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FEATURED Q&A

Will Latin America Start Seeing More Investment Flows?



Latin America's level of foreign direct investment declined last year for the third consecutive year, Inés Bustillo of ECLAC points out below. // File Photo: Pictures of Money via Creative Commons.

Q Foreign direct investment in Chile hit \$8.48 billion in the first quarter of this year, its highest level since 2003, after four years of downturn, according to the Chilean government's investment agency. From January to March, Mexico also reached a historic level of investment, totaling \$9.5 billion, a 20 percent increase from last year. Meanwhile, FDI in Brazil fell 30 percent between January and April, in comparison to the same period last year, Folha de S.Paulo reported. What is the state of foreign direct investment in the region? What are the reasons for increased investment in Chile and Mexico, and contraction in Brazil? Why are some countries of the region attracting more FDI than others, and will these trends continue? How important is foreign direct investment to the countries of Latin America at this stage in their economic development?

A Inés Bustillo, director of the Washington office of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC): "Foreign direct investment to Latin America and the Caribbean fell for the third year in a row in 2017 to total \$161.67 billion, down 3.6 percent from 2016 and 20 percent below the level reached in 2011, according to ECLAC's latest annual FDI report. The continuing fall in FDI can be explained by lower prices for basic export products, which have significantly reduced investment in extractive industries and to the economic recession experienced in 2015 and 2016, mainly in Brazil. Since 2011, the fall in FDI has been concentrated almost exclusively in the natural resources sector, with a 63 percent

Continued on page 2

TODAY'S NEWS

ECONOMIC

NAFTA Will Remain Trilateral: Mexico, Canada

Mexican and Canadian officials said they are committed to keeping the North American Free Trade Agreement as a trilateral deal. The statements followed comments by U.S. President Donald Trump that the United States may have bilateral deals with the countries.

Page 2

POLITICAL

Uribe Accuses MI6, Santos of Plot Against Him

Former Colombian President Álvaro Uribe accused his successor and the British intelligence agency of supplying recordings that implicate him in alleged crimes.

Page 2

ECONOMIC

Venezuela to Remove Five Zeros From Currency

Venezuela will remove five zeros from the end of its bolívar currency, President Nicolás Maduro announced. The country is facing inflation of one million percent this year, the IMF said this week.

Page 2



Maduro // File Photo: Venezuelan Government.

ECONOMIC NEWS

Mexico, Canada Say NAFTA Will Remain a Trilateral Deal

The North American Free Trade Agreement, or NAFTA, will be a trilateral deal, Mexican and Canadian officials told reporters Wednesday in Mexico City, The Wall Street Journal reported. A Canadian delegation led by Foreign Minister Chrystia Freeland met that day with Mexican Foreign Minister Luis Videgaray and Economy Minister Ildefonso Guajardo, as well as with Mexican President-elect Andrés Manuel López Obrador, El Universal reported. "Canada very much believes in NAFTA as a trilateral agreement," Freeland said afterwards. Guajardo, who is also Mexico's chief negotiator in the NAFTA talks, said the renegotiation "isn't going in any direction that is not a trilateral agreement," despite a two-way meeting between his delegation and U.S. Trade Representative Robert Lighthizer scheduled for today in Washington.

Guajardo said these talks were part of the negotiation process, adding that Canada has also held individual meetings with the U.S. government, CBC News reported. The comments follow U.S. President Donald Trump's statements last week that there would be a bilateral deal with Mexico, and perhaps a separate one with Canada. Jesús Seade, López Obrador's choice for NAFTA negotiator, will join Guajardo in Thursday's meeting, The Wall Street Journal reported.

POLITICAL NEWS

Colombia's Uribe Accuses MI6, Santos of Plot Against Him

Former Colombian President Álvaro Uribe on Wednesday accused Britain's MI6 intelligence agency and his successor, current President Juan Manuel Santos, of plotting against him by supplying recordings that implicate him in

NEWS BRIEFS

Temer Asks China's Xi to End Surcharges on Brazilian Imports

Brazilian President Michel Temer said Thursday that he asked Chinese President Xi Jinping to end the surcharges applied to Brazilian poultry and sugar in order to boost the South American country's exports, O Globo reported. Temer also expressed interest in exporting soy products, such as oil and grain meal, to the Asian country. He made the request in Johannesburg, where Brazil, Russia, India, China and South Africa are holding the 10th BRICS Summit this week.

