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FEATURED Q&A

Will Ties With China Bring Big Benefits to the DR?



The Dominican Republic's foreign minister, Miguel Vargas, on May 1 signed an agreement with his Chinese counterpart, Wang Yi, to establish diplomatic relations. // Photo: Government of the Dominican Republic.

Q The Dominican Republic on May 1 severed its diplomatic ties with Taiwan in favor of establishing them with China. Further isolated by the move, Taiwan's foreign minister reacted angrily, saying the Dominican Republic had "ignored our long-term partnership." The Caribbean nation's decision followed a similar move by Panama last year. What factors drove the Dominican Republic's decision? What will the change mean for the Dominican economy? Will more countries that currently recognize Taiwan, including Guatemala, Honduras and El Salvador, follow suit?

A Margaret Myers, director, and Ricardo Barrios, program associate, of the Latin America and the World program at the Inter-American Dialogue: "The Dominican Republic's decision to break off its diplomatic relationship with Taiwan in favor of mainland China was economically motivated. Taiwan has been extremely generous toward its diplomatic partners in Latin America and the Caribbean through many years of grants and concessional loans. But the scale and potentially transformative nature of Chinese trade, investment and finance toward the region is difficult to ignore. The commercial potential of Chinese-Dominican relations is limited, given that China imports similar goods from nearby Southeast Asia, but even a relatively small infusion of Chinese foreign direct investment or finance could have big effects on the Dominican economy. Chinese banks have given a whopping \$140 billion in loans to the region since 2005, with almost all of that directed toward diplomatic partners. China's foreign direct investment, including in Central America and the Caribbean, is also largely directed toward those coun-

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TODAY'S NEWS

ECONOMIC

Argentine Central Bank Rolls Over Billions in Debt

The country's central bank rolled over \$26 billion in short-term peso-denominated notes, boosting confidence and leading to a strengthening of Argentina's currency following weeks of economic turmoil.

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POLITICAL

Ecuador Spent \$5 Mn to Protect Assange: Report

Ecuador's government spent \$5 million in a spy program to protect WikiLeaks founder Julian Assange, who has lived in the country's embassy in London since 2012.

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BUSINESS

Maduro Seizes Kellogg Plant Following Closure

Venezuelan President Nicolás Maduro's government seized a Kellogg manufacturing plant after the cereal maker announced it was closing its operations in the South American country.

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Maduro // File Photo: Venezuelan Government.

ECONOMIC NEWS

Argentine Central Bank Rolls Over Billions in Debt

Argentina's central bank on Tuesday rolled over billions of dollars' worth of short-term debt in a move that boosted confidence following several weeks of volatility in the South American nation's economy, The Wall Street Journal reported. The central bank refinanced \$26 billion in peso-denominated securities that were to expire this week. The decision by hold-

“I want you to feel calm that this is the right path.”

— Mauricio Macri

ers of the notes, known as Lebacs, to roll over their investments was seen as an important test of the central bank's authority and helped the country avoid capital outflows that have eroded the value of Argentina's currency over the past three weeks, the Financial Times reported. “This could be a turning point,” Marcos Wentzel, a partner at local investment bank Puente, told the newspaper. The amount of securities in Tuesday's auction was nearly half of Argentina's \$53 billion in foreign exchange reserves. The monetary authority agreed to pay interest rates of 40 percent on the notes. A failure by the central bank to roll over the notes would have placed even more pressure on the battered peso, according to economists, The Wall Street Journal reported. The peso rebounded against the U.S. dollar on Tuesday, with the greenback losing 3.7 percent against the Argentine currency. So far this year, the dollar has risen 29 percent against the peso. Argentina's economy has teetered on a crisis as the country's stocks, bonds and currency have plunged since mid-April amid growing concern

from investors about the government's deficit and inflation. On Tuesday, the government's statistics agency, Indec, said consumer prices rose 2.7 percent in April, bringing annual inflation to 26 percent. Among the price increases, the country has seen higher costs for gas and electricity. Also placing pressure on Argentina's economy are rising interest rates in the United States, which have led to money outflows from emerging markets. Argentina's central bank has sought to support the peso by selling billions of dollars in reserves in the spot market and also hiking the benchmark interest rate to 40 percent. President Mauricio Macri sought to calm fears about the economy on Tuesday, saying Argentina was not entering a new crisis. “We are advancing with firm steps toward this Argentina that we want to live in,” he said, The Wall Street Journal reported. “I want you to feel calm that this is the right path.” [Editor's note: See [Q&A](#) about Argentina's economy in last Friday's issue of the Advisor.]

