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FEATURED Q&A

What Does China's Slowdown Mean for Latin America?



China has been a major investor in several Latin American economies in recent years, and the country's president, Xi Jinping, acknowledged last month that it is in an economic slowdown. // File Photo: Chinese Government.

Q China's businesses are struggling, and the unemployed are experiencing trouble finding work, President Xi Jinping said during a New Year's Eve speech. Chinese investment has been critical to some Latin American economies in recent years, especially in infrastructure for energy transmission in places like Brazil, Peru and Chile. How much of an impact is China's economic downturn having on its trading partners in Latin America? What does it potentially mean for Latin American countries that rely on China for foreign investment? What are Latin American countries doing to avoid being negatively affected by China's slowdown?

A Margaret Myers, director of the Asia & Latin America Program at the Inter-American Dialogue: "China's GDP growth has indeed been slower than predicted, worrying China's leadership and its many economic partners. Despite China's economic woes, trade with Latin America and the Caribbean (LAC) remains strong so far. Growth in China-LAC trade slowed somewhat in 2022, after achieving a record high in 2021, but trade volume has otherwise grown at a rapid pace—from \$14 billion in 2000 to \$495 billion in 2022. That said, China's investment in the region has slowed rather considerably over the past few years, as I'll show in a forthcoming (Jan. 22) Dialogue report, co-authored by Ángel Melguizo and Yifang Wang. This slowing is attributable to several factors, including China's domestic economic challenges, high investment risk in parts of the LAC region and, importantly, ongoing efforts by the Chinese government and its companies to focus trade and investment much more intensively on a handful of

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TODAY'S NEWS

POLITICAL

Arévalo Sworn in as Guatemala's President Following Delay

Bernardo Arévalo took office as Guatemala's president following a 10-hour delay as his opponents made a last-ditch effort to derail him from being sworn in.

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POLITICAL

Colombia Extends Cease-Fire With EMC Guerrillas

Colombia's government has extended a cease-fire with the EMC guerrilla group, a dissident faction of the demobilized Revolutionary Armed Forces of Colombia, or FARC.

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ECONOMIC

Venezuela's Economy Sees 5% Growth: Maduro

Venezuela's economy grew more than 5 percent last year and is expected to see an expansion of 8 percent this year, President Nicolás Maduro said Monday in an annual speech to lawmakers.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

Arévalo Takes Office in Guatemala After 10-Hour Delay

Bernardo Arévalo, who made fighting entrenched corruption a central plank in his platform, was sworn in as Guatemala's president early Monday, just after midnight, in a ceremony that was delayed for 10 hours as his opponents continued efforts to derail his inauguration, the Associated Press reported. Since he unexpectedly won a spot last June in the country's runoff election, Guatemala's at-



Arévalo // Photo: Facebook Page of Bernardo Arévalo.

torney general's office repeatedly targeted him and his Semilla party in moves that threatened his ability to take office. He was scheduled to be sworn in on Sunday afternoon, but departing opposition lawmakers made a last-ditch effort to prevent him from taking office by refusing to swear in newly elected legislators from his party, The Wall Street Journal reported. Hundreds of Arévalo's supporters gathered in Guatemala City to demand that he be sworn in. Many clashed with police as officers blocked them from reaching the building that houses Congress. The delay led heads of state and leaders of international organizations who had arrived to attend the ceremony to demand that the Guatemalan Congress adhere to its responsibilities to allow the transfer of power. In a joint statement, the foreign leaders called on lawmakers to "hand over power today as required by the constitution to the president-elect." Arévalo was finally given the blue-and-white presidential sash and sworn in just after midnight local time. "The support of the

world's democratic nations has been crucial for us to be here," said Arévalo, The Wall Street Journal reported. In his first address as president, Arévalo expressed hope for Guatemala's democracy. "It fills me with deep honor to assume this lofty responsibility, showing that our democracy has the necessary strength to resist and that through unity and trust we can change the political panorama in Guatemala," he said, the Associated Press reported. Arévalo also thanked Guatemala's youths for maintaining hope and thanked the country's Indigenous people for their support, making reference to the "historic debts that we must resolve," the AP reported. "There cannot be democracy without social justice and social justice cannot prevail without democracy" he said.

Colombia Extends Cease-Fire With EMC Guerrilla Group

Colombia's government has extended its cease-fire with the EMC, a dissident faction of the demobilized revolutionary Armed Forces of Colombia, or FARC, the Associated Press reported Sunday. The cease-fire had been scheduled to expire this week, and the agreement came as the government and the EMC are engaged in peace talks in Bogotá, the wire service reported. The extended cease-fire is scheduled to last until July 15, and it compels the EMC to halt attacks on civilians in areas the rebels control. Critics have said the cease-fires with the EMC other rebel groups have failed to stop attacks on the population.

