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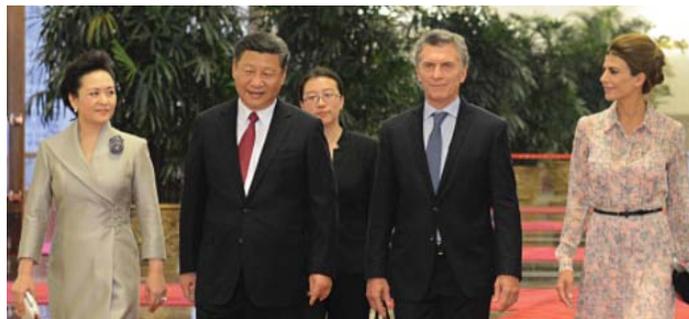
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FEATURED Q&A

Will Alibaba's Deal With Argentina Expand Trade?



Argentine President Mauricio Macri and First Lady Juliana Awada visited Beijing last month, where they were received by Chinese President Xi Jinping and his wife, Peng Liyuan. // File Photo: Argentine Government.

Q China-based e-commerce giant Alibaba reached a cooperation agreement with Argentina's government in early May to help the administration of President Mauricio Macri introduce the country's wine and other agricultural products into China, as well as help small- and medium-sized businesses in Argentina "make progress" in China, in exchange for the Argentine government's commitment to use Alibaba's electronic platforms as its official sales channels. Is the partnership a good fit for both parties? How will Argentina's membership in Mercosur affect its ability to sell goods through Alibaba? Is it likely that a free-trade agreement between China and Mercosur will be reached in the near future?

A Agustín Crivelli, economist at the Scalabrini Ortiz Center for Economic and Social Studies in Buenos Aires: "The agreement signed with Chinese e-commerce giant Alibaba will not contribute to increased sales of Argentine products in the Chinese market, since Argentine rules do not allow door-to-door commerce for export, as is the case for imports. So it is expected that Argentine purchases, but not sales, will increase through Alibaba. The consequences are known: a higher trade deficit, increased indebtedness and a process of 'reverse substitution,' in which local industrial products are replaced by manufactures from China. The agreements between China and various Latin American countries have only contributed to reinforcing the classic international division of labor of the major powers, along with the land and business sectors of our region. This has been happening for more than a century as economies in the region have

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TODAY'S NEWS

BUSINESS

JBS' Controlling Shareholder to Pay \$3.2 Billion Fine

J&F Investimentos said it would pay the fine due to its role in two major corruption cases. The company's owners have admitted to paying bribes to some 1,900 politicians.

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ECONOMIC

Brazil Slashes Key Interest Rate by Full Point

The country's central bank reduced the benchmark Selic rate, continuing a cycle of rate cuts that began in October.

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POLITICAL

OAS Meeting Ends Without Action on Venezuela

A group of countries including the United States and Canada put forward a declaration that included a call for President Nicolás Maduro's government to respect human rights and the rule of law, but it failed to receive the required support for passage.

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Maduro // File Photo: Venezuelan Government.

POLITICAL NEWS

OAS Meeting Ends Without Agreement on Venezuela

Organization of American States member nations met Wednesday in Washington to discuss Venezuela's political crisis, but the meeting ended without agreement, BBC News reported. The United States, Canada, Mexico, Panama and Peru proposed a declaration calling for an

“Our goal is to return to full respect for the rule of law, full respect for freedoms of political expression and participation.”

— Tom Shannon

immediate end to the violence that has raged in the country for two months, as well as for political prisoners to be released and for the Andean nation's government to respect the rule of law and human rights. The declaration also demanded the President Nicolás Maduro's government drop a plan to form a “constituent assembly” to rewrite the Constitution. “Our goal is to return to full respect for the rule of law, full respect for freedoms of political expression and participation,” said Tom Shannon, the U.S. undersecretary for political affairs, Reuters reported. “Today is an opportunity for us to demonstrate that this commitment remains alive and well relevant to the current plight of our Venezuelan neighbors.” However, the declaration failed to receive the support of the required two-thirds of member countries present, BBC News reported. Venezuela did not send a representative to the meeting and had previously announced that it would withdraw from the OAS after a majority of the body's members voted to hold the meeting. Nicaragua's government, which supports Maduro, also opposed the meeting, saying Venezuela was the victim of a “political lynching.” Several

other small Caribbean islands, which receive subsidized oil from Venezuela, also defended Maduro's government at Wednesday's OAS meeting, Reuters reported. Venezuela's government celebrated the meeting's suspension without action as a victory against “interventionist countries” seeking to meddle in the country's affairs, BBC News reported. As the discussions were happening in Washington, thousands of anti-government protesters again took to the streets in Caracas in an attempt to march to the foreign ministry. At least 89 people were injured when demonstrators clashed with security forces. Some 60 people have been killed in two months of unrest in Venezuela. [See related [Q&A](#) in the May 9 issue of the Advisor.]