POLITICAL NEWS

Ecuador Reportedly Spent \$5 Million to Protect Assange

Ecuador's government spent \$5 million to protect WikiLeaks founder Julian Assange through intelligence and counterintelligence efforts, The Guardian reported on Tuesday. The report, citing unspecified financial documents, says Ecuador contracted a security company and a team of hackers, and even deployed undercover agents to ensure Assange's security. The purchases were authorized by Ecuador's national intelligence agency, Senain, in what was first labeled “Operation Guest” and later “Operation Hotel.” Ecuadorean President Lenín Moreno shut down the agency in March. Also, Assange reportedly compromised the embassy's network by intercepting staff communications, a charge that WikiLeaks denied. “That's an anonymous libel aligned with the current U.S.-U.K. government onslaught against Mr. Assange,” the organization wrote in a Twitter

NEWS BRIEFS

Guatemalan Authorities Announce New Details in Probe Against Morales

Investigators in Guatemala on Tuesday said they had found evidence that President Jimmy Morales had purportedly received illegal campaign funds from businesspeople during his presidential run in 2015, the Associated Press reported. Prosecutor General Thelma Aldana made the charges just two days before the end of her term. The decision on whether to pursue the case will be up to her successor María Consuelo Porras, who was appointed by Morales. Morales has declined to comment.

Mexico's Central Bank Creating Cybersecurity Unit Following Hack

Mexico's central bank announced Tuesday that it is creating a cybersecurity unit, weeks after an attack on a domestic payments system affected banks in the country, Reuters reported. The new unit would create and issue information security guidelines for Mexico's banks, the central bank announced in the government's daily gazette. Central bank chief Alejandro Díaz de León said Mexico had seen an unprecedented attack on its payments system and expressed hopes that the cybersecurity unit would help prevent future incidents.

China's State Power Investment Company Eyes Expansion in Brazil

China's State Power Investment Company is looking to expand its operation in Brazil after securing a \$2 billion license to operate in the country last year, a company executive said Tuesday, Valor Económico reported. The company has 120 gigawatts of power capacity installed worldwide, including two gigawatts in Brazilian wind farms and hydroelectric plants. It hopes to build 280 megawatts of new capacity in wind farms, Reuters reported.

post on Tuesday. Assange has lived in the Ecuadorean Embassy in London since 2012. He had previously been wanted on charges of sexual assault in Sweden, though that case was dropped last year. Assange has denied the allegations and has remained in the embassy for fear that he'll be charged by British or U.S. authorities. Ecuadorean authorities cut off Assange's Internet access in March, saying he neglected to abide by an agreement not to interfere in the affairs of other countries.

BUSINESS NEWS

Engie in Talks to Acquire Pipelines From Petrobras

French energy firm Engie's chief executive officer confirmed on Tuesday that the company is in talks with Petrobras over buying the Brazilian state-owned firm's gas pipelines in the country's northeast, Folha de S.Paulo reported. CEO Isabelle Kocher said the Engie was discussing the purchase of Transportadora Associada de Gas, known as TAG, confirming a Reuters report published on May 3. TAG operates nearly 4,500 kilometers of gas pipelines in Brazil. Petrobras has received offers of approximately \$8 billion for TAG, Reuters reported. "Apparently, we presented the best offer in the bidding phase, and we are currently negotiating the terms and conditions of a potential transaction," Kocher said on a call with analysts. Sources also told Reuters earlier this month that Petrobras officials plan on meeting in June with the United Arab Emirates-based Mubadala Development Co. and Australia's Macquarie Group, the two other groups that have filed bids to acquire TAG, as is required by a Brazilian court. The French multinational holds assets in Brazil's hydroelectric sector and is reportedly seeking to diversify its holdings in the country. The Financial Times reported earlier this month that Petrobras' net profits had increased 56 percent in the first quarter, as compared to the same period in 2017. Though Petrobras has reduced its debt by 4 percent since December

FEATURED Q&A / Continued from page 1

tries that officially recognize the People's Republic of China, or PRC. Panama, Costa Rica and Jamaica have all received billions in FDI and finance over the years. The writing was on the wall, in retrospect, following an uptick in unofficial comings and goings among Chinese and Dominican officials. The unofficial diplomatic truce between China and Taiwan came to an abrupt end following pro-independence presidential candidate Tsai Ing-wen's win in 2016. If Panama and the Dominican Republic are any indication, we'll likely see other Latin American or Caribbean countries follow suit in the coming years. Also, Taiwan will no doubt be keeping a close eye on developments in partner nations."

