LATIN AMERICA ADVISOR
A DAILY PUBLICATION OF THE DIALOGUE
www.thedialogue.org
Tuesday, March 9, 2021

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FEATURED Q&A

Why Has the DFC's Lending to Ecuador Drawn Controversy?

Ecuadorean President Lenín Moreno, whose term expires in May, could be succeeded by a president who would choose not to respect the terms of a controversial loan backed by the U.S. government, Adam Blackwell notes below. // File Photo: @Lenin via Twitter.

Q In January, the U.S. International Development Finance Corporation, or DFC, struck a deal with Ecuador's government to help it repay billions of dollars in loans to China in exchange for Ecuador reportedly agreeing to exclude Chinese companies from its telecommunications networks. The deal, which critics say comes with unprecedented conditions, happened just days before then-U.S. President Donald Trump left office. Will the loan work out for the DFC and for Ecuador? Are the DFC and other development banks and international financial institutions getting more politicized than in recent years? What are the drawbacks for Latin American countries that accept such deals with strings attached from development banks? Could Ecuador's deal with the DFC be changed under the new U.S. administration and a new government to take office this year in Ecuador?

A Jorge Heine, research professor at the Pardee School of Global Studies at Boston University and former Chilean ambassador to China: "The creation of the DFC was an important step in the right direction, and its willingness to provide loans to Latin American countries, in a region currently undergoing its worst crisis in a century according to ECLAC, should be welcome. However, this framework agreement with Ecuador takes the much-criticized conditionality of Western financial institutions to new heights. There is much that is wrong with it. The requirement to exclude Chinese technology from Ecuador's telecommunications network means that Ecuador should give up access to what some consider to be the most advanced and cost-effective technology in the market—hardly the way to

Continued on page 3

TODAY'S NEWS

POLITICAL

Court Ruling in Brazil Could Pave Way for a Lula Run

A Supreme Court judge in Brazil on Monday surprised observers by annulling the corruption convictions that have barred former leftist President Luiz Inácio Lula da Silva from running for office.

Page 2

ECONOMIC

Mexico: Inflation Rises at Fastest Rate Since Oct.

Consumer prices were up by 3.76 percent in the year through February, rising at the fastest rate in four months, but continued to be within the central bank's target.

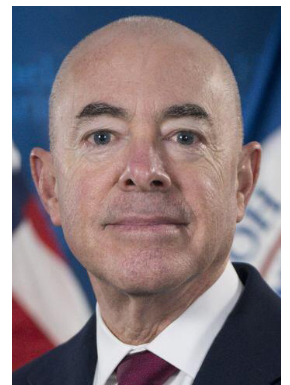
Page 2

POLITICAL

United States Offers TPS to Venezuelans

U.S. Department of Homeland Security Secretary Alejandro Mayorkas announced Monday that Venezuelans who can demonstrate continuous residence in the United States can apply for temporary legal status for 18 months.

Page 2



Mayorkas // File Photo: U.S. government.

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POLITICAL NEWS

Court Ruling in Brazil Could Pave Way for a Lula Run Next Year

A Supreme Court judge in Brazil on Monday annulled the corruption convictions that have barred former leftist President Luiz Inácio Lula da Silva from running for office, Folha de S.Paulo reported. Justice Luiz Edson Fachin on Monday annulled the convictions on procedural grounds, arguing the cases were tried in the wrong jurisdiction, meaning the ruling may not affect numerous other convictions of elites

Fachin // File Photo: Brazilian Government.

also swept up in the sprawling "Car Wash" investigations centered on corruption at state-run oil company Petrobras, the Associated Press reported. Lula was released from prison in November 2019 after 580 days behind bars, but he has been unable to seek political office due to the convictions, The Guardian reported. The annulment surprised observers and led to speculation that Lula will run for president in next year's election against far-right President Jair Bolsonaro. Supporters of Lula celebrated the news, shouting from their windows Monday evening, "Out with Bolsonaro!" according to a Foreign Policy report. Bolsonaro sought to play down the news Monday. "I think the Brazilian people don't even want a candidate like that in 2022," he said. Lula had led in the polls in the 2018 election campaign before his first corruption conviction prevented his candidacy. Bolsonaro's approval rating slumped to 33 percent in February, from 41 percent in October, according to a poll published last month by transport association CNT, Reuters reported.

