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FEATURED Q&A

How Is China Changing Latin America's Energy Sector?

Q China recently announced several loans worth billions of dollars to Ecuador and Venezuela—to be paid back largely in the form of oil—for public works, energy and infrastructure projects. These investments and others have made China the biggest credit source for the two governments, often on terms that other financial institutions would spurn, analysts have pointed out. Are China's big loans going to be good deals for the Latin American countries? Will the money come through, and will it be used effectively for the intended purposes? Is China's increased investment in Ecuador, Venezuela and other countries in the region playing out as expected several years ago? What unexpected or new economic and political twists are on the horizon resulting from evolving China-Latin America relations?

A Kirk Sherr, member of the Energy Advisor board and president of Regester Larkin Energy: "China is not just lending to the region in return for oil, it also is leveraging the goodwill synergies of these loans to support large equity investments in oil, gas and electric companies. These loan agreements are important to China and they have a solid track record of meeting their obligations—even when the recipient countries may not meet theirs due to project delays and cost overruns. China has benefited on many fronts from its relationship with the region, exporting more than it imports

while also nailing down long-term commodity resources. Energy security is a major issue for Beijing, and Latin American sourcing is merely one part of a complex solution. According to the BP Statistical Review, China imported nearly 5 million barrels per day (bpd) of crude from South and Central America in 2010, compared to only 8,000 bpd in 2001. Over this same period, Chinese national oil companies have extended their presence across the Latin America region, gaining valuable operating experience. In Venezuela, espe-

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Economist Castilla Named Peruvian Finance Minister

Luis Miguel Castilla, an economist respected by Peru's business community, was among several top ministers President-elect Ollanta Humala named to his cabinet, cheering investors. See story on page 2.

File Photo: El Comercio.

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NEWS BRIEFS

Chile's New Energy Minister Quits, Citing Conflicts of Interest

Chile's new energy minister, Fernando Echeverría, abruptly resigned Thursday after less than a week on the job, the Associated Press reported. Echeverría explained in a news conference Thursday night that his own investigation discovered conflicts of interest between Chile's energy ministry and family business interests. He left his post as governor of the Santiago Metropolitan Region on Monday to replace Laurence Golborne in the energy post as part of a wider cabinet shuffle.

Cuba's Supreme Court to Hear Case of Jailed U.S. Contractor

Cuba's Supreme Court today plans to hear the case of Alan Gross, a U.S. contractor who has been jailed in Cuba since December 2009, the Associated Press reported. Gross, 62, is appealing a 15-year prison sentence stemming from his work on a USAID program aimed at fostering democracy on the island. U.S. officials have privately said the hearing could lead to Gross' release on humanitarian grounds.

Latin America Leads Growth for Publicis Groupe in Q2

Paris-based **Publicis Groupe**, the third-largest advertising agency in the world, said Thursday that its second-quarter sales rose 2.7 percent and that Latin America led regions of the world in growth, Bloomberg News reported. Latin America revenues increased by 25 percent from a year earlier after the company made acquisitions in Brazil. Africa, the Middle East and Europe grew 11 percent and Asia increased by 3.2 percent. Sales in North America, Publicis' largest region by revenue, declined 5.9 percent.

Political News

Peru's Humala Cheers Investors With Key Cabinet Appointments

Peruvian President-elect Ollanta Humala, who takes office July 28, has named several officials who are seen as friendly to the business community to top positions in his cabinet. Humala late on Wednesday named former Deputy Finance Minister Luis Miguel Castilla as finance minister. Castilla is "somebody that one can rely on to maintain fiscal discipline," even if Humala tries to boost social spending, Guillermo Arbe, chief economist at **Scotiabank** in Peru told *The Wall Street Journal*. Castilla will work alongside Julio Velarde, whom Humala reappointed earlier this week as the country's central bank president. As his prime minister, Humala named Salomon Lerner Ghitis, a businessman who has closely advised Humala. Humala also named Kurt Burneo, a well-respected technocrat, as production minister. Peru's economy has

grown for 12 consecutive years, but Humala has frequently said there are serious deficiencies in the country's economic model and has said Peru needs to spend more on the poor who have not experienced the country's prosperity. Humala

“I think we're going to see a reversion of the paralysis and the flow of investment is going to start moving again.”

