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FEATURED Q&A

Will Evergrande's Crisis Spell Trouble for Latin America?



The liquidity crisis at Chinese property developer Evergrande has raised concerns about repercussions in Latin America and elsewhere. // File Photo: Double8TwoN via Creative Commons.

Q A liquidity crisis at massive Chinese property developer Evergrande, which is saddled with a staggering \$300 billion debt, and the Chinese government's reluctance to bail out the company, sent shockwaves through international financial markets in September and sparked fears of contagion. The crisis has led to concern over potential repercussions in Latin American countries, many of which count China as an important investor and business partner. How concerned should Latin American countries be about a possible financial crisis in China, and how could such a crisis threaten investment in Latin America? To what extent are Latin American countries relying too much on China to fuel their economic recoveries from the Covid-19 pandemic? How has China's lending and foreign direct investment in Latin America evolved in recent years? Do recent trade talks between China and Ecuador and Uruguay offer a good model for expanding commercial ties and trade flows?

A Tara Hariharan, director of global macro research at NWI Management LP: "Global investors are anxiously watching Evergrande for signs of systemic contagion into China's financial markets, but Chinese authorities are less concerned and seem to signal an Evergrande default with losses for its domestic and offshore bondholders, albeit with some government intervention to protect individual Chinese homebuyers and investors. More than Evergrande alone, the world (Latin America included) should fear a looming slowdown in China's growth engineered by recent strict policies

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TODAY'S NEWS

ECONOMIC

Argentina Freezes Prices for More Than 1,400 Goods Amid Inflation

The government of President Alberto Fernández implemented the price freezes until early next year as it seeks to tame accelerating inflation.

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BUSINESS

U.K.-Based Banfico Launches Unit in Brazil

Banfico, a boutique technology firm that focuses on open banking, said it is launching a Brazilian subsidiary.

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POLITICAL

Brazil's Bolsonaro Faces Charges Over Handling of Pandemic

A Brazilian Senate committee is poised to release a nearly 1,200-page report recommending that President Jair Bolsonaro be charged with "crimes against humanity" over his handling of the Covid-19 pandemic.

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Bolsonaro // File Photo: Brazilian Government.

POLITICAL NEWS

Brazil's Bolsonaro Faces Charges Over Handling of Covid-19

A Brazilian Senate committee is poised to recommend that President Jair Bolsonaro be charged with "crimes against humanity" over his handling of the Covid-19 pandemic, the Associated Press, which viewed the committee's nearly 1,200 pages of findings, reported Tuesday. The committee asserts that Bolsonaro intentionally allowed the novel coronavirus to spread throughout the country in a failed attempt to achieve herd immunity, reported The New York Times, which also reviewed excerpts of the report. Since the pandemic began early last year, Bolsonaro has routinely touted unproven remedies, spread misinformation about the novel coronavirus on social media, downplayed the threat of the disease, discouraged the use of face masks and recently told a reporter that he was "bored" by questions about Covid-19. Brazil has recorded more than 603,000 deaths from Covid-19, the second-highest total in the world after the United States, which has recorded more than 728,000 deaths. The report also recommends charges against 69 other people, including three of Bol-

sonaro's sons, as well as several current and former Brazilian government officials, The New York Times reported. The 11-member panel includes seven opponents of Bolsonaro, and it is uncertain whether it will result in any actual charges against Bolsonaro. The president's office did not respond to requests for comment by The New York Times, but Bolsonaro has criticized the Senate investigation, saying it is politically motivated. "Did you know that I was indicted for homicide today?" Bolsonaro asked supporters after details of the report were leaked. The committee is scheduled to release the report today and vote on it a week later. Brazil's attorney general would then have 30 days to decide whether to seek criminal charges against Bolsonaro, and the lower house of Congress would also have to approve the charges in order for the case to proceed.

ECONOMIC NEWS

Argentina Freezes Prices for 1,400 Goods Amid Inflation

The government of Argentine President Alberto Fernández on Tuesday froze prices for more than 1,400 household goods until early 2022

NEWS BRIEFS

Peruvian Lawmakers Limit President's Ability to Dissolve Congress

Peru's opposition-controlled National Assembly approved a measure limiting the power of President Pedro Castillo to dissolve Congress while ignoring a government-sponsored bill that would restrict legislators' ability to impeach the president, Bloomberg News reported Tuesday. Peru's president can dissolve Congress if lawmakers twice deny him a vote of confidence, while legislators can impeach the president on grounds of "moral incapacity." Now, the president can only ask Congress for a vote of confidence on government policies, and no longer on constitutional reforms.

