

# THE DIALOGUE

## Latin America Advisor

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### FEATURED Q&A

## Can the United States Take Over the Panama Canal?



Panamanian President José Raúl Mulino recently rejected a suggestion by U.S. President-elect Donald Trump that the United States should reclaim control of the Panama Canal. // File Photo: Panamanian Government.

**Q U.S. President-elect Donald Trump suggested last month that the United States should reclaim control of the Panama Canal, which the United States relinquished to Panama in 1999. Panamanian President José Raúl Mulino said on Dec. 31 that Panama will retain sovereignty over the canal in perpetuity, rejecting allegations that Chinese firms are using the canal to undermine U.S. strategic interests. Are there any viable avenues for the United States to reclaim the canal? How credible is the claim that Chinese companies working in various capacities around the canal pose a national security threat to the United States? How is the situation likely to affect U.S.-Panamanian relations under Mulino, who assumed office in July, and Trump, who assumes office on Jan. 20?**

**A Ryan C. Berg, director of the Americas Program at the Center for Strategic & International Studies:** “Chinese influence in Panama has been a concern since the country switched diplomatic recognition from Taiwan to China in June 2017 and became the first country in Latin America to join the Belt and Road Initiative five months later. Naturally, these concerns center on the canal—the most critical piece of infrastructure in the Western Hemisphere. Hutchison Ports PPC, previously a Hong Kong-based shipping consortium, is now subject to China’s National Security Law following Beijing’s takeover of Hong Kong. This means that Hutchison is obliged to turn its data over to the Chinese Communist Party upon request. Furthermore, China’s doctrine of civil-military fusion means that the PRC can convert investments into de facto instruments of the state. Hutchison announced in 2021 that

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### TODAY'S NEWS

#### ECONOMIC

### Argentina Likely Saw its Largest-Ever Trade Surplus: Poll

Argentina’s trade surplus last year was likely its largest on record, according to a Reuters poll of analysts released today.

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#### ECONOMIC

### Brazilian Hedge Fund Outflows Double to Record Level

Brazilian hedge funds last year recorded their largest outflows since record keeping began more than two decades ago.

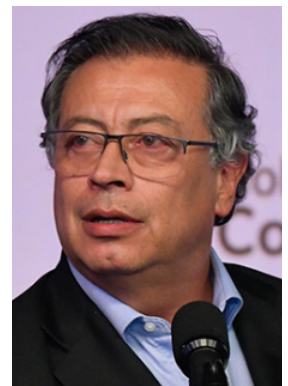
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#### POLITICAL

### Colombia’s Petro Suspends Talks With ELN Rebels

Colombian President Gustavo Petro announced today that his government has suspended peace talks with the National Liberation Army, or ELN, after the rebel group allegedly killed several civilians earlier this week.

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Petro // File Photo: Colombian Government.

## POLITICAL NEWS

## Colombia's Petro Suspends Talks With ELN Rebels

Colombian President Gustavo Petro announced today that his government has suspended negotiations with the National Liberation Army rebel group, or ELN, after the group allegedly killed multiple civilians earlier this week in a shootout with another paramilitary group, newspaper El País reported. Multiple civilians were killed this week in crossfire

“What the ELN has committed in Catatumbo are war crimes.”

— Gustavo Petro

between the ELN and a splinter group of the demobilized FARC rebels, as the two groups battle for control over Colombia's Catatumbo region along its eastern border with Venezuela, the newspaper reported. “What the ELN has committed in Catatumbo are war crimes,” Petro said Friday morning in a post on social media site X. More than 20 civilians were killed in the paramilitary violence this week in Catatumbo, Senator Rodrigo Londoño said Thursday in an X post, citing government data. Dozens of rebel group members also died in the clashes this week, including five individual ELN members who were signatories to the 2016 peace accord between the ELN the Colombian government, Colombian newspaper El Tiempo reported. Petro's government in 2022 resumed peace negotiations with the ELN, which had previously been suspended in 2019 under the adminis-

### SUBSCRIBER NOTICE

The Latin America Advisor will not be published on Monday in observance of the Birthday of Martin Luther King, Jr. holiday in the United States. We will resume publishing on Tuesday.

tration of former President Iván Duque. Petro has been seriously considering re-suspending negotiations with the ELN since September, when the organization attacked a military base and killed two soldiers, according to El País.

