Venezuela Drone Incident

Fourteen people have been arrested in connection with what Venezuela's government says was an assassination attempt against President Nicolás Maduro earlier this month, Attorney General Tarek William Saab told reporters Tuesday, *El Universal* reported. An investigation found that 34 people were involved with a plot to detonate two drones armed with explosives during a speech that Maduro was giving during a military parade on Aug. 4, said Saab. Some of those implicated in the incident are in Colombia, and others are in the United States, he added. Venezuela's government is seeking Interpol's help "to capture these subjects who are implicated in the abominable acts." He added, "No one will prevent this investigation from being completed," *The Wall Street Journal* reported. Two of the people detained are military officers, Gen. Alejandro Pérez and Col. Pedro Zambrano, Saab said. The men were at a court hearing Monday, but it was unclear if they had lawyers, and *The Wall Street Journal* was unable to reach them for comment. Another prominent person to have been arrested in connection with the incident is Juan Requesens, a congressman who was detained last week by armed intelligence agents. Requesens faces charges of terrorism and treason, said Saab. Requesens appeared in a video that the government recently released and in it appears to acknowledge helping a suspect who authorities accuse of taking part in the incident. However, members of Requesens' First Justice political party told local media that he was forced to make the statement after being drugged and after his family was threatened. Requesens also appeared in another video in which he was stripped down to his underwear. A group of 12 Latin American nations and Canada have condemned authorities' treatment of Requesens and have said it amounts to violations of his human rights and due process. Also accused in connection with the drone incident

are opposition lawmaker Julio Borges, who is living in exile in Colombia. Borges has denied the allegations and has said the government is using it as a pretext to pursue and detain its rivals. Venezuela's government, without presenting evidence, has also accused Colombian politicians including former President Juan Manuel Santos and U.S. rivals of involvement in the incident. The governments of Colombia and the United States have denied the allegations. Also on Tuesday, the United Nations said some 2.3 million people have fled Venezuela as of June, the *Associated Press* reported. Those who have streamed out of Venezuela, which is suffering from shortages of basic items and an economic crisis, have said they are fleeing because of a lack of food, said U.N. spokesman Stéphane Dujarric. The International Monetary Fund has estimated that Venezuela's rate of inflation could exceed one million percent by the end of the year. [Editor's note: See Q&A on Venezuela's hyperinflation in the [Aug. 2](#) issue and on the drone incident in the [Aug. 14](#) issue of the Advisor.]

Mexico to Acquire \$41 Million in Military Equipment From U.S.

The Mexican government is set to acquire \$41 million worth of military equipment from the United States, *Televisa* reported Monday. The U.S. Defense Security Cooperation Agency, or DSCA, released a statement Aug. 8 saying the U.S. Department of Defense had approved the sale, which includes at least six Evolved Sea Sparrow missiles, or ESSMs, two telemetric missiles, eight MK30 cylinders and several other pieces of equipment, as well as technical support and training, among others. The DSCA said the military package will strengthen the United States' foreign policy and national security by helping Mexico improve its security strategy and modernize its armed forces, particularly the navy. Earlier this year, the United States agreed to sell Mexico almost \$100 million in armament. The announced sale is not yet final. President-elect Andrés Manuel López Obrador, who takes office Dec. 1, has said he

NEWS BRIEFS

Newly Elected Mexican Congresswoman Kidnapped at Gunpoint

Newly elected Mexican Congresswoman Norma Azucena Rodríguez was kidnapped Tuesday in the central Hidalgo State, *Radio Fórmula* reported. Two men shot at Rodríguez's car, injuring the driver and causing the car to flip over, and then forced her into another vehicle. Rodríguez, a member of the Democratic Revolution Party, or PRD, was elected to represent Veracruz State on July 1, *BBC News* reported. Mexico's latest electoral cycle has been the most violent in recent history.

