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THEDIALOGUE

FEATURED Q&A

How Should Oil Exporters Diversify Their Economies?

The drop in oil prices has forced Ecuadorean President Rafael Correa's government to cut budgets and postpone investments. // File Photo: Ecuadorean Government.

Q Ecuadorean President Rafael Correa said Sept. 14 that the country's economy may see no growth this year because of the drop in global oil prices, which has stalled investment in the Andean nation. What should oil-exporting countries in Latin America do in order to fortify their economies against the variability of the oil market? What industries should these countries' leaders develop in order to diversify their economies? Have any countries in the region been particularly successful at diversifying their economies?

A Claudio Loser, senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "Latin America's 100-year experience is full of two types of events: First, serious economic problems associated with fluctuating commodity prices because of a heavy dependence on these exports; and second, failed attempts to diversify, because of the heavy emphasis on industrial protection. Latin America has the fortune—and misfortune—of an amazing availability of natural resources. The region should continue to rely on them, but it should do so intelligently. Every time commodity prices go up, Latin American politicians and policy and opinion makers declare that it is the beginning of a new era, where prosperity will continue, if not forever, for long. They are always proven wrong. Then they talk about new sources of growth, but forget that this requires opening up, integrating effectively with neighbors and other countries, and that they always want to choose winners, which

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TODAY'S NEWS

POLITICAL

Castro Demands Embargo's End in U.N. Speech

Cuban President Raúl Castro said normal relations with the United States also depend on the return of Guantanamo Bay Naval Base and other factors.

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BUSINESS

Banks Eyeing Delay of Caixa IPO

The investment banks managing the IPO of Caixa Econômica Federal's insurance unit reportedly say deteriorating economic conditions make now a bad time for the offering.

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POLITICAL

Maduro Allowing Return of 1,500 Colombians

Venezuelan President Nicolás Maduro agreed to allow the Colombians to return in a further easing of tensions with the neighboring country. Maduro made the agreement with UNASUR's secretary general on the sidelines of the U.N. General Assembly meeting.

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Maduro // File Photo: Venezolana de Televisión.

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POLITICAL NEWS

Castro Demands End to Embargo in Speech to U.N.

In his first-ever speech to the United Nations General Assembly, Cuban President Raúl Castro demanded Monday that the United States lift its five-decade trade embargo with the island nation. Castro added that normal relations with the United States also depend on it returning to Cuba the land used by Guantanamo Bay Naval Base, ending anti-communist television and radio broadcasts and also compensating Cuba for economic damages caused by the embargo, NBC News reported. "Now a long and complex process begins toward the normalization of relations," said Castro, The Wall Street Journal reported. Over the weekend, Castro said the embargo has caused $1.1 trillion in damages to Cuba's economy. There are also more than $7 billion in U.S. claims against Cuba for property seized during the Cuban Revolution. In his own speech to the U.N. General Assembly on Monday, U.S. President Barack Obama expressed optimism that Congress would lift the embargo. He added, "We continue to have differences with the Cuban government, we will continue to stand up for human rights, but we address these issues through diplomatic relations and increased commerce, with people to people ties." Obama and Castro are expected to meet today on the sidelines of the General Assembly meeting. The countries formally re-established diplomatic relations in July. [Editor's note: See **Q&A** on U.S.-Cuba relations in Friday's Advisor.]

Castro's speech Monday was his first to the U.N. General Assembly. // Photo: United Nations.

Maduro to Allow 1,500 Colombians to Return

Venezuelan President Nicolás Maduro will allow more than 1,500 deported Colombians to re-enter Venezuela and will legalize their status, in an easing of tensions between the two

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is in fact an impossible task. There are very few contrarian examples. Among those that diversified successfully, Mexico shines. Helped by its size and neighbors—the United States and Canada—the country opened up, became integrated into their markets, and saw a shrinking oil dependence, although not perfect. Others, like Brazil, looked too much inside, with limited success. A second shining example is Chile, which set up a structural budget and has had the discipline to save in good times, and use that money over the cycle, providing a reasonable degree of stability. Surprisingly, Bolivia has followed in those steps. Other countries, full of slogans and unrealistic hopes, seem incapable of learning these simple lessons."

