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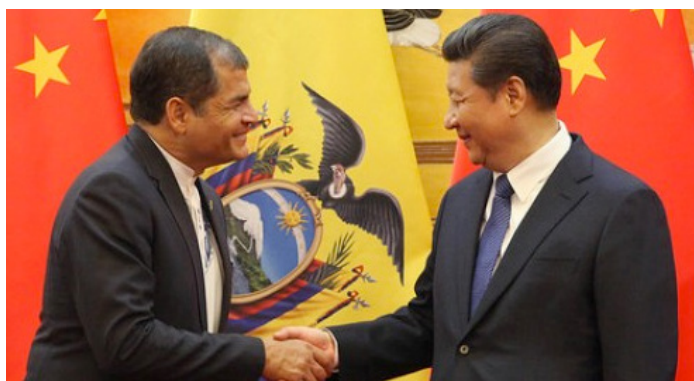
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FEATURED Q&A

Why Has Chinese Lending in Latin America Declined?



Chinese lending to Latin America declined in 2017 to its lowest level in five years. Then-Ecuadorean President Rafael Correa is pictured meeting with Chinese President Xi Jinping in 2016. // Photo: Ecuadorean Government.

Q Lending from Chinese state institutions to governments and state-owned enterprises in Latin America last year amounted to \$9 billion, its lowest level since 2012, according to a recent report by the Inter-American Dialogue and Boston University. What are the reasons behind the decline in Chinese financing in Latin America? What does the drop mean for Latin American countries that have historically been the biggest recipients of Chinese loans? Will the downward trend continue, or will Chinese lending in the region begin rising again over the next few years?

A Margaret Myers, director of the Latin America and the World Program at the Inter-American Dialogue: "Chinese state-to-state finance to Latin America and the Caribbean (LAC) dropped last year to only about \$9 billion, or about half of total policy bank (China Development Bank and China Ex-Im Bank) lending to the region in 2016. Venezuela, which has received about half of China's total loans to the region, was notably absent from last year's list of loan recipients. As conditions worsen in the oil-rich nation, Chinese banks are increasingly weighing the value of throwing good money after bad. They may continue to avoid Venezuela for the time being, further straining an already cash-strapped economy, but a handful of new Belt and Road-type infrastructure projects will ensure a steady stream of policy bank lending to the region in the coming years, and likely to a wider variety of governments. Most of China's \$150 billion in policy bank finance to LAC governments and state-owned enterprises since 2005 has gone to only

Continued on page 2

TODAY'S NEWS

POLITICAL

Mexico, U.S. Sign Agricultural, Customs Accords

U.S. and Mexican officials signed three accords to strengthen bilateral cooperation on customs procedures, border security and also to speed the trade of agricultural products.

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BUSINESS

Antofagasta Avoids Strike at Chilean Mine

Chilean mining company Antofagasta has struck a deal over wages with workers at its Los Pelambres mine, avoiding a potential strike.

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POLITICAL

Brazilian Appeals Court Upholds Lula's Sentence

A Brazilian appeals court upheld former President Luiz Inácio Lula da Silva's conviction on corruption and money laundering charges. The front-runner ahead of the country's October presidential election, Lula is facing 12 years in prison.

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Lula // File Photo: Lula Institute.

POLITICAL NEWS

Brazilian Appeals Court Upholds Lula's Sentence

A Brazilian appeals court on Monday unanimously upheld the conviction of former President Luiz Inácio Lula da Silva on corruption and money laundering charges, *O Estado de S. Paulo* reported. Lula, the front-runner ahead of Brazil's October presidential election will remain free at least until April 4 when the country's Supreme Court is to rule on a habeas corpus motion that Lula's attorneys have filed. The former president is facing 12 years in prison. Lula was convicted last year of receiving bribes from construction company OAS that prosecutors argued were paid in the form of a beachfront apartment. In January, a panel of federal magistrates upheld the conviction and lengthened his sentence to 12 years from the original nine and a half years. Lula has repeatedly denied wrongdoing. Despite his legal trou-

bles, Lula has been traveling through southern Brazil to rally his supporters, the Associated Press reported. On Monday, he told supporters at a rally that the charges against him are trumped up and an effort to prevent him from returning to the presidency. "I don't respect the [court's] decision because if I respect a decision that is a lie, when my great-granddaughter...grows up, she will feel shame that her grandfather was a coward who didn't have the courage to fight," he told a crowd at Iguazu Falls in Paraná State. Lula has also been met by protesters as he has traveled through the country. At a rally earlier Monday in the town of Francisco Beltrão, protesters hurled eggs into the crowd, as has occurred at other sites where Lula was appearing. Also on Monday, Brazilian Finance Minister Henrique Meirelles, who served as central bank president during Lula's administration, said he was considering a run for president this year, the *Financial Times* reported. If Meirelles decides to run, he will have to resign as finance minister by next week because of rules barring sitting public officials from running for president. Meirelles said he would announce a decision early next week.