— Eduardo Moron

moderated his tone before winning last month's presidential runoff, but investors have remained concerned about his changing policy statements. "I think we're going to see a reversion of the paralysis and the flow of investment is going to start moving again," Eduardo Moron, an economist at the University of the Pacific in Lima told the newspaper. Carlos Herrera, who was minister of energy and

Featured Q&A

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cially, China has become a major force with the \$16.3 billion joint venture between PDVSA and China National Petroleum Corp. to develop the Junin-4 block of the Orinoco oil belt. A number of twists and turns lie ahead, however, for China's engagement of the region. Already, there is growing regional backlash against Chinese imports in Brazil. Additionally, China faces significant regional risk from implications of possible regime change in its allies, Venezuela and Cuba. On the other hand, if Chinese shale gas addresses more of their energy needs, their interest in the region may wane over time."

A Roger Tissot, independent energy economist: "A simplified explanation of the transmission mechanism that has sustained growth in 'ChinAmerica' was China's purchase of U.S. bonds to keep U.S. interest rates low, the U.S. dollar

high, the Chinese currency low and, thus, Chinese exports strong. This engine of growth, of course, was not sustainable in the long term. Despite calls for a revaluation of the currency, China is still reluctant to allow rapid revaluations. On the other hand, the weakness of the U.S. economy and the uncertainty regarding its debt and the dollar are sufficient incentives for China to look at diversifying its portfolio. Investing in Wall Street and other western financial markets would only expose China to the risks of financial institutions afflicted with bad debts and highly indebted economies. Investing in natural resources is a more attractive option. China needs oil to fuel its rapid economic growth. Although it has closer and more economic supply sources, investing in these countries offers an attractive alternative, despite the risks. First, it increases the global supply of oil while securing a share of the incremental production and profits to

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mines in the government of President Valentín Paniagua, was named to head that ministry again. Humala also named Daniel Mora, a retired military general, as defense minister.

Economic News

Mexico's Unemployment Rate Rises Faster Than Expected

Mexico's unemployment rate rose to 5.42 percent in June from 5.20 percent in May and 5.05 percent a year ago, government statistics agency INEGI reported Thursday. The June unemployment figure was higher than market estimates by nearly half a percentage point, **Goldman Sachs** analyst Alberto Ramos pointed out in a research note Thursday. The urban unemployment rate (measured in 32 cities with more than 100,000 inhabitants) also deteriorated, rising to 6.36 percent. However, INEGI said that "underemployment," defined as workers with a "need or willingness to work longer hours," dropped in June to 7.8 percent from 8.1 percent in the same month a year earlier. Tamaulipas state had the highest unemployment rate in June among Mexican states, at 8.66 percent, according to INEGI data.

Company News

Workers at Chile's Escondida Mine Begin 24-Hour Strike

Union workers at the Escondida copper mine in northern Chile began a 24-hour strike Thursday night after failing to reach an agreement with **BHP Billiton** over bonuses, a union leader told Bloomberg News. The strike at Escondida, the world's largest copper mine, began Thursday at 8 p.m. local time, union leader José Vidal told the news service in a phone interview. The strike may cause the loss of 3,000 metric tons of copper production, he said. The strike comes after a one-day work stoppage on July 11 by workers of Chilean state-run copper company **Codelco** to protest imminent job cuts.

Comings & Goings

GE Appoints Heintzelman Head of Oil & Gas Unit

General Electric on July 13 announced that Dan Heintzelman, who was previously the CEO of GE Energy Services, has been appointed to lead the company's Oil & Gas unit. The previous chief, Claudi Santiago, will retire in December after leading GE Oil & Gas for 12 years. GE has also shuffled parts of its portfolio around, adding power generation services to the portfolio of GE Power & Water, headed by Steve Bolze. GE Energy's chief financial officer, Dan Janki, has been appointed the head of a newly formed unit, GE Energy Management. Lynn Calpeter, currently chief financial officer for **NBC Universal**, will take over as CFO for GE Energy.

Boyd & Jenerette Names Jorge Gutiérrez Managing Partner of Miami Office

Boyd & Jenerette announced July 11 that it has named Jorge Gutiérrez to serve as managing partner at its recently-established Miami office. Gutiérrez joins the firm from **Tew Cardenas**, where he was a partner. "He has extensive experience with the legal systems, cultures and business practices of both Latin America and Europe, which is a perfect fit for South Florida's position as a global business hub," said Boyd & Jenerette's managing equity partner, Glen McClary. Also a certified public accountant, Gutiérrez's areas of expertise include international cross-border corporate transactions and public and private public securities offerings.



