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FEATURED Q&A

Are Diplomatic Ties With China Paying Off for Panama?



Panamanian President Juan Carlos Varela met with Chinese President Xi Jinping last month in Beijing. // File Photo: Panamanian Government.

Q Panamanian President Juan Carlos Varela last month made his first state visit to Beijing after breaking off relations with Taiwan in favor of establishing them with China in June. Since then, what have China-Panama relations brought to both countries? Have any drawbacks emerged for Panama? How significant is the loss of Panama as a diplomatic ally for Taiwan?

A Carlos Casanova, economist for the Asia-Pacific region at Coface: "Taipei and Beijing have been competing over the years for the allegiance of the small states that maintain diplomatic relations with Taiwan. They do so by providing substantial grants and technical assistance, in a stratagem that has been aptly named 'checkbook diplomacy.' During his recent visit to Beijing, President Varela emphasized that Panama's switch should not be considered a 'diplomatic money game.' Panama and China have done business together for decades, so, ostensibly, there was no urgency for the country to switch. But while it's true that Panama did not ask for anything in return, it would be disingenuous to conclude that economics had nothing to do with the decision. China has positioned itself as the unlikely champion of globalization, pushing forward with initiatives to promote regional integration and boost infrastructure investments. Latin America forms an integral part of this strategy, and Panama's economy remains reliant on the revenues generated by the Panama Canal, as well as foreign direct investment flows. Despite this, China is not among Panama's top 20 export markets, according to figures by the United Nations. The middle kingdom is, nonetheless, Panama's largest import market. The resulting trade

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TODAY'S NEWS

POLITICAL

Venezuela's Ramírez Warns Maduro Against Targeting Him

Rafael Ramírez, who stepped down this week as Venezuela's ambassador to the United Nations, said Venezuela would be making one of its "worst political moves" if it targets him in an anti-graft purge.

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BUSINESS

Walmex Sees Rise in Sales for November

The retailer said its sales rose 7.9 percent year-on-year, to \$2.8 billion, last month.

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POLITICAL

OAS May Call for New Election in Honduras

In a statement released by OAS Secretary General Luis Almagro, the Organization of American States said it may now call for a new vote if "irregularities" in the country's Nov. 26 election undermine the credibility of the vote.

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Almagro // File Photo: Organization of American States.

POLITICAL NEWS

OAS May Call for New Election in Honduras

The Organization of American States said Wednesday that it may call for a new presidential election in Honduras if “irregularities” damage the credibility of the Nov. 26 vote, Reuters reported. In a statement released by OAS Secretary General Luis Almagro, the organization said the result of the election was not certain,

“The people deserve respect.”

— Juan Orlando Hernández

and that measures such as a partial recount are needed. “It is clear that it is not possible, without an exhaustive and meticulous process of verification that determines the existence or not of an electoral fraud ... to restore the confidence of the population,” the OAS said. The final vote tally, released a week after the election following a count marked by delays, shows incumbent President Juan Orlando Hernández with a lead of 1.6 percentage points over his challenger, Salvador Nasralla. However, the electoral tribunal stopped short of declaring Hernández the winner, saying it wanted to allow time for legal challenges. Hernández late Tuesday called on the Supreme Electoral Tribunal to re-examine all of the votes that were cast, saying, “the people deserve respect,” the Associated Press reported. The tribunal’s head, David Matamoros, said Wednesday that the body would review tally sheets from as many polling places as the opposition requested. That statement, however, did not seem to imply that the vote would be recounted one by one. Early results showed Nasralla with a five-point lead, but that lead disappeared as the vote counting dragged on last week, sending protesters into

the streets in violent demonstrations. The third-place finisher, Luis Zelaya of the Liberal Party, said he was sure of the vote’s actual outcome. “The documents used in the process that are in my party’s possession give Nasralla as the sure winner,” Zelaya told reporters Wednesday, the AP reported. “I am not with either Nasralla or Hernández, but it was Salvador Nasralla who won.” The government has imposed a nighttime curfew amid deadly demonstrations after the vote. However, the curfew was lifted in eight departments after the areas were deemed not to pose a risk to public order, Reuters reported, citing a government security spokesman.

