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FEATURED Q&A

Will Plans for a Fiber Optic Cable Across the Pacific Succeed?



Plans to build the first undersea fiber optic cable across the South Pacific have gotten fresh traction in recent months. The CLV SIA, a cable laying vessel, is pictured. // File Photo: M-Tech Offshore.

Q Brazil will participate in a regional project to build an undersea fiber optic cable across the Pacific Ocean, Chile's foreign minister announced last month. Argentina has also partnered with the two countries on the \$388 million project, and Paraguay, Uruguay and Bolivia might also participate in the effort that the countries hope will improve digital connectivity in South America through a connection with Asia. How important is the project to connectivity in South America, and what would its construction allow for in the region? How soon could the cable be built, and what obstacles stand in the way? How significant was it that Chile last year chose an undersea cable route to Australia which Japan had proposed, rather than a route that would directly link Chile to China?

A Pamela Gidi, Chile's vice minister of telecommunications: "The South American region has maintained strong trade relations with the Asia-Pacific (trade between the regions is estimated to be around \$600 billion annually). The Humboldt cable will bring improved direct digital connectivity with Asia-Oceania that will potentially increase the exchange of goods and services. Traffic between these regions is expected to grow at a compound annual growth rate of 28 percent over the next 25 years. As countries progress to the 'Industry 4.0,' the Humboldt system will help them improve the infrastructure pillar. South American countries are highly dependent on their exports of raw materials. The Humboldt cable will enable technologies that will improve the production chains of these industries, bringing contributions to

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TODAY'S NEWS

POLITICAL

Chamorro Arrest Draws Rebuke

International leaders and human rights groups on Wednesday condemned the detention and house arrest of Nicaraguan opposition figure Cristiana Chamorro.

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ECONOMIC

Mexico Raises Economic Outlook

Mexico's central bank released data Wednesday indicating it sees a stronger economic recovery as well as higher inflation this year, raising its 2021 gross domestic product forecast to 6 percent and headline inflation to 4.8 percent, versus 3.6 percent.

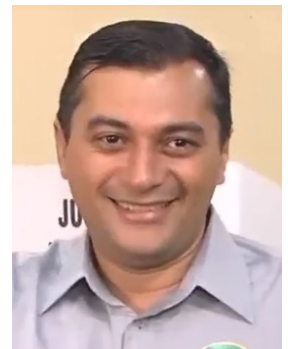
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POLITICAL

Amazonas Gov. Targeted in Brazil Corruption Probe

Federal police in Brazil searched the house and offices of Amazonas Gov. Wilson Lima on Wednesday as part of a corruption probe, the Associated Press reported. The operation centers on possible irregularities in the installation of a pandemic field hospital.

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Lima // File Photo: TV Em Tempo.

POLITICAL NEWS

Nicaragua: Chamorro Detention Draws Condemnation

International leaders and human rights groups on Wednesday condemned the detention and house arrest of Nicaraguan opposition figure Cristiana Chamorro. A group of National Police officers forcibly entered her home at around noon on Wednesday following the issuance of a court order to search her home and arrest her, local newspaper *Confidencial* reported. Chamorro, who is considered a potential leading candidate to run against Sandinista President Daniel Ortega in the November elections, has been accused by the country's prosecutor's



Vivanco // File Photo: HRW

office of financial crimes and mismanagement related to a family foundation named for her mother and former president, the Violeta Barrios de Chamorro Foundation. At the scene outside her home on Wednesday afternoon, a group of people who arrived to show solidarity with Chamorro were attacked by police officers, as were journalists sent to cover the case, with one reporter's cell phone smashed by police in the confrontation, according to the report. U.S. Secretary of State Antony Blinken criticized the court order on Wednesday, saying in a tweet that "arbitrarily banning" Chamorro from running for office "reflects Ortega's fear of free and fair elections. Nicaraguans deserve real democracy." José Miguel Vivanco, the head of the Americas at Human Rights Watch, in a tweet called on the United States and the European Union to "condemn this plan to prevent free elections." "A multilateral strategy

is urgently needed to stop Ortega," he added. [Editor's note: See related [Q&A](#) in Tuesday's edition of the Advisor.]

Amazonas Governor Targeted in Brazil Corruption Probe

Federal police in Brazil searched the house and offices of Amazonas Gov. Wilson Lima on Wednesday as part of a corruption probe, the Associated Press reported. The operation centers on possible irregularities in the installation of a field hospital during the pandemic that authorities say did not meet minimum qualifications for health care. The state's health secretary and five other people have also been sent temporary arrest warrants related to suspicion of profiteering, according to federal police. The governor's press office told the Associated Press in an email that Lima denied any wrongdoing and that "all investments made by the state to fight the pandemic followed legal procedures." Gunfire erupted when police served a warrant at the home of businessman Nilton Costa Lins Júnior, the owner of the hospital in question, although no one was injured. Prosecutors said his son apparently fired the shots. There have been allegations of massive corruption with pandemic emergency funds in several Brazilian states, including Rio de Janeiro, whose former governor, Wilson Witzel, was impeached over the charges and removed from office on April 30, Agence France-Presse reported.