ECONOMIC NEWS

Venezuela's Economy Grows More Than 5% in 2023: Maduro

Venezuela's economy grew more than 5 percent last year and is expected to see an expansion of 8 percent this year, President Nicolás Mad-

NEWS BRIEFS

Nicaragua Expels 19 Clergy Members to Vatican

Nicaragua's government said Sunday that it had expelled 19 members of the clergy to the Vatican City, Reuters reported. Among those expelled were Catholic Bishop Rolando Álvarez, a prominent critic of President Daniel Ortega. The group also included Bishop Isidoro Mora, 15 priests and two seminarians. Nicaragua's government thanked Pope Francis and the Catholic Church for "very respectful and discreet coordination carried out to make possible the trip to the Vatican" for the clergy members.

Talos Energy Acquiring QuarterNorth to Expand Presence in Mexico

Oil and gas firm Talos Energy said Monday it will acquire the private company QuarterNorth Energy to expand its presence in Mexico, Reuters reported. The \$1.29 billion cash and stock deal will see QuarterNorth receive nearly \$1 billion in cash and approximately 24.8 million shares of Talos' common stock. Talos said the deal will add 30,000 barrels of oil equivalent per day to its production, alongside proven reserves of 69 million barrels of oil equivalent.

Enel Gets Authorization to Start Operations at Solar Plant in Chile

Italian energy firm Enel's Chilean subsidiary has received authorization to begin commercial operation at El Manzano, a 99-megawatt solar photovoltaic plant in Chile's Metropolitan Region, which contains 162,000 bifacial panels, PV Tech reported today. Enel Chile general manager Fabrizio Barderi told PV Tech, "The plant will inject the energy generated into the National Electric System, thus helping to overcome the challenges posed by the lack of transmission infrastructure and ensuring that renewable energy is available to meet the high demand in urban areas."

uro said Monday in an annual speech to the government-allied National Assembly, Reuters reported. "In 2024, we will continue the policy of stoking national production, of recovering national income, of recovering income for workers" Maduro said. In recent years, Venezuela's economy has faced economic crisis; its inflation rate was just under 190 percent, according to the central bank. However, that inflation rate is no longer the highest in the region after Argentina's surpassed 200 percent.

BUSINESS NEWS

Repsol Targeted in Class Action Suit Over Peru Oil Spill

Spanish multinational energy firm Repsol is being sued in a class action lawsuit for \$1 billion due to its role in a 2022 oil spill in Peru, Bloomberg News reported Monday. English law firm Pogust Goodhead is representing 35,000 individuals in suing Repsol over the spill, which was the worst in Peru's history and saw 10,000 barrels of oil leak into the Pacific Ocean from Repsol's La Pampilla refinery. Fishing communities near La Pampilla have still not been allowed to resume their trade due to the ongoing impact of the pollution. Pogust Goodhead CEO Tom Goodhead told Bloomberg News that the lawsuit had been filed in The Hague last week. A small protest on Monday marked two years since the oil spill, Reuters reported. The incident, which Peru's government called the nation's worst ecological disaster, killed off significant numbers of birds and fish as it dirtied 66 miles of Peru's coastline. The Peruvian government previously criticized Repsol for not paying all of the fines it had imposed on the company; Repsol had appealed the fines and stated it would pay them if its appeals were dismissed, Bloomberg News reported. "We consider that this lawsuit has no basis," Repsol said in a statement Friday, Reuters reported. Repsol said it has spent more than \$270 million on fixing damage and paying compensation related to the spill, Bloomberg News reported.

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innovation-related sectors in LAC and other regions. In LAC, these priority sectors, which China calls 'new infrastructure,' include electric vehicles manufacturing (including battery, car and bus manufacturing), other high-end manufacturing (which includes medical and machinery manufacturing), ICT, renewable energy (including hydroelectricity) and urban infrastructure (for example, rail and other urban transport and ultra-high voltage transmission lines), among other innovation-related industries. China's activity in these sectors has increased as a share of annual Chinese foreign direct investment in LAC over the past few years, even as total investment value declines. Beijing is betting that dominance in these industries, through targeted deal-making and vertical integration, will ensure continued economic growth and favorable global positioning well into the future."