Biden Administration Offers Venezuelans Protected Status

The administration of U.S. President Joe Biden announced Monday it would allow Venezuelans who can demonstrate continuous residence in the United States to apply for temporary legal status, The Hill reported. "The living conditions in Venezuela reveal a country in turmoil, unable to protect its own citizens," Department of Homeland Security Secretary Alejandro Mayorkas said in a statement. More than 300,000 Venezuelans currently living in the United States would be able to apply for Temporary Protected Status, or TPS, letting them stay in the country for 18 months, CBS News reported. Many of them have fled a humanitarian crisis at home under socialist President Nicolás Maduro, whose authoritarian government has been hit with numerous economic sanctions from Washington. "To keep deporting Venezuelans back to Maduro's tragedy would be to tell them they are a burden on our communities, a menace to our national security, and an unwelcome guest in our country. Reality and our national interest are precisely the opposite," said Sen. Robert Menendez (D-N.J.), who led previous legislative efforts to secure TPS for Venezuelans. While the administration of former Republican President Donald Trump declined to provide TPS to Venezuelans, some in his party supported Mayorkas' action. "It is critical that we continue working with our democratic allies to secure a Venezuela free from tyranny and ensure this temporary status in the U.S. does not become a permanent one," said Sen. Marco Rubio (R-Fla.), according to the report.

Rep. McGovern Sees 'Disturbing Trend' in El Salvador

El Salvador's democratic institutions appear especially fragile after President Nayib Bukele's Nuevas Ideas party emerged victorious from the Feb. 28 legislative elections, said U.S. Rep.

NEWS BRIEFS

OECD Sees Recovery Lagging in Latin America

The OECD today released new forecasts predicting global GDP growth will reach 5.6 percent this year, an upward revision of more than one percentage point since its projection in December, and 4 percent in 2022. However, the recovery is likely to be more moderate in the emerging market economies of Latin America and Africa due to "a resurgence of the virus, slow vaccine deployment and limited scope for additional policy support." Meanwhile, expected stimulus spending in the United States could boost growth by 0.5-1 percentage points in major U.S. trading partners such as Canada and Mexico, the OECD said.

Police in Jamaica Arrest Former Chairman of State Oil Refiner Petrojam

Authorities in Jamaica on Monday arrested the former chairman of state-run oil refiner Petrojam, the Jamaica Gleaner reported. Perceval Bahado-Singh faces 12 counts of obtaining money by means of false pretense, according to the report. Bahado-Singh allegedly claimed reimbursements of more than $70,000 for overseas business trips that he did not take. Other employees have been implicated in the case and could also face charges.

Annual Inflation in Mexico Rises at Fastest Rate in Four Months

Annual inflation in Mexico accelerated to its highest rate in four months in February but continued to be within the central bank's target range, according to data from national statistics agency INEGI, Reuters reported today. Consumer prices were up by 3.76 percent in the year through February, slightly above analysts' expectations of 3.72 percent, according to a Reuters poll. Energy prices rose sharply, up 3.47 percent, with gasoline rising 5.08 percent.

