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FEATURED Q&A

What Are the Benefits of China-Mexico Energy Cooperation?

Q Mexico's Pemex announced in late May that it is in talks with Chinese companies to create a Sino-Mex Energy Fund worth up to $4 billion dollars to invest in and finance large-scale infrastructure projects, the largest Chinese investment fund in Latin America to date. What opportunities does Mexico's energy sector offer Chinese companies, and what is behind the move? What does Mexico stand to gain from such a fund?

A R. Evan Ellis, assistant professor of national security studies at the William J. Perry Center for Hemispheric Defense Studies in Washington: "The proposed $4 billion fund is similar to the $10 billion China Development Bank loan to Petrobras in 2009. With Pemex, as with Petrobras, the deal provides symbolic 'fruit' for the deeper and better relationship sought by both the Mexican and Chinese presidents. As with Petrobras, Pemex has good access to Western financial markets, and thus doesn't 'need' Chinese financing as does PDVSA in Venezuela. Yet the Chinese line of credit is welcome for a company struggling to invest to offset declining production from its core mature assets in the Campeche basin. Future oil shipments to China would also offset declining petroleum exports to the United States and the persistent Mexican deficit with China in manufactured goods. For the PRC, the loan offers 'insider' access to Pemex and the Mexican oil industry, useful to the Chinese national oil companies (NOCs) in evaluating future acquisitions and bids, as ongoing reforms open up the Mexican petroleum sector to foreign investment, just as the CDB loan to Petrobras arguably paved the way for Chinese acquisitions of Repsol and Statoil assets in Brazil, and most recently, CNPC and CNOOC participation in the Libra auction. The signing of the deal, which was accidentally disclosed in May, was probably anticipated as a highlight of President Peña Nieto's trip

Continued on page 3

China Extends $4 Billion Credit Line to Venezuela

Chinese President Xi Jinping met with Venezuelan President Nicolás Maduro Monday in Caracas, where the leaders announced a new $4 billion credit line from China that will be repaid through oil shipments. See story on page 2.

Photo: Venezuelan Government.

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NEWS BRIEFS

Texas Governor Orders 1,000 National Guard Troops to Border

Texas Gov. Rick Perry on Monday gave the order to send 1,000 National Guard troops to help secure the state's border with Mexico, where tens of thousands of unaccompanied minors have crossed into the United States this year, *The New York Times* reported. Perry's announcement reflects the broader position of many others in the Republican Party and could put him in a position to make another run for the party's presidential nomination, according to the newspaper.

América Móvil Rings up 2.4 Percent Rise in Profits

América Móvil, the mobile-phone carrier of billionaire Carlos Slim, reported second-quarter profit rose 2.4 percent compared to a year earlier to 66.6 billion pesos ($1.5 billion), excluding interest, taxes, depreciation and amortization. That exceeded the average estimate of 65.8 billion pesos of analysts in a survey, Bloomberg News reported today. Despite facing tougher new regulations in Mexico, the company's bottom line was boosted by profit margins in overseas markets such as Brazil and Colombia.

Brazil Regulator Approves BTG's Purchase of Bamerindus Stake

Brazil's antitrust watchdog agency, Cade, has approved the purchase by **Grupo BTG Pactual** of 98 percent of failed lender **Banco Mercantil e Industrial do Paraná**, or Bamerindus, Reuters reported Monday. BTG Pactual has "great business options by which it can acquire assets and other credit rights held by Bamerindus that could be used for future credit," Cade said in a statement.

Economic News

China Extends $4 Billion Credit Line to Venezuela

China on Monday extended a $4 billion credit line to Venezuela, which will support economic development in the South American country and will be repaid through oil shipments, the Associated Press reported. The credit line was among the initiatives that Chinese President Xi Jinping and Venezuelan President Nicolás Maduro announced during Xi's visit to Caracas. On Monday, Maduro said Venezuela's exchange of oil for Chinese loans "doesn't create a heavy debt burden like the old systems." In recent years, Venezuela has received some $50 billion in loans from China, to be repaid with oil. During Xi's visit, the two countries announced nearly 40 agreements in all, including joint initiatives in the areas of mining, energy and transportation. The China Development Bank opened a Caracas branch on Saturday. Xi's visit to Venezuela came during his four-country tour of Latin America. He also visited Brazil, where he attended the BRICS summit, and Argentina, where he agreed to an $11 billion currency swap with President Cristina Fernández de Kirchner, BBC News reported. On Monday night, Xi left for Cuba, where he is to spend two days, Reuters reported. Xi plans to meet today with Cuban President Raúl Castro and will then fly to Santiago de Cuba to see the Caribbean country's efforts to bolster its port facilities after Hurricane Sandy, which devastated the city in October 2012. Trade credits have made China Cuba's second-largest creditor and, at $1.4 billion in trade, its second-largest trade partner after Venezuela. China has rescheduled government and commercial debt that Cuba owes, reportedly around $6 billion. However, large Chinese investments in Cuba's nickel industry, hotels and an oil refinery expansion agreement, have still not materialized. A relatively small amount of the $80 billion that China has invested in Latin America and the Caribbean in recent years has gone to Cuba. Castro implemented market-oriented reforms after taking over for his brother Fidel in 2006, but reforms have not gone far enough for China, say analysts. "The Chinese are not satisfied with the pace and depth of reforms in Cuba," Christopher Sabatini, senior director of policy at the Americas Society and Council of the Americas, told Reuters. "This is ultimately a pragmatic government and it's not about to invest in Cuba for ideological reasons or even for geopolitical, long-term reasons if there isn't a profit or resource to be gained immediately."

