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FEATURED Q&A

Will Slower Growth in China Put Latin America at Risk?

China has been strengthening ties in Latin America, including in a meeting between Chilean Foreign Minister Teodoro Ribera and his Chinese counterpart Wang Yi last month. But China's economic growth is slowing. // Photo: Chinese Government.

Q The growth of China's industrial output cooled in July to a 17-year low, the government's National Bureau of Statistics said Aug. 13. The data followed downbeat factory surveys, weaker-than-expected bank lending and a rising jobless rate in Chinese cities, among other gloomy indicators. The weakening economic conditions come as China is engaged in a trade war with the United States. Last month, Ecuadorean President Lenín Moreno expressed hopes that the United States and China would resolve their dispute, saying that when big countries fight, smaller ones pay the price. How is China's cooling economy and the trade war affecting Latin American countries? Which countries in the region have become most dependent on China's growth? What can Latin American countries do to protect themselves in the context of economic weakening in China?

A Lin Hua, associate researcher in the Institute of Latin American Studies at the Chinese Academy of Social Sciences (CASS): "First of all, although the growth of China's industrial output in July declined, this kind of fluctuation is common between months. Secondly, we should be confident that China's economy will maintain steady growth. In the first half of 2019, China's economy grew by 6.3 percent year-on-year, in line with expectations. In the short run, trade wars are good for Latin American countries. Because of Sino-U.S. trade frictions, China actively opens up third-party markets, which can benefit Latin American exporters of commodities. However, in the long run, the unilateral protectionist measures taken by the United States in pursuit of its own economic interests will completely destroy the rules

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TODAY'S NEWS

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Mexico Closer to Recession Than Expected in Q2

Mexico's gross domestic product, which was thought to have grown, in fact remained unchanged in the second quarter from the previous three-month period, new government data released today shows.

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ECONOMIC

'No Possibility' of Debt Default: Fernández

Presidential candidate Alberto Fernández said that there was "no possibility" Argentina would default if he's elected in October, adding that he would negotiate new terms with creditors.

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G7 Leaders Call for Action on Fires in Brazilian Amazon

The leaders of France, Canada and Germany said that the record number of fires burning in Brazil's Amazon must be discussed at this weekend's G7 summit. German Chancellor Angela Merkel called the fires an "acute emergency."

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Merkel // File Photo: German Government.

POLITICAL NEWS

G7 Leaders Call for Action on Fires in Brazilian Amazon

The leaders of France, Canada and Germany on Thursday said that the record number of fires now burning in Brazil's Amazon, which some scientists say produces 20 percent of the earth's oxygen, constitute an international crisis that should be discussed at this weekend's G7 summit, BBC News reported. German Chancellor Angela Merkel called the fires an "acute emergency." French President Emmanuel Macron's earlier tweeted, "Our house is burning. Literally." Environmental groups say the fires are linked to Brazilian President Jair Bolsonaro's policies. The far-right Bolsonaro criticized Macron's comment Thursday. "The French President's suggestion that Amazonian issues be discussed at the G-7 without the participation of the countries of the region evokes a misplaced colonialist mindset in the 21st century," he tweeted, CNBC reported. Canadian Prime Minister Justin Trudeau also announced his support for Macron on Thursday. Earlier this month, Norway and Germany announced they were each suspending millions of dollars in financial aid toward a Brazilian Amazon rain forest preservation fund, in protest of Bolsonaro's changes to the fund's structure. Days later, Amapá State Governor Waldez Góez, who heads an organization that groups the Amazon states, said governors were willing to negotiate directly with Norway and Germany over donations. Satellite data published by Brazil's National Institute for Space Research has shown an increase of 85 percent this year in fires in Brazil, most of them in the Amazon region. Bolsonaro has suggested that environmental groups themselves started the fires, but admitted he had no evidence for this claim. In comments on Thursday, he acknowledged that farmers might be involved in setting fires in the region, according to Reuters. The G7 includes the United States, the United Kingdom, Germany, Canada, Japan, France and Italy, which together make up 40 percent of global GDP.

ECONOMIC NEWS

Mexican Economy Closer to Recession Than Expected

Mexico's gross domestic product was slightly weaker than a preliminary estimate published last month, data from national statistics agency INEGI released today shows, Reuters reported. GDP, which was thought to have grown, in fact remained unchanged in the second quarter from the previous three-month period. The latest figures show that the economy was even closer to entering a recession in the first half of 2019 than previously stated. The initial INEGI estimate had shown the Mexican economy growing by 0.1 percent during the April-June period. Last week, Mexico's central bank, Banxico, lowered interest rates for the first time in more than five years in a split vote, citing slowing economic growth, lower inflation and a decline in debt yields in Mexico and abroad, The Wall Street Journal reported. "The balance of risks for growth remains biased to the downside," Banxico said in a statement. A global trade war and uncertainty over U.S. policy also concerns officials. Mexico currently sends 80 percent of its exports to the United States, Reuters reported.

