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FEATURED Q&A

What Is Driving Peru's Relationship With China?

Q President Ollanta Humala will pay an official visit to Beijing in April, Peru's government announced earlier this month. While China has reportedly invested about $6 billion in Peru over the past three years, Foreign Minister Rafael Roncagliolo recently called on Chinese companies to diversify their investments in the Andean nation, naming specifically the infrastructure, telecommunications and information technology sectors. What is the state of Peru-China commercial ties today? What is driving the bilateral relationship, and what things stand in the way of improvement? Who stands to benefit or lose the most from expanding Peru-China ties?

A Cynthia McClintock, professor of political science and international affairs at George Washington University: "In 2011, China became Peru's number-one trade partner. Buying about 15 percent of Peru's exports, China has been key to Peru's recent robust economic growth. Peru's mining potential is enormous and of great interest to China. However, to date, China's stock of investment in Peru remains well below that of European countries or the United States. Also, although the flow of China's investment is increasing rapidly, figures vary and Peru's expectations for Chinese investment have tended to be disappointed. Overall, Ollanta Humala has not been as eager to embrace China as was his predecessor Alan García. In general, Peru is seeking a diversity of international partnerships that maximize its capacity to pursue its own interests. Numerous government officials have said repeatedly that China should not only invest in sectors beyond mining, but also that it should play by international economic rules and respect international environmental and labor standards. Their warnings reflect a common Peruvian view that China's companies (such as Shougang) have been particularly disrespectful of the communities

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Fernández Asks Pope to Intervene in Falklands Dispute

Argentine President Cristina Fernández de Kirchner became the first head of state to meet with Pope Francis since his election last Wednesday. Fernández asked the former archbishop of Buenos Aires to intervene in Argentina's dispute with Britain over the Falkland Islands. See story on page 2.

Photo: Telam.

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NEWS BRIEFS

Obama Names Latino to Second-Term Cabinet

U.S. President Barack Obama on Monday named Thomas E. Perez, a first-generation Latino heading the civil rights division at the Justice Department, to be his next labor secretary, *The New York Times* reported. The nomination, which must be approved by the U.S. Senate, generated criticism from some Republicans who called him a divisive and political choice. In confirmed, Perez would be the only Hispanic in the current cabinet.

Three Women Paid for Lying About Sex With Congressman: DR Police

Police in the Dominican Republic said Monday that three women there were paid to lie about having sex for money with U.S. Sen. Robert Menendez (D-N.J.), *The Washington Post* reported. National Police spokesman Maximo Baez Aybar said the women were paid hundreds of dollars by a lawyer to make the false claims in videotaped interviews. The sex allegations came to light earlier this year when the senator acknowledged that he had not disclosed two free trips he took to the Dominican Republic with a donor.

Cash Plus Ponzi Scheme Trial Postponed in Jamaica

The long-awaited trial of Carlos Hill, the former head of failed investment firm **Cash Plus**, suddenly screeched to a halt Monday, the *Jamaica Gleaner* reported. Director of Public Prosecutions Paula Llewellyn said the government will not pursue the case at this time, but could do so later. The defense had complained that it was getting some evidence very late in the legal process. Hill and two associates are accused of running a $105 million Ponzi scheme.

Political News

Argentina's Fernández Asks Pope to Intervene in Falklands Dispute

Argentine President Cristina Fernández de Kirchner became the first head of state to meet with Pope Francis since the Argentine's election last week as leader of the Catholic Church, BBC News reported. In the 15-20 minute meeting and lunch with the pontiff, Fernández asked the pope to intervene in Argentina's dispute with Britain over the Falkland Islands. "I asked for his intervention to avoid problems that could emerge from the militarization of Great Britain in the south Atlantic," Fernandez told reporters after the meeting in the Vatican. "We want a dialogue, and that's why we asked the pope to intervene so that the dialogue is successful." The pope did not respond publicly to the request. During his time as a prelate in Argentina, the future pope had said the Falklands, which Argentines call the Malvinas, belong to the South American country. Last year, then-Cardinal Jorge Mario Bergoglio during a Mass told Argentine veterans of the Falklands War, "We come to pray for all who have fallen, sons of the homeland who went out to defend their mother, the homeland, and to reclaim what is theirs," BBC News reported. He also said that Britain had "usurped" the islands. Last week, British Prime Minister David Cameron said he "respectfully" disagreed with the pope's past statements on the matter. Before Bergoglio was elevated to the papacy, he had tense relations with Fernández and her late husband and predecessor, Néstor Kirchner. Last year, Bergoglio said demagoguery, totalitarianism, corruption and efforts to grab unlimited power were harming Argentina. Meantime, Fernández said Bergoglio's opposition to adoptions by gay couples was reminiscent of "medieval times and the inquisition." On Monday, however, the two leaders appeared cordial. Fernández told reporters later about the pope's greeting when they met, saying, "Never in my life has a pope kissed me!"