## ECONOMIC NEWS

## Argentina Likely Saw its Largest-Ever Trade Surplus: Poll

Argentina's trade surplus last year was likely the largest in its history, according to a Reuters poll of analysts released today. The country's trade surplus for 2024 is estimated at between \$18 billion and \$19 billion, which would easily top the previous record of \$16.89 billion, which was set in 2009, according to the poll. Between January and November, the country's trade surplus was \$17.20 billion. The official trade figures for December are scheduled to be released on Monday. Between January and November 2023, Argentina had a trade deficit of \$7.94 billion. President Javier Milei, who took office just over a year ago, has sought to make the country a net exporter of energy using its reserves of shale oil in the Vaca Muerta region of Patagonia. Argentina's exports of grains also rose last year, boosted by better weather and the government's easing of some currency controls. Argentina is the top exporter in the world of soy oil and meal, the third-largest corn exporter and a major exporter of beef and wheat, Reuters reported. It also has significant reserves of lithium needed for electric vehicle batteries. Amid Milei's austerity policies, Argentina's inflation fell to 117.8 percent in 2024, down close to 94 percentage points over the year, according to data released Tuesday by the national statistics agency, INDEC, Agence France-Presse reported. December also marked the third consecutive month that prices rose by less than 3 percent. Analysts in a central bank poll released last week forecast that annual inflation would fall to double digits this year, ending 2025 at 25.9 percent, Reuters reported.

## NEWS BRIEFS

## Bolsonaro's Request to Attend Trump's Inauguration Denied

Brazil's Supreme Court on Thursday denied former President Jair Bolsonaro's request to temporarily allow him to leave the country in order to attend U.S. President-elect Donald Trump's inauguration ceremony on Monday, the Associated Press reported. Bolsonaro is the subject of multiple legal investigations; prosecutors allege that he orchestrated an attempted coup d'etat after his defeat in Brazil's 2022 presidential election. Officials confiscated Bolsonaro's passport last February. Argentine President Javier Milei and Ecuadorean President Daniel Noboa are among the leaders who are expected to attend Trump's inauguration.

## U.S. Ex-Im Bank Agrees to Provide Financing for Exports to Uruguay

The U.S. Export-Import Bank (Ex-Im) announced today that it has signed a memorandum of understanding with Uruguay's state-run bank to provide \$200 million in financing to support U.S. exports to the country in critical sectors including energy, agriculture and infrastructure.

## Dominican Republic Generating 23% of Energy From Renewables: Official

Twenty-three percent of the Dominican Republic's electrical grid now comes from renewable sources, including solar, wind and biomass energy, the country's vice minister for innovation and energy transition, Betty Soto, said this week at a conference in Abu Dhabi, news site Dominican Today reported. Clean energy power generation capacity in the Dominican Republic currently stands at around 1.4 gigawatt-hours, which represents an increase of more than 130 percent since 2020, Soto said.

## Brazilian Hedge Fund Outflows Double to Record Level

Investors withdrew money from Brazilian hedge funds at an unprecedented pace in 2024, Bloomberg News reported Thursday, citing data from Brazilian capital markets advocacy group ANBIMA. Brazilian hedge funds last year recorded net outflows—measured by the difference between withdrawals and new investments—of \$57 billion, an increase of nearly twice last year's figure, according to ANBIMA. 2024 marked the single greatest net outflow total for Brazilian hedge funds of any year

**Last year's outflows amounted to \$57 billion, the largest figure since the beginning of recordkeeping in 2002.**

since the statistic was first calculated in 2002, according to Bloomberg News. A basket of Brazilian hedge funds saw its value grow by 5.8 percent last year without accounting for inflation, which grew by 10.9 percent in the country in 2024, the news service reported. Hedge funds had a particularly poor showing last year in Brazil due to the country's persistent levels of top-line inflation, as well as high benchmark interest rates that central bankers have implemented as a response to the rising prices, Bloomberg News reported. Brazilian monetary policy continues to diverge from its regional neighbors, with the central bank raising rates three times since September; other Latin American countries like Mexico, Argentina and Chile have all followed easing cycles in recent months. The Brazilian real dropped in December to its lowest ever recorded value relative to the U.S. dollar, Reuters reported. [Editor's note: See related [Q&A](#) in Monday's issue of the Advisor.]

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it renewed its contract to continue operating the two ports on the canal for another 25 years, until 2047. China has contracts to build more infrastructure around the canal, such as the so-called fourth bridge, which will be built by a blacklisted Chinese state-owned enterprise. China-owned companies are building two more port projects, a cruise ship port on the Pacific entrance to the canal, and a container port on the Atlantic in Colon. Various congressional committees and the former Southcom commander have said Chinese companies have the potential to hold American strategic interests at risk. They could disrupt shipping, block the transfer of naval vessels in a contingency situation—where certain scenarios are measured in terms of hours—and otherwise gain valuable information from commercial espionage about cargos, frequencies and economic vulnerabilities.”