ECONOMIC NEWS

U.S. Auditing OPIC Loans for Chilean Renewable Projects

The U.S. government is auditing a foreign aid program approved by the government's Overseas Private Investment Corporation, or OPIC, in which nearly \$1 billion was loaned for renewable energy projects in Chile, Reuters reported. OPIC loaned approximately \$890 million to projects including solar farms that are in financial trouble, and the loans may never be fully repaid, according to people familiar with the matter. The Office of Inspector General for the U.S. Agency for International Development, or USAID OIG, confirmed to the wire service that it would be auditing the loan. The audit centers on OPIC's funding of five Chilean solar farms and a hydroelectric project in 2013 and 2014. The audit started in 2016, but had not been previously reported. At least three of the five Chilean solar projects have already started restructuring their debt, according to two people familiar with the projects. They said OPIC could see losses exceeding \$160 million on the projects. In a statement, OPIC said it believed it would recover the loans over the coming decades, though not in the original timeline the

NEWS BRIEFS

China, E.U. Leaders Back Paris Accord as Trump Mulls Withdrawal

China and leaders from the European Union today agreed to push forward with the Paris Agreement on climate change as U.S. President Donald Trump mulls withdrawing the United States from the accord, CNN reported. Trump is expected to announce his decision today, but two U.S. officials familiar with his plans say he will likely pull out of the accord. The United States is the world's largest carbon dioxide emitter after China.

Brazil Slashes Key Interest Rate by Full Percentage Point

Brazil's central bank on Wednesday slashed its benchmark Selic interest rate by a full percentage point, to 10.25 percent from 11.25 percent, continuing a loosening cycle that began in October, The Wall Street Journal reported. The country's struggling economy and below-target inflation led to the decision, the central bank said in a statement accompanying the rate announcement. The trend for inflation is still favorable, and recent economic indicators point to a gradual recovery this year, policymakers added.

Mexico's Central Bank Increases Growth Forecast

Mexico's central bank has revised its 2017 growth forecast upward to between 1.5 and 2.5 percent, up from the previous projection of between 1.3 and 2.3 percent, the Financial Times reported Wednesday. GDP increased 0.7 percent in the first quarter from the fourth quarter, and grew 2.8 percent year-over-year, slightly ahead of estimates of 2.7 percent year-over-year growth. Banco de México said its 2018 GDP forecast would remain unchanged at between 1.7 percent and 2.7 percent.

agency had projected. It added that most of its projects are on solid financial footing, and said it would evaluate the USAID OIG's recommendations once it completed the audit. U.S. President Donald Trump has proposed cutting funding for any new OPIC projects in his 2018 budget, which was released last week.

Companies Eye Chile-Argentina Tunnel Project

Ten different consortiums, including Chinese and European companies, have expressed interest in building a planned \$1.5 billion tunnel beneath the Andes mountains that would connect Argentina and Chile, Reuters reported Wednesday, citing Chile's minister of public works, Alberto Undurraga. The Agua Negra tunnel would be more than eight miles long and would link Chile's Coquimbo region with Argentina's San Juan province. Existing roads that cross the border, passing over the Andes, are sometimes forced to close during snowstorms, but the tunnel would be able to operate year-round. Among the companies expressing interest in the project are Power China and the Chinese Communications Construction Company, as well as Spain-based OHL and FCC, and Italy's Astaldi and Salini Impreglio, said Undurraga. Construction of the tunnel would likely take more than a decade to complete.