A **Mary Fernández Rodríguez, founding partner at Headrick Rizik Alvarez & Fernández in Santo Domingo:** "The Dominican Republic did what it had to do. I am not sure why the government decided to make this move at this specific time, but the reality is that we are a country located on a small island, and we can't ignore a country that represents 20 percent of the world's population and is responsible for the second-highest level of foreign direct investment in

2017, mostly through the sale of assets, it remains the world's most indebted oil company.

Venezuela's Maduro Seizes Kellogg Plant Following Closure

Venezuelan President Nicolás Maduro's government on Tuesday seized the manufacturing plant of Kellogg Co., just hours after the cereal maker announced it was shutting down its operations in the South American country, whose battered economy is facing hyperinflation and strict price controls, Reuters reported. "I've decided to hand the company over to the workers

the world. I understand that the Dominican Republic has a debt of gratitude to Taiwan; it

“ The Dominican Republic did what it had to do.”

— Mary Fernández Rodríguez

was a good ally of the country and contributed generously in different areas of our economy. However, our country had to face a reality: China is recognized by most nations of the world as the legitimate representative of the Chinese people. Experts say this will not bring a significant change to the Dominican economy, at least in the short run, and they are probably right. However, if we can attract at least a pinch of Chinese investment in areas that the country needs, find the precise niche for Dominican exports to China and attract some Chinese tourism, we will eventually benefit from this relationship. Whether other Central American countries will follow suit is hard to say; but, if I had to predict, I would say they will."

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so that they can continue producing for the people," Maduro told supporters at a campaign rally ahead of Sunday's presidential election. "We've begun judicial proceedings against the business leaders of Kellogg's because their exit is unconstitutional." The company, based in Battle Creek, Mich., confirmed that the government had seized its manufacturing plant in Venezuela. In an earlier statement announcing the shuttering of its operations in Venezuela, the company said it had already written off the value of its holdings in the country. "The current economic and social deterioration in the country has now prompted the company to discontinue operations," Kellogg's said. The company employed approximately 400 workers in Venezuela, The Wall Street Journal reported.

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A **R. Evan Ellis, Latin America research professor at the U.S. Army War College Strategic Studies Institute:** “Both the Fernández and Medina governments in the Dominican Republic, like those in Paraguay, Central America and the Caribbean that continue to recognize Taiwan, have been tempted by hopes for the expanded access to Chinese markets, loans and investment that would presumably come from recognition. Yet the PRC resisted pursuing such interests while a ‘diplomatic truce’ prevailed between it and Taiwan from 2008 to 2016. As elsewhere, the newly established diplomatic relations will probably bring infrastructure, energy sector and other construction projects worked by PRC-based companies and funded by Chinese policy banks (Taiwan claimed the PRC offered \$3 billion in projects, possibly including construction of low-cost housing and a biomass electricity generation facility). Chinese companies working with local partners will likely expand their presence in telecommunications, mining support, retail and manufacturing (final assembly, seeking to export to the United States under CAFTA-DR). The PRC will facilitate expanded access to Chinese markets for Dominican agricultural products, but the cost of shipping such perishable goods to Asia will mostly limit such exports to high-end products with strong Dominican

branding. The new Chinese construction projects and businesses will also complement human smuggling to expand the Chinese community in the country, as occurred

“**The next diplomatic change in the region will likely be one of the smaller Caribbean states, Haiti, or Honduras...**”

— R. Evan Ellis

with construction projects in Guyana and Suriname, creating tensions with established non-Chinese business groups and perhaps spawning anti-Chinese protests, like those in Santo Domingo in July 2013. The PRC will likely offer technical cooperation to help the Dominican police manage issues associated with human trafficking and other criminal matters involving the difficult-to-penetrate Chinese community. The next diplomatic change in the region will likely be one of the smaller Caribbean states, Haiti, or Honduras (where the United States just canceled TPS status).”

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

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