Blinken Says Ecuador's Lasso Reassured Him on Drug Crackdown

U.S. Secretary of State Antony Blinken said Ecuadorean President Guillermo Lasso had reassured him during a meeting in Quito on Tuesday that the Ecuadorean government would respect democratic principles during its crackdown on drug trafficking, Reuters reported. Lasso on Monday declared a state of emergency to battle narcotics. Blinken is scheduled to travel to Colombia today.

Brazilian Gov't Reportedly Cancels Announcement of New Welfare Program

The government of Brazilian President Jair Bolsonaro reportedly canceled a planned announcement for a generous new welfare program, just minutes before it was scheduled, amid a currency sell-off, Reuters reported Tuesday, citing an official document. The planned welfare plan reportedly spooked investors concerned with an increase in government spending ahead of the presidential election next year, in which Bolsonaro is expected to seek another term.

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to deleverage highly indebted sectors (such as property) and crack down on the activity of Chinese private-sector technology giants. A slowing Chinese economy directly affects Latin America through lower demand for its commodities, and in the medium term, weaker growth and an inward focus may mean China reins in its global Belt and Road investment ambitions, including those in Latin America. The region initially benefited from providing commodity resources for China's growth surge in the 2000s, but since then Chinese investment and trade interests in Latin America have continued to be largely limited to commodity sectors

such as mining and energy, and to only a few nations (Brazil, Chile, Peru and Argentina). While Ecuador and Uruguay are taking proactive steps toward free trade and more investment from China, they must heed the double-edged sword of U.S.-China tensions: China and the United States could positively compete to invest and expand supply chains in the region, but there is also the risk of being caught between the dueling powers. Furthermore, Latin America should be wary of China's opaque and sometimes predatory lending practices as a creditor to emerging market countries."

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as it seeks to temper accelerating inflation, Reuters reported. The government issued a resolution to fix the maximum sales price of 1,432 mass-market products until Jan. 7 after talks with the country's main food industry chamber, COPAL, fell through. COPAL rejected the government's proposal earlier on Tuesday, slamming the administration for what the industry chamber said was its attempt to strong-arm a one-sided deal, the wire service reported. COPAL, which represents 35 chambers and more than 14,500 food and beverage companies, also said the government had not given the sector enough guarantees. "The industry is not the cause of the inflation but suffers its consequences," Daniel Funes de Rioja, COPAL's president, said in a statement. Government officials snapped back, with Roberto Feletti, the secretary of internal trade, saying "there are factions in the business leadership that aren't conscious of their privileges and refuse to adopt a collaborative and contemplative attitude on the tough situation that the Argentine people are living through today," Bloomberg News reported. In September, month-to-month inflation rose 3.5 percent, pushing annual inflation to 53 percent. The government's move comes ahead of the Nov. 14 midterm election, in which the ruling party is expected to lose, based on the results of the primaries held last month. [Editor's note: See related [Q&A](#) in the Sept. 22 issue of the Advisor.]

BUSINESS NEWS

U.K.-Based Banfico Announces Launch of Subsidiary in Brazil

Banfico, a London-based boutique technology firm that focuses on open banking, announced Tuesday that it is launching a subsidiary in Brazil. The creation of the unit, Banfico Tecnologia Ltda., follows the launch of Brazil's open-banking initiative, which began last February. Banfico was already operating in the South American country through a partnership with the clearinghouse for Brazil's payments system, Câmara Interbancária de Pagamen-

tos, Banfico said in a statement. Through the partnership, Banfico has been providing open-banking services to nine lenders, including Citibank, JPMorgan and Bank of America, the company said. "Establishing a subsidiary in Brazil was the next logical step to leverage on our past achievements and know-how from the implementation of open banking in the U.K. and Europe to Latin America's largest economy," Kannan Rasappan, Banfico's CEO, said in a

THE DIALOGUE CONTINUES

Who Is Positioned to Be the Next President of Chile?