BUSINESS NEWS

JBS' Controlling Shareholder to Pay \$3.2 Billion Fine

J&F Investimentos, the controlling shareholder of Brazilian meatpacking company JBS, will pay a 10.3 billion real, or \$3.2 billion, fine for its role in two corruption cases, setting the record for the largest leniency fine ever levied, Reuters reported Wednesday. J&F will exclusively cover the payments, which are to start in

FEATURED Q&A / Continued from page 1

focused on extractive industries and the exportation of primary products, discouraging diversification and industrial development, thus weakening the basis for self-sustaining and independent regional integration. The major powers, including China, have exerted powerful pressure on the process of regional integration in South America. In this sense, signing a free-trade agreement with Mercosur, which Chinese economic and political diplomacy have been advocating, would only further strengthen these disruptive tendencies. The possibility of such an agreement will depend on the results of Argentina's legislative elections this year and Brazil's general elections next year."

A Lin Hua, general secretary of the Center of Argentine Studies of the Institute of Latin American Studies at the Chinese

Academy of Social Sciences: "From 2003 to 2013, the bilateral trade volume between China and Argentina increased almost five times, but after 2014, the trade between the two countries showed ups and downs. This means that the current economic and trade relationship between China and Argentina

December. The holding company will have 25 years to make the payments. J&F said it would be paying the fine entirely in order to protect minority shareholders. JBS Chairman Tarek



Farahat // File Photo: Procter & Gamble.

Farahat said the settlement would alleviate the risk for JBS investors, employees and clients. The fine follows testimony from J&F owners Joesley and Wesley Batista, who say they spent

has entered a new period of development and needs some new impetus and stimulation. Alibaba is China's largest online company, and it is also a global leader in the e-commerce trade platform. Its participa-

“**The current economic and trade relationship between China and Argentina has entered a new period of development..”**

— Lin Hua

tion in Sino-Argentine economic and trade cooperation is a worthwhile opportunity for both countries. At present, China's consumers are growing their demand for high-end products and have become accustomed to online shopping. These conditions are very favorable for getting quality Argentine products into the Chinese market. Using an e-commerce platform to promote exports and SME development, and accelerating the construction of infrastructure like local

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approximately 600 million reais in bribes for nearly 1,900 politicians, further engulfing Brazil's politicians in corruption scandals. Joesley Batista is also at the center of a corruption probe surrounding President Michel Temer, after he revealed he had secretly recorded a conversation with Temer in which the president appeared to condone the executive's paying of bribes to potential witnesses in the "Lava Jato" corruption scandal involving state oil company Petrobras and construction conglomerate Odebrecht. Other JBS executives in plea-bargain testimonies have alleged that Temer took nearly \$5 million in bribes from the company. The JBS testimony also alleged that former presidents Luiz Inácio Lula da Silva and Dilma Rousseff had received \$80 million in bribes in offshore accounts. Temer, Lula and Rousseff have all denied wrongdoing.

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logistics and payment, will be a new way for China and Argentina to cooperate. The key is whether the related policies of the Argentine government can be continued. Argentina's membership in Mercosur does not affect its cooperation with Alibaba. On the contrary, if this cooperation is successful, it will provide a good demonstration for other member countries. There is little chance that China and Mercosur will reach a free-trade agreement in the near future. On the one hand, the coordination between member countries is difficult, especially between Brazil and Argentina. On the other hand, the long-term core objective of Mercosur is to expand intraregional trade. Although this intention has changed recently, Mercosur's opening to the outside world is not large enough, so it will take time to create the necessary conditions."

A **Thomas Andrew O'Keefe, president of Mercosur Consulting Group in San Francisco:** "Given that Alibaba is as ubiquitous in China for online shopping as Amazon is in the United States, this can probably only benefit Argentine wine sales in China, particularly given how wine has become a big status symbol. I am not sure, though, if this will benefit sales of fresh agricultural products in China. In any event, the Argentines will face tough competition from Chilean

vineyards, which have a decade's head start in supplying the Chinese market. Depending on the time of year, sales of Chilean fruit are also quite common in China, particularly in coastal cities and Hong Kong. Argentina's

“ A free-trade agreement between China and Mercosur is also far-fetched.”

— Thomas Andrew O'Keefe

membership in Mercosur is probably irrelevant in terms of Argentine exports that are currently in demand in China. A free-trade agreement between China and Mercosur is also far-fetched. Mercosur has to first get its internal house in order and figure out if it wants to be just a free-trade area or a customs union or if it still aspires to the original common market goal. Given that Mercosur's negotiations for a free-trade agreement with the European Union have now dragged on inconclusively for two decades, it is hard to visualize an FTA with China in the near future."

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

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