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FEATURED Q&A

How Critical Is China's Lifeline to Venezuela?



China has loaned Venezuela tens of billions of dollars over the past decade. Chinese President Xi Jinping is pictured meeting with Venezuelan President Nicolás Maduro in September 2015. // Photo: Venezuelan Government.

Q Unrepaid loans and rising levels of insecurity in Venezuela may mean that the country cannot receive additional significant loans or investment from China in the near future, The Wall Street Journal reported Sept. 11. How important a lifeline is Chinese financing to Venezuela, and what will happen to Venezuela if China holds off on additional financing to the country? What other financing options exist for Venezuela, whose economy is expected to contract 10 percent this year, according to the International Monetary Fund? Would China maintain its interest in providing financing to Venezuela's government if President Nicolás Maduro is forced from power and the opposition takes control of the presidency?

A Matt Ferchen, resident scholar at the Carnegie-Tsinghua Center for Global Policy in Beijing: "For almost a decade now, China has been Venezuela's most important foreign financial partner. Even before the end of the commodity boom and the crushing drop in oil prices, Venezuela's Chavista government had come to rely on regularly renewed tranches of Chinese loans for oil. But as the price of oil and PDVSA's own productivity have plummeted, it has become increasingly burdensome for Venezuela to service these loans. The Sept. 11 Wall Street Journal article said little we haven't known for quite some time: that Chinese foreign policy and bank officials are deeply concerned about the situation in Venezuela and are reticent to dig themselves an even deeper financial hole in a country descending ever further into economic and political chaos. Without further Chinese financing, Venezuela, and in particular PDVSA, will be under even greater

Continued on page 3

TODAY'S NEWS

POLITICAL

Brazilian Supreme Court Allows Probe Against Temer

The country's high court ruled that prosecutors may proceed with a probe into corruption allegations related to the Petrobras scandal against President Michel Temer.

Page 2

BUSINESS

Argentina Expects \$20 Billion in Investment After Telecom Reform

The country's telecommunications sector could receive \$5 billion a year for four years, the communications minister said.

Page 3

POLITICAL

Colombian Gov't, FARC to Sign Peace Deal Today

Colombian President Juan Manuel Santos and the top Revolutionary Armed Forces of Colombia commander, known as Timochenko, are to sign a historic peace accord today, following nearly four years of talks in Havana.

Page 2



Santos // File Photo: Colombian Government.

POLITICAL NEWS

Colombian Gov't, FARC to Sign Peace Accord Today

Today, nearly four years after peace talks between Colombia's government and the Revolutionary Armed Forces of Colombia, or FARC, rebels began in Havana, the two sides are to sign a historic peace accord to end the

“War is always more costly than peace.”

— Juan Manuel Santos

longest-running armed conflict in the Western Hemisphere. President Juan Manuel Santos and the FARC's top commander, Timoleón Jiménez, also known as Timochenko, plan to sign the final peace deal in the coastal city of Cartagena. However, the accord will only take effect if Colombian voters approve it in a referendum on Sunday. Most opinion polls indicate that voters will approve the deal, but a closer-than-expected approval or low voter turnout could be a bad sign for the country as it goes about implementing the accord, some analysts have said, the Associated Press reported. Fifteen Latin American presidents, U.N. Secretary-General Ban Ki-moon and U.S. Secretary of State John Kerry are among the dignitaries expected to witness this afternoon's signing, the AP reported. The 2,500 guests at the ceremony have been invited to wear white to signify peace, and Santos plans to use a pen made from a recycled shell that was used in combat to sign the deal, according to the wire service. Among the most controversial points of the peace deal is the treatment of former rebels. Under the accord, guerrillas who lay down their weapons and confess their crimes will be spared from going to jail and will be able to make reparations by proving development work in hard-hit areas. The deal will also lead to the FARC being turned into a political party. In an interview with the BBC, Santos

said the peace deal will lead to an increase in Colombia's economic growth. “We could have grown between 2 percent and 3 percent more per year for the past 23 years,” said Santos. “War is always more costly than peace.” The accord also will help the country rebuild its social structures, Santos added. “We have even lost our compassion, which is the ability to feel some kind of pain for others,” he said.

