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FEATURED Q&A

Will Latin America and China's Energy Partnership Change?

Venezuela is the top recipient of lending from China, according to the Dialogue's China-Latin America Finance Database. Venezuelan President Nicolás Maduro is pictured meeting with Chinese President Xi Jinping in Beijing in 2014. // File Photo: Venezuelan Government.

Q Over the past 10 years, China has loaned some $70.2 billion to Latin America for its energy sector alone, according to data from the Inter-American Dialogue's China-Latin America Finance Database. How will Latin America's energy sector be affected as China's economic outlook and investment strategies evolve? How are low global oil prices changing China's engagement with the energy sector in Latin America and the Caribbean? Is China responding to concerns about the environmental and social implications of the methods it uses when investing in the region's energy sector? Will there be local unrest and pushback from the advances?

A Guo Cunhai, associate research fellow at the Institute of Latin American Studies of the Chinese Academy of Social Sciences and founder and president of Comunidad de Estudios Chinos y Latinoamericanos (CECLA): "In the last two years, China's sustainable economic growth faced pressure from structural reforms. The draft of the 13th five-year plan clearly emphasized that the driver of economic growth had to shift from investment to innovation. In the energy sector, the key to innovation is to promote energy structure optimization and to develop renewable energy. In the long run, China's investment in the Latin American fossil fuels sector will fall, while investment will shift to renewables, but in the short term, China's demand for Latin American energy will not wane. The fall in international oil prices provides a strategic window for China's energy reform and will accelerate China's transformation in investment in Latin America's energy sector. Chinese authorities are increasingly concerned

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TODAY'S NEWS

POLITICAL

Data Leak Involving Panama Firm Details Offshore Accounts

The leak of some 11.5 million documents of law firm Mossack Fonseca allegedly shows how the firm helped powerful clients hide assets. Current and former heads of state are among those named in the documents.

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ECONOMIC

Mexico Plans $10 Billion in Additional Budget Cuts

The country is grappling with moderate economic growth, as well as low production and prices for oil, its chief export.

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POLITICAL

Fujimori Vows to Avoid Father's Authoritarianism

Keiko Fujimori, who is leading in polls ahead of Peru's April 10 presidential election, signed the pledge on Sunday.

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Fujimori // File Photo: Fujimori Campaign.

POLITICAL NEWS

Data Leak Involving Panama Firm Details Offshore Accounts

An international consortium of media organizations on Sunday published details of an **investigation** showing how Panama-based law firm Mossack Fonseca allegedly helped powerful clients hide assets. The documents include information about at least a dozen current or former heads of state, as well as businesspeople, criminals and sports figures, NBC News reported. The investigation was based on a leak of 11.5 million documents from an anonymous source who requested no money and only asked for unspecified security measures, said a reporter for German newspaper Sueddeutsche Zeitung, which said it first received the data more than a year ago. The newspaper shared the documents with the Washington-based International Consortium of Investigative Journalists, which said the documents covered Mossack Fonseca's activities from 1977 through 2015. Among the world leaders named in the so-called "Panama Papers" are Icelandic Prime Minister Sigmundur Gunnlaugsson and Argentine President Mauricio Macri, the Financial Times reported. In a statement, Mossack Fonseca said it has conducted its business beyond reproach and has not been accused of any criminal wrongdoing.

ECONOMIC NEWS

Mexico Plans Additional $10 Billion in Budget Cuts

The Mexican government plans to cut its spending in 2017 by an additional $10 billion as it continues to experience moderate eco-

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about the environmental and social issues caused by large investment in sectors such as energy, and one landmark was the 2015 Report on the Sustainable Development of Chinese Enterprises Overseas, jointly issued with the UNDP last November. The report aims to encourage Chinese companies to fulfill corporate social responsibility in the countries in which they've invested so as to make investment sustainable. The current economic difficulties in Latin American countries will be hard to turn around in the short term, and the associated increase in social risks may spill over to foreign firms, including Chinese ones."