A **Evan Ellis, research professor of Latin American studies at the US Army War College Strategic Studies Institute:** "The impact of

China's economic problems on Latin America has been mixed, but could evolve due to sustained slow growth, China's economic and political reactions to the crisis and the risk of a financial meltdown over wars in the Middle East and/or Taiwan. Prices of commodities exported by Latin America to China, including copper and iron, remain high but could fall as Chinese construction and capital formation demand falters. Revenues from Latin American agricultural exports will continue to expand because Chinese demand is relatively inelastic, and as China buys more from the region rather than from the United States. In construction and electricity infrastructure, China-based state-owned enterprises and their financial partners will look even more to Latin America with fewer lucrative projects in China. China will continue to invest in strategically prioritized areas in Latin America, including lithium, telecommunications, clean energy

generation and electric vehicles. It will also likely not sacrifice small symbolic projects in countries that recently established diplomatic relations with China, including El Salvador, Honduras and Nicaragua. High oil prices from escalating global conflicts will sustain China's interest in petroleum projects in Lula's China-friendly Brazil, Venezuela (where Maduro has strengthened control), and Guyana, pending risk from Essequibo. Xi's response to corruption exposed by the real estate crisis may increase Chinese lenders' caution toward some questionable Latin American projects. Similarly, Xi's moves against Chinese tech executives, deepened by China's economic tensions, may impede expansion by those companies abroad. Sadly, too many Latin American countries see China as an alternative to Western investment, rather than making the inconvenient choices to attract Western capital to hedge against growing China dependence."

A **Jorge Heine, research professor at the Pardee School of Global Studies at Boston University and former Chilean ambassador to China:** "With exceptions, like Guyana and

Venezuela, projections for the region's economic growth in 2024 are not encouraging. According to the United Nations Economic Commission for Latin America and the Caribbean, economic growth is projected to decline from 2.2 percent in 2023 to 1.9 percent in 2024. In South America, growth is to go from 1.5 percent in 2023 to 1.4 percent in 2024. South America is much more dependent on trade with China, the subregion's top trading partner, than the rest of Latin America. And although China-LAC trade reached \$480 billion in 2022, by September 2023, that figure was \$400 billion, indicating a likely downturn in 2023. The decline in commodity prices is to blame for this, while high interest rates and tight fiscal space hamper overall economic growth. The region has found it difficult to recover from its 2020 economic downturn, its worst in

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120 years, and continues to underperform. Yet, despite China's slowdown, Beijing remains highly committed to enhancing ties with the region, as the 2023 signing of a free trade agreement with Ecuador, another with Nicaragua and multiple agreements with Brazil indicate. Limitations on Chinese foreign direct investment in the United States and in Europe mean that Latin America will continue to be an attractive option for Chinese capital. The best bet for the region to come out of this economic rut lies in switching into high gear its energy transition, for which it is well placed, with the cleanest electricity grid anywhere and its copper and lithium reserves. The fact that China has a commanding position in the electric vehicle market, producing 70 percent of the world's batteries for them, shows the huge extant complementarities in this regard."

A **Tara Hariharan, managing director of global macro research at NWI Management:** "China invests 9 percent of its outward foreign direct investment in Latin America; Brazil is a key destination, with Argentina, Chile and Peru also large recipients. China has invested heavily in lithium processing in Bolivia, Chile and Argentina, and in Peruvian iron ore extraction. China holds key stakes in Peru's and Chile's national energy distributors and has invested in transportation and 5G technology across Latin America. Twenty-one nations in the region participate in

China's key investment vehicle, the Belt and Road Initiative (BRI). However, BRI's capacity (and Chinese demand for Latin America's copper and iron ore) has waned as Chinese growth slows due to an ailing property sector and muted infrastructure investment. Yet, China now touts its 'new economy'—renewable energy, electric vehicles and semiconductor production—as a driver of growth and competition with the United States. Hence, China is actually recalibrating BRI away from other destinations and toward Latin America, prioritizing lithium extraction and battery and electric vehicle manufacturing. Latin America remains a friendly Chinese investment destination, even as the United States and Europe limit Chinese inbound investment, citing national security. For Latin America, China is still a large, eager investor—albeit with opaque lending conditions and hesitation to grant debt relief to distressed emerging markets. Latin America must undoubtedly diversify its trade and investment dependencies to counter geopolitics-driven supply chain shocks. The region—particularly Mexico—is poised to benefit from U.S. nearshoring to reduce reliance on Chinese supply chains. However, it is unclear whether U.S.-led investment can replace China's scale of influence in Latin America."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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