ECONOMIC NEWS

Mexican Senate OKs Bill to Regulate Fintech Firms

Mexico’s Senate on Tuesday approved legislation to regulate its financial technology sector, which has seen fast growth, Reuters reported. The bill includes regulations for crowdfunding, cryptocurrency firms and other areas of fintech. The measure now goes to the lower chamber of Congress, which is expected to approve it by Dec. 15, three sources familiar with the matter told the wire service. Supporters say the legislation is aimed at promoting financial stability and also at preventing money laundering and the financing of extremists. If the measure becomes law, its details would be worked out in so-called secondary legislation. More than half of Mexico’s 120 million citizens lack bank accounts, and fintech firms have seen big potential in the country. The legislation seeks to establish clear rules and lower users’ costs, as well as propose measures that regulate firms that use digital currencies such as bitcoin. Mexico’s central bank would be in charge of overseeing the measures. Felipe Vallejo, the director of public and regulatory policy at Bitso, a cryptocurrency exchange platform, told Reuters the legislation helps bring Mexico’s fintech sector regulation in line with those of other countries that have passed similar regulations.

NEWS BRIEFS

Venezuela’s Ramírez Warns Maduro Against Targeting Him

Rafael Ramírez, who stepped down this week as Venezuela’s ambassador to the United Nations, said Wednesday that it would be one of the Venezuelan government’s “worst political moves” if it targeted him in its anti-corruption purge, Reuters reported. Ramírez, a former head of state oil company PDVSA, said Tuesday that he was resigning as envoy to the United Nations on the orders of President Nicolás Maduro, in a move that critics see as a maneuver by Maduro to consolidate power before his run for re-election next year.

Mexican Education Minister Quits, Expected to Head PRI Campaign

Mexican Education Minister Aurelio Nuño resigned from his post on Wednesday and is expected to be the campaign manager for the ruling Institutional Revolutionary Party’s presidential candidate in next year’s election, the Financial Times reported. Nuño will be replaced by Otto Granados Roldán, who previously was the junior minister for planning at the ministry of education. Last week, former Finance Minister José Antonio Meade announced he would seek to be the PRI’s candidate for president. [See related [Q&A](#) in Wednesday’s Advisor.]

Santander, JPMorgan Asset Management Units to Partner in Brazil

The asset management units of Spain’s Banco Santander and U.S.-based JPMorgan Chase & Co. have agreed to form a new partnership in Brazil, Reuters reported. Under the deal, JPMorgan Asset Management will transfer the management of its investment funds in Brazil to Santander, while Santander Asset Management will distribute some of JPMorgan’s global funds to its clients in Brazil.

BUSINESS NEWS

Walmex Sees Higher Sales in November

Wal-Mart de México on Wednesday announced that its sales rose 7.9 percent year-over-year in November to 53 billion pesos, or \$2.8 billion, The Wall Street Journal reported. November includes a Black Friday-style shopping event called El Buen Fin in Mexico, which partially contributed to the solid sales growth, said Mexico's largest retailer, a subsidiary of U.S.-based Wal-Mart Stores. Same-store sales in Mexico grew 7.6 percent, up from 4.7 percent the month before and 5.8 percent during November of last year. Walmex saw 1.2 percent more customers, who spent 6.4 percent more on average during their visit. Same-store sales in Central America grew by 6.9 percent year-over-year. Investment bank UBS said Walmex's El Buen Fin sale event focused on electronics, big-ticket items and apparel, adding that while many companies in the region were more aggressive than ever in offering interest-free credit and significantly lowering prices, Walmex appeared to have fared the best among physical stores. "Walmex and Sam's [Club] had a broad assortment and the lowest prices, with an estimated price discount above 5 percent when compared to the average in our sample," UBS said. Walmex has 2,339 stores in Mexico and 773 stores in Central America. The company is investing in growing its online sales division, though e-commerce represents less than 1 percent of the company's total sales.

Unit of China's Sinopec Suing PDVSA Over Unpaid Debts

A U.S. subsidiary of China's biggest state-owned oil company, Sinopec, is suing Venezuelan state oil company PDVSA in a U.S. court over unpaid debts, the Financial Times reported Wednesday. The Sinopec unit is suing PDVSA for \$23.7 million plus punitive damages

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deficit was equivalent to almost \$3 billion in 2016 (versus a \$1.5 billion trade surplus with the United States). This situation is analogous for Chinese FDI and lending. Varela's administration has concluded that any potential drawbacks would be more than offset by the commercial opportunities that the shift in allegiances toward Beijing would bring. His visit delivered on this promise, resulting in the signing of a number of bilateral deals. Whether this will be sufficient to rebalance the relationship remains to be seen. For now, one thing is clear: China's massive gravitational pull is strong enough to drive policy at home."

