LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, March 3, 2022

FEATURED Q&A

Will Ecuador's Business Reforms Attract Investment?

Ecuadorean President Guillermo Lasso is seeking to attract more investment to the country with a package of business-friendly reforms. // File Photo: Ecuadorean Government.

Q Hoping to draw more foreign investment into the country, Ecuadorean President Guillermo Lasso recently proposed a package of business-friendly legislation to the National Assembly. The measures would create free-trade zones for companies in key sectors, where they would be tax-exempt for 10 years. The package is part of Lasso's efforts to attract $30 billion in private investment and provide incentives to boost formal employment in the Andean nation. As the president's party does not hold a majority in the legislature, how likely are the reforms to pass? What would be the consequences for Ecuador's economy if they don't? Are the tax exemptions and other incentives enough to attract the amount of investment that Lasso seeks? Would the targeted investments boost formal and high-paying job creation significantly, and what industries would find the incentives the most appealing?

A Ramiro Crespo, president and CEO of Analytica Securities: "Much of the bill in theory should be relatively uncontroversial because of its technical nature. Ecuador's National Assembly is, however, struggling amid an internal dispute over leadership and has an obstructionist track record that puts up real hurdles for the bill to pass. The fast-track bill has at least been admitted into the legislature, and the clock is ticking, because it will go into effect automatically if the assembly fails to review it within 30 days, as had previously happened with Lasso's tax bill, perhaps the most likely positive scenario. The administration has pinned a fair amount of hope on the bill to obtain investment in public-private partnerships that have had only

Continued on page 3

TODAY'S NEWS

ECONOMIC

Brazil Makes Plans to Ensure Supply of Fertilizer

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Page 2

BUSINESS

U.S. Extradites Mexican Facing Fraud Charges

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Page 3

POLITICAL

Colombia's Petro Will Declare State of Emergency

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Page 2

Petro // File Photo: @petrogustavo via Twitter.

POLITICAL NEWS

Colombia's Petro Will Declare State of Emergency

Colombian presidential front-runner Gustavo Petro said this week he will declare an "economic emergency" that would allow him to bypass the normal workings of congress if he wins this May's presidential election, Bloomberg News reported Tuesday. Petro, a leftist, told Blu Radio that the "social catastrophe" of widespread hunger in Colombia justifies such a move. A state of emergency allows a government to approve laws and regulations through decrees without approval from congress for as many as three 30-day periods, according to the report. However, a constitutional court would need to rule on the legality of the decrees issued under the emergency, and the country's congress would also be able to revise the decrees and could potentially overturn them. Petro, 61, is a former guerrilla fighter who became mayor of Bogotá and a senator. He would need to win 50 percent of the vote on May 29. If not, there will be a runoff on June 19. In an interview last month with Agence France-Presse, Petro said he would pursue a different leftist model than those of socialist leaders such as Nicaragua's Daniel Ortega and Venezuela's Nicolás Maduro, indicating he would instead align himself to a "progressivism" he associates with Chile's president-elect Gabriel Boric and former Brazilian president Luiz Inácio Lula da Silva. Last month, the Paris-based Organization for Economic Cooperation and Development said Colombia should expand programs providing universal basic pensions and a guaranteed minimum income. [Editor's note: See related **Q&A** in the March 1 issue of the Advisor.]

CORRECTION

A commentary attributed to Gina Carriazo Hickey and Pilar Planells in Wednesday's issue of the Advisor should have instead been attributed to Silvina Moschini, president and founder of TransparentBusiness, founder and chief executive officer of SheWorks! and executive producer of Unicorn Hunters.

Costa Rica Legalizes Medical Marijuana

Costa Rican President Carlos Alvarado on Wednesday signed off on a law making medical marijuana legal, the Associated Press reported. The Central American nation's congress passed the measure earlier this week. The law also legalizes the cultivation and industrial production of hemp, although recreational marijuana use continues to be prohibited. Alvarado had vetoed a similar bill earlier this year, forcing lawmakers to make changes. The centrist president is scheduled to leave office this year, and both candidates vying to replace him in an April 3 runoff election, José María Figueres and Rodrigo Chaves, have spoken in favor of legalizing the recreational use of marijuana, according to the report. Chaves, who formerly served as the country's finance minister, is now leading in the polls ahead of the runoff vote, Reuters reported Tuesday, citing a new poll by the University of Costa Rica. Chaves has support from 46.5 percent of voters surveyed, while former president Figueres received 35.9 percent support, according to the survey. [Editor's note: See related **Q&A** in the Feb. 8 issue of the Advisor.]