NEWS BRIEFS

Brazil's Senate Considers Sugar Cane Production for Ethanol in Amazon

Brazilian senators are considering legislation that would lift a prohibition on the cultivation of sugar cane in the Amazon in order to produce ethanol, *The Guardian* reported Monday. Environmentalists and Brazil's union of sugar cane producers, UNICA, have all condemned the measure, saying it would drive deforestation and make it more difficult for Brazil to meet its commitments under the Paris climate deal. Supporters of the legislation argue it would boost economic activity and international trade and also contribute to the supply of biofuels in Brazil.

Mexico Vows to Spend \$4.3 Million to Clean Tijuana River Channel

Mexico's government has said it will spend \$4.3 million to clean the Tijuana River channel, following complaints by cities in California about sewage flowing into the Pacific Ocean from the channel. The California cities of Imperial Beach and Chula Vista as well as the Port of San Diego have sued the International Boundary and Water Commission, arguing they have failed to comply with the federal Clean Water Act. Mexico's National Water Commission said Monday that it will clean overflow channels and drains in an effort to prevent sewage and garbage from flowing into the ocean.

Lundin Gold Closes \$400 Million in Financing for Ecuador Project

Canada-based Lundin Gold has closed \$400 million in financing for the construction of its Fruta del Norte gold project in Ecuador, *website Mining.com* reported Monday. The project is expected to begin production late next year.

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four countries—Venezuela, Brazil, Ecuador and Argentina, although the latter two have sought to renegotiate some loan terms in recent months. Projects like the Belt and Road Initiative-associated Panama City-David railway will ensure broader distribution of Chinese funds. LAC is also receiving more from China's four major state-owned commercial banks and from a handful of regional funds, such as the China-LAC Cooperation Fund, which support smaller-scale infrastructure projects."

A **Matt Ferchen, nonresident scholar at the Carnegie-Tsinghua Center for Global Policy in Beijing:** "The most notable absence from the 2017 list of Latin American recipients of Chinese official finance is Venezuela, which has been by far the largest destination for China Develop-

ment Bank loans in the region. This clearly reflects China's wariness of deepening its already unsustainable, 'lose-lose' loans-for-oil relationship with a Venezuela, which every day is sinking deeper into economic and political crisis. This underscores how even if China's relatively low amount of state-to-state financing to Latin America in 2017 is indicative of a trend away from the volumes or types of loans we've seen in the last decade plus, China and its keenest Latin American borrowers are still left with the challenge of managing the legacy of past deals, including those that have gone awry. While the China-Venezuela case is extreme in the dysfunctions it has wrought and sustained, it is indicative of a growing awareness of the possibility of unsustainable debt relations flowing from China's policy bank loans in regions far beyond Latin America, in countries like Sri Lanka and along the Belt

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BUSINESS NEWS

U.S., Mexico Sign Agreements on Customs, Agriculture

The United States and Mexico on Monday signed an agreement to update customs procedures and facilitate cooperation at the border, El Universal reported. The deal, which representatives of both governments signed in Mexico City, includes provisions for improving information sharing, introducing new procedures to detect fraud, and establishing guidelines for joint investigations. The agreement will also allow officers of both countries' customs authorities to carry weapons. Both governments hailed the deal as a step toward improving efficiency at the border. Along with the customs agreement, the U.S. and Mexico signed a deal to increase border security. At a news conference following the signing, Mexican Interior Minister Alfonso Navarrete hailed the border security memorandum as an important step towards slowing the flow of weapons across the border on the black market. The deal also includes provisions for the neighbors to have joint responsibility over refugee and asylum cases. The United States and Mexico also signed a third memorandum, to facilitate the international flow of agricultural goods between the two countries. Bilateral trade between the United States and Mexico is worth approximately \$500 billion per year. [Editor's note: See [Q&A](#) on Mexico's economy in the Feb. 14 issue of the Advisor.]

BUSINESS NEWS

Chile's Antofagasta Avoids Strike at Los Pelambres Mine

Chilean mining company Antofagasta reached an agreement with workers on Monday at its Los Pelambres mine, avoiding a potential strike, El Mercurio reported. The agreement includes a 3 percent pay increase with bonuses.

THE DIALOGUE CONTINUES

What Changes Are Needed in Chile's Pension System?

