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FEATURED Q&A

Would Joining the OECD Boost Peru, Brazil & Argentina?



Peru, Brazil and Argentina are expected to begin discussions about membership with the Organization for Economic Cooperation and Development, whose headquarters in Paris is pictured. // File Photo: OECD.

Q The Organization for Economic Cooperation and Development, or OECD, said Jan. 25 that it would begin talks with six countries, including Brazil, Argentina and Peru, about joining the group. If the countries accede to the OECD, they would join its four current members in Latin America—Mexico, Chile, Colombia and Costa Rica. What would membership in the OECD mean to Brazil, Argentina and Peru? What types of reforms might the countries need to make in order to be accepted into the organization, and how much would such reforms benefit those countries' economies? What obstacles stand in the way of the three nations joining the OECD?

A Pedro Francke, former finance minister of Peru: "Almost 10 years ago, Peru began its process of rapprochement with the OECD. During this period, the country has been reforming its legislation and adapting its regulatory mechanisms to the standards of the organization. Among the main advances on the topic we can include tax reform and the adoption of the Anti-Bribery Convention and the Declaration on International Investment and Multinational Enterprises. Despite significant progress, Peru's accession to the OECD means that additional reforms must be carried out. It is important that our country adopt, among others, the principles of corporate governance of public companies and a modernization of its public finances. The latter will help improve the quality of public services, as well as facilitate budgetary coordination between central and subnational governments. The Ministry of Economy and Finance also considers this process an opportunity to promote a diversified economy, one that generates better

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TODAY'S NEWS

POLITICAL

At Least 24 Killed, a Dozen Missing in Quito Landslide

The landslide, caused by heavy rains, destroyed homes in the working-class neighborhoods of La Gasca and La Comuna in the Ecuadorian capital. Flooding has also caused deaths in countries including Brazil and Haiti.

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ECONOMIC

Remittances to Mexico Rise 27% to New Record

The transfers grew last year to \$51.6 billion, Mexico's central bank announced. The amount is greater than nearly all other sources of Mexico's foreign income.

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POLITICAL

Peru's Castillo Names New Cabinet Members

Peruvian President Pedro Castillo on Tuesday named a new cabinet, replacing all of his top ministers. He tapped Héctor Valer as prime minister, replacing Mirtha Vásquez, who resigned on Monday.

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Valer // Photo: Peruvian Government.

POLITICAL NEWS

At Least 24 Killed, a Dozen Missing in Quito Landslide

A landslide in Ecuador's capital killed at least 24 people and left a dozen others missing, Quito's mayor, Santiago Guarderas, said Tuesday, Reuters reported. Torrential rains late Monday led water to build up in a gorge close to the working-class neighborhoods of La Gasca and La Comuna. Mud and rocks then went plunging onto homes and streets in the worst such incident in Quito in at least two decades, the wire service reported. Some 48 people were injured, according to Ecuador's disaster management agency. "We saw this immense black river that was dragging along everything, we had to climb the walls to escape," resident Alba Cotacachi told Reuters. "We are looking for the disappeared," she added. Elsewhere in the region, at least 24 people were killed in landslides caused by floods in Brazil's São Paulo state, authorities said Monday, the Associated Press reported. Floods also killed at least three people in Haiti and damaged homes and crops there and in the Dominican Republic, the AP reported Tuesday.

Peruvian President Replaces Top Ministers in Shuffle

Peruvian President Pedro Castillo named a new cabinet on Tuesday, tapping his third prime minister and replacing all of his top cabinet members, including Finance Minister Pedro Francke, who has been seen as among the government's most experienced and moderate top officials, the Financial Times reported. Castillo named Héctor Valer as prime minister. Valer was elected last July as a member of the far-right Renovación Popular party before switching sides to a bloc that supports constitutional change, Reuters reported. As prime minister, Valer replaces Mirtha Vásquez, who resigned

on Monday over disagreements with Castillo. The president named his new cabinet after Francke announced his resignation via Twitter. To replace Francke, Castillo named economist Óscar Graham, who was previously an official at Peru's central bank, the Associated Press reported. Castillo also named attorney Alessandra Herrera as mining and energy minister and former Constitutional Court President César Landa as foreign minister, the Financial Times reported.

