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FEATURED Q&A

What Is Driving Canadian Companies' Interest in the Region?

Q Canada's federal export lender, Export Development Canada, on Feb. 5 opened an office in Bogotá, its seventh office in Latin America including locations in Mexico, Chile, Peru and Brazil, to help Canadian companies take advantage of opportunities in the South American country. What is driving Canadian businesses to look at expanding in Latin America, and what factors are standing in their way? In what sectors are there the greatest opportunities and obstacles for bilateral trade?

A Ken Frankel, chair of the Canadian Council for the Americas (CCA) and adjunct professor of law at American University Washington College of Law: "Though Canadian trade with and investment in Latin America and the Caribbean goes back centuries, it has been only fairly recently that Canadian companies have capitalized on the complementarities of Canadian strengths and advantages and Latin American opportunities. This has been aided in part by the first sustained effort ever by a Canadian government to promote Canada's political and economic interests in the region—a region where the Canadian government generally feels comfortable with the political leadership. As Canadian investment enters a new generation, there is more collective Canadian business knowledge, experience and comfort in Latin America. Immigration to Canada has also increased exposure to and comfort with the region. To a large extent, the charge has been led by the extractive industries, particularly mining. And where resource industries go, so go the ancillary industries that serve those interests—ancillary industries that then find ways to extend into other local opportunities—infrastructure development, technical assistance services, finance, etc. But that is not the whole story. The Canadian financial industry in the region, led by Scotiabank's entry at a time when many other international banks were more skep-

Continued on page 3

Argentina's Government Unveils New Inflation Index

After being accused for years of underreporting inflation, Argentina on Thursday unveiled a new index that shows soaring inflation. Economy Minister Axel Kicillof said the index was developed with international assistance. See story on page 2.

File Photo: Argentine Government.

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NEWS BRIEFS

Biden to Travel to Chile, Dominican Republic

U.S. Vice President Joe Biden will visit Chile and the Dominican Republic next month, the White House announced Thursday. Biden and his wife, Jill, will make the trip in the second week of March. In Chile, the vice president will lead the U.S. delegation at the presidential inauguration of Michelle Bachelet. In the Dominican Republic, he will discuss bilateral issues with President Danilo Medina, the White House said.

Local Lawmakers Eye Legalizing Marijuana Sales in Mexico City

The party that controls the legislature of Mexico City, the leftist Party of the Democratic Revolution, on Thursday proposed easing the city's marijuana laws to create a legal market for the drug by allowing stores to sell up to five grams of marijuana, the Associated Press reported. There are legal difficulties that may stand in the way of the bill's passage, and it does not include details on taxes, regulations, or how many stores could sell marijuana.

Peru's Central Bank Leaves Interest Rates Unchanged

Peru's central bank on Thursday decided to keep the country's overnight rate at 4 percent for the third straight month, Bloomberg News reported. At the end of January, the country lowered reserve requirements to their lowest level in three years to encourage growth, and the central bank said in a statement that indicators are pointing to a recovery in the first quarter. Mario Guerrero, an economist at **Scotiabank Perú**, said that "indicators show the economy is growing above 5 percent."

Political News

Venezuelan Officials Blame López in Wake of Deadly Protests

Top officials in Venezuela's government on Thursday blamed opposition leader Leopoldo López for anti-government protests that left three people dead a day earlier. Authorities also issued an arrest warrant for López, according to an official in the Justice Ministry, CNN reported. Before the warrant was issued, President Nicolás Maduro threatened to permanently ban López from holding public office. The violence was sparked after thousands of critics of Maduro's government took to the streets of Caracas in the largest anti-government rally since Maduro narrowly defeated Henrique Capriles in the country's presidential election last April, *The New York Times* reported. Though the march began peacefully, a few hundred youths threw rocks and pieces of concrete at riot police who fired back tear gas. Protesters broke windows at the headquarters of the national prosecutor's office and set police vehicles on fire. Three people were fatally shot in clashes near the prosecutor's office and in another part of the city, according to officials. Supporters and opponents of Maduro's government blame each other for the violence. Top officials blamed López as the "intellectual author" of the protests, *The New York Times* reported. "Mr. Leopoldo López directed a well-trained group of his followers toward the national prosecutor's office, and once he had left the demonstration there began a coordinated and massive attack," Foreign Minister Elías Jaua said Thursday in a television interview, offering no proof for the claim. "We can no longer tolerate that this group acts with impunity, bathing the Venezuelan people in blood." In an interview late Wednesday on CNN en Español, López denied any responsibility for the violence. "I have no doubt today that the violence today was the responsibility of the government." On Wednesday, Maduro said he was facing a coup. "I want to alert the world. We are facing a developing coup plan against the democracy and the government that I preside over, orchestrated by a small group of irresponsible leaders, violent, full of hatred and personal ambitions," he said Wednesday, CNN reported. Problems including high crime rates, soaring inflation and shortages of basic goods have fueled recent demonstrations in the country.

López

File Photo: leopoldolopez.com.