> "We want a dialogue, and that's why we asked the pope to intervene so that the dialogue is successful."
>
> — *Cristina Fernández de Kirchner*

Featured Q&A

Continued from page 1

in which they operated. Although in April Humala is visiting China, in May 2012 he traveled to Japan and South Korea but not China, and Peru recently made military purchases from South Korea. (Humala was Peru's military attaché in South Korea in the early 2000s.) Further, despite U.S. wariness of Humala during the 2011 presidential campaign, the Peru-U.S. relationship has become notably friendly, with considerable anti-narcotics cooperation. Over the longer term, however, Peru's goal of diverse partnerships could be compromised by China's economic clout. Despite China's declarations to the contrary, economic power and political power are inextricably linked."

A Margaret Myers, director of the China and Latin America program at the Inter-American Dialogue: "Both China and Peru have benefitted from China's economic engagement in the South American nation over the past decade. Trade, in particular, is booming. China is Peru's largest trading partner; bilateral trade nearly doubled since Peru and China signed a free-trade agreement (FTA) three years ago. Of concern, as Foreign Minister Roncagliolo notes, is the basket of goods that Peru exports across the Pacific. Primary commodities like copper and other metals account for the vast majority of Peruvian exports to China. In an effort to diversify produc-

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Economic News

Venezuela to Create New Mechanism for Buying Dollars

Venezuela's government will establish a new foreign exchange mechanism to create a new way to buy U.S. dollars, Nicolás Maduro, the country's acting president, announced Monday, *The Wall Street Journal* reported. The current foreign exchange board, the Cadivi, fixes the exchange rate at 6.3 bolívars per dollar, but the fixed rate leads to shortages of dollars, driving many Venezuelans in need of greenbacks to the black market. One of the reasons for creating a new foreign exchange is to "tackle the parallel dollar," said Maduro. The new exchange would begin operating today and money would be available through it within a week, said the acting president, who gave few other details about the plan. A limited supply of dollars in Venezuela has led to shortages of consumer products and food. The new exchange would increase the availability of the U.S. currency. The Venezuelan central bank's scarcity index, which measures the number of products that are absent from supermarkets, reached a high of 19.7 percent last month. Henrique Capriles, who is running against Maduro in the country's special April 14 presidential election to replace late leader Hugo Chávez, has made the shortages a central theme of his campaign.

Maduro

File Photo: Venezuelan Government.

Company News

Brazil's Fragile Economy Putting Brakes on Volkswagen's Outlook

Brazil's fragile economy has led **Volkswagen** to sharply cut its outlook for sales growth this year in the South American country, Reuters reported Monday. Thomas Schmall, the German automaker's top executive in Brazil, said the company's sales of cars and light trucks in the country are expected to grow just 2 percent this year. Five months ago, Schmall had predicted growth of as much as 7 percent this year. If borne out, the new sales forecast would be Volkswagen's slowest in a decade for passenger vehicles in Brazil. Expiring tax breaks and tighter credit have depressed the market for new cars after booming consumer demand over the past five years. New federal regulations aimed at boosting research and development may lead Volkswagen to invest more in Brazil, said Schmall. However, those plans, such as the Taubaté factory expansion in São Paulo state would be dependent on sales. "The [Taubaté] project is a good one, but it depends on the market," Schmall told reporters. "I'm not seeing major growth this year … March sales will be a key indicator." Volkswagen is also likely to restart production of its luxury Audi brand this year in Brazil, Schmall added.

The Dialogue Continues

Will Venezuela's Presidential Election Be Free and Fair?

Q Three days after the death of Venezuelan President Hugo Chávez on March 5, Vice President Nicolás Maduro, whom Chávez named as his preferred successor in December, was sworn in as the country's "acting president." Soon after, Venezuela's government said the election to replace Chávez will be held on April 14 and the opposition's Henrique Capriles then announced that he would run against Maduro. Will the election be fair? Which candidate will prevail? What is the future of Venezuela's relations with other countries, including the United States, Cuba and Iran?

