INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Senior Partner,
Aimara Capital LLC

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig A. Kelly
Director, Americas International Gov't Relations,
Exxon Mobil

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

Why Has the Level of Remittances to the Region Stagnated?

Q Overall remittances to Latin America and the Caribbean were flat in 2013 as compared to 2012, according to a new report by the Inter-American Dialogue. A few countries, including Bolivia, Honduras and Guatemala, saw significant growth, but several others like Jamaica or El Salvador saw no growth, while remittances decreased to countries including Mexico and Brazil. What is behind the stagnant remittances to the region? Which countries' economies will feel the most pain? Will the current trends continue?

A Manuel Orozco, senior fellow at the Inter-American Dialogue: "The reasons for this level of growth are associated with problems related to U.S. migration policy, demographics and slow economic growth in Spain and Argentina. Spain's economy has not recovered, and immigrants are facing increasing hurdles to finding work. In fact, unemployment among Latin American immigrants was over 35 percent last year. In the case of Mexico, two factors have affected remittance sending in particular. The first is continued deportations, and the second is a decline in earnings among undocumented Mexican immigrants. The number of undocumented migrants with lower earnings has increased. Eighty percent of the undocumented have earnings under $25,000, making it difficult for them to send remittances in high amounts. Jamaica's decline is mostly associated with slower demographic growth, a modest migration growth rate and controls on money laundering. Between 2010 and 2013, migration from Jamaica only increased at 1 percent per year. El Salvador's slow remittance growth on the other hand is a byproduct of large and continued deportation rates with slower demographic growth. While economic pressures to migrate are strong, with fewer people available and larger deportations, the number of senders decreases. In most of these countries, between 2 and 4

Continued on page 3

U.S., Mexico, Canada Must Keep Trade Advantage: Obama

U.S. President Barack Obama on Wednesday discussed the Trans-Pacific Partnership trade accord with Mexican President Enrique Peña Nieto and Canadian Prime Minister Stephen Harper (L-R) during a summit in Toluca, Mexico. See story on page 2.

Photo: Mexican Government.

Inside This Issue

FEATURED Q&A: Why Has the Level of Remittances to the Region Stagnated? 1

Venezuelan Court Orders López to Remain in Custody 2

U.S., Canada, Mexico Must Keep Trade Advantage: Obama 2

Itaúsa Investimentos Posts 11.4 Percent increase in Profits for Q4 2

Colombia Prepares for New Oil Bid Round 2

Brazil's Vale May Sell Potash Fertilizer Project Due to Tax Dispute 3

Copyright © 2014, Inter-American Dialogue

NEWS BRIEFS

Itaúsa Investimentos Posts 11.4 Percent increase in Profits for Q4

Brazil's **Itaúsa Investimentos** on Wednesday posted net income of 1.82 billion reais ($757 million) for the fourth quarter, an increase of 11.4 percent from the previous three-month period, Reuters reported. Itaúsa is the holding company that controls most of the shares in **Itaú Unibanco Holding**.

Colombia Prepares for New Oil Bid Round

Colombia's 2014 oil round, set to take place July 23, for the first time will include areas that may contain non-conventional or shale crude, according to Reuters. Colombia launched the round on Wednesday and is looking to raise approximately $2.6 billion by selling off the exploration and production rights for more than 22 million hectares, the National Hydrocarbons Agency said. The country hopes to attract more international investment in the oil sector and increase its reserves, which had fallen to 2.38 billion barrels at the end of 2012.

Tecpetrol-Led Consortium to Bid on Peru Pipeline Construction

A consortium led by Argentine energy company **Tecpetrol** will bid for the rights to build a $4 billion, 1,000-kilometer (621-mile) natural gas pipeline through southern Peru in an auction set to take place on June 30, a company executive said Wednesday, Reuters reported. Brazilian engineering firm **Odebrecht** will also compete in the bid round, which was originally scheduled for last October. The pipeline will transport natural gas from the Camisea deposit in the country's Andean region to thermoelectric plants on the Pacific Coast.

Political News

Venezuelan Court Orders López to Remain in Custody

A Venezuelan court ordered Wednesday that opposition leader Leopoldo López remain in custody pending hearings on his status, BBC News reported. López, of the Popular Will party, turned himself in to authorities on Tuesday after several days at the center of anti-government protests. He was arrested on charges of inciting violence in the demonstrations, which left at least three people dead. He

López was arrested Tuesday in Caracas.