Brazil's Supreme Court Allows Probe Against Temer

Brazil's Supreme Court on Friday gave its approval for prosecutors to open a probe into corruption allegations against President Michel Temer as part of the far-reaching corruption scandal at state-run oil company Petrobras, The Wall Street Journal reported. Supreme Court Judge Teori Zavascki approved the probe, which is based on plea-bargain testimony given by a key witness in the “Car Wash” corruption probe. The testimony allegedly implicates Temer and other high-ranking members



Temer // File Photo: Brazilian Government.

of his Brazilian Democratic Movement Party, or PMDB, including Senate President Renan Calheiros, according to a lawyer with knowledge of the matter. According to the attorney, a formal investigation has not yet been opened, and it is unlikely that Temer will be targeted in the probe while he is in office, due to special legal protections given to sitting Brazilian presidents. A spokeswoman for Temer declined to comment on Saturday. A representative for Calheiros could not be reached. In the past, both individuals have denied wrongdoing with regard to the allegations. The future inquiry

NEWS BRIEFS

U.S. Treasury Secretary Visiting Region This Week

U.S. Treasury Secretary Jacob Lew will urge his counterparts in Argentina, Brazil, Colombia and Mexico to continue to implement economic and fiscal reforms with the goal of strengthening or restoring growth, a senior Treasury official said Friday, ahead of Lew's visits to the four countries this week, MercoPress reported. Lew will visit Argentina today, marking the first visit to Buenos Aires by a U.S. treasury secretary since 2002. His visit to Brasília later this week will be the first visit by a member of the Obama administration since President Dilma Rousseff's removal from office.

Firefighters Extinguish Blaze on Pemex Tanker

Firefighters extinguished a fire on a fuel tanker belonging to Mexican state-owned oil company Pemex on Sunday, about 30 hours after an explosion aboard the ship ignited the fire off the Gulf Coast port of Veracruz, The New York Times reported. Pemex said all 31 crew members aboard the ship were safely evacuated. The tanker had been carrying 80,000 barrels of diesel fuel and 70,000 barrels of gasoline, but the 558-foot Burgos' double hull helped prevent a spill following the incident. “Up to now, we have not detected any extensive spill,” said José Antonio González Anaya, Pemex's chief executive.

Thousands of Immigrants Flood Across Mexico's Southern Border

Nearly 5,000 migrants from Haiti, Africa and Asia have flooded into Mexico across the country's southern border over just a few days, Mexican immigration officials said Saturday, the Associated Press reported. The migrants, the majority of whom are believed to be Haitian, are expected to be headed toward the United States in order to apply for asylum.

into the top PMDB leaders would be based on a plea-bargain testimony by Sérgio Machado, the former head of Petrobras' transportation unit. According to documents made available by the court in June, Machado said that in 2012 Temer asked for him to arrange for \$461,500 in illegal campaign contributions from a construction firm in order to help someone in his PMDB party. In exchange, according to Machado's testimony, the firm would be given in advantage when bidding on public contracts. Temer was vice president at the time of the alleged incident. Machado's testimony was the first time Temer had been directly cited in the probe.

Chile's Bachelet Urges More Investment in Child Care, Education

Chilean President Michelle Bachelet on Thursday called on her country to expand investment in childcare and education, in order to empower women economically and politically. Speaking in Washington at a Wilson Center event highlighting issues of gender equality in Latin America, Bachelet said Chile "must not only increase our investment in this area, but more importantly, we must understand that the care of children is the responsibility of all society." She added that the country aims to increase labor force participation among women, and that empowering women economically is vital to Chile achieving its development goals. Bachelet also stressed the need for female leadership in the Americas and beyond. "There is no progress when women are not active participants in decision-making," said Bachelet, who later underscored the importance of Chile's initiatives to train and encourage women to run for public office. The president also expressed disapproval of the removal of former Brazilian President Dilma Rousseff from office. "I think [impeachment is] easier when it's a woman than when it's a man," said Bachelet. However, Bachelet said Rousseff's impeachment was "permitted" by the Brazilian Constitution.

