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FEATURED Q&A

How Will the Emerging Market 'Rout' Affect Latin America?

Q Emerging-market currencies around the world have taken a hit this year in the wake of U.S. Federal Reserve moves to scale back its aggressive bond-buying program. Is the selloff and its scope a surprise? Which economies in Latin America and the Caribbean will be most adversely affected by the 'currency rout'? What would some worst-case and best-case scenarios look like? How will Latin America fare compared to other parts of the world?

A David Ross, managing director of Chevy Chase Trust Investment Advisors in Bethesda, Md.: "Ignoring Argentina and Venezuela, whose repeated economic 'own goals' put them in a completely different category, the advice to most countries in the region is to not overreact to these short-term portfolio flows. For countries possessing strong FDI, such as Colombia, even though tarnished with the 'emerging market' brand, they will find this currency rout to be beneficial. The cheaper currency (and correspondingly cheaper assets) will encourage more FDI and help exporters. While a modest inflation increase can be expected, this will be welcome as Colombia's inflation has recently hit 60-year lows and struggles to be within the Banco de la República de Colombia's target range. However, policymakers should end the public 'weak peso' campaign to avoid causing a crisis in confidence leading to a rapid devaluation of the peso that would prove counterproductive to FDI initiatives. Brazil, despite implementing correct policy responses over the last year, will face more difficulties. Having an inflation problem pre-rout, it was critical for the central bank to aggressively raise interest rates during the currency plunge as the country was not in a strong FDI position. However, the country's stagnating growth will be further stifled by the central bank's actions. While Brazil's responses ensure that Brazil survives the currency rout, the inherited economic mis-

Continued on page 4

Pacific Alliance Eliminates Tariffs on 92 Percent of Goods

The eighth Pacific Alliance Summit got underway Monday in Cartagena, Colombia, with member presidents signing an accord to eliminate tariffs on 92 percent of the products they trade. Costa Rica's president, Laura Chinchilla, signed a declaration of intent to join the bloc. See story on page 2.

Photo: Government of Mexico.

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NEWS BRIEFS

Workers in Dominican Republic Protest Against Labor Law Change

Hundreds of workers protested Monday morning in front of the headquarters of a major Dominican business organization, CONEP, against an announced amendment to the labor code, *Dominican Today* reported. The protesters called for a meeting of the National Wage Committee for June to discuss changes to the labor code, such as the elimination of severance pay, which business leaders say hurts competitiveness.

Argentine Government to Unveil New Inflation Index Thursday

Facing international pressure and criticism, Argentina's government is planning to unveil a new consumer price index this week that will likely estimate inflation is running at higher rates than the widely discredited system being used currently suggests, Bloomberg News reported. The new nationwide index will replace the benchmark greater Buenos Aires index that has shown inflation at less than half the pace of private estimates since 2007, when former President Néstor Kirchner replaced senior staff at statistics agency INDEC, Bloomberg reports.

Paraguay Expresses Concern Over Argentine Uranium Plant

Paraguay's government has instructed its ambassador in Buenos Aires to collect information on Argentina's plans to set up an uranium processing plant near their shared border, MercoPress reported today. The plant, located in Argentina's northern province of Formosa, would presumably supply fuel for a new reactor that would be built nearby. Paraguayan officials cite safety concerns for the information request.

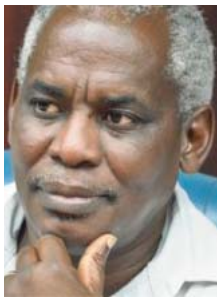
Political News

Pacific Alliance Leaders Eliminate Tariffs on 92 Percent of Goods

The eighth Pacific Alliance Summit got underway Monday in Cartagena, Colombia, with member presidents Ollanta Humala of Peru, Enrique Peña Nieto of Mexico and Sebastián Piñera of Chile hosted by President Juan Manuel Santos. The four leaders signed an accord to eliminate tariffs on 92 percent of the products they trade, the Associated Press reported. The accord, which will take effect next year after domestic approval, goes so far as to gradually lower barriers on agricultural goods that have historically been protected. The four countries have more than 200 million inhabitants combined and more than $2 trillion in gross domestic product per year, about a third of Latin America's GDP, compared to Mercosur's 300 million people and $3.2 trillion in GDP. One of the motivating factors for the Pacific Alliance, formally launched just two years ago, has been to create a stronger negotiating bloc with Asian trade partners. The four nations also share an ideological affinity for open markets and more collegial relations with the United States. "This is the most exciting thing happening in the hemisphere on the integration front," Michael Shifter, president of the Inter-American Dialogue in Washington, told *The Wall Street Journal* Monday. Mexico has agreed to host the ninth summit, where Costa Rica's membership in the group is expected to be formalized. "This is an open alliance for those who are in favor of the same principals and convictions," Mexico's Peña Nieto told reporters. Costa Rica's President, Laura Chinchilla, joined the four other heads of state in Cartegena Monday and signed a declaration of intent to join the alliance. "Costa Rica considers full membership in the Pacific Alliance vital, and we can only hope that this proposal will attract more countries," Chinchilla said, the *Tico Times* reported. Chinchilla leaves office in May, however, and a runoff election scheduled for April will choose a successor who would need to champion the accord domestically.