ECONOMIC NEWS

Mexico's Remittances Rise 27% to New Record of \$51.6 Bn

Mexico's amount of remittances rose 27.1 percent last year to \$51.6 billion, a new record total, the country's central bank announced Tuesday, the Associated Press reported. The amount is greater than nearly all of the country's other sources of foreign income, including oil exports, tourism and most of its manufacturing exports, the AP reported. Remittances remained strong in the final months of 2021, with the money transfers in December growing to \$4.76 billion, a 30.4 percent increase as compared to the same month a year earlier, the central bank said. Over the past decade, Mexico's remittances have nearly doubled as a percentage of the country's gross domestic product. The transfers accounted for 2 percent of the country's GDP in 2010 and rose to 3.8 percent of its GDP in 2020, the government said, according to the AP. In that 10-year period, the percentage of Mexican households receiving remittances also rose, from 3.6 percent to 5.1 percent. Mexico now takes in the world's third-highest total amount of remittances, after only India and China. Mexico's remittances also account for approximately 6.1 percent of the global total, according to a Mexican government report. Economic need, fueled by the Covid-19 pandemic, may be a main driver of the money transfers to Mexico, the AP reported. "When a Mexican family

NEWS BRIEFS

Guatemala Toughens Prison Sentences for Human Trafficking

The Guatemalan Congress on Tuesday increased penalties for human traffickers to prison sentences between 10 and 30 years, up from the current sentences of two to five years, Reuters reported. The initiative, which President Alejandro Giammattei proposed as a reform of the Central American country's migration law, is part of the government's efforts to crack down on smugglers known as "coyotes." Human traffickers will be fined between 100,000 and 200,000 quetzals (\$13,000 to \$26,000) for every person smuggled through Guatemala, Reuters reported.

Iranian Supertanker Begins Discharging in Venezuelan Port

The Iranian supertanker Starla, which arrived last week in Venezuelan waters, has started to discharge at state oil company PDVSA's main port, Reuters reported Monday, citing tracking data and a company document. PDVSA and the National Iranian Oil Company began a swap agreement last year to exchange Iranian heavy condensate for Venezuelan crude.

Aldana Elected Head of Pemex Workers' Union

Long-time Mexican union veteran Ricardo Aldana was elected on Monday as the new head of the union for state-run oil company Pemex, EFE reported. Aldana has acted as treasurer of the union in the past, and his election by union members followed the 2019 resignation of Carlos Romero Deschamps, who was the head of the union for 26 years and stepped down following corruption allegations. Deschamps has denied wrongdoing and is facing no charges, Reuters reported. Aldana, who has close ties to Deschamps, received 44,983 out of the 63,700 votes cast in Monday's election, EFE reported.

suffers illness or their household suffers damage, they receive more. Why? Because, basically, they ask for help,” Agustín Escobar, a professor at Mexico’s Center for Research and Higher Education in Social Anthropology, told the AP. The country’s economy shrank 8.5 percent in 2020 and rebounded 5 percent last year. However, the economy contracted in the last two quarters of 2021, putting Mexico into a technical recession. “Solid workers’ remittance flows have been adding support to the current account and to private consumption, particularly for low-income families,” Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs, said Tuesday in a note.

Salvadoran Gov’t Rejects IMF’s Call on Dropping Bitcoin

The administration of Salvadoran President Nayib Bukele on Monday rejected a recommendation from the International Monetary Fund that the Central American country drop Bitcoin as a legal tender, the Associated Press reported. Alejandro Zelaya, El Salvador’s treasury minister, said in an interview with a local television station that the issue is a matter of “sovereignty.” He added, “no international organization is going to make us do anything, anything at all,” the Associated Press reported. In a statement last week, the IMF cited concerns about Bitcoin’s price volatility. The digital currency recently dropped in value against the U.S. dollar after doubling last year. The IMF also expressed concerns about criminals using Bitcoin, the Associated Press reported. The lender said El Salvador should “narrow the scope of the Bitcoin law” and that there is a “need for strict regulation and oversight of the new ecosystem of Chivo and Bitcoin.” In a Twitter posting on Monday, Bukele said that he expects “A gigantic price increase [in] just a matter of time.” [Editor’s Note: See [Q&A](#) on the popularity of cryptocurrencies in Latin America in the Nov. 4-17 issue of the Dialogue’s biweekly Financial Services Advisor.]