Orazio J. Bellettini Cedeño, executive director and founder of Grupo FARO: "Four commodities (crude oil, bananas, flowers and shrimp) still represent 80 percent of Ecuadorean exports. In addition, little value is added to the country's economy through research and innovation. Ecuador controls about 32 percent of the world banana trade, but since a boom in production in 1948, has only been able to create about 3 percent added value. This happens, at least partially, because Ecuador invests only 0.35 percent of its GDP on research and development. In addition, universities and private companies do not collaborate and lack a tradition of doing applied research. The Ecuadorean

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NEWS BRIEFS

Panama's Homicide Rate Falls by 21 Percent

Panama's murder rate has dropped 21.4 percent for the first nine months of 2015 as compared to last year, BBC News reported, citing the country's security ministry. Murders dropped by 50 percent in Colón, the city which historically had the country's highest murder rate. Officials believe that rehabilitation programs for gang members, who are believed to be the main cause of violence and drug trafficking, have been the leading factor in mitigating violence.

Banks Reportedly Recommend Delay in IPO of Caixa Insurance Unit

The investment banks that are managing the initial public offering of Brazilian government owned Caixa Econômica Federal's insurance unit are recommending that the offering be delayed until April because of worsening economic conditions, a source told Reuters. Brazil's treasury and Caixa could decide this week how to proceed, the source said.

Kuwaiti Oil Minister Rejects Maduro's Call for Summit on Oil Prices

Kuwait's oil minister, Ali al-Omair, told reporters Monday that "There will be no [OPEC] conferences before December 4," Agence France-Presse reported. His statement came after Venezuelan President Nicolás Maduro called for an emergency meeting of OPEC and non-OPEC countries to help boost world oil prices. When asked by reporters about Venezuela and about the possibility of cutting oil production in order to increase prices, Omair said "even after OPEC states commit to decreasing production, other states increase their production. This makes us lose market share and opportunities that are hard to compensate."

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countries, South American regional bloc UNASUR said Monday, Reuters reported. UNASUR said Maduro reached the agreement with its secretary general, former Colombian President Ernesto Samper, on the sidelines of the U.N. General Assembly meeting. The move comes after weeks of tension that arose from a border dispute between the two nations, in which Venezuela deported some 1,608 Colombians, and another 17,000 left voluntarily, in what Maduro said was an effort to crack down on illegal smuggling across the border. Maduro's critics have said he is blaming Venezuela's economic decline and uptick in violence on Colombians.

BUSINESS NEWS

Gates Foundation Suing Petrobras Over Graft Scandal

The Bill and Melinda Gates Foundation has filed a lawsuit against Petrobras over losses due to corruption at the Brazilian state-run oil company, BBC reported Friday. The Gates Foundation alleges that Petrobras misrepresented its operations and financial situation. The foundation said its portfolio managers had questioned Petrobras executives about its financial data, and were allegedly given a "series of materially false and misleading written and oral statements and/or omissions by Petrobras." Petrobras maintains that the scandal does not involve the company as a whole, but rather is the fault of contractors, corrupt politicians and a select few employees. The foundation is also suing Petrobras' auditors, a local affiliate of PricewaterhouseCoopers, saying the affiliate played a central part in verifying Petrobras' financial statements. The embattled oil company is already facing numerous other class-action lawsuits from U.S. shareholders who have seen a reduction in the value of their stock by 88 percent in the past five years, due to the scandal, Forbes reported. The lawsuit is under the jurisdiction of the U.S. District Court for the Southern District of New York.

LEGAL BRIEFS

Bolivia Seeks Annulment of Ruling in Quiborax Case

The Bolivian government on Sept. 24 moved to annul a recent ruling by the International Centre for the Settlement of Investment Disputes, or ICSID, that awarded $49 million to Chilean mining company Quiborax, La Razón reported. Andrés Jana, the partner in charge of the International Arbitration Group at Bofill Mir & Alvarez in Santiago, is representing Quiborax in the case. The dispute dates to June 2004, during the presidency of Carlos Mesa, when the company's operating license was canceled by Bolivia's mining and hydrocarbons ministry, which decided to rescind Quiborax concessions to mine ulexite in Salar de Uyuni in Potosí department in southwest Bolivia, arguing breach of environmental standards and irregularities in the awarding of the concessions, Business News Americas reported. Other cases with arbitration disputes with Bolivia include Abertis Infrastructure; South American Silver Limited (Bermuda); Jindal Steel Bolivia; Iberdrola; BP International and Glencore mining, La Razón reported.