United States Issues Warning on Guyana Flight Security Threat

International flights departing from Guyana were under heightened security Monday following a nearly unprecedented threat alert from the U.S. government, *Stabroek News* reported. "Citing unconfirmed threat information, the U.S. embassy yesterday advised its citizens here to avoid CAL [Caribbean Airlines] flights over the next few days," the newspaper reported, adding that government officials said the 'highest security posture' was in place. The regional airline said its service will go ahead as scheduled. The U.S. embassy advisory, posted on its Web site, was unprecedented in Guyana since the Sept. 11, 2001 terrorist attacks in the U.S. and fueled questions as to what sort of security threat existed, its credibility and source, the newspaper said. Transport Minister Robeson Benn said soldiers and police had been called upon to screen all passengers. "We have really heightened the level of security in the face of the threat," Benn said in an interview with the Associated Press. Guyana is hosting international visitors this week of the Heads of Islamic Cultural Centers and Associations in Latin America and the Caribbean, but U.S. State Department spokeswoman Marie Harf, speaking to reporters in Washington, said the threat was not related to the event.



Benn

Photo: Government of Guyana.

Injured Journalist in Brazil Street Protests Declared Brain Dead

A Brazilian television cameraman was pronounced brain dead by surgeons in Rio de Janeiro Monday, the first death in Brazil this year as a result of social protests, Reuters reported. Santiago Ilídio Andrade, a 49-year-old cameraman for the Bandeirantes television network, was filming a street protest in Rio last Thursday when an unidentified protestor

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lit a small bomb that flew up from the ground and struck him. Video of the incident has been broadcast worldwide for days, renewing both fears that social protests could interrupt the World Cup games this summer, and alarm bells over the social and economic tensions that have prompted the public outbursts. On Monday, President Dilma Rousseff ordered Brazil's federal police to help Rio authorities investigate the episode, saying "we cannot allow democratic protests to be discredited by those who have no respect for human lives," Reuters reported. While the protests Thursday were reported to have broken out over public transit fare increases, the antagonists behind the movement have made poor government services, corruption, education, health and wasteful spending on sporting events and facilities their common grievances.

Economic News

Venezuela Suspends Remittance Transfers to Colombia

Venezuela's government on Monday suspended the sending of remittances to persons residing in Colombia, *El Tiempo* reported, citing a special edition of the country's Official Gazette. The ban on sending currency will stay in effect "until a new mechanism" is in place, according to the report. Foreign ministers Elías Jaua of Venezuela and María Ángela Holguín

The ban is in effect indefinitely.

of Colombia signed agreements last week to combat smuggling and financial crimes. Venezuela then proposed that remittances sent from the country to Colombia be made in pesos instead of dollars to avoid irregular currency handling. Some Venezuelans have been using foreign currency tools as a means to preserve savings amid soaring inflation or profit from black market exchanges. Venezuela's government has been increasingly desperate to stem the outflow of dollars from the economy.

Legal Briefs

Guatemala High Court Upholds Decision Against Attorney General

Guatemala's Supreme Court last Friday upheld a ruling that the country's attorney general must step down in May, the Associated Press reported. Human rights groups have complained that Attorney General Claudia Paz y Paz's dismissal, which comes seven months before her term was set to end, was motivated by opponents of her aggressive pursuit of military officials and other suspects on charges of crimes against humanity and genocide during the country's bloody civil war. Many of the cases had been stalled for decades in the legal system. Paz y Paz is the country's first female attorney general.

Paz y Paz

File Photo: Government of Guatemala.

Arnold & Porter Touts Progress in Central America Cases

Arnold & Porter said in January it had helped Guatemala favorably settle an award before the International Centre for the Settlement of Investment Disputes, or ICSID. Attorneys Whitney Debevoise and Margarita Sanchez assisted Guatemala in negotiations with a U.S. investor, **Railroad Development Corporation**, seeking damages and interest of $100 million. In the end, the company agreed to surrender to the state its Guatemalan railway assets in exchange for a payment of $14.6 million. In related news, Arnold & Porter also said last month it had been chosen to represent Panama in a hydropower concession dispute, the nation's second-ever ICSID arbitration. The case, **Transglobal Green Energy** et al. v. Republic of Panama, concerns the transfer of a concession to operate a hydroelectric power plant in northwest Panama.