BUSINESS NEWS

Argentina Expects Telecom Reform to Attract \$20 Billion

Argentina's government is expecting the country's telecommunications reforms to attract \$20 billion in investments to the sector within the next four years, Reuters reported Friday. New rules have not yet come into force, but the

changes are expected to lead to a more competitive market environment, the wire service reported. Telecom Argentina and Telefónica de Argentina have made recently announcements of investments. Meantime, media conglomerate Grupo Clarín is spinning off its Cablevisión subsidiary, saying it will fare better as a stand-alone operation. Additionally, Communications Minister Oscar Aguad told Reuters that Motorola and AT&T have expressed interest in investing in the sector. "As long as we are able to dictate a norm with clear rules, I think the figure of \$5 billion a year is possible," he said.

FEATURED Q&A / Continued from page 1

budgetary strain. However, there is little indication that Maduro and his government will veer from their self-destructive policies. But even if a new leader or government in Venezuela comes in and begins to address the country's many economic and political dysfunctions, it makes little sense for China to continue with its government-to-government financing of long-term oil purchases. This model did little, if anything, to guarantee China's own energy security, nor did it benefit the people of Venezuela. Instead, the China-Venezuela deals and similar Chinese commodities-for-loans arrangements with countries in the rest of South America and Africa have saddled many of the debtor nations with unsustainable sovereign loan burdens and left promises of 'South-South' development unfulfilled."

A Margaret Myers, director of the China and Latin America program at the Inter-American Dialogue: "China is indeed unlikely to invest much more in Venezuela in the foreseeable future, even though Venezuela has requested more support. Low crude prices are making China's preferred model of oil-backed lending less viable. Chinese frustration with Nicolás Maduro's economic management has also risen in recent years. It is unclear how much of the \$60 billion in finance disbursed to Venezuela by the

China Development Bank and the China Export-Import Bank has been repaid. But by all accounts, Venezuela still owes China a considerable amount, to be paid in oil. There are signs of some openness on the part of

“ Many in China's fragmented energy bureaucracy still consider the oil-rich country to be a critical partner.”

— Margaret Myers

China to the possibility of restructuring existing loans in the event of a possible default. Engagement in recent years has been aimed in part at slowing Venezuela's downward spiral. Beijing took some measures in 2014 to help Venezuela avoid overpayment on one tranche of the China-Venezuela Joint Fund. A \$4 billion loan from China to Venezuela was also used that year to augment the latter's foreign exchange reserves. More recently, there was talk of allowing Venezuela to make principal-only payments to China. Whether Venezuela defaults on its debt or not, we will very likely see continued Chinese interest in the South American nation. China remains committed to Venezuela for the very

Continued on page 4

FEATURED Q&A / Continued from page 3

reasons it engaged the country in the first place. Many in China's fragmented energy bureaucracy still consider the oil-rich country to be a critical partner. The primary concern now in Beijing is whether a post-Maduro government will be friendly to China. Efforts to meet with the opposition have evidently produced little clarity on this matter."

A Guo Cunhai, director of La Comunidad de Estudios Chinos y Latinoamericanos (CECLA) and director of the Department of Multi-Disciplinary Studies of the Chinese Academy of Social Sciences (ILAS-CASS) in Beijing: "Venezuela's rising levels of insecurity and unrepaid loans are making economic cooperation between the two countries more difficult. The situation will make it hard for China to provide additional loans to Venezuela, because Chinese foreign loans are increasingly market-oriented, and the country needs to control its risk. For more than 10 years, China has been an important source of financing for Venezuela. If China stops delivering additional loans, Venezuela's situation may become even worse, as Venezuela does not have many financing options in the international market. Hence, Venezuela would have to rely mainly on self-dependence, such as through the sale of gold reserves and foreign assets, and through the acquisition of financing loans from local

organizations. For example, in July, the Latin American Reserve Fund agreed to loan Venezuela nearly \$500 million. If a power shift occurs in Venezuela and Maduro is forced to step down, the relations between

“The countries' comprehensive strategic partnership is not between China and the ruling PSUV party.”

— Guo Cunhai

China and Venezuela will not fundamentally change, as the countries' comprehensive strategic partnership is not between China and the ruling PSUV party. Therefore, even if the opposition party comes to power, China would still maintain its loans to Venezuela in accordance with its own assessment of risks and benefits, because the cooperation between China and Venezuela is based on the balanced evaluation of their respective national interests, and both seek a win-win situation."

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

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gene.kuleta@thedialogue.org

Nicole Wasson

Reporter, Assistant Editor
nwasson@thedialogue.org

Michael Spak

Editorial Intern



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

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