BUSINESS NEWS

Brazil's Nubank Launching Credit Card in Mexico

Brazil's largest fintech, Nubank, is launching a credit card in Mexico, the first product it is offering in that country, Expansión reported Thursday. Customers will be able to request the Nu-card online, Nubank's Mexico unit said in a statement, Mexicanist reported. To obtain the new credit card, interested customers must first register on the bank's page to enter the waiting list, which can be done through the fin-

NEWS BRIEFS

Interpol Issues Alert for Former FARC Rebel

Interpol on Thursday issued a red notice for Colombian lawmaker and former commander of the Revolutionary Armed Forces of Colombia, or FARC, rebel group Seuxis Hernández, also known as Jesús Santrich, Reuters reported. The United States wants to extradite Hernández for allegedly conspiring to smuggle 10 metric tons of cocaine. Hernández, who has denied the allegations, has been missing for nearly two months. [Editor's note: See related **Q&A** in the June 5 issue of the Advisor.]

U.S. Waiver Decision Could Shut Down Half of Venezuela Oil Rigs: Report

Nearly half the oil rigs operating in Venezuela will shut down by Oct. 25 if the administration of U.S. President Donald Trump does not extend a 90-day waiver from its sanctions, Bloomberg News reported Thursday, citing research from consultancy Caracas Capital Markets. The group says more than 200,000 barrels a day of output at four projects Chevron is keeping afloat could halt if the waivers aren't renewed. Supporters of keeping the waiver fear U.S. companies would lose a foothold in Venezuela and cede ground to other competitors.

Argentine Candidate Promises No Debt Default

Argentine presidential candidate Alberto Fernández said Thursday that there was "no possibility" the country would default if he's elected in October, adding that he would negotiate new terms with creditors, Reuters reported. "We will have to talk with creditors to see how we can resolve the situation, because if Argentina has to pay its obligations under present conditions, that will be hard to do," said the Peronist candidate, whom analysts expect will win after trouncing incumbent President Mauricio Macri in an Aug. 11 primary.

tech's mobile application for Android and iOS. The application and activation process should take just a few minutes, Nubank said. Interest rates will also be below average, the statement added. "At Nu, we want to help free customers from the problems they face with the financial services that currently exist in Mexico and empower them to regain control of their money," Emilio González, the chief executive officer of Nu Mexico, said in the statement. To do this, Nubank aims to offer clearer instruments than a traditional bank would, without charging commission and while providing all services on its mobile app, González added, Expansión reported. Only 30 percent of Mexico's population has access to financial services, a gap that fintechs in the country may be able to close by fostering financial inclusion, according to Moody's. [Editor's note: See related **Q&A** in the Aug. 14 issue of the Financial Services Advisor.]

Russia's Rosneft Now Main Trader of Venezuelan Crude

Russian state oil company Rosneft has become the main trader of Venezuelan crude, according to trading sources and Refinitiv Eikon data, Reuters reported Thursday. Data shows Rosneft as Venezuela's biggest crude buyer in July and the first half of August, purchasing almost 40 percent of Venezuelan state oil company PDVSA's exports in July and 66 percent so far this month. The numbers are nearly double the Russian firm's purchases before the administration of U.S. President Donald Trump slapped sanctions on PDVSA in January. Rosneft, which produces about 5 percent of the world's oil, is also reportedly handling shipping and marketing operations for the majority of Venezuelan oil exports, sending oil to refineries in China and India, according to six industry sources, Reuters reported. This has helped offset the Venezuelan company's loss of traditional dealers who are avoiding doing business with PDVSA for fear of breaching the sanctions, according to report. However, Chinese state-owned oil company China National Petroleum Corp., or CNPC, a leading buyer of Venezuelan oil, has reportedly halted shipments over fear of being hit by secondary sanctions, Reuters reported earlier this week, citing two Beijing-based senior sources with direct knowledge of the matter. "The bulk of the decline observed since January in [Venezuelan] oil production is due to U.S. oil sanctions," Francisco Rodríguez, managing director and chief economist of Torino Economics, told the Advisor last month. "This year's oil sanctions will add another $10 billion a year in losses to an already decimated oil industry," he added. [Editor's note: See related **Q&A** in the July 26 issue of the Energy Advisor.]

