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FEATURED Q&A

What Will Having Cortizo in Power Mean for Panama?



Laurentino Cortizo, pictured during a campaign stop last month, won the country's presidential election on Sunday. // File Photo: Cortizo Campaign.

Q In a tight race, Laurentino Cortizo of the Democratic Revolutionary Party won Panama's presidential election on Sunday. The second-place finisher, Rómulo Roux of the Democratic Change party, conceded defeat on Monday after initially alleging "irregularities" in the vote and demanding for every ballot to be scrutinized. What do the unexpectedly close results say about Panama's electorate? What factors led to Cortizo's victory? Which issues will dominate Cortizo's agenda as president, and how well will he be able to work with lawmakers?

A Joaquín Jácome Diez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama: "Laurentino Cortizo's election as president of Panama was widely expected. Among seven presidential candidates, three of whom were independents running for the first time due to electoral changes, Cortizo's Democratic Revolutionary Party (the country's biggest and most organized political machine) was poised to thrive among division. Cortizo had only to consolidate his party base in order to win. As a matter of fact, he barely achieved it, obtaining only 33 percent of the vote. The great surprise of the election was Rómulo Roux of the Democratic Change party (the party of jailed former President Martinelli), who obtained 31 percent of the vote. One of the main reasons for this was the electoral tribunal ruling against Martinelli one week before the election, banning him from running for mayor of Panama City or the National Assembly in a shady legal ruling, after having certified several times that

Continued on page 2

TODAY'S NEWS

ECONOMIC

Mexico Eyes Tax Deal With Tech Platforms

President Andrés Manuel López Obrador's government is planning to announce an agreement to collect taxes from technology platforms, said the country's deputy finance minister.

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ECONOMIC

Argentina's Industrial Output Falls 13.4 Percent

Industrial production declined in March for the 11th consecutive month as the South American country's economy continues to struggle.

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POLITICAL

U.S. Gov't Plans Incentives for Venezuelan Troops

U.S. Vice President Mike Pence is today expected to announce incentives for members of Venezuela's military to switch sides and support opposition leader Juan Guaidó, whom dozens of countries recognize as Venezuela's legitimate president.

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Pence // File Photo: NASA.

POLITICAL NEWS

Pence Reportedly to Offer Incentives to Venezuela's Military

U.S. Vice President Mike Pence is planning to offer incentives today to Venezuela's military to withdraw their support from President Nicolás Maduro and switch their allegiance to opposition leader Juan Guaidó, Reuters reported, citing a senior U.S. administration official. In a speech to be delivered at the State Department this afternoon to the Americas Society, Pence is expected to offer assistance to refugees who have fled Venezuela, as well as a package

of economic aid incentives dependent on a political transition, the official told the wire service. The planned offers of incentives come a week after Guaidó, whom the United States and dozens of other countries recognize as Venezuela's legitimate acting president, called on the country's military to overthrow Maduro's government. Thousands of anti-government protesters took to the streets across the country, but Maduro remained in power. Pence is also expected to announce a decision to sanction 25 additional magistrates of Venezuela's supreme court, the unnamed official told Reuters.

ECONOMIC NEWS

Mexican Government Eyes Tax Deal With Technology Platforms

The Mexican government is planning to announce the rollout of a landmark tax deal with technology platforms in the coming weeks, a top official said Monday, Bloomberg News reported. Deputy Finance Minister Arturo Herrera confirmed the news but declined to provide any

CORRECTION

Due to an editing error in the April 30 issue of the Advisor, the words "and selling" were omitted from the beginning of Ramiro Crespo's commentary in the Featured Q&A section. His commentary should have begun, "Arbitrage is the simultaneous buying and selling of the same asset in different markets in order to benefit from price differences."

FEATURED Q&A / Continued from page 1

he met all requirements to run legally. This ruling, reminiscent of Martinelli's bonanza years and the perception that he had been treated unfairly during his trial, contributed to Roux's excellent showing. Even if many legislators with questionable reputations were not re-elected, undoubtedly well-oiled political machines were the winners of the election, leaving frustrated a wide sector of the population that is tired of the political establishment's corruption. President-elect Cortizo's victory speech Sunday night was conciliatory. Even though he will have good representation in the National Assembly in order to tackle inequality, social security, pension reform and constitutional reform, he will also need wide consensus among the

population. He seems to be aware of that, as he vowed to work with all Panamanians."



John Feeley, political analyst at Univision and former U.S. ambassador to Panama:

"Panama's presidential campaign was a sleeper, but election day was a nail-biter. During the two-month campaign, candidates mostly avoided personal attacks, and stump speeches were short on substance. Cortizo held a comfortable lead in the polls, with independent Ricardo Lombana surging late. Most observers agreed the race was Cortizo's to lose, as the party holding the presidency has never won re-election in Panama's six democratic elections since 1990.