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Jim McGovern (D-Mass.) during an **event** hosted by the Inter-American Dialogue in partnership with the Due Process of Law Foundation, or DPLF, Cristosal and the Washington Office on Latin America. "Democracy and rule of law are at a crossroads in El Salvador," McGovern said, adding that Bukele's recent behavior demonstrates "a disturbing trend toward authoritarian rule rather than a strengthening of democracy." Panelists at the event agreed that, without checks on his power, Bukele's tendency to dismiss traditional institutions could invite abuses of authority now that his party has a governing majority in Congress. Bukele will make key appointments for positions such as the attorney general and Supreme Court magistrates, prompting concerns from the international community, which fears that the president's choices will challenge the work of the country's OAS-backed anti-corruption agency, the International Commission Against Impunity in El Salvador, or CICIES. Bukele's win

"Democracy and rule of law are at a crossroads in El Salvador."

— Rep. Jim McGovern

represents a pivotal moment in Salvadoran politics, as well as his relations with the United States, said Leonor Arteaga, program director at the DPLF. "The fight against corruption and rule of law are at the center of the Biden administration's policies," she added. The two countries share a history of strong diplomatic ties, lending credence to the argument that "the role of the United States toward El Salvador must be one of support and accountability," said Noah Bullock, executive director of human rights organization Cristosal, adding that the United States should engage more with civil society if it aims to combat corruption. Despite pressure from abroad over his authoritarian tendencies, Bukele remains overwhelmingly popular at home, enjoying a 91 percent approval rating for his handling of the pandemic, according to a CID Gallup poll taken a month ago. [Editor's note: See related **Q&A** in the Feb. 19 issue of the Advisor.]

FEATURED Q&A / Continued from page 1

promote development in the digital age. To demand that Ecuador should privatize public sector assets for an amount equivalent to the loan, amid a recession, means selling these assets at lower prices than in normal conditions, thus making Ecuador poorer and reducing its state capacity. The fact that the loan would only be released as the various privatizations proceed, adds further pressure to sell quickly—and at lower prices. Perhaps the most outrageous requirement is that the assets to be privatized be determined not by the Ecuadorean government, but jointly by Ecuador and the DFC. This raises serious questions of transparency and crony capitalism. Has the DFC already identified potential buyers? Who are they? This is only a framework agreement, not a final deal. The Biden administration can and should scrap it. Doing so would send a potent signal to Latin America at a critical moment and indicate that it does not consider regional development to be a zero-sum game."

A **R. Evan Ellis, Latin America research professor at the U.S. Army War College:** "The DFC deal is broadly misunderstood; it is not inherently bad just because its architects were part of the Trump administration. President Moreno had been working to disentangle the country from the deepening isolation and dependence on China created by his predecessor, Rafael Correa, who incurred $19 billion in loans from the PRC at higher interest rates, using them to fund projects with nontransparent contracts that benefited his cronies and had delays and defects that only deepened Ecuador's dilemma. One of many grave flaws in the China-built Coca Coda Sinclair hydroelectric facility is linked to dramatic erosion, forcing the shutdown of the country's main OCT oil pipeline. Covid-19 expenses and revenue losses forced Moreno, in an already impossible fiscal situation, to turn to the PRC for an additional $2.4 billion, while the prior China loans for nonperforming infrastructure obligated most Ecuador oil exports through 2024. Huawei 5G was a clear threat, given Huawei's obligation under China's 2017 security law to turn over user data to the PRC communist government if instructed. Yet given Ecuador's financial vulnerability, excluding Huawei would have been difficult, recalling how the PRC cut support for its loan-based infrastructure projects in Great Britain when the latter excluded Huawei from 5G there. Yet allowing a Huawei solution for Ecuador's 5G, given its already dominant position in supplying telecom equipment there, would have made defending information security virtually impossible for Ecuador's government and companies operating there. The creative use of DFC financing gave Ecuador an escape from this trap."