ECONOMIC NEWS

Mexico Central Bank Increases Inflation, Growth Forecasts

Mexico's central bank released data Wednesday indicating it sees a stronger economic recovery as well as higher inflation this year, Reuters reported. Banxico raised its 2021 gross

NEWS BRIEFS

Morena Has Momentum Ahead of Election: Poll

Mexican President Andrés Manuel López Obrador's ruling Morena party and its allies are poised to retain their majority in the lower house of Congress in this Sunday's midterm vote, Reuters reported, citing opinion polls released Wednesday. However, one survey of 2,000 Mexicans by newspaper *El Financiero* showed a tight race, with Morena and allies winning 46 percent of the vote against opposition parties' 44 percent. [Editor's note: See the Advisor's [video interview](#) with Pamela K. Starr on Mexico's midterm election.]

Brazil Police Investigate U.S. Firm for Bribery

Brazilian authorities have opened an investigation into a bribery scheme allegedly involving senior employees at Connecticut-based trading house Freepoint Commodities and Brazilian state oil company Petrobras, Reuters reported, citing people close to the probe. Federal police in Brazil suspect the oil trader, through an intermediary, presented bribes to Petrobras workers for a period of approximately seven years ending in 2018. No charges have been filed as part of the case. A Freepoint spokesperson told Reuters the company was "strongly committed to following the laws everywhere we do business" but declined to comment further.

Venezuelans in Florida Accused of Stealing U.S. Stimulus Checks

A Venezuelan man arrested in Florida last month stands accused of leading a ring that allegedly stole \$800,000 in U.S. government stimulus checks, the Miami Herald reported Wednesday. Federal prosecutors have charged Jesús Felipe Linares Andrade, 34, with conspiring with four others originally from Venezuela to steal economic stimulus money along with identity theft. He has pleaded not guilty.

domestic product forecast to 6.0 percent, up from 4.8 percent previously, and said it expected annual headline inflation of 4.8 percent in the fourth quarter, versus a prior projection of 3.6 percent. Mexico's economy grew faster than initially estimated during the first quarter as the country recovers from its sharpest economic contraction in nearly a century due to the pandemic. Strong economic activity in the neighboring United States, as well as record-high remittances flows from abroad, have helped buffer the consequences of economic lockdowns and supply chain strains. In related news, state statistics agency INEGI said today that consumer confidence rose 0.3 percent in May, continuing a positive trend. Business confidence in the manufacturing sector also rose in May, driving the headline index up to 50.3, which is slightly above the 47.3 pre-pandemic reading, according to Goldman Sachs.

BUSINESS NEWS

American Tower Closes on Deal for South America Assets

Boston-based American Tower Corporation today said that it has closed the Latin American tranche of its Telxius Towers acquisition, which is comprised of more than 7,000 communications sites in Brazil, Peru, Chile and Argentina. The company is paying approximately \$1.1 billion at current foreign currency exchange rates for the assets. The closing was funded by a combination of cash on hand and borrowing. "With Telefónica as our anchor tenant partner and attractive opportunities for colocation as 4G and 5G deployments accelerate, we expect to drive strong, sustainable long-term growth and attractive returns in the region while helping to enhance mobile broadband connectivity for hundreds of millions of people," Tom Bartlett, American Tower's chief executive officer, said in a statement. The company expects the assets to generate approximately \$70 million in property revenue and about \$40 million in gross margin for the balance of 2021.

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their GDPs. Beyond the commercial aspect, scientific and technological collaboration are also big drivers for this new digital infrastructure. The system will also allow countries on the Atlantic coast to act as bridges between Asia and Europe. Humboldt's points of presence in the main cities of the region will encourage commercial agreements to connect to South America's networks. In the execution phase, the initiative is led by Desarrollo País, a public enterprise funded by the government of Chile. It is evaluating the composition of the Special Purpose Vehicle to implement the project. The construction phase is estimated to last between two and three years (to be finalized around 2025). The decision to have a final landing point in Australia balances investment (a capex of \$394 million) and takes advantage of the extensive network of connections that Australia has to Asia."