Q **Approximately 50 percent of the Chilean population was undecided on whom to vote for in the Nov. 21 presidential election as campaigns began on Sept. 21, according to a recent poll by the Center of Public Studies (CEP). Leftist Gabriel Boric of the Apruebo Dignidad party is currently the front-runner with 23 percent support, with Sebastián Sichel of the right-leaning party Chile Podemos Más and José Antonio Kast of the Republican Party in second and third place, respectively. How is the race shaping up, and which candidates have the most momentum? What issues will be most important to Chilean voters, and how is the planned rewrite of Chile's constitution expected to influence the results of the November elections? Could the two right-leaning candidates divide votes and change the course of the election?**

A **Javier Couso Salas, professor of public law at Universidad Diego Portales in Santiago:** "Next month's presidential election in Chile will be the most peculiar since the country's return to democracy in 1990. This is because it will take place in the most polarized context in decades and in the middle of a constitutional rewrite that could shorten the term of whoever wins. In an extremely volatile election, when there are fewer than

six weeks left before the vote, the only thing that appears almost certain is that left-wing consensus candidate Gabriel Boric will win a place in the runoff. This is because the candidate who was running in second place until just a month ago, Sebastián Sichel of the center-right, has experienced a marked drop in his support, the product of a series of mistakes and scandals, to the point that he is now running in fourth place behind ultra-right candidate José Antonio Kast and center-leftist Yasna Provoste. The latest polls should be taken with some caution, both because of the notorious difficulty that they have had in predicting electoral results in the last year, and because approximately a quarter of Chilean voters say they are undecided on who they will vote for. Finally, it should be noted that instead of specific debates on public policy, the candidates have been differentiated from each other based on their general positions regarding whether Chile should advance major structural transformations or instead carry out gradual reforms to its existing and developing policies. This illustrates the crucial significance of the election for Chile's future."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in the Oct. 14 issue of the Advisor.

statement. "This also shows our commitment to the open-banking projects in other world regions that we are closely monitoring." Financial technology companies have seen strong growth in recent months in Brazil. Among them is Berkshire Hathaway-backed Nubank, which turned a profit for the first half of the year and is eyeing an initial public offering in the United States, which could value it at more than \$55 billion, Reuters reported Oct. 13.

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A David Castrillón Kerrigan, professor and researcher on China-related issues at Universidad Externado de

Colombia: “While the debt numbers appear dramatic, the fall of Evergrande does not by itself represent a crisis for the Chinese economy or for Latin American markets. Rather, Evergrande’s demise represents the final sputters of China’s previous investment- and export-driven development model—an unsustainable model from which it has been transitioning away since 2012. An essential

“**The fall of Evergrande does not by itself represent a crisis for the Chinese economy or for Latin American markets.**”

— David Castrillón Kerrigan

element of this transition is letting certain big companies fail (albeit in a managed manner), sending a signal to markets that the days when moral hazard reigned have passed. These decisions, though painful in the short term, will make China a more resilient economy. But it is precisely that well-announced transition toward a new development model that ought to put the countries of the region on notice. In terms of risks, China is already limiting inefficient domestic investment, reducing its demand for many commodities that originate from the region, such as copper and iron ore. It has also made strict medium-term commitments on emissions and carbon-neutrality, beckoning drops in demand for coal and oil. Nonetheless, the opportunities for transformation are also significant. As the Chinese government boosts domestic consumption, promotes imports and seeks to diversify its trade relations away from developed economies, the region could transform its economic structure away from commodities and up the value chain. A reduction in ineffi-

cient domestic investment also incentivizes capital to seek more attractive markets, including our own. Opportunities beckon, but it will be up to us to seize them.”

A Martina Ogaz, analyst of investment studies at EuroAmerica in **Chile:** “The Evergrande company crisis left the region concerned mainly about the effects that a collapse of the real estate sector and an eventual contagion in the Chinese economy could generate. The former generated considerable volatility in the prices of commodities—Latin America’s main exports—especially copper and iron. In recent years, China has become the region’s main commercial partner, displacing the United States and Europe. Therefore, the accelerated growth process of the Chinese economy has led Latin America to redirect its exports to the Asian country in the face of high demand. This high dependence leaves the region vulnerable to any market imbalance or economic slowdown in China, both on the commercial side and because of the investments made by various Chinese companies in the region. In particular, investment in Chile lags somewhat behind the rest of the region. In any case, it has accelerated compared to previous years to the point where several Chinese companies have already been awarded public and infrastructure tenders, a type of investment that has been quite common in other countries for several years. For some time now, Chile has had a free trade agreement with China, which has generated fairly broad access for Chilean exports to Chinese markets, while we have had fairly broad access to imports from China. I believe that the conversations that are taking place in Ecuador and Uruguay are very positive, as the commercial treaties give greater certainty about the commercial relationship between the countries and the resolution of possible conflicts.”

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

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