ECONOMIC NEWS

Brazil to Propose New Plans to Ensure Supply of Fertilizer

Brazilian Agriculture Minister Tereza Cristina Dias said on Wednesday the country will launch a national fertilizer plan by March 17 aimed at stimulating investments in potash and phosphorus, Reuters reported. South America's largest economy, a major global food producer, imports 85 percent of its fertilizer, which has

NEWS BRIEFS

Dominican Authorities Turn Over Suspect in Moïse Assassination

Authorities in the Dominican Republic on Wednesday extradited a former Haitian police officer linked to the assassination of President Jovenel Moïse last July, the Associated Press reported. The man, who is identified as Tanis Philome, was detained in the Dominican Republic several days ago. So far more than 40 people have been arrested in the slaying of Moïse, including several Haitian police officers and a former senator, as well as 18 former Colombian soldiers allegedly hired for the assassination, according the report. [Editor's note: See related **Q&A** in the Feb. 18 issue of the Advisor.]

Peru Retail Sales Rebound to Pre-Pandemic Levels

Peru's Ministry of Production said Wednesday that domestic retail sales last year rebounded to pre-pandemic levels, state news agency Andina reported. Production Minister Jorge Luis Prado said retail sales reached nearly $13 billion in 2021, an increase of 18.4 percent as compared to 2020 and 17.2 percent over 2019, the most recent pre-pandemic year. The pent-up demand and relaxation of health safety precautions at shopping centers helped boost the figures, according to the report.

Fragomen Opens First Office in Montevideo

New York-based immigration advisory firm Fragomen said Wednesday that it has established a presence in Uruguay. The new office is the firm's twelfth office in the region and is located in Montevideo. A ten-year veteran with the company, María Inés Menvielle, will lead the firm's operations in the South American country. Fragomen, which employs more than 4,700 professionals, has offices in Argentina, Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Panama, Peru and Venezuela.

become a sensitive issue due to geopolitical tensions and supply chain disruptions caused by the Covid-19 pandemic. In an interview with CNN, Dias said Brazil needs to have bigger fertilizer production as a matter of "national security." Dias said the plan aims to minimize bottlenecks in terms of legislation, taxes and especially delays over environmental licenses, according to the report. Currently Brazil has fertilizer stocks that should last until October, when the harvest of the country's biggest grain crop intensifies, Dias said. Last month Russia, a key supplier of fertilizer to Brazil, banned exports of the product for two months in order to safeguard domestic supplies. President Jair Bolsonaro on Wednesday proposed lifting a ban on mining in Indigenous territories in the Amazon to offset potential fertilizer shortages, Agence France-Presse reported. "With the Russia/Ukraine war we now face the risk of a lack of potassium or that its price rises," Bolsonaro wrote on Twitter. The far-right leader, who is running for re-election in October's presidential race, said that mineral extraction in Indigenous territories is necessary in order to avoid dependence on imported products. However, the proposal, which he has made before, has drawn global condemnation from environmental groups and human rights activists.

FEATURED Q&A / Continued from page 1

limited success in the past. It has also designed the future free trade zones on models in Colombia and the Dominican Republic. If it fails to pass, the impact will be more of an opportunity cost weighing on potential growth, rather than one that will slow economic growth. While business response to the law has been favorable, at least some of the measures may be possible to implement even without much support. Much of the $30 billion Lasso wants to attract are from relatively traditional industries, including oil, electricity and mining—the latter being one of the main drivers of foreign investment in recent years. As such, the development of commodity prices in the current volatile times will be the main driver determining whether foreign companies will invest in Ecuador."

A **R. Evan Ellis, Latin America research professor at the U.S. Army War College:** "The proposed legislation, designed to incentivize investment in a myriad of sectors through free trade zones, tax breaks and public-private partnership infrastructure projects, will face an uphill battle. Still, Ecuadoreans are educated and pragmatic. The legislation could pass if those ideologically opposed to free market solutions, and actors who simply don't want Lasso to succeed, can be overcome. The need is great, and Ecuador has little fiscal room for government-led alternatives. The reality is that Ecuador should be a very attractive investment destination for both Chinese and Western firms, particularly in a post-Covid environment. Compared to most of the rest of the region, it has relatively well-functioning institutions, rule of law, good transportation and other infrastructure, a relatively educated population and limited levels of violence and organized crime. The country is geographically well-positioned as a potential gateway to Asia with the newly expanded deepwater port of Posorja. It has a relatively central location on the Pacific, close to the Southern Cone, and also Panama, and within reasonable distance to the United States. In addition, the business environment of others in the region is worse, with less business-friendly governments and/or organized crime and instability. Even previously attractive alternatives such as Colombia and Brazil may soon elect market-unfriendly governments. Nonetheless, Ecuador still must overcome serious fiscal difficulties, questions about resistance to petroleum and mining projects by affected communities and environmental considerations, the spillover of organized crime and violence from Colombia that is producing insecurity and corruption, and questions about the stability of Lasso's government."