Photo: Popular Will Party.

denies the charges. It is unclear when the next hearing in López's case will occur. In a message posted on Twitter, López's wife, Lilian Tintori, urged her husband's supporters to "not give up." She added, "Change is in each one of us." Venezuelan President Nicolás Maduro has accused López of attempting to undermine his government. "Someone is responsible for every violent act that happens in this country. One of them is in jail," Maduro said in a speech broadcast on national television. "The others will get there one by one, in the same way, to the same cell. I have no doubt of that." Maduro has also accused the U.S. government of backing the violent protests, claims that the State Department has rejected. Protests continued in Venezuela Wednesday night. Shots were reportedly fired in the capital's Altamira neighborhood, where hundreds of students had demonstrated earlier in the evening, Bloomberg News reported. Among the protesters' complaints is Venezuela's flagging economy. Inflation stands at 56 percent and has more than doubled since Maduro took office following the death last March of Hugo Chávez. On Wednesday, Maduro signed a new currency law that he said would increase the supply of U.S. dollars in the economy. One in every four basic goods is unavailable in Venezuela, according to the central bank.

Economic News

U.S., Canada, Mexico Must Keep Trade Advantage: Obama

The United States, Canada and Mexico must keep their "competitive advantage" in trade, U.S. President Barack Obama said Wednesday after a meeting with his Mexican and Canadian counterparts, BBC News reported. During the summit in Toluca, Mexico, Obama, Mexican President Enrique Peña Nieto and Canadian Prime Minister Stephen Harper discussed the Trans-Pacific Partnership, or TPP. The 12-nation regional partnership would be among the world's largest trade accords. "We'll get this passed if it's a good agreement," said Obama. The trilateral talks on Wednesday focused on economic changes in the United States, Mexico and Canada since the North American Free Trade Agreement or NAFTA, took effect 20 years ago. New trade agreements are "bound to go beyond and enhance all together the progress that each one of our countries has made" since NAFTA took effect, said Peña Nieto. Harper also voiced support for the TPP, saying he was "focused on bringing those negotiations to a successful conclusion." However, in Washington, Obama's Democratic allies in Congress have been blocking his efforts to expedite

> "We'll get this passed if it's a good agreement."
>
> *— Barack Obama*

Copyright © 2014, Inter-American Dialogue

the trade accord. Unions in the United States have argued that such a trade deal could lead to job losses, while environmental groups have said it could lead to a rise in pollution. Immigration also was a main topic during Wednesday's summit. Obama called immigration reform one of his "highest priorities." Officials in Mexico want an overhaul of U.S. immigration policy, but U.S. congressional Republicans have said the issue is not likely to make much progress before the November mid-term elections. A point of contention during the trilateral summit was the Keystone XL oil pipeline, for which Canada has called for approval. On Wednesday, the project was dealt a new setback as a judge in Nebraska struck down a law that would have allowed the pipeline to go through that state. Obama said Wednesday that he would continue to examine the potential environmental effects of the pipeline. "I said previously that how Keystone impacted greenhouse gas emissions would affect our decision, but frankly it has to affect all of our decisions at this stage," he said.

Company News

Brazil's Vale May Sell Potash Fertilizer Project Due to Tax Dispute

Brazilian mining giant **Vale** will consider the sale of a $4 billion potash fertilizer project in the northeastern part of the country if it is unable to end a tax dispute with municipal officials, the company's chief executive officer said Wednesday, Reuters reported. The company's shareholders "cannot be subject to financial uncertainties" surrounding the project in the state of Sergipe, Murilo Ferreira told a Senate committee in Brasília. Vale expects to halt planning work on the project Feb. 28 if it does not reach a resolution to the dispute, he added. The dispute centers on disagreements between the towns of Capala and Japaratuba over the location of the project's planned processing facility. "We won't do anything to hurt the state, but lacking a political solution we'll hire a bank to sell the project to somebody interested in developing it," said Ferreira.

Featured Q&A

Continued from page 1

percent of those sending money arrived the same year, thus growth is limited. This trend is likely to continue in the short term while a shift in the scale of skilled migration will switch the volumes received to larger amounts. This situation is visible in the case of the United States, where temporary work visas have increased for higher-skilled foreign workers, while deportations are reducing the size of the unskilled labor force. As the trend continues, those with higher skills tend to remit higher amounts and once they reach a critical mass, this population will influence remittance growth."