Venezuela to Remove Five Zeros From Collapsing Currency

Venezuela's government will remove five zeros from the end of its bolívar currency, President Nicolás Maduro announced Wednesday, Reuters reported. The government had earlier planned to remove three zeros from the currency. Earlier this week, the International Monetary Fund said the South American country's inflation rate could reach one million percent by the end of the year, putting its hyperinflation on par with similar crises as Germany in the 1920s and Zimbabwe in the 2000s.

Anglo American Confirms it Will Proceed With \$5 Bn Quellaveco Project in Peru

London-based miner Anglo American will proceed with its \$5 billion Quellaveco project in Peru, with its first copper production expected in 2022 and an initial capacity of 127,500 metric tons per day, Reuters reported, citing chief executive Mark Cutifani. The commodity crash of 2015 and 2016 hit Anglo American particularly hard, but it has also recovered strongly. The company's projects now aim to be prepared for "whatever the market throws at us," Cutifani added.

FEATURED Q&A / Continued from page 1

drop. FDI inflows in the services sector fell 11 percent, while in manufacturing they rose slightly. While FDI fell on aggregate in 2017, it rose in the majority of countries. In Central America, it increased for the eighth straight year to \$13.08 billion, with a particularly notable rise in Panama, where it reached \$6.07 billion. In the Caribbean, flows grew 20 percent to \$5.84 billion, of which 60 percent went to the Dominican Republic, with significant increases in investment in tourism. ECLAC argues that the importance of attracting quality FDI that is compatible with sustainable development builds local capacities and diversifies the productive structure. Examples where investment policies have helped to generate positive effects on employment and productivity include the rising investment in the automotive sectors in Mexico and Brazil, and in manufacturing and services for export in Central America

and the Dominican Republic. However, these cases are still insufficient to achieve a productive transformation in the region."

Alan Frederick, director of Invest-Chile: "Foreign investment is showing clear signs of recovery this year in Chile. According to our central bank, foreign direct investment reached \$8.48 billion in the first four months of this year, up by 655 percent over the same period in 2017. This is a figure that is, without any doubt, marked by large operations in our country, both as regards to new investment and the acquisition of existing companies, and indicates the confidence of overseas companies in our market. Chile has an important track record as a destination for foreign investment and has attributes that stand out in the region. In terms of Latin America, trends will vary this year along with

Continued on page 4

alleged crimes. "There are repeated allegations that the recordings were made by British agency MI6, friends of Juan Manuel Santos," Uribe said Wednesday in a tweet. "Foreign authorities in a ruse against me." Uribe's claims came a day after he abruptly resigned from Colombia's Senate, in which he has been serving since 2014, saying that he wanted to focus on defending himself in a Supreme Court investigation against him. Uribe, a mentor of President-elect Iván Duque, who takes office next month, is under investigation over allegations of making false accusations and witness tampering, Reuters reported. Uribe did not specify which recordings he was referencing, but the Supreme Court on Tuesday referred to intercepted telephone calls between an attorney and a former official that it said was involved in an alleged plot to undermine the case against the former president. A spokeswoman for MI6 declined to comment to Reuters about Uribe's tweet. [Editor's note: See [Q&A](#) on Colombia in Wednesday's issue of the Advisor.]

BUSINESS NEWS

Chief Executive of Chile's SQM Resigns

Chile-based lithium producer SQM announced Wednesday that its chief executive officer, Patricio de Solminihac Tampier, has resigned. Solminihac, who spent 30 years with the company, resigned for "personal reasons," SQM said in a statement. He has been CEO for three years, and his resignation will be effective at the end of the year, the company said. "Patricio has been a key part of an executive team and board that has generated significant value for its shareholders, employees, local communities and the country in general," Alberto Salas, SQM's board chairman, said in a statement. "It is difficult to summarize in a few words the achievements of Patricio. We regret his resignation, and appreciate his dedication and commitment over the past years." Solminihac also expressed gratitude toward the company. "After completing this stage, I would like to thank the entire team of over 5,000 employees

THE DIALOGUE CONTINUES

Does Paraguay's Tax System Need a Major Overhaul?