In recent years, Venezuela has received some $50 billion in loans from China, to be repaid with oil.

Argentina Asks U.S. Judge to Delay Rulings in Bond Case

Argentina's government on Monday asked U.S. District Judge Thomas Griesa to delay his rulings that bar the country from making payments to holders of restructured bonds unless it also pays "holdout" bondholders who refused to accept restructurings, Bloomberg News reported. The South American country missed a June 30 bond payment because of Griesa's rulings, which favored the holdouts, led by Paul Singer's **Elliott Management Corp.** The country has a grace period, which lasts until July 30, before a new default. Argentina asked Griesa, who is scheduled to hold a hearing today in federal court in Manhattan, for the delay so that it can negotiate with the holdouts. The government of President Cristina Fernández de Kirchner has said paying the holdouts could expose the country to billions of dollars in new claims from the holders of restructured

Fernández

File Photo: Argentine Government.

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and defaulted bonds. The case stems from Argentina's massive $95 billion default in 2001. The U.S. Supreme Court last month refused to consider a challenge to Griesa's order that requires Argentina to pay the holders of more than $1.5 billion in defaulted debt at the same time it makes a payment to the holders of restructured bonds. Argentina's government and the holdouts have both met with a mediator who was appointed by the court. In addition to seeking a delay in Griesa's orders, Argentina is also appealing his June 20 ruling that a proposal by Argentine Economy Minister Axel Kicillof to exchange restructured bonds for debt issued under Argentine, rather than U.S., law would be a violation of his orders.

Company News

Argentina Appears Promising for Itaú BBA: CEO

Even though Argentina is grappling with a potential debt default and a shaky economy, the country appears to be a promising location for expansion of Brazil's **Itaú BBA**, the investment bank's chief executive officer told Reuters on Friday. Itaú BBA has operations in Chile, Colombia, Mexico and Peru—all seen as countries that are friendly to investors. However, when asked in which country Itaú BBA would most like to grow its operations in the future, CEO Candido Bracher identified Argentina because of its future prospects and the bank's longtime presence there. "Argentina is perhaps the country with the greatest potential, since it's a large market, it's under-banked, and we have a certain competitive advantage," Bracher told Reuters. "We have to wait, however, for a more stable economic environment." Itaú BBA has had a wholesale banking unit in Argentina since 2006 and wants to replicate the business model it has used it Brazil across the region, said Bracher. The investment bank's parent company, **Itaú Unibanco Holding**, Latin America's largest bank by market value, wants its international operations to grow from 15 percent of its consolidated earnings currently to 25 percent within five years, Bracher added.

Featured Q&A

Continued from page 1

to the PRC, programmed for this November."

Sun Hongbo, associate professor at the Institute of Latin American Studies of the Chinese Academy of Social Sciences in Beijing: "Mexico is now becoming an important potential country for China to extend its energy cooperation in Latin America. In view of the current Mexican energy reform, both Pemex and Chinese national oil companies expect to tap great commercial opportunities within the oil sector, possibly supported by the future Sino-Mex Energy Fund. More importantly, Mexico regards China as a necessary partner to diversify its foreign investment and crude oil export markets. In 2013, Pemex signed crude oil trading, financing and other cooperation framework agreements with Chinese companies and financial institutions. The energy interests of both China and Mexico have good convergence in energy trade, finance and infrastructure building because of the two countries' relative economic advantages and the complementarities in the energy industry. In fact, Chinese national companies have entered into Mexico's upstream oil market by providing technical services in the last decade, and Mexico has been exporting crude oil to China since 2009. Considering the decline of the proven oil reserves and production, Mexican oil exports to China will not increase rapidly in the short term. Chinese companies may consider financing, technical services and equipment trade and energy infrastructure participation as cooperation priorities. On June 13, President Xi Jinping emphasized the importance of international energy cooperation and effective use of international resources for China's energy security. He also stressed that China shall strengthen international energy cooperation in a comprehensive way and safeguard China's energy security under open-market conditions. Without any doubt, Chinese companies will look forward to diverse cooperation deals with Mexico if the Mexican investment environment is favorable."