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NEWS BRIEFS

Argentina's Industrial Output Falls 13.4% in March: Statistics Agency

Argentina's industrial production declined 13.4 percent in March as compared to the same month last year, the government's statistics agency, Indec, said Monday, Reuters reported. Output fell more than expected, and the decline was the 11th consecutive month of falling production since a debt crisis, a falling peso and steep inflation hit the country's economy last year. [Editor's note: See [Q&A](#) on Argentina's economy in the April 15 issue of the Advisor.]

Colombia's Ecopetrol Reports 5% Rise in Profit for First Quarter

Colombian state oil company Ecopetrol reported a first quarter net profit of 2.75 trillion pesos, approximately \$847.1 million, 5 percent higher than in the same period last year, amid an increase in output, sales and greater operating efficiencies, the company said Monday, Reuters reported. Earnings before interest, taxes, depreciation and amortization grew by 2.9 percent in the January-March period, as compared to a year earlier, to 7.4 trillion pesos.

Chile's Piñera Cancels Europe Trip Following Nepotism Accusations

Chilean President Sebastián Piñera has canceled a trip to Germany and the Netherlands that was scheduled to start May 12, government sources said Monday, saying he had chosen to prioritize his local agenda, EFE reported. Piñera was recently accused of nepotism after two of his children traveled with him during a state visit to China and South Korea last month. The president has said the family paid for the expenses. Upon his return, the foreign ministry announced a new official traveling protocol, although it denied it was linked to the nepotism allegations.

details on the plan. Mexico has been looking for ways to strengthen its tax collection, which fares the worst among members of the Organization for Economic Cooperation and Development, or OECD, according to the report. The previous administration of Enrique Peña Nieto had reportedly struck a deal with Uber in which the platform would withhold taxes from partners who gain income from both its ride-hailing and food delivery services, as well as with Netflix to impose a sales tax on users. Airbnb reportedly left talks on an agreement that would have required the home-sharing website to collect income tax from its hosts, Bloomberg News reported. Herrera said the current administration must focus on strengthening communication with the private sector. "In order for us to grow faster this year and in the years to come, we need a private sector that is confident and that is facing clear rules of the game," Herrera said. Although global consensus remains elusive on whether and how to tax businesses with a digital footprint but no physical presence in a jurisdiction, several Latin American countries have implemented or are discussing digital tax proposals. [Editor's note: See related [Q&A](#) in the March 27 issue of the Advisor.]

BUSINESS NEWS

Brazil's Bradesco Buying BAC Florida Bank for \$500 Million

Banco Bradesco is paying approximately \$500 million to buy BAC Florida Bank as part of the Brazilian bank's first-ever international acquisition, it said in a statement Monday. Headquartered in Coral Gables, BAC Florida is controlled by Grupo Pellas, a Nicaraguan conglomerate with operations in 10 countries. As of last December, the bank posted total assets of \$2.2 billion and a net income of \$29 million, according to the statement. The acquisition will allow Bradesco to expand its offering of investments in the United States, as well as other banking services, including checking account, credit card and real estate

THE DIALOGUE CONTINUES

What's the Cause of Ecuador's Troubles With Contraband?

Q Facing a growing problem with contraband, Ecuadorean President Lenín Moreno in March said he would deploy the armed forces to support customs and national police in combating illegal trade. According to industry leaders, in some categories more than half the products sold in Ecuador are now contraband, ranging from tobacco and alcohol to textiles and cosmetics. As a result, Ecuador's government is losing hundreds of millions of dollars each year in tax revenue, and formal employment may be dropping, industry executives say. What factors are behind Ecuador's problems with contraband? How does the country compare to others in the region and elsewhere in the world in addressing it? What strategies work best to stop flows of contraband, and what are the best solutions for Ecuador? Will the armed forces be able to address the problem or are other measures necessary?