A **Margaret Myers, director of the China and Latin America Program at the Inter-American Dialogue:** "China's energy security concerns still motivate much (though certainly not all) of what we see in the way of national oil company (NOC) and policy bank engagement in Latin America's oil and gas sectors. Important elements of China's energy bureaucracy continue to support a considerable presence in countries, such as Venezuela and Brazil, with abundant reserves. The China Development Bank (CDB) gave another $10 billion to Petrobras just last month. Uncertainty about Venezuela's political and economic outlook could put a stop to CDB lending to Caracas in 2016. But China's NOCs are staying the course in Venezuela, Brazil and Ecuador for the time being. Beijing has also focused more intensively on the region's renewable energy and electricity transmission industries in recent years. The '1+3+6 cooperation framework' encourages Chinese banks and firms to pursue deals in these and other strategic industries. Some Chinese firms have already done so successfully. Guodian (State Grid) is a veritable poster child in this respect, having expanded Brazil's electricity transmission capacity while making good with local communities and promoting technology transfer. However, many other Chinese firms are deterred by the

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NEWS BRIEFS

Peru's Fujimori Signs Pledge to Avoid Father's Authoritarian Ways

Peru's presidential frontrunner, Keiko Fujimori, on Sunday signed a pledge that she would avoid the authoritarian ways of her father, former President Alberto Fujimori, Reuters reported. Keiko Fujimori has been polling in the double digits ahead of her rivals, but is not expected to win the simple majority needed in the April 10 election to avoid a run-off election in June. Her signing of the pledge is seen as an attempt to sway voters on the fence about whether to vote for her, as she has struggled to convey that she will not reactivate the government of her father, who is now serving a 25-year sentence for human rights abuses and corruption.

Colombia's ELN Frees Ex-Governor

Colombia's second-largest rebel group, the ELN, has freed former Chocó Governor Patrocinio Sánchez Montes de Oca, who had been held captive since 2013, Agence France-Presse reported today. The ELN last week entered formal peace talks with Colombia's government.

BTG Pactual's Wealth Management Head in Chile Stepping Down

The head of Brazilian financial company Grupo BTG Pactual's wealth management business in Chile has agreed to leave his position, according to a statement from the company, Bloomberg News reported Saturday. Alejandro Reyes, a founding member of the Chilean brokerage Celfin Capital, which BTG acquired in 2012, will be replaced by Gabio Feitler and Rodrigo Escala, the company said. Maximiliano Vial will serve as the executive president for the area. BTG began operations in Chile after acquiring Celfin for $486 million. The bank has about 400 employees in Chile.

nomic growth, lower oil production and low oil prices, the Finance Ministry said Friday, The Wall Street Journal reported. The preliminary outline of next year's budget said the government would cut spending by 175 billion pesos, in addition to the 132 billion pesos cut from the budget this year. The Finance Ministry's plan is to lessen the fiscal deficit to 2.5 percent of GDP from 3 percent this year, and to have the federal government reach a balanced budget excluding financed investment at state enterprises. The budget proposal is based on an estimated crude-oil price of $35 per barrel for 2017, above the $25 per barrel prediction for this year. Crude-oil production is expected to fall to 2.03 million barrels a day in 2017 from 2.12 million this year, due in part to budget cuts from state oil company Pemex.

BUSINESS NEWS

Fitch Expects Solid Profits for Brazil's Insurance Industry

Brazil's insurance industry should see solid profits in 2016 despite back-to-back years of sharp economic contraction, Fitch Ratings said Friday. High interest rates are fueling the profitability of Brazil's insurers, although analysts expect that premium growth will remain under pressure throughout this year. Last year, total premiums for the Brazilian insurance industry, excluding the health segment, posted 10 percent growth, reaching some $55 billion. That growth rate was about the same as 2014, but well below the 2010-2013 average of 17 percent per year. Growth was mainly driven by Vida Gerador de Beneficios Livres, a private complementary pension plan and a life insurance product, with tax benefits on returns, which grew 21 percent. "Growth in other segments was quite modest," Fitch said, however. "The continuing rise in unemployment, persistently high inflation, and investors and companies' lack of visibility into future macroeconomic dynamics are ongoing risks." [Editor's note: See related Q&A in the Dec. 16, 2015 issue of the Financial Services Advisor.]

THE DIALOGUE CONTINUES

What Did Obama Accomplish in Havana?

Q Last month, Barack Obama became the first sitting U.S. president in 88 years to visit Cuba. Obama had a one-on-one meeting with President Raúl Castro, and the two held a historic joint news conference. Obama also delivered a televised speech from Havana's Gran Teatro on the importance of democracy and human rights, and later met with dissidents in the U.S. Embassy. Was Obama's trip to Cuba a success? Did Cuban officials display a willingness to improve relations and advance reforms? What did Obama and Castro accomplish during the visit? Will businesses that want to work with Cuba find it easier moving ahead? Will Obama's visit win over more congressional support for ending the embargo?