Ten Elderly Women Killed in Chile Nursing Home Fire

Ten elderly women were killed in a fire at a nursing home in southern Chile early Tuesday morning, *Emol* reported. President Sebastián Piñera later visited the facility and said he hoped the tragedy would lead to Chile being more "generous and friendly with the elderly." Moreover, Piñera said his social security reform proposal will include a specific chapter on protecting the elderly, with a special focus on older people with disabilities.

Mexico's López Obrador Vows to Invest More Than \$11 Billion on Refining

Mexican President-elect Andrés Manuel López Obrador said Monday that his government will invest more than \$11 billion in boosting the country's refining capacity, *Reuters* reported. He told reporters that his administration plans to spend \$2.6 billion in modernizing state-owned Pemex's existing refineries, and invest an additional \$8.4 billion in building a new plant in the next three years. He did not detail how the projects would be financed. The figure is \$2.4 billion higher than the estimate announced during the campaign.

would abide by an austerity strategy when it comes to the country's military forces. In public events in June and July, López Obrador said he would sell the federal government's fleet of airplanes and helicopters and he would cancel the acquisition of eight helicopters from the United States, which cost around \$1.3 million, CNN en Español reported. López Obrador's representatives did not answer to CNN en Español's request for comment.

ECONOMIC NEWS

All of Puerto Rico Regains Power After Hurricane: PREPA

Power has been restored to all of Puerto Rico almost 11 months after Hurricane Maria swept through the island last September, officials said Tuesday, the Associated Press reported. Puerto Rico's electric utility, the Puerto Rico Electric Power Authority, or PREPA, said on Twitter it had reconnected a family home in the southern city of Ponce, the last customer to remain without power since the storm brought down the U.S. territory's power grid on Sept. 20, leaving 1.5 million residents in the dark. The Ponce neighborhood presented particular challenges for PREPA, as "landslides and rough terrain" limited access to the area, Carlos Alvarado, chief of technical operations, told the AP. Power restoration throughout the island cost more than \$3 billion, NPR News reported. Five different chief executives oversaw PREPA's services in the 11 months since the hurricane hit the island. The company is bankrupt and \$9 billion in debt. Families in El Yunque, a national forest in the northeast, say power there has not been restored, CNN reported. PREPA's spokesman, Geraldo Quiñones, said some customers may continue to experience blackouts as "part of the recuperation process," adding that PREPA doesn't have control in El Yunque. The U.S. Forest Agency needs to grant permission for the utility to install electricity lines on federal land, an issue that hasn't been resolved.

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ness. We think President Duque will present a fiscal reform in the upcoming weeks aimed at facilitating businesses and cutting the tax burden for corporations, while designing a clearer strategy to fight evasion and avoidance. Announcements so far have been favorable, as they are focused on attacking the structural issues of the economy. That said, we think further tax cuts should be carefully considered once the 2016 tax reform decreases the corporate rate from 40 percent in 2017 to 33 percent in 2019, as fiscal targets remain challenging for the upcoming years with a goal of 1.8 percent of GDP for 2021 versus 3.1 percent currently."

A Frank Samolis, partner and co-chair of the international trade group at Squire Patton Boggs in Washington: "President Duque's

inauguration speech provided a comforting message that he intends to govern from the center at a time when the country is deeply divided on non-economic issues ranging from the peace agreement to the crisis in Venezuela. His hour-long speech was properly conciliatory, but also identified dozens of policy priorities, making it difficult to identify the real issues that will take center stage. Promising economic growth above 4 percent will not be accomplished simply by investment in the creative industries, the so-called 'Orange Economy.' Duque's promise of tax reform and support for the extractive oil and coal industries is a step in the right direction, and medium-term investment flows are expected to increase based on support for Duque's business-friendly policies.