Chadbourne Representing Southern Cross

Chadbourne & Parke said Sept. 8 it represented Southern Cross in its acquisition of more shares in Ultrapetrol (Bahamas) Limited, an industrial marine transportation company. Chadbourne had previously represented Southern Cross in its initial $220 million investment in Ultrapetrol. The latest transaction increased Southern Cross' interest in the company from 67 percent to 85 percent. Southern Cross is one of the largest private equity firms in Latin America, with over $2.5 billion invested in more than 30 companies in a wide range of industries, the firm said. Principal lawyers at Chadbourne working on the transaction were New York partners Morton Grosz, Kevin Smith, Erez Tucner and Marjorie Glover, as well as associates Patrick Narvaez, Tae Sang Yoo and Alex Herman.

Holland & Knight Expands Colombia Office

Holland & Knight said Sept. 25 the firm has added two new partners and three associates to its Bogotá office. Danilo Romero Raad and Julian Santos Rubino join as partners, along with associates María José García, Ana María Cantillo and Juana Muñoz. The law firm's Bogotá office, led by Enrique Gomez-Pinzón, now has over 30 attorneys practicing primarily in the areas of energy and environmental law, corporate/M&A, tax, labor and employment, litigation and arbitration and government relations. Romero Raad focuses on intellectual property, antitrust law, consumer and data protection. Santos recently acted as government relations manager for ExxonMobil, where he was responsible for Colombia, Ecuador, Guatemala and Peru.

Pinho to Head of Brazilian Property Agents Group

Ricardo Pinho, a partner in Rio de Janeiro at law firm Guerra IP, has been selected as the next president of the Brazilian Association of Industrial Property Agents, or ABAPI, IPPro reported Sept. 24. The ABAPI was founded in 1950. Pinho's practice represents foreign companies with subsidiaries in Brazil in need of royalty and tax planning strategies through IP rights.

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government has been implementing several industrial policies to diversify the economy. One of the most important is Yachay, a city of knowledge anchored by a university and private companies. One of Yachay's main focuses is to conduct research and technological development around natural resources to develop sectors like nanotechnology and biotechnology. Those sectors, however, demand high levels of capital, which makes it hard to imagine how this will benefit small and medium producers. In addition, the Yachay model tends to replicate the expert-center model of knowledge generation, an 'ivory tower' distant from society. For Ecuador to become a natural knowledge economy, it is crucial to value the knowledge that exists in individuals and communities which, for centuries, have managed natural resources, and combine it with scientific knowledge to unleash innovation in sectors like renewable energies, agroindustry and industrial ecology. Countries are more innovative when they promote more collaboration. So for Yachay to be successful, establish a more diversified economy, and promote a more sustainable and inclusive society it has to create a network of universities, private sector, public institutions and civil society, both nationally and abroad, while unleashing people's creativity for adding value to natural resources."

Francisco X. Swett, chairman of Pallas Management Corp. and former Ecuadorean minister of finance, member of Congress and central bank president: "Knowledge of economics is not a requirement to understand that if you live beyond your means and depend on an uncertain income to make a living, you are bound to hit the wall. This is what has happened to the government of Ecuador whose leader, a trained economist, thrived on high-priced oil and went a long way to turn the economy into a showcase of 21st century socialism. Although each country's particulars differ, the weaning process away from resource dependence is always belabored. That is the reason why good policy should always hedge in favor of risk diversification, including the ways and means of achieving sustainability. In Ecuador, the government proclaims the need for a new 'production matrix,' an idea grounded on substantial heavy-industry projects including a new oil refinery, petrochemical complex, iron works, shipyards and motorways. It is a monumental daydreaming experiment based on poor macroeconomics (the effect on the current account could be devastating); little understanding of international markets; disregard for comparative advantage; and total ignorance of what it takes to be competitive. Getting out of a crisis requires not only putting the fiscal house in order. Long-term success requires abiding by the rule of law and providing legal security, showing respect for the separation of powers, giving the market a chance, drawing the lines of government action, becoming fully integrated into the world community, empowering the people and abandoning the style of confrontation. Nation building can be a mirage if there is no conviction of what it takes to become a modern, free society."

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>
> **— Francisco X. Swett**

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