Economic News

Argentina Introduces New Index Showing High Inflation

After long being accused of underreporting inflation rates, Argentina's government on Thursday unveiled a new inflation index that for the first time in years showed an official rate that was close to private estimates, Agence France-Presse reported. The new index showed a soaring inflation rate—a 3.7 percent rise in prices for January alone. "This new index represents an unprecedented change in Argentina because it is qualitatively and quantitatively distinct from the previous one, and it covers the whole nation," said Economy Minister Axel Kicillof in unveiling the new index, which he said was

> "This new index represents an unprecedented change in Argentina ..."
>
> — *Axel Kicillof*

To Our Subscribers

The Latin America Advisor *will not be published Monday, Feb. 17 in observance of the Washington's Birthday holiday in the United States. We will resume publication on Tuesday, Feb. 18.*

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developed with the assistance of "specialists" at the International Monetary Fund, as well as experts from Spain, Italy and Russia. Argentina and the IMF have had strained relations since 2006 when the government paid off debt to the lender and then stopped allowing it to carry out its annual reviews of the country's economy. A year ago, the IMF censured the country over its inflation statistics that the Fund said did not meet its standards and gave it until December to improve its inflation reporting or face tougher penalties. On Thursday, the IMF said it recognized the new index, but did not say whether it satisfied its requirements. "We take note of the launch of Argentina's new consumer price index today," IMF spokesman Gerry Rice said in a statement, AFP reported. He added that the Fund would review the data that the government released.

Company News

Banco do Brasil Reports 24 Percent Decline in Profit, Misses Estimates

Banco do Brasil on Thursday posted a 24-percent decline in profit for the fourth quarter due to climbing provisions for bad loans, missing analysts' estimates, Bloomberg News reported. Fourth-quarter adjusted net income for the bank, Latin America's largest by assets, declined to 2.42 billion reais ($1 billion) from 3.18 billion reais a year earlier, Banco do Brasil said in a filing. The figure excluded one-time charges. In a recent Bloomberg survey, analysts estimated profit at 2.53 billion reais. The bank, led by chief executive officer Aldemir Bendine, said provisions for bad loans increased 15 percent to 4.19 billion reais. President Dilma Rousseff has been pushing Banco do Brasil and **Caixa Econômica Federal**, which is also government-controlled, to boost mortgages, student loan programs and other lending. The government has also forced the state-controlled lenders to reduce the interest rates they charge on loans. Banco do Brasil also said in its earnings report that expenses rose to 8.43 billion reais in the fourth quarter as compared to 7.5 billion reais in the same quarter a year earlier.

Featured Q&A

Continued from page 1

tical, continues to grow well beyond wealth management activities. Large pension plans have become heavy investors in a wide range of companies. Other Canadian companies, responding to country-specific priorities, are drafting off of the Canadian brand in health, housing and education. Playing on the complementarities and value chains in the NAFTA market, Canadian investment and trade in manufacturing and technology, for example, auto and aerospace, are significant. A cursory review of the pattern of massive Canadian investment along the Pacific coast will reveal why Canada is keenly interested in the Pacific Alliance. As is the case with other foreign investors, Canadian investors prize predictability and stability. This has become a challenge for the Canadian mining sector which has experienced modifications of investment and royalty rules and contracts well after massive amounts of money have already been sunk into the ground."

> "The Canadian financial industry in the region … continues to grow well beyond wealth management activities."
>
> — *Ken Frankel*

A Carlo Dade, director of the Centre for Trade & Investment Policy at The Canada West Foundation: "Canada has had long-standing ties to and commercial interests in Latin America. The Bank of Nova Scotia, or Scotiabank, had an office in Kingston, Jamaica long before opening its first office in Kingston, Ontario. The recent round of activity stems from two factors. First, there has been a general awareness in Canada, occasioned by the slowdown in the United States, that the country needs to look harder at pursuing opportunities in fast-growing emerging markets. This realization has come to Canada later than to other advanced economies. But much of the public attention on this push into new markets has focused on Asia. Canada has a stronger think tank, research, media and academic infrastructure for Asia than it does for Latin America, and as a result, public attention has tended to focus on Asia and inroads made by Canadian companies into Latin America have not garnered as much attention. In addition, Canada lacks a peak Latin American business organization with the ability to garner national or regional attention, and this has also let Canadian involvement in the region fly under the radar. A second factor has been the recent round of trade agreements signed by the government with Colombia, Panama and most recently Honduras, along with the attention given to the Pacific Alliance in the run up the prime minister's attendance at the summit last year in Cartagena. This has managed to shift some of the focus in Canada toward Latin America and done so in a favorable light. With no trade agreements in Asia and no prospect of any agreement being concluded soon and with seven in Latin America, it is not surprising to see renewed interest in the hemisphere."

A Beatrice Rangel, member of the *Advisor* board and director of AMLA Consulting in Miami Beach: "Canadian companies usually seek larger markets abroad given the size limitations of their local market. Other drivers include competitive advantages in mining and clean energy production as well as geopolitical shrewdness. Canada has played its political cards very well in Latin America by means of supporting democracy and human rights for many decades. Concerning Mexico, Canada has been slow to take full advantage of NAFTA-related benefits but is finally mastering

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Featured Q&A

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this growth avenue. Chile's mining sector represents about 25 percent of its GDP, thus there is a clear avenue for growth available to Canadian companies. Similar reasoning applies to Peru. Also, Canada has created a wider trading space through free-trade agreements with many Latin American nations. However, I believe Canadian companies have been far more active recently in light of a perceived emerging threat: China's thirst for commodities. Thus it is essential for Canadian companies to be well positioned in Latin American nations before trading partnerships materialize with Asian countries."

Halina B. Ostrovski, president of HBO International Consulting in Toronto: "The huge volume and diversity of business opportunities throughout Latin America, the variety and accessibility of financial instruments and government support should be sufficient for Canadian businesses to do more in the region but despite continuous growth, trade numbers are still very modest to date. Twenty years ago, fiscal and monetary policies, political instability and security issues presented serious challenges, particularly for newcomers to the market, and it is almost certain that these challenges will never disappear completely. However, it is easier to do business in many countries in the region. There are more efficient and simpler transport options, more accessible financial instruments and more trade agreements in place. It seems that Canadian companies continue to be greatly focused on the U.S. market to the detriment of bolder choices. Perhaps success will be more visible for Latin American companies doing additional business in Canada instead."

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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