Q Paraguay's finance ministry on July 4 established a commission of experts to study the country's tax system and submit a series of modernization proposals to the new government, which will take office Aug. 15. During his campaign, ruling party candidate and now President-elect Mario Abdo Benítez said Paraguay should maintain its current tax system to continue attracting investment, while opposition candidate Efraín Alegre called for higher taxes on the agricultural sector to increase social spending. Paraguay has among lowest tax burdens in the region, but the country's social expenditure is also markedly low, Reuters reported in March. Will Abdo make major changes to the tax system during his presidency? What would a tax reform in Paraguay look like? What are the current system's biggest shortcomings, and how can they be solved?

A Gerardo Ramón Ruiz Godoy, partner at PCG Auditores-Consultores in Asunción: "During the electoral campaign, Mario Abdo Benítez referred to Paraguay's tax systems as one of the main attractions the country has to capture foreign investment, which is the reason why no major changes would be necessary. He also referenced the existing taxing inequality and the need to

in Chile and abroad for supporting me for over the past three decades," he said in a statement. SQM said that, in accordance with a previously agreed-upon succession plan, the company's chief financial officer, Ricardo Ramos Rodríguez, will be appointed CEO on Jan. 1. SQM said Ramos has worked for SQM for 29 years and has worked alongside Solminihac for more than 20 of them. During Solminihac's time at the company, SQM has grown from a fertilizer producer to the second-largest lithium

broaden the collection base so that taxes can be applied in a fairer manner. Today, Paraguay has one of the lowest tax burdens as compared to other countries in the region—but this has an explanation. Unlike Brazil and Argentina, in the last 15 years, social spending increases in Paraguay have been relatively sustainable, with a surplus some years followed by fiscal deficits that did not exceed 1.5 percent of GDP in other years, which demonstrates that there has been fiscal discipline. Therefore, a tax reform would not be justified, although some adjustments are needed. In fact, changes have been made to agricultural income and the VAT on livestock and agricultural products. Perhaps the main problem is existing corruption due to excessive bureaucracy and abuses by the vice ministry of taxation, which issued illegal resolutions that modified the scope of the law, such as abolishing exemptions for personal income tax that were previously established by the law. The incoming government must modify this situation and observe compliance with the law to maintain its credibility."

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

producer in the world, the Financial Times reported. His departure comes as the company is planning to boost its production of lithium under an agreement made with the government of former President Michelle Bachelet. Due to rising demand from battery producers, SQM is seeking government approval to build a \$450 million plant to produce lithium carbonate. However, the company's shares have fallen 20 percent this year amid investors' concerns about an oversupply of lithium.

FEATURED Q&A / Continued from page 2

commodity prices. Even now, when we are attracting more sophisticated investments in Latin America, there are still many companies that invest large amounts in projects related to raw materials, and that will be shown in the figures. In the case of Chile, low copper prices negatively affected our FDI figures last year. FDI is a key factor for the development of countries in the region. It allows our economies to acquire resources such as specific knowledge, human capital development and technological advances. It also promotes innovative environments and helps develop new business landscapes. All of these factors help host countries to develop faster, which in turn creates more and better jobs."

A **Carolina Costa Hurtado,** regional director at **McLarty Associates:** "Much of the recent volatility in foreign direct investment flows can be explained by political uncertainty. After rising commodity prices produced steady growth across the region during the past decade, recent years have been marked by new economic challenges, from falling demand for commodity exports to rising pension and health care costs to unprecedented levels of government corruption. In some cases, new leaders have emerged with strong mandates to tackle these challenges head-on. In other cases, it remains unclear whether leaders will be capable of responding adequately without the economic windfalls that had been

available to them previously. Both Chile and Mexico have faced low commodity prices and high levels of corruption, but recent elections have helped to pave a clearer path forward. Chilean President Sebastián Piñera was elected to his second term with a strong majority after promising to boost economic

“**Much of the recent volatility in foreign direct investment flows can be explained by political uncertainty.**”

— Carolina Costa Hurtado

growth while preserving popular social programs. Mexican President-elect Andrés Manuel López Obrador was elected with the strongest mandate in his country's recent history, promising to fight corruption and maintain fiscal discipline. In Brazil, however, a great deal of uncertainty is in place. With less than three months to go before the first round of the presidential election, it remains rather difficult to predict who may win. Until the emergence of a presidential candidate who offers a set of policies designed to address the country's economic challenges and restore broad-based economic growth, uncertainty over Brazil's way forward is likely to continue deterring investors."

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