A Luis Martínez-Fernández, professor of history at the University of Central Florida: "Barack Obama's meeting with Raúl Castro last month was yet another step to normalize relations between their respective nations. In spite of their contrasting statements and behavior, both presidents advanced a common primary agenda, namely the improvement of economic relations to allow the free flow of capital, goods and services. While generally deemed a concession to, and a victory for, the most progressive wing of the Democratic Party, the unfolding rapprochement is actually more substantially beneficial to large capital, commercial and economic interests, closely aligned with the Republican Party. Back in the 1990s, the push to ease the U.S. embargo produced an unholy alliance of voices as disparate as those of Democratic Rep. Maxine Waters and Republican House Majority Leader Dick Armey; agribusiness tycoon Dwayne Andreas and Dr. Benjamin Spock; and most surprisingly the American Chamber of Commerce and the AFL-CIO. Strange bedfellows, to say the least. In the current context, even formerly rabid anti-Castro voices have joined the end-the-embargo conga line. What passes for the left continues to display a generally festive attitude toward the looming normalization of relations, notwithstanding the fact the success of U.S. capital will hinge on the continuation of a militarized repressive regime that forbids workers from striking and pays them only around 8 percent of what foreign corporations disburse for the permission to hire them. Indeed, very few progressive voices have criticized the continuing violations of human rights and the potential erosion of Cuban sovereignty because of the proposed return to neocolonial enclave capitalism. Surprisingly, many otherwise progressive voices are using the trickle-down argument to sustain that the lifting of the U.S. embargo will benefit all Cubans. Strange argument, given the fact that the much-trumpeted trickle-down effect never materialized in the United States. If anything, the Cuban people are likely to endure a trickle-up effect similar to what has transpired in China, Russia, and Vietnam, with ruling elites amassing prodigious fortunes at the expense of the working population."

> **"Even formerly rabid anti-Castro voices have joined the end-the-embargo conga line."**
> **— Luis Martínez-Fernández**

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the March 24 issue of the Advisor.

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region's complex and rapidly changing regulatory and investment environments. Future engagement depends, largely, on the state of China's economy. Slowing growth at home has pushed some banks and firms to pursue even more opportunities abroad, including in Latin America. But a rapid decline in Chinese growth would have a dampening effect on economic engagement with the region's extractive and other sectors."

A **Matt Ferchen, resident scholar at the Carnegie-Tsinghua Center for Global Policy in Beijing:** "When looking at the China-Latin America energy relationship over the last decade and into the near future, one country stands out: Venezuela. No Latin American country has established a bigger, or more problematic, energy relationship with China than Venezuela. And in turn, China's engagement with Venezuela stands out for its sheer scale, riskiness, and now, instability. In theory—and maybe at the beginning it approached this ideal—the relationship should have been simple and mutually beneficial: China needed oil and was willing to pay for a long-term energy partnership with Venezuela. And in turn, Venezuela sought to expand its oil export markets as well as to attract new sources of foreign energy investment; China fit the bill. What has gone wrong? Even before the dramatic drop in oil prices began in the middle of 2014, Venezuelan leaders' politicization of the country's oil resources and of PDVSA itself limited the expansion of oil flows to China. With the drop in oil prices contributing to the country's steep descent into economic and political crisis, Venezuela is in an increasingly poor position to be the energy partner China had hoped it would be. Yet China has not been blameless, it's banks and oil companies misunderstood and miscalculated the direction and instability of Venezuelan politics and economic management, and so failed to anticipate the inevitable and harmful effects on Venezuelan oil management and output. Going forward, the immediate future for China-Venezuela oil ties rests on whether China is willing and able to work with Venezuela and possibly other countries and institutions to help put Venezuela and its oil industry on a more sustainable path."

A **Ramiro Crespo, president of Analytica Securities in Quito:** "Relatively lower economic growth in China will soften the demand for energy commodities over the coming years, which already has had important price consequences in specific markets. In an over-supplied oil market, the need to secure strategic sources of crude has diminished, and with that comes the reduced need for China to invest in certain countries in the region to guarantee future provision of energy commodities. For those countries receiving moderate-to-large investment/debt flows from Chinese sources, i.e. Ecuador and Venezuela, the scenario has deteriorated dramatically, evidenced by lower loan disbursements since 2014. Lack of transparency makes it very difficult to determine the real borrowers' position with respect to China, particularly due to the ample use of oil-backed credit facilities that require the loan repayment with crude shipments. In terms of investment flows, Chinese companies have arrived in countries where a close relationship with the administration in power has sometimes resulted in less accountability and lack of respect for the rule of law. On the upside, the lack of interest from China could force some of China's recipients to again focus on traditional Western companies, which frequently demand—unfortunately not always—higher transparency, environmental and human rights standards. On the policy front, lower Chinese inflows to some countries in Latin America could accelerate democratic transitions of power, many of which are long overdue. Chinese money has helped prolong the plight on the population of authoritarian regimes particularly in Ecuador and Venezuela."

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