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of international trade and the global market, which will seriously hamper the economic development of Latin American countries. The persistence of Sino-U.S. trade disputes will inevitably bring more uncertainty to Latin American economies and increase investment risks in Latin America, thus offsetting the short-term benefits that Latin America has gained from the trade war. After entering the 21st century, China's rise and economic vitality have made it possible for Sino-Latin American economic and trade relations to develop rapidly, and Sino-Latin American cooperation has contributed to their respective trade diversification. At present, China's economy has begun a structural transformation stage, which is both a challenge and an opportunity for Latin American countries. Regardless of whether there is a trade war or not, Latin American countries should consider how to take advantage of China's economic transformation. As consumption will become the main driving force of China's economy in the future, Latin American countries should seize the opportunity of the expanding middle class and increasing consumption capacity, expand exports of high-quality agricultural products and food to China, and improve travel convenience to attract more tourists."

A **Margaret Myers, director, and Ricardo Barrios, associate, in the Asia and Latin America Program at the Inter-American Dialogue:** "China's economic challenges, which Beijing largely attributes to a structural deleveraging after years of debt-intensive growth, will only be exacerbated by a protracted U.S.-China trade war. As the IMF indicated in July, ongoing tensions are adding pressure to an economy already facing considerable obstacles. As China grapples with growing unemployment, for example, a number of large U.S. electronics producers have announced plans to move production out of China in a sign of continued U.S.-China decoupling. Even as China expands its overseas engagement through Xi Jinping's signature Belt and Road Initiative, slowing growth in China will mean slower global growth, including for the 'smaller' countries that Moreno referenced. In fact, with few prospects for near-term resolution of the trade war, the IMF has revised down its predictions for global growth in both 2019 and 2020. Brazilian soy producers have nevertheless seen some gains as Chinese demand for soy shifts away from the United States. But overall exports of Brazilian soy were affected by an outbreak of African swine fever in China, and from and easing of U.S.-China tensions in early 2019 which led the United States to send some of its soybean stocks to China. China has also reportedly been more receptive to partnering with agricultural and other companies in the Southern Cone

> **"Much will depend not only on the resolution of the trade war, but also on China's interest in implementing a full-fledged economic stimulus."**
> **— Margaret Myers & Ricardo Barrios**

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as it looks to build new partnerships and diversify sources of agro-industrial supply. Metals prices have slumped amid concerns about slowing global growth, however, with implications for major metals exporters in the region. Looking ahead, much will depend not only on the resolution of the trade war, but also on China's interest in implementing a full-fledged economic stimulus."

A **Lawrence Krohn, adjunct professor of international economics at The Fletcher School of Tufts University:** "President Moreno is correct, and to his smaller countries can be added some larger ones. But the U.S./global recession threat constitutes a greater risk to Latin America than China's slowdown, which, after all, long predates the recent trade wars. Mexico and commodity-scarce Central America and the Dominican Republic are largely insulated from direct effects of China's slowdown, although they're not immune to the cumulative global impact of the trade war between China and a benighted U.S. president. Directly affected by China's distress, however, are the commodity-oriented nations of South America, the largest of which, Brazil and Argentina, are already vulnerable for domestic reasons. South America is exposed mainly on the commodity export front (mostly minerals and soybeans go to China). Still, of all Latin American exports, only about 19 percent go to Asia. Notwithstanding the ambition of its Belt and Road Initiative, China is not yet a major direct—or portfolio—investor in the region. Argentina is already in crisis, so increased Chinese reticence to buy there may hardly be detectable. Brazil's economy has been weak since 2014-15 with little relief in sight, despite renewed easing by its central bank. Admittedly, an unlikely sharp deterioration in Chinese import growth could send Brazil into recession. South American nations would have few policy options to counter a true collapse in Chinese demand. Fiscal stimulus is excluded for many, due to already burdensome debt/GDP ratios. Happily, many nations that once pegged currencies to the U.S. dollar have untethered their rates, enabling them to implement easier monetary policy in a bid to weaken their currencies, eroding real wages, thereby enhancing tradables' competitiveness to compensate for losses of Chinese demand. But if most Latin American central banks are cutting policy rates and the U.S. Fed is also easing, the desired competitive boost will not materialize; a fortiori if China retaliates, as seems likely, by again promoting renminbi depreciation."

A **Carlos Parodi, chairman of the economics department at Universidad del Pacífico in Lima:** "Most countries in this region face huge infrastructure gaps, and they badly need more investment in ports and airports, transportation systems, energy production and connectivity of all sorts. With the withdrawal of Odebrecht and other major Brazilian firms as a result of the Lava Jato investigations, foreign investment in these sectors has slowed. Indeed, in Peru, it has virtually halted this year. Our governments have expectations that Chinese firms and banks will pick up the slack and invest in these areas, as part of the extension of the Belt and Road Initiative to Latin America. Yet it is not clear that Chinese enthusiasm for investing in such initiatives in this region will be sustained, as their own situation cools down. The fact that Latin America's social and environmental standards for such investments have improved considerably also means more challenges and costs that Chinese investors may not be used to assuming, but our more democratic societies certainly expect them to do so."

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

Anastasia Chacón González
Reporter
achacon@thedialogue.org

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ebrand@thedialogue.org