Q **Chilean President Sebastián Piñera will present lawmakers a proposal to reform the country's Pinochet-era pension system in the first half of this year, his labor and social security minister, Nicolás Monckeberg, said in a recent newspaper interview. Low payout amounts and an aging population mean the private pension system needs urgent changes, said Monckeberg. How well is the system functioning now, and what are the main changes it should undergo? How much legislative and public support will exist for reforms? To what extent will former President Michelle Bachelet's plan for pension reform, such as measures to boost competition among private pension fund managers, or AFPs, be incorporated into Piñera's reform?**

A **Gabrielle Trebat, director for Brazil and the Southern Cone at McLarty Associates:** "There is significant public pressure on President Piñera to address pension reform, and he is expected to do so early in his administration. Minister of Labor and Social Security Nicolás Monckeberg, who is leading the reform effort alongside Finance Minister Felipe Larraín, has been vocal about the need for 'urgent changes' to the system to address concerns over low pension levels, dissatisfaction with the private AFP system and insufficient

protections for poorer Chileans against a backdrop of an aging population and tight fiscal situation. Piñera's challenge will be to address social demands for an improved system while avoiding major structural changes that could deter much-needed private investment as Chile seeks to boost economic growth. Though it is premature to say what direction reform will take, investors think Piñera will have a limited amount of space to maneuver. In addition to having a new Congress that includes the left-leaning Frente Amplio, Piñera will be careful to avoid the sins of his first term when he was viewed as too close to industry and too far from the people. The themes that dominated the debate in the Bachelet years continue to be discussed today—increasing competition by introducing a new state-owned entity and/or allowing non-AFPs to manage pension funds, having higher mandatory contribution rates, and raising minimum retirement ages among other measures. Regardless, given that stewardship of Chile's pension system is a public-private endeavor, a sustainable solution will need to rely on both the public and private sectors."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in the March 23 issue of the Advisor.

With the deal, the mine maintains its record of no work stoppages, which was in jeopardy after the miners rejected the initial offer. "It is very important for the future of Minera Los Pelambres to have reached this agreement, especially now that we are planning new investments," said Iván Arriagada, Antofagasta's president. In February, the environmental regulator of Coquimbo State approved Antofagasta's proposal for \$1.1 billion in new infrastructure investments

in Los Pelambres. The improvements are intended to maintain the mine's annual output of 400,000 metric tons of copper. The news is considered to have implications for impending negotiations at the Minera Escondida mine, operated by BHP Billiton in northern Chile, where a strike halted production for 43 days last year, El Pulso reported. Workers at Minera Escondida accepted an invitation to negotiate over the weekend, The Financial Times reported.

FEATURED Q&A / Continued from page 2

and Road Initiative more generally. Yet what the lower lending figures to Latin America also indicate is that such concerns and lessons about debt sustainability, both at the economic and diplomatic level, are starting to be taken more seriously in China itself. The question now is how China will respond and the hope must be that rising concerns about debt sustainability, in particular sovereign loans from China's policy banks, lead to constructive discussions between Chinese lenders and investors and those in Latin America and beyond who are eager to deepen commercial engagement with China but on more sustainable terms."

A **R. Evan Ellis, Latin America research professor at the U.S. Army War College Strategic Studies Institute:** "In the short term, political and economic crises in Brazil, Venezuela, Ecuador and Bolivia have delayed Chinese lending to those countries. The negative experiences of Chinese banks, such as China Development Bank and China Ex-Im Bank, as well as credit insurance agency Sinosure, in failing to adequately identify the political risks associated with their loans on previous occasions, have driven them to better appreciate the associated risks of lending to those countries, and make better, more nuanced risk assessments. In addition, Xi Jinping's anti-corruption campaign has made Chinese executives more cautious to avoid the appearance of personal benefits from loan deals. In Brazil, although Chinese banks committed a record \$15 billion in 2016, Lava Jato and other corruption investigations that implicated Brazil's political and business elite, effectively froze new public infrastructure projects that Chinese loans could fund. Nonetheless, Chinese companies such as State Grid, C3G,

and CMPort have exploited those same conditions to expand their equity positions in Brazil, investing \$20 billion in the country last year. In Venezuela, political crisis, defaults on state and PDVSA debts, as well as mismanagement of prior Chinese loans, have obliged Chinese companies to delay

“**In the short term, political and economic crises in Brazil, Venezuela, Ecuador and Bolivia have delayed Chinese lending to those countries.**”

— R. Evan Ellis

new lending while seeking more oversight and guarantees. Yet China has not abandoned its strategic interest in the survival of Venezuela's anti-U.S. regime (albeit under more competent management). Loans to Bolivia and Ecuador (with the election of Lenín Moreno) have principally been delayed by dissatisfaction over terms and Chinese performance. Future Chinese lending will be affected by elections in Venezuela (in May) and Brazil (in October). Yet the prospects are good, as increasingly sophisticated Chinese banks seek productive uses for their ample resources, backed by Chinese policy encouraging such activity (for example, the 2019-2021 China-CELAC plan), and with likely new targets for country 'reward packages' as Central American and Caribbean states diplomatically recognize China in coming years."

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



Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

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