A Caterina Costa de García, president of the Guayaquil Chamber of Industries: "Economic factors due to high tariffs and special taxes on certain products such as cigarettes, liquors, perfumes and clothing, among others, as well as factors of corruption facilitated by the weakness and sometimes permissiveness of the control authorities in the import and commercialization of such products, are behind Ecuador's contraband problems. According to the The Economist

financing. "Expanding our product and service offerings through BAC Florida is a way of being the preferred wealth management bank for our clients, who have increasingly demanded more diversification and greater access to global solutions," Octavio de Lazari, Bradesco's chief executive officer, said in the statement. With the acquisition, Bradesco will expand not only in the United States, but also in Latin America,

Intelligence Unit's Illicit Trade Global Environment Index, Ecuador is number 60 out of 84 countries worldwide and number 12 out of 19 countries in the Americas. There are publications that locate Ecuador as the Latin American country with the second-highest levels of illicit trade when it comes to cigarette contraband. Such high levels of contraband make one think that the best strategies to solve this problem have not yet been discovered. Producing sectors have made recommendations based on universal suggestions prepared by the Transnational Alliance to Combat Illicit Trade (TRACIT), which consist of a checklist of fundamental measures that have to do with the development of a multilateral, comprehensive, intersectoral and international response; international customs or security forces cooperation; the protection of merchandise from free trade zones; hardening sentences; an effective enforcement of anti-money laundering regulation; strengthening customs processes; and respecting intellectual property, among others. The intervention of the armed forces could help the fight against illicit trade, but it's insufficient if the problem is not dealt with in an integral manner."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in the April 30 issue of the Advisor.

"as BAC has clients all over the region," he added. Roughly 20 percent of BAC Florida's clients are Brazilian, and 9 percent are American, Reuters reported. BAC will add 10,000 customers to Bradesco's 13,000 private banking clients in Brazil. "This acquisition is small for Bradesco ... and tends to help the bank to reduce the gap of its private banking business," Itaú BBA said in a note to clients, the wire service reported.

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Yet Cortizo's slim two-point victory shows Panamanians are far from apathetic when it comes to their democracy. Almost 80 percent of eligible voters participated, and Lombana's strong third-place finish indicates that, while they elected the traditional PRD, they long to disrupt the cycle of patronage politics and graft. Cortizo starts with a serious advantage in that his immediate predecessor, Juan Carlos Varela, is deeply unpopular. Varela's surprise victory in 2014 raised expectations that he might be a real anti-corruption crusader. Unfortunately, he politicized the judiciary in pursuing his predecessor, the flamboyantly corrupt Ricardo Martinelli, whose money fueled Rómulo Roux's second-place finish. Varela leaves with just a 12 percent approval rating. As pressing as the corruption fight is, Cortizo will have to address income inequality and the growing gap between Panama's haves and have-nots. With GDP growth predicted to be between 4 and 5 percent this year, Panama's economy is the fastest-growing in the hemisphere. Nonetheless, the middle class has steadily lost ground in terms of wages and purchasing parity, and they are angry. Fixing the nation's expensive and underperforming education system is also a must-do. Finally, China: Many Panamanians already feel some buyer's remorse at Varela's non-consulted, secretly-negotiated 2017 diplomatic flip-flop. They fear the emergence of Chinese 'debt-trap' investment in Panama. Cortizo has said he welcomes the new relationship, but not at the expense of Panama's relationship with the United States. Managing that super power brinkmanship may be Cortizo's toughest challenge of all."

A **Orlando J. Pérez, associate dean of the College of Arts, Humanities and Social Sciences at Millersville University:**

"Pollsters were confounded again by the results of the presidential election in Panama. Just as in 2014, this year's electoral results vary from those predicted by most of the recent

polls. Polls gave Laurentino Cortizo of the opposition PRD a healthy lead against Rómulo Roux, the candidate of Democratic Change, the party of former President Ricardo Martinelli. However, with more than 94 percent of ballots counted, Cortizo led with 33 percent to Roux's 31 percent. Independent Ricardo Lombana received 19 percent. In the legislative elections, it seems the PRD will come close to obtaining a majority. First, the results confirm the power of political parties, particularly at the presidential level, to mobilize the electorate despite their low approval rating. Second, Democratic Change's ability to mobilize votes, particularly in Panama City and Colón, is a testament to Martinelli's appeal. The results cement his status as a significant political force and will complicate his upcoming trial on corruption charges. Third, Lombana's 19 percent does pose a challenge to the traditional parties. His support is the highest a nonpartisan candidate has received since democracy was restored in 1990. In addition, it seems five or six legislative candidates who explicitly supported Lombana will win seats in the National Assembly. Traditionally, lawmakers' political loyalties have been fluid and easily manipulated by the president. Lombana may decide to form a political party, but that might damage his brand, or he might simply fade away. Fourth, the dismal results by the Panameñista Party represents its worst showing since 1990. The party was punished heavily by President Varela's low approval ratings and his five years in power. Fifth, the #NoalaReelección movement demonstrated it could mobilize significant portions of the electorate as more than a dozen legislators failed to win re-election. Finally, with little to no mandate, President-elect Cortizo faces significant challenges in tackling corruption, inequality, weak judicial institutions and an ever more fragmented political environment."

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