**A** Noel Maurer, associate professor of international affairs and international business at The George Washington University:

“The dispute involves two issues: Chinese influence and rising tolls. The first is a non-issue. The second is real. While there is no viable path to ‘reclaim’ the canal, the United States could use its economic leverage to claim special privileges. China’s attempts to expand its influence in Panama have mostly flopped, most notably an attempt to build a dual-use port on the Atlantic coast. China’s blundering has caused Panamanian public opinion to swing against it, while the United States remains popular. While renewing a Chinese lease on intermodal operations may seem questionable, these activities aren’t dual-use and provide no intelligence that a halfway-competent spy service couldn’t obtain by other means. Ironically, the Chinese company acted against China’s own strategic interests by opposing the attempt to build a dual-use Atlantic port. Meanwhile, Panama has more than doubled canal tolls since taking control. High tolls and increas-

ing delays have pushed some exporters to the longer, costlier Suez Canal route. President Trump could plausibly argue that these actions violate the Neutrality Treaty, but that same treaty guarantees equal treatment for all nations. There is no easy way to ‘reclaim’ the canal. An invasion would be impractical—the United States succeeded in 1989 because it already had forces in-country. Similarly, trying to buy it back would require an exorbitant sum. For instance, compensating Panama \$50,000 per citizen would imply a price-earnings ratio far in excess of Nvidia and be a very bad deal for the buyer. That said, the United States could weaponize Panama’s dependence on the dollar to renegotiate the Neutrality Treaty and obtain special privileges. That would undoubtedly upset global opinion and anger the pro-American Mulino administration, but Washington might find it a risk worth taking.”

**A** Michelle Watts, professor of security and global studies at American Public University:

“A significant milestone in the late President Carter’s presidency was finalizing the negotiations for the peaceful transition of the Panama Canal, a result of a long process that resolved a festering issue for Panamanians. The Torrijos-Carter treaties, ratified by representative bodies of Panama and the United States, acknowledge Panama’s sovereignty over the canal. As Carter observed, ‘this agreement leads to cooperation and not confrontation between our country and Panama.’ The canal has been run efficiently by the Panamanians under the aegis of the independent Panama Canal Authority, an autonomous legal entity. It has adjusted prices over the years due to operating needs and have explained that recent drought conditions contributed to an increase in tariffs. While companies from around the world, including the United States, operate ports along the canal, there is no credible information indicating that these companies have any sway in the way

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the canal is run. China's economic and political influence in Panama is real. Contrary to Trump's assertion that retaking the canal will lessen Chinese influence, Panama's reaction to perceived U.S. bullying could instead strengthen Panamanian relations with other countries that respect its sovereignty. Threatening to seize the canal can only harm U.S.-Panama relations, where an otherwise supportive conservative Panamanian President José Raúl Mulino is a strategic partner on issues that matter to the United States, such as illegal migration, organized crime and drug trafficking. Panama's cooperation is an asset to the United States; it should be treated as the ally that it is."

**A Daniel Raisbeck, policy analyst on Latin America at the Cato Institute:** "One problem with the suggestion of 'reclaiming' the Panama Canal is that the current canal is not the same as the one that was built in the early 20th century. Between 2007 and 2017, Panama hired a European consortium of firms to carry out the canal expansion project, which cost more than \$5 billion and added a third set of locks on both sides of the canal. According to the U.S. Embassy in Panama, this was 'the largest infrastructure project since the canal's opening in 1914.' The new canal 'increases the waterway's capacity to meet the growing demand of maritime trade using larger vessels.' Thus, 'reclaiming' the canal today is not a matter of reasserting control over the original, U.S.-built canal. Rather, it would involve seizing key infrastructure that Panama has built and maintained independently. It is true that Chinese firms that operate ports in the Panama Canal area could pose a threat to U.S. national security in a war scenario. In which case, the new Trump administration could argue that Chinese involvement in the canal area violates the neutrality clause of the 1977 treaty (through which the United States yielded control of the canal in 1999), thus justifying a military intervention. Even without the outbreak of war, the issue is

likely to dominate U.S.-Panama relations beginning on Jan. 20. However, the larger issue at stake is how American negligence of investment opportunities in Latin America over the past two decades created a vacuum that the Chinese have filled quietly."

**A Theodore Kahn, director of global risk analysis at Control Risks in Bogotá:** "In one free-wheeling press conference, President-elect Donald Trump appeared to jettison the core tenets of his 'America First' foreign policy and embrace military interventionism. Or not. Trump's recent remarks follow a pattern from his first term of shaking up relations with allies in order to re-establish them on more favorable terms. They should not be taken as a barometer for U.S.-Panama ties over the next four years. Trump's government is unlikely to use military force or other tactics to reclaim U.S. control of the canal. Doing so would be an enormous strategic blunder, inciting a surge of anti-American sentiment throughout Latin America and allowing China to further consolidate its influence—precisely the outcome the administration seeks to avoid. Trump's incoming foreign policy team—including Secretary of State Marco Rubio and National Security Advisor Mike Waltz—know Latin America well and understand these dynamics. In President Mulino, the new administration will find a like-minded partner who shares its concerns over migration, drug trafficking and the need to upgrade the canal to handle growing maritime traffic. The United States could also benefit from the eventual reopening of the Cobre Panama, which could provide a key source of copper from an allied country. There will be plenty of space for deals between the two leaders. The comments do show that even ideologically aligned governments in Latin America will not be shielded from Trump's saber-rattling. The administration will look to extract benefits, at times via pressure and threats, regardless of whether the left or right is in power."

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