Gutiérrez

File Photo: Boyd & Jenerette.

Timken Co. Appoints Tom Diez Managing Director of Latin America

U.S.-based manufacturing company **Timken Co.** announced July 14 that it has appointed Tom Diez the managing director of Latin America. Diez will lead Timken's process industries, mobile and aerospace/health & positioning control businesses. Diez was formerly the director of industrial distribution for the Americas. He has also held positions with **Michelin North America**, **United Technologies** and **Carrier Corp.**

Barclays Appoints Hans Olsen as Head of Americas Investment Strategy

Barclays Wealth on July 11 announced that it has appointed Hans Olsen as managing director and head of Americas investment strategy. Previously Olsen served as chief investment officer for private wealth management at **JP Morgan** since 2007 and has also held positions at **Bingham Legg Advisors** and **Emerson Investment Management**. As head of Americas investment strategy, Olsen will "help develop and tactical asset allocation," focusing on customized investment strategies for high net worth clients in the Americas, the company said.

HTC Promotes President of HTC North America and Latin America

Taiwan-based mobile phone manufacturer **HTC Corp.** announced on July 13 that it promoted Jason Mackenzie, who has served as president of HTC North America and Latin America since 2007, to the newly-created position of president for global sales and marketing. Mackenzie will continue to serve as president of North America and Latin America until a replacement is found. "Under Jason's leadership, HTC has become one of the leading smartphone brands in the Americas," said the CEO of HTC Corp., Peter Chou.

Featured Q&A*Continued from page 2*

Chinese national oil companies. Second, it hedges against future price spikes. Third, it offers Chinese companies new markets for their products and services. And fourth, it reduces the challenges of direct ownership or flawed joint ventures, which were the preferred strategies by Chinese NOCs in their earlier quest for resources. In this case, pressure is on the host country to realize the investments, particularly since China has increased its oversight of these loans. China is aware that payment of the loans is likely to continue in any post-Chávez administration. Thus, China wants to ensure the loans benefit the entire country and not just the political class in power currently. For the host countries, Chinese financing is often the 'lender of last resort.' It is not a cheap one, but due to the concern the international financial community has over Venezuela and Ecuador, and the large risk premiums they would charge, Chinese lending is an attractive option."

A **Margaret Myers, director of the China and Latin America program at the Inter-American Dialogue:** "China promotes a 'win-win strategy' when dealing with Latin America, promising mutually beneficial bilateral relationships. Upon first glance, its recent agreements with Ecuador and Venezuela appear mutually beneficial. Having spurned other creditors, Ecuador and Venezuela are increasingly reliant upon China for infusions of capital. China uses 'loans-for-oil' and other investment mechanisms to stake claims to the region's natural resources. Its domestic urbanization and industrialization efforts are highly dependent upon resource imports from across the globe. Barring rapid political transition in Ecuador or Venezuela, or a significant economic downturn in China, these loan agreements are likely to materialize, and to be used according to loan stipulations. But the extent to which they will benefit Ecuador and Venezuela is less certain. The vast majority of China's investments in Latin America either directly or indirectly support resource extraction. They

are intended to guarantee China's natural resource supply over the next decade. Countries like Chile, through sound macroeconomic policy and effective governance over the extractive sector, have benefited greatly from China's resource-related investment. But in the absence of

“Recipients of Chinese investment must take measures to ensure that China's 'win-win' arrangements don't just mean China wins twice.”

— *Margaret Myers*

institutional controls and macroeconomic foresight, oil-tied investments in Ecuador and Venezuela are unlikely to generate long-term, sustainable growth. Chinese funding may also have unexpected political or environmental impacts. Many worry that environmental degradation will accompany China-funded projects. Also, Chinese loans thus far have enabled Correa and Chávez to increase spending on popular social and infrastructure projects, sustaining some degree of domestic political support. At present, few countries in Latin America would deny the immediate benefits of a renminbi infusion. Chinese investment in Latin America continues to promote growth, but long-term success will require strong institutions and responsible policy formulation. As Latin American diplomats in China have noted, recipients of Chinese investment must take measures to ensure that China's 'win-win' arrangements don't just mean China wins twice."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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