Venezuelan Government Wins Case Against Firm Seeking $400 Million

Miami-based **Diaz Reus & Targ** said Jan. 31 it had won a case on behalf of its client, the government of Venezuela, in the U.S. District Court for the Southern District of New York, obtaining the dismissal of a suit brought by **Smith Rocke Ltd.**, "a purported creditor" in the **Lehman Bros.** bankruptcy, the firm said in a press release. The suit was predicated on Smith Rocke's allegation that Venezuelan government agencies had expropriated the company's entitlement to payments from the **Lehman Bros.** bankruptcy estate worth more than $400 million, managing partner Michael Diaz said in a press release. In an opinion handed down by U.S. District Court Judge Lorna Schofield, the court rejected all of the plaintiff's expropriation and conversion claims, and dismissed the suit with prejudice, Diaz said.

Diaz

File Photo: Diaz Reus.

Hogan Lovells Opens Second Office in Brazil

Hogan Lovells announced last month it has opened an office in São Paulo, Brazil, its second office in the South American country following its launch in Rio de Janeiro in 2013. As in Rio, the São Paulo office will operate as a foreign legal consultancy, the firm said in a press release. Isabel Costa Carvalho, a former **Clifford Chance** attorney, joined the firm as a partner resident in São Paulo. Claudette Christian, the managing partner of Hogan Lovells' Rio de Janeiro office, said Costa Carvalho is "a recognized capital markets partner and proven business development lawyer."

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Featured Q&A

Continued from page 1

takes will prevent the country from thriving. The good news is that most of Latin America's major economies, having properly managed their economies in the preceding years, will have experiences closer to Colombia's than Brazil's, leaving the region in relatively good shape."

Drausio Giacomelli, head of emerging market strategy and economics at Deutsche Bank: "With January behind us we can conclude that we did not see the usual 'beginning of the year' boost to risk sentiment, with emerging market currencies (EM FX) instead having lost further ground. Indeed, a trade-weighted basket of the main emerging market currencies is almost 3 percent lower vs. the U.S. dollar while Euro/U.S. dollar and U.S. dollar/Japanese yen are about 2 percent and 3 percent lower, respectively. The euro's move and idiosyncratic shocks in Turkey and Ukraine weighed particularly on EMEA FX (Europe, Middle East & Africa), while the largest devaluation since the 2002 crisis in Argentina overshadowed the attractive carry in the Brazilian real. Asian currencies, meanwhile, started the year on an equally weak footing, reflecting first and foremost the lack of improvement in the data pulse as still weak G3 demand (United States, Japan and European Union) and ongoing Asian deleveraging weighed on activity. So, where do we go from here? While we think the move is overdone, with emerging market currencies increasingly undervalued on both short- and longer-term valuation metrics, and positioning bearish, it is also too soon for bottom-fishing. However, we do believe in greater differentiation in emerging market currencies going forward, with valuation, balance-of-payment vulnerabilities as well as the quality of policymaking increasingly reflected in performance. From a valuation perspective, risks for emerging market currencies are now more balanced, given the large price adjustments in recent months. Indeed, a simple inspection of EM FX vs. its short-term financial drivers (such as equities, commodities, credit, and U.S. rates) shows clear signs of U.S. dollar/EM FX overshooting across the board."

Pablo Heidrich, senior researcher on trade and development at The North-South Institute in Ottawa: "The sell-off and scope is not really a surprise as previous instances of the selling of emerging-market bonds and stock by foreign investors had also happened in mid-2012 and late 2013, when reductions of U.S. quantitative easing were also discussed or considered imminent. This time has possibly had a stronger impact due to the increased financial fragility of some leading emerging markets, such as Turkey, India and to a lesser extent, Brazil, inducing sell-offs in these countries' currencies. Assuming this trend will continue in the following weeks or months, something I very much doubt, the most exposed countries in the region are those which have profited most from the previous abundance of U.S. dollars in global financial markets. Mexico, Colombia, Chile, Costa Rica and Peru have seen the largest growth in external indebtedness as a percentage of GDP, this time through bonds sold by private firms to foreigners and/or denominated in foreign currencies. To some extent, these nation's stock markets have also benefited from increased purchases by foreign buyers anxious to get rid of U.S. dollars. Once again, I don't really see much happening in Latin America as the U.S. Federal Reserve will remain wedded to what the domestic employment numbers show in the coming quarters, so no significant relenting of its ultra-loose monetary policy are foreseeable. To be on the safe side, Mexico, Colombia and Chile could do well to reduce the pace of their private debt and credit-driven growth. Still, that is a very difficult political proposition to follow. Latin America will fare much better than most other regions, particularly the Middle East (Turkey) or South Asia (India). Those are the hot spots globally, as their exposure is also one of state debt in the hands of U.S. dollars, 'refugees' now returning to their homeland. Still, there will be financial turbulence in the region in the coming months as either Argentina or Venezuela or both enter into severe crisis mode and that is inevitably transmitted to its neighbors. But in that story, the U.S. Federal Reserve will have nothing to do."

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