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quality employment and is friendlier to the environment. Considering the recent oil spill on our coast, it is clear that Peru’s environmental institutions must be reinforced. In tax matters, adherence should improve tax collection mechanisms, bringing them closer to OECD indicators in the medium term, and—like other countries—it must reduce inequality levels. If the accession process to the OECD is to be successful, we face a great challenge: different political forces in Peru must work together to achieve the significant degree of political consensus that this process needs. The incorporation request will require intense work by all sectors in the executive branch, as well as a commitment between the executive and legislative branches to arrive at the necessary legislative modifications. I’m confident that Peruvians can work together toward this common goal which will contribute to our country’s welfare.”

A **Allison Fedirka, director of analysis at Geopolitical Futures:** “OECD membership would serve primarily as a status symbol for Brazil, Argentina and Peru in the global economy. Beyond that, membership would have few tangible benefits. Theoretically, OECD status helps a country attract foreign investment because it implies a set of economic standards. In practice, that is not always the case. The economies of OECD countries still vary widely. Most would agree South Korea and Israel’s economies are far more developed than those of Colombia or Mexico. The latter two underperform in meeting several OECD criteria. Ultimately, the OECD label is one of numerous factors investors consider before cutting a check, and membership alone will not be enough to sway an investment decision. Membership would require massive reforms in these countries related to formalizing labor, reducing corruption, eliminating protectionist regulations, securing programs for vulnerable populations and increasing

regulation for environmental sustainability. Such reforms would incur extremely high political and social costs in all three countries. Corruption and informal labor are mainstays in these countries’ economies.

“OECD membership would serve primarily as a status symbol for Brazil, Argentina and Peru...”

— Allison Fedirka

Argentina’s unorthodox economic policies clash strongly with necessary free-market regulations, while both Brazil and Peru face substantial challenges for environmentally sustainable industrial activity. Given the long process for membership, the delicate political situation in these countries and the high cost of reforms, OECD membership is not likely to occur anytime soon. Then again, it’s not a major priority for Argentina, Brazil or Peru either, as membership may not be worth the cost.”

A **Leandro Barcelos, international trade coordinator at BMJ Consultores Associados:** “The accession of Argentina, Brazil and Peru to the OECD will imply changes, including designing new policies, legislation and practices to establish greater convergence to international standards. One of the expectations in joining the OECD is that it will stimulate the implementation of important structural reforms, potentially affecting the domestic business environment and the international insertion of these Latin American countries. As to the reforms that would need to be implemented, those in the areas of finance, investment, environment and taxation stand out. Thus, the OECD may require that Argentina, Brazil and Peru develop a regulatory and legal framework that favors greater freedom in capital flows,

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equal treatment for foreign and national companies, tax reductions for foreign investments, a progressive tax system and a decrease in deforestation rates. Some of the advantages of being part of the OECD are the reception of more foreign investment, a more transparent and secure business environment, the creation of accountability mechanisms, improvements in education and more efficient public policies. However, the road to full membership is a long and rough one. In the case of Peru and Argentina, the biggest challenge is the distrust that current governments have regarding liberalizing policies and trade openness. In the case of Brazil, environmental policies could delay the process. Finally, it should be noted that broader reforms usually take years, especially in Latin American countries."

A **Paulo Vieira da Cunha, partner at Verbank Consulting, LLC in New York:** "It is good to join the OECD. For Brazil—and I suspect for others—it helps first with the public administration and the array of laws, decrees and norms, some of which are outdated and unnecessarily complex. The process of joining the OECD forces a systematic review with positive outcomes. For example, the just-approved Foreign Exchange Law published on Dec. 30 modernizes a heretofore labyrinthine system dating back to the 1940s. The strictures for joining (for example, in the chapter on capital account and foreign exchange restrictions) may appear daunting.

However, as the case of Colombia exemplifies, the exceptions may be so numerous as to render the principles inoperative, sometimes with good reason. Joining also helps with transparency and research, proof of which is the excellent information page

“**The process of joining the OECD forces a systematic review with positive outcomes...**”

— Paulo Vieira da Cunha

on Brazil on the OECD website. This allows authoritative cross-country comparisons of heretofore improperly classified macro accounts. It may help with policy, in the way the IMF's Article IV surveillance reports do. The OECD's country reviews are a welcome competitor. And the OECD's insistence on a clearer and more intelligible tax system may give an extra push for tax reform. Most of all, however, it helps in accessing an important multilateral setting. With the loss of IMF credibility (as in the case of Argentina), the more collegial setting of the OECD meetings may prove to be a better way of influencing policy and performance."

Editor's note: Pedro Francke submitted the commentary above to the Advisor just hours before he announced his resignation on Tuesday as Peru's finance minister.

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