"The reality is that Ecuador should be a very attractive investment destination for both Chinese and Western firms..."

— R. Evan Ellis

Continued on page 4

BUSINESS NEWS

U.S. Extradites Mexican Financier Facing Fraud Case

U.S. authorities on Wednesday deported Rafael Olvera, the majority owner of failed credit union Ficrea, to Mexico where he faces charges of defrauding some 6,000 people. U.S. agents delivered Olvera to Mexican authorities at the bridge that connects Laredo, Tex., with the Mexican city of Nuevo Laredo, the Associated Press reported. In 2015, Mexico's banking regulator accused Olvera of siphoning at least $184 million from the credit union for his personal use, Bloomberg News reported. Mexican regulators shut down the company in November of 2014, affecting nearly 7,000 savers. Prosecutors accuse Olvera of handling money that was illegally obtained and also with violating banking laws. Most of the investors who lost their savings were elderly, and the majority of them never recovered their money, the AP reported. U.S. authorities detained Olvera in May 2019 on immigration-related charges, and Olvera had fought his extradition to Mexico. He had purchased several properties in Texas and Florida, Bloomberg News reported, citing a U.S. embassy official who was not named because the official was not authorized to speak about the matter. In the wake of the scandal over Ficrea, Mexico's financial regulator, CNBV, in 2015 undertook a review of rules for popular financial societies, or Sofipos. Proposed changes included asset concentration limits, enhancing corporate governance and minimizing conflicts of interest.

FEATURED Q&A / Continued from page 3

A **Adam Blackwell, vice president for international at Development Services Group:** "Ecuador is facing converging headwinds. The economy and people were flattened by the pandemic, the country still has an IMF loan to deal with and China is the nation's largest lender through crude-for-credit agreements. There is also a legacy of overspending by President Lasso's predecessors, and he has limited power in the National Assembly. According to the World Economic Forum's Competitiveness Index, Ecuador ranks 112th out of 141 countries. Mr. Lasso promised to modernize the economy and create two million more formal jobs through an 'investment bonanza' by removing barriers in the key oil, mining, electricity and telecoms sectors, and by creating tax incentives through free trade zones. Last year's attempt to get a large reform bill through the assembly failed miserably. Last month, the government sent an economic reform package called the 'Law for the Attraction of Investments, Strengthening of the Stock Market and Digital Transformation' to the assembly, and that body will have 30 days to consider it. There are reasons to be optimistic: the fiscal deficit should drop to 2 percent of GDP this year, the relationships with the IMF and World Bank are solid, and Lasso was able to fast-track tax reforms on high earners and big corporations. He also fast-tracked a temporary wealth tax, bond prices are up and higher oil prices are helping the economy. It will be tricky to modernize the economy while not upsetting unions, powerful Indigenous groups and political rivals. Political stability isn't necessarily a strong suit in Ecuador, but Lasso is nonetheless attempting to lure investors despite a legislature controlled by anti-business interests."

> **"It will be tricky to modernize the economy while not upsetting unions, powerful Indigenous groups and political rivals."**
> **— Adam Blackwell**

A **Leonardo Stanley, associate researcher in the economics department of the Center for Study of State and Society (CEDES):** "Before Ecuador considers economic reform, it's helpful to remember the foreign direct investment that the country received in the 1990s, if the investment is to be long term, inclusive and sustainable. We must also remember that not all foreign investment ends up being beneficial. The capital flows associated with the oil industry may lead to exploration in pristine areas that have unique ecosystems—Yasuní National Park, for example. Ecologically harmful kinds of investment must be avoided, not only because of its effects on the environment and the damage to Indigenous communities, but also because such investments are economically precarious. Ecuador must abandon the quantitative vision of investment in favor of a qualitative vision. This notion is gaining support, not only within the academic community, but also in various business circles. In order to advance along a new economic path, the type of contracts offered to investors should include clauses that protect the environment and local communities. Recreating the investment protection and promotion agreements we saw in the 1990s can be costly. Note the number of claims filed in recent years in the Netherlands against carbon-intensive companies. Obviously, it is impossible to reverse projects that are already in place and avoid international litigation. But the entry of new investment could be prohibited if companies associated with extractive projects do not make an effort to benefit local communities and protect against environmental damage."

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

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
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