A **Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue:** "It's unclear whether the Biden administration will end up supporting the $3.5 billion, China-focused framework agreement between the DFC and Ecuador, but it should think twice before doing so. China's global activity, including in Latin America and the Caribbean, is still of critical concern across the aisle and among Biden's China hands. So, for that matter, is Chinese involvement in 5G deployments across the globe. But it's unclear that the DFC proposal will do much to effectively address either area of concern. If anything, the deal appears to reward China's policy banks by helping Ecuador to pay off outstanding Chinese debt while also entangling the United States in a problematic privatization process. This move is no doubt viewed as reducing Chinese economic influence in Ecuador and eliminating Quito's need for new finance from Chinese banks, including a $2.4 billion CDB/ICBC loan that is seemingly still under consideration. But the risk to U.S. reputation (and that of the DFC) isn't worth the perceived reward. Nor would the agreement necessarily leave Ecuador on more

Continued on page 4

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FEATURED Q&A / Continued from page 3

solid ground. Partnership with the DFC and other parts of the U.S. government can be of great benefit to Ecuador and the broader region, especially if focused on issues and areas, such as climate change, sustainable infrastructure and corruption, that the region considers most pressing and which will shape its recovery. A well-crafted hemispheric policy will do far more for U.S. standing in the region (including vis-à-vis China) than a series of one-off financing agreements."

A **Eduardo Ulibarri, sociopolitical analyst and former ambassador of Costa Rica to the United Nations:** "Since China became a financial powerhouse and decided to leverage its capital surplus to advance its geopolitical interests, bilateral state lending has entered a much more politicized ground. The DFC deal with Ecuador's government, beyond its specific features, signals that the U.S. government may be jumping into that arena. Or may it just be an exceptional decision by the foregone Trump administration? Let's not be naïve: financial clout has always been a source of international influence—or power. It has been leveraged by the United States, among others, traditionally through two main tools. One is the technically grounded policy conditionalities of Western-led multilateral institutions, such as the IMF or World Bank, tied to market-oriented or even ideological-leaning approaches. The other is bilateral lending specifically intended to promote goods, services or weapons provided by U.S. companies, usually in tune with its government policies. It doesn't mean, however, that it hasn't been positive for recipients. Such has been the key role of the DFC. Moving from this approach into the toolbox of geopolitical competition with China would be an ill-fated qualitative change. Such is the nature of the DFC's deal with Ecuador, in this case grounded on what appears to be an unstable political arrangement between the two governments, which may be easily reversed. It's possible to count on the technical strengths or financial savvy of the DFC, or on the responsibility of Ecuadorean authorities, to think that the implementation of the arrangement will be solid and transparent. However, as a precedent, it is disquieting; as a possible new trend, it is alarming."

A **Adam Blackwell, vice president for international at Development Services Group:** "Ecuador is a case study as to why international financial institutions and sovereign export development banks need reform. Ecuador is confronting a perfect storm—its economy contracted by 9 percent in 2020, with mounting debt and deficits, including IMF conditionality, and the very severe impact of Covid-19. We all remember the horrendous images of the health crisis in Guayaquil. In a perfect world, the multilateral financial institutions—IMF, World Bank, Inter-American Development Bank and CAF—would coordinate with sovereign lenders such as the DFC and China to come up with a coordinated strategy to serve the best interests of the Ecuadorean people. China is not a benign actor. These are loans, and China, like other sovereign lenders, imposes conditionality that favors their products and people. The agreement with the DFC is also a loan Libor plus 2.25 percent with a one-year grace period. This has all become impossibly treacherous due to the elections in both the United States and Ecuador. Will the Biden administration maintain the conditions that the DFC has imposed on this loan? Will the new Ecuadorean government, when elected, respect the conditions of the IMF loan? Will it overturn the DFC loan? What will be the impact on spending, taxes and social conditions as they try to work their way out of both the debt and deficit, and Covid crisis? While there are still many unanswered questions, what we don't want is for Ecuador to go through another cycle of political turmoil and social upheaval because of international lenders."

[Editor's note: The Latin America Advisor invited the DFC to comment but did not receive a commentary by the deadline.]

LATIN AMERICA ADVISOR
is published every business day by the
Inter-American Dialogue ISSN 2163-7962

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

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