Concerns remain over Duque's proposed tax cuts, which could worsen the existing budget deficit and threaten Colombia's investment-grade credit rating. Latest reports from the government anticipate 2.7 percent growth in 2018, with challenges looming on the horizon. Rumors of the Trump administration's re-opening of the U.S.-Colombia Trade Promotion Agreement (CTPA) in 2019 could create business uncertainty. Colombia

needs to examine the ongoing NAFTA negotiations as a template for possible renegotiation of its trade agreement. Moreover, while Colombia was invited to join the OECD in May—a positive development—the U.S. trade representative registered strong objections concerning Colombia's failure to protect

“Concerns remain over Duque's proposed tax cuts, which could worsen the existing budget deficit and threaten Colombia's investment-grade credit rating.”

— Frank Samolis

copyrights and intellectual property. The Trump administration, on the positive side, has pledged an additional \$9 million in aid to assist Colombia in dealing with the Venezuelan refugees pouring into the country. Of course, the U.S. Congress has a role in approving budget increases or reallocations. At a minimum, re-establishing strong economic ties with the United States, whether or not through a renegotiated CTPA, may be key in signaling whether Duque's projections for economic growth will be met."

A María Angélica Arbeláez, consultant and research associate at Fedesarrollo: "President

Duque appointed a highly qualified economic team, led by Finance Minister Alberto Carrasquilla, a prestigious economist who is aware that fiscal sustainability is critical for economic performance and growth. One of the main announced reforms is the tax reform. Although details are not yet known, some aspects that have been hinted at go in the right direction, such as expanding the taxable basis for personal income tax and value added tax, simplifying the tax system in order to enhance tax

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collection efficiency and other measures to control tax evasion. These efforts, and others, are needed if the president wants to fulfill his campaign promise of reducing companies' tax burden and boosting competitiveness. The accounts need to be carefully done, and enough revenue needs to be generated in order to avoid the negative consequences of non-compliance with the fiscal rule. Another urgent reform that is

“Another urgent reform that is needed to achieve fiscal sustainability is the pension reform.”

— María Angélica Arbeláez

needed to achieve fiscal sustainability is the pension reform. Since it's highly unpopular, this is usually not an issue in presidential campaigns, but I have no doubt that Minister Carrasquilla is fully aware of the need to undertake this reform. The discussion should start sooner rather than later and could depart from the useful and concrete proposals that already exist in the country. The tax reform is a necessary but not sufficient condition to boost growth. It should be complemented by maintaining infrastructure investment, improving research and development to boost productivity, undertaking a tariff reform and a clear agricultural policy in order to improve the export performance and enhance diversification, among others. Given the discrepancies within the government in relation to the last two points, the president's direct commitment and determination are paramount. There is room for some optimism with regard to fiscal reforms, but more time is needed to be able to assess the president's focus, commitments and real congressional support. In addition, we shouldn't expect too much with regard to achieving a much higher potential growth

in only four years, although oil prices are playing in our favor.”

A

Andrés Escobar Arango,
co-founder and president
of EConcept AEI and former
Colombian vice minister of

finance: “The Colombian economy is still recovering from the 2014-2015 collapse in oil prices, by far the largest shock it has sustained in many decades. The recovery under way will in itself bring about higher growth in the next couple of years, around 2.7 percent this year and 3.6 percent next year. However, there are still many challenges ahead, both on the fiscal and growth fronts. Keeping the current fiscal rule in place has been declared a goal of paramount importance by Finance Minister Alberto Carrasquilla. However, complying with the current deficit reduction path implied by the rule during the 2018-2022 presidential term remains a daunting task. On the one hand, spending pressures will continue to rise, primarily on health and education, which means reforms to curb spending on other fronts are required. On the other hand, reducing corporate taxation to boost growth, while at the same time increasing net revenue, requires politically difficult battles that, unsurprisingly, remained unannounced during the presidential campaign: modifying personal income taxation and raising the VAT rate to 19 percent for an undisclosed list of goods currently taxed at zero percent or 5 percent. Passing these reforms is a key element for fiscal sustainability and higher growth agendas, but doing so requires efforts on three main fronts. First, making sure all of government is behind the reforms Minister Carrasquilla wants to see through; second, having strong majorities in Congress to pass them; and third, successfully navigating the dangerous waters that a strong and vocal opposition will try to create at every turn.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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