A **Wally Swain, principal consultant for Latin America at Omdia:** "There are three strategic questions here: Why build an undersea cable to Asia? Why would governments invest? Why not directly to China? More fiber optics is needed because Internet traffic keeps growing exponentially, and now you cannot find anyone who dares to say, 'That's it. We have enough capacity.' The fact that it is a cable to Asia, rather than to the United States or to Europe, reflects shifting trade patterns with the region. Every year brings higher goods trade with the Eastern Hemisphere, and that pulls services trade and the need for data. Governments are getting involved because they perceive that the round of national satellite building went well. They got capacity they did not need to share, at a low-enough price to stimulate demand, and having your own satellite with a heroic name (Bolívar) brought a certain prestige—always an important factor in politics. Those inconsiderate private investors keep trying to make money, and that is not the (only) point! As to the change in route, whatever

the official explanation might be, geopolitics played a role in the decision. Especially with multiple countries involved in the consortium, various diplomatic objectives had to be accommodated. With the current trade and political environment, a cable to China might end up only carrying traffic to and from China. Even the politicians understand that is not a good business case. Now if they can only agree on an appropriately heroic name."

A **Jorge Heine, research professor at the Pardee School of Global Studies at Boston University and former Chilean ambassador**

to China: "This is welcome news. Right now, there is not a single undersea fiber optic cable across the South Pacific, although there are dozens of them across the North Atlantic. Given the boom in cross-Pacific trade in the past decades, improved digital connectivity between the Asia-Pacific and South America is badly needed to expedite e-commerce and trade in services. Sadly, the project still has a long way to go. The business model for the cable from Chile to Australia is not ready yet, nor are the resources needed to install it. It is thus unlikely that we shall see much progress on this before the end of the presidency of Sebastián Piñera. Also, this is not a cable to Asia, but to Australia, from where e-communications would be relayed to Japan. This underlines the fact that this project is very much a second-best option, as trade and demand for digital communications between Chile and Australia are minimal and on a downward curve. The original project, formally submitted by Chile to China in 2016, was for a 20,000-kilometer cable from Chile to China, which would have made Chile China's digital gateway into South America. With China being South America's number-one trading partner, this would have made much more sense. Heavy pressure from the Trump administration and intense lobbying from Japan, to which the Chilean government gave in, derailed it. Yet, given the exponential growth of demand for

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digital communications between China and South America, it is likely such a project providing a direct e-link will be revived in the not-too-distant future.”

A Daniel Leza, vice president of the legal and regulatory unit at Telecommunications Management Group (TMG): “The Humboldt System will be the first submarine cable system connecting South America and the Asia-Pacific region. This is a key milestone for South America and is designed to provide sufficient bandwidth to support projected traffic demand growth between both regions of an annual average of 28 percent over the next 20 years. The system will also drive regional digital integration, supporting demand for connectivity to the Asia-Pacific region for key markets including Argentina, Brazil, Chile, Paraguay, Peru and Uruguay. Because it is a direct route connecting both regions, it will also improve service quality, reducing latency of interregional traffic by at least half. Route diversity is another key value of the proposed system, allowing for a new route between both regions and also from Asia-Pacific to North America. This is critical for large capacity buyers, such as major Internet content providers that are expanding their service and data center footprints in South America and in Asia-Pacific and will continue to be the largest consumers of trans-Pacific submarine cable capacity. The Humboldt System is currently entering the execution phase, with ongoing work aimed at identifying key strategic partners for the project. The government of Chile, via Desarrollo País, is its main promoter. To date, the governments of Argentina and Brazil and the CAF development bank have confirmed their intention to participate as equity partners. Additional strategic partners are expected to be recruited by year-end. Selection of a supplier and start of construction is expected in 2022-23, with the aim of a ready-for-service date around two years thereafter. Potential obstacles are

ongoing disruptions in the submarine cable industry supply chain associated with the pandemic. Going forward, Desarrollo País will work closely with suppliers to identify and mitigate such risks to ensure timely delivery of the project. This new southern route is significant in that it will bolster both Chile and Australia’s standing as emerging digital hubs in their respective regions. This route has significant cost and commercial advantages that are expected to strengthen the overall success of system.”

A Pierluigi Paganini, member of the ENISA CTL group and CEO of CYBORUS: “Fiber optic cables are strategic infrastructure for communications. They transport almost all the data and voice traffic between states and continents. Efficient communication channels represent the backbone of the local and global economy. New-generation under-sea cables have the largest data capacities and the highest Internet speeds connecting countries in South America with Asia. Once completed, they will provide large system capacity, supporting operations for a broad range of applications with high bandwidth demands that respond to the requirements of new technologies such as 5G technology, cloud computing, the Internet of Things (IoT) and artificial intelligence. This infrastructure will contribute to expanding the Internet connection network in the region. The project’s roadmap depends on the investments and commitment of the involved states. The evolution of the pandemic in the region could probably delay the project. Tensions between governments of the countries involved in the project, and the political instability of some of them, could also have an impact on the project. It is very important for many reasons, especially from a geopolitical point of view. Choosing Australia and Japan will give them a sort of independence from China, which is using an aggressive economic strategy in almost all industries.”

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