A David Smilde, senior fellow at the Washington Office on Latin America and moderator of the blog 'Venezuelan Politics and Human Rights': "In 2012, Venezuela's National Electoral Council once again showed that it runs a clean and effective election. It has a first-rate electronic platform that has been audited and approved multiple times by national and international observers. However, the CNE last year also showed itself unable to ensure a fair campaign. During Chávez's presidency, the incumbent's advantage took on grotesque dimensions with abuse of state media, public service messages and state resources and institutions on behalf of the governing party's candidate. Nevertheless, Nicolás Maduro is likely to win handily, not because of this incumbent's advantage, but rather because more Venezuelans trust Chavismo than trust the opposition. They feel their lives improved during Chávez's presidency and associate the opposition with Venezuela's neoliberal period when poverty and inequality increased. The sooner the Venezuelan opposition can recognize this and focus on changing this perception, the sooner they will be viable. Capriles is an underdog and needs to make sense of the problems faced by average Venezuelans and convince them that he can address them better than Maduro. It is important to remember that Maduro was Chávez's foreign minister for six years, so our starting assumption should be that he will continue Venezuela's foreign policy, in which Cuba and Iran are key allies. Cuba is a strong ideological ally and has become a key partner in an oil-for-professional services exchange. Iran is also an ideological ally and shares with Venezuela an interest in maximizing oil revenue by maintaining high prices and low output."

Editor's note: The above is a continuation of a Q&A published in Monday's issue of the Advisor.

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Featured Q&A

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tion and improve prospects for economic development, Peru and other major raw materials exporters are calling for more investment from China in the infrastructure, telecommunications and information technology sectors. To its credit, China has begun working with the Inter-American Development Bank and through regional organizations like ECLAC and CELAC to develop stronger partnerships, diversify investment and promote balanced trade relations with the region. A nearly $2 billion IDB - China Ex-Im Bank private equity fund will presumably focus investment on a wider variety of sectors in Latin America. The China-Peru FTA was also expected to increase Chinese investment in Peruvian telecommunications, electricity, banking and infrastructure, but attention from China remains focused on the country's primary commodities. By all accounts, this 'balancing' or diversification process will be a slow one. Much depends on development policy in the region. The Chinese, furthermore, are calling for patience from Latin American partners. Though cognizant of the region's development challenges, China still sees trade complementarities as the foundation for commercial relations."

A Carlos Mateo Paz-Soldan, member of the Advisor board and partner at DTB Associates: "Peru-China relations have evolved rapidly in the past two decades in large part due to the economic reforms and ambitious trade agreements pursued by both countries. During this period, China's thirst for Peruvian minerals and other commodities to fuel its growth coincided with a more attractive climate for investment in Peru. Case in point: the recent takeover attempt by China Fishery of Copeinca, one of Peru's largest fishing companies. In recent years, China has become Peru's top export market accounting for 17 percent (or close to $8 billion) of its exports in 2012. By way of comparison, the United States fell to second place and in 2012 took 13 percent ($6 billion) of Peru's exports. However, in common with other Latin American countries, Peruvian exports to China are overwhelmingly commodity-based, while its imports are value-added manufactured products. This has generated friction with certain industries, in particular Peru's important textile/apparel sector, which is pursuing an antidumping investigation. Nevertheless, the overall picture is optimistic. With a bilateral free-trade agreement in place since 2009, Peruvian exports to China are beginning to diversify, in particular in the booming agroexport sector, and the potential for growth in sectors such as tourism is of great interest to Peru. Moreover, with the recently inaugurated Trans-Amazon Highway to Brazil, Peru is hoping to benefit from trade between the two giants through its Pacific ports. With an estimated 3 percent to 10 percent of Peruvians of Chinese descent acting as a bridge for trade and closer ties, Peru is well positioned to benefit from a China-centered 'commonwealth' should one emerge later this century."

> "With a bilateral free-trade agreement in place since 2009, Peruvian exports to China are beginning to diversify."
>
> *— Carlos Mateo Paz-Soldan*

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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Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Inter-American Dialogue

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Subscription Inquiries are welcomed at freetrial@thedialogue.org

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