A Earl Jarrett, general manager of Jamaica National Building Society: "Jamaica's remittance data indicates that inflows for January to November 2013 amounted to $1.87 billion, a net growth of 2.9 percent over 2012; while outflows were $219.9 million. A closer examination of the Jamaican economy shows that the IMF Extended Fund Facility, implemented last May, has, among other effects, led to a devaluation of the Jamaican currency by 8.5 percent. Historical studies reveal that the currency's devaluation tends to affect remittances by reducing the volume of transfers in U.S. currency. However, a careful look at converted Jamaican inflows in 2012 as compared to 2013 would indicate that more money was released into the economy from transaction inflows. Research has also suggested that for Jamaica, remittances act in a counterintuitive fashion in that remittances tend to decline when the economy is unstable. Another factor that affects remittances is efforts by law enforcement agencies in Jamaica and the United States to tackle the problem of advance fee fraud and lottery scams. These scams targeted American citizens, and the proceeds were transmitted to Jamaica via remittance companies. Based on media estimates, the lottery scam contributed significantly to remittance flows to Jamaica and the Caribbean. In 2013, Jamaica passed the 'Law Reform (Fraudulent Transactions) (Special Provisions) Act' to crack down on individuals who use lottery and advance-fee scams to prey on the elderly and other vulnerable groups. As a result of the law, enforcement activities and heightened public awareness in the United States, remittance companies have had to institute more stringent measures to counteract the fraud and reduce the risk of penalties and fines by the U.S. government. In the future, it is anticipated that remittance flows will be stabilized, with more growth, as the foreign-exchange market responds to Jamaica's positive economic performance, given its successful completion of three IMF quarterly tests."

A Mario Trujillo, president and CEO of DolEx Dollar Express in Lawrenceville, Ga.: "Remittances (and families) have suffered significantly since the Great Recession. Specific country metrics results are a consequence of sending and receiving countries' economies, employment, political and numerous socioeconomic factors. While the unemployment rate has declined in the United States (mainly due to a drop in the participation rate), the economy continues to experience an anemic employment-based recovery. In addition, other factors are preventing remittances from improving further. These include a lack of immigration reform, increased inefficient regulatory and compliance oversight, and banks exiting the business not only for immigrant-related services, but for all services for people who are under-banked. In Mexico alone, HSBC, Banamex and many other banks will not handle cash remittances and have been closing consumer accounts. This trend is amazing and is against national public policy goals. While these and many other financial institutions have been fined for anti-money laundering deficiencies worldwide, the deficiencies have not been related to immigrants sending

Continued on page 4

Copyright © 2014, Inter-American Dialogue

Featured Q&A

Continued from page 3

family members $300 a month. These policies and new regulatory pressures are having an unintended disintermediating effect on the individuals that regulators are trying to protect. Pushing electronically monitored transactions by highly regulated money services businesses underground is counterproductive to preventing illicit activities. Qualified alternative financial service providers are part of the solution to money-laundering concerns. We expect that family remittances will continue to show mixed results until the economy and employment recovers fully, real estate construction improves in the United States and regulations become more clear and efficient."

Hugo Cuevas-Mohr, director of Mohr World Consulting and IMTC Conferences: "The money transfer market in Latin America is shifting in a number of ways. Take Brazil and Bolivia. Inbound remittances to Brazil are declining slightly even as more remittances are moving to formal channels, but outbound remittances are increasing by double digits. These outbound remittances are going mainly to Bolivia, but also to Paraguay, Colombia and Peru. In Mexico, the decisions by Banamex to move away from the remittance business and Bancomer to limit amounts have affected the market. But that doesn't explain it all. Immigration policy in the United States has had an effect on Mexican migrants. Mexico is solely dependent on U.S. remittances, while Honduras and Guatemala are not totally dependent. Many Mexicans, because of closeness and ease, may have returned home during the financial crisis while Hondurans and Guatemalans didn't, so now they are reaping the profits of the U.S. recovery. Let's consider Venezuela: outbound remittances from Venezuela are through the roof, mainly through informal channels, as more and more Venezuelans leave for the United States, Panama and Colombia. Cuban remittances are also supposedly increasing as the United States lifts restrictions on remittances, packages and travel. Speaking of packages, there is also a shift by Colombians in south Florida, away from sending money to family and to sending goods instead. Relatives sell the goods, giving them a better return on their money. With so many remittance distribution channels in place, are central banks really getting a good measure of the money flowing into their countries?"

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

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2014

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Megan Cook
Reporter, Assistant Editor
mcook@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Ariel Fiszbein, Director, Education Program
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Senior Fellow
Tamara Ortega Goodspeed, Senior Associate, Education
Jeffrey Puryear, Senior Fellow

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Copyright © 2014, Inter-American Dialogue