> "The energy interests of both China and Mexico have good convergence...."
>
> — *Sun Hongbo*

Alberto Esenaro, Mexico City-based lawyer and business consultant: "The Chinese are looking for infrastructure projects around the world, and Latin America has been especially open to them. Considering the participation of Xinxing Ductile Iron Pipelines, they could be looking to supply for the upcoming five natural gas pipeline projects. Mexico announced a $590 billion infrastructure plan for the next six years, of which 51 percent will be for Pemex and CFE, and 5 percent for hydraulic facilities. Mexico on the other hand needs to secure funds for this plan to work on time. Getting infrastructure money from taxes is not a safe bet. Delays could be catastrophic for 'Mexico's moment,' as competition in Latin America and Asia is putting pressure on the Mexican economy. Mexico has been working on expanding oil sales to Asia as the energy reform is being approved in full. China has shown interest in Pemex's supply and a free-trade agreement. A first sale has been shipped already. Hong Kong plays a key role for Mexico as a regional financial hotspot. Mexico is now integrated into a common NAFTA energy market and has a great opportunity with the United States due to the Keystone XL situation. The United States is going for an energy and manufacturing moment, though. Thus, Mexico needs to remake its export-first strategy with imported components and boost its

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Featured Q&A

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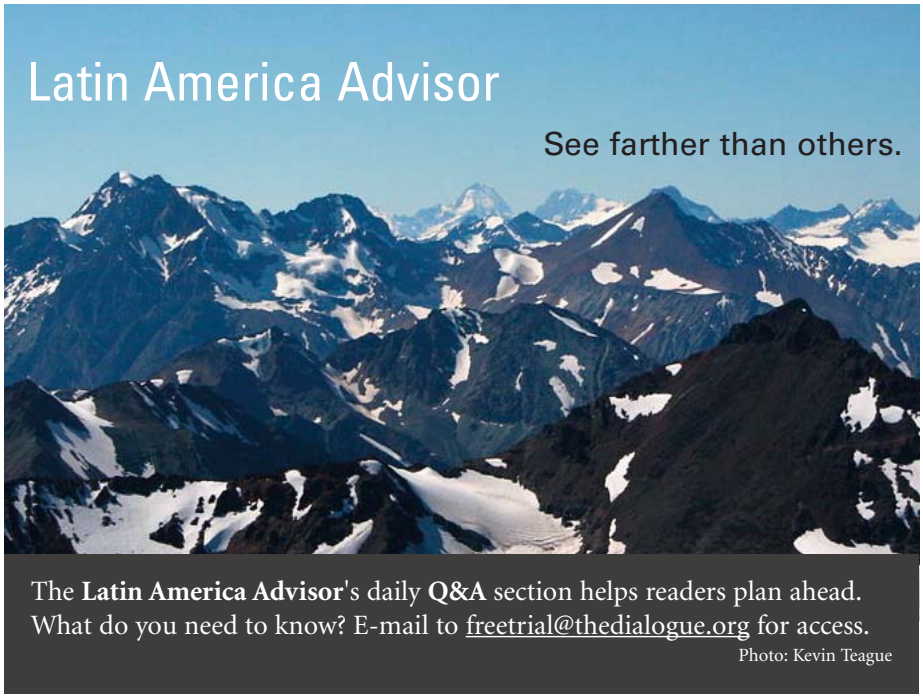
domestic market. An encouragement policy for the middle class could help. Energy will work to leverage NAFTA economies, and China wants to profit from it. For that, it needs a foot in the region. That foot could cost $5 billion."

Philip Andrews-Speed, principal fellow at the Energy Studies Institute of the National University of Singapore: "This move is but one component of a broader political and economic rapprochement between China and Mexico. Mexico has large reserves of oil and gas offshore, which are now being opened to foreign investment, and may also have significant onshore resources of unconventional oil and gas. For China's NOCs, investing in Mexico is a logical continuation of its exploration and production programs in Latin America, which date back more than 20 years. Over the last 5 years, the NOCs have increasingly focused their attention on large-scale, high-value projects, and Mexico offers such opportunities. In addition to oil and gas exploration and production, Mexico offers opportunities to China's electrical power companies in power generation and transmission. The State Grid Company of China, in particular, has been investing outside China in recent times. The new Sino-Mex Energy Fund is relatively small in comparison to the total capital investment required by Mexico's energy sector over the next decade, but its establishment demonstrates a commitment by China and by Chinese companies to invest in Mexico. In addition to this fund and to investment by Chinese energy companies, we might expect to see a loan-for-oil arrangement, which is one of China's favored instruments for securing overseas oil supplies."

> "This move is but one component of a broader political and economic rapprochement between China and Mexico."
>
> ***— Philip Andrews-Speed***

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



The **Latin America Advisor**'s daily **Q&A** section helps readers plan ahead. What do you need to know? E-mail to freetrial@thedialogue.org for access.

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