A Guo Cunhai, founder and director of CECLA (La Comunidad de Estudios Chinos y Latinoamericanos): "Since the establishment of diplomatic relations in June, Panama and China have made substantial advances, especially politically and economically. Last month, President Juan Carlos Varela paid an official visit to China and met with President Xi Jinping. As the result of his first visit to China, 19 bilateral cooperation documents were signed, involving sectors including trade, investment, agriculture and tourism. What stands out most among them is that Panama's National Logistics Strategy 2030 was fused with China's top priority in international cooperation, the Belt and Road Initiative. As part of the cooperation, China has confirmed plans to develop a rail

link between Panama City and David City in Chiriqui province, in a move with wide-ranging implications for business and tourism. It is believed that Panama will become the

“ For Taiwan, the loss of Panama is a heavy symbolic blow.”

— Gua Cunhai

critical juncture as the natural extension of the 21st Century Maritime Silk Road to Latin America, which means Panama will benefit greatly from the Belt and Road Initiative. Panama holds geopolitical and geo-economic importance globally. For Taiwan, the loss of Panama is a heavy symbolic blow, especially on the heart and mind, because Panama was one of the most traditional and important allies across Latin America. Similarly, the loss of Panama means Taiwan's economic presence in the Central American country is going to be squeezed, and its economic dynamics will decrease accordingly. What's more, Panama is expected to become China's stronghold for helping win over other countries in Central America and the Caribbean with which it does not have diplomatic relations, which worries Taiwan even more."

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over a contract inked in May 2012 for Sinopec to provide steel rebar to Venezuela's state oil company for \$43.5 million, half of which the Chinese company says remains unpaid, according to court documents seen by the Financial Times. Sinopec filed the complaint on Nov. 27 in U.S. district court in Houston. Chinese investments and loans in Venezuela totaled \$62 billion between 2007 and 2016, according to the Inter-American Dialogue's Latin America Finance Database, but Venezuela has struggled to pay its debts, and the language of Sinopec's

November filing reveals that relations have soured between the two countries. Sinopec alleges PDVSA's conduct "constituted intentional misrepresentations, deceit, and concealment of material facts" involving "willful deception." Sinopec's lawyers declined to comment on the matter, and the Financial Times could not reach PDVSA for a comment. Both PDVSA and the Venezuelan government have been declared in default by ratings agencies since last month, after the two entities began to miss payments on international bonds.

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A **Joaquin Jácome Diez, managing partner at law firm Jácome & Jácome and former Panamanian minister of trade and industry:** “President Valera’s government has sold Panamanians the idea that breaking diplomatic ties with Taiwan in favor of China will significantly increase the already vibrant economic relations the country has with mainland China. As a consequence of his state visit to China with a large delegation

“**The Panamanian people have received all this propaganda with lots of skepticism.**”

— **Joaquin Jácome Diez**

of private and public members, several agreements were signed between the two countries, promising a great deal of foreign direct investment in Panama. The Panamanian people have received all this propaganda with lots of skepticism. This is based in the fact that other countries in the area that have severed diplomatic ties with Taiwan in favor of China were promised macro projects and investment that have never come to fruition, so Panamanians do well in being cautious. However, there is no doubt that geopolitically, this decision could have enormous consequences for Panama and could even be a turning point in Panama’s foreign relations. In the case of Taiwan, losing one of its most important partners, which traditionally played an active role in

promoting Taiwan’s cause in several international forums, constituted a heavy blow. It’s of great importance that this government and the ones to come in Panama find a delicate balance in handling relations between two superpowers. A good example to follow could be that of Singapore.”

A **Tom Brymer, principal of Panama Advisory International Group:** “I think the phrase ‘so little to lose and so much to gain’ sums up the decision for Panama to forgo relations with Taiwan in order to pursue the huge opportunities that await it in the future with China. Having been in business in Miami, I was involved in the emerging ‘hub of the Americas’ growth, with numerous multi-national corporations headquartered there. I worked with a number of the companies in their respective facility expansions. While Miami continued to grow, Panama was thrust into the spotlight beginning in 2004, and by the time I arrived here in 2007, things really started to pick up. A number of multi-nationals moved to Panama from the United States, as growth in Central and South America picked up rapidly. Now that we have an expanded Panama Canal, two new expansions to Tocumen International Airport and expanded port facilities, the time is right for China to be a part of the future here, not only in Panama, but throughout the Americas. I now see Panama as the new ‘hub of the Americas’ and the tie-in with China’s Maritime Silk Road plans leaves my head spinning.”

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org



Michael Shifter, President
Genaro Arriagada, Nonresident Senior Fellow
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