LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Wednesday, October 5, 2016

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THEDIALOGUE

FEATURED Q&A

Why Is Bolivia's Foreign Direct Investment Falling?

Bolivia's central bank, led by Marcelo Zabalaga Estrada, said foreign direct investment is expected to decline this year for the third year in a row. // File Photo: Bolivian Government.

Q Bolivia's central bank said Sept. 19 that foreign direct investment declined by 73 percent in the first quarter of this year as compared to the same period in 2015. Net FDI over the first three months of this year reached $73 million, while last year Bolivia received $272 million of FDI during that period. The data projects that 2016 will be the third consecutive year of decline in FDI for Bolivia. Why has FDI been on a downward trend for Bolivia? What measures has the government already taken to halt the decline, and what more should the government be doing? What is the trend's effect on the economy?

A Ronald MacLean-Abaroa, former Bolivian minister of finance and former mayor of La Paz: "The government's statistics are now highly unreliable, and one would have to look behind the numbers to explain this dramatic decline in FDI. Repeated past nationalizations, and threats of more nationalization are not conducive to FDI. Indeed, there have been cases of divestment where foreign investors are selling their Bolivian assets to apparently local investors with allegedly foreign fronts. In fact, a number of foreign direct investments in local companies were acquired by a Venezuelan investor, very close to the highest office of the government, and in many cases, their directors are current Venezuelan government officials, including a Venezuelan ambassador. Chinese commitments to invest in Bolivia would have to be verified, and many investments, especially in mining, seem to have speculative purposes, floating shares in Canadian and other commodity stock exchanges. Other than questionable FDI, Bolivia has not been able to lure

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At Least 11 Killed as Hurricane Strikes Caribbean

Hurricane Matthew pounded Haiti and Cuba and then churned toward north toward the Bahamas, leaving a path of destruction in its wake.

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Citi Investing $1 Billion in Mexico Unit

Citigroup said the investment would improve the bank's branches, ATMs and digital tools. The bank is also renaming the unit Citibanamex, said Chief Executive Officer Mike Corbat

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POLITICAL

Colombia Cease-Fire to End Oct. 31

Colombian President Juan Manuel Santos said his government's cease-fire with the FARC rebels would end on Oct. 31, following voters' rejection of the country's peace accord. Government and FARC representatives met in Cuba to resume talks.

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Santos // File Photo: Colombian Government.

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POLITICAL NEWS

At Least 11 Killed as Matthew Plows Through Caribbean

At least 11 deaths are attributed to powerful Hurricane Matthew, which roared toward the Bahamas this morning after leaving a trail of destruction in Haiti. Matthew, the most powerful hurricane to hit the Caribbean in nearly a decade, packed winds of up to 145 miles an hour as it slammed into Haiti's western edge on Tuesday and then churned past eastern Cuba before taking aim at the Bahamas, The Washington Post reported. As of 8 a.m. Eastern Time today, the center of the storm was located about 45 miles east-northeast of Cabo Lucretia, Cuba and 115 miles south of Long Island in the Bahamas, according to the U.S. National Hurricane Center. The hurricane was moving north-northwest at 10 miles a hour with maximum sustained winds of 115 miles an hour, the Hurricane Center added. The 11 deaths blamed on the hurricane included victims in Haiti and the Dominican Republic. The full extent of the damage and casualties was unclear this morning, particularly in Haiti, where the storm took down communications in some areas, The Washington Post reported. "What we know is that many, many houses have been damaged," said Haitian Interior Minister François Anick Joseph, The Post reported.

Colombia Cease-Fire Will End Oct. 31: Santos

Colombian President Juan Manuel Santos said Tuesday that his government's cease-fire with the Revolutionary Armed Forces, or FARC, rebels will end on Oct. 31, as the two sides struggle to determine the next steps following voters' narrow rejection of the country's peace accord on Sunday. "Time is very important. We can't prolong this process and this dialogue for a long time because we're in a gray zone, a sort of limbo, that is risky and can wash away the entire process," Santos said, the Voice of America reported. Government and FARC representatives met in Cuba on Tuesday to resume talks to try to save the peace deal. Santos' announcement was met with skepticism on the part of rebel leader Rodrigo Londoño, also known as Timochenko. After Santos said the cease-fire would be extended just to the end of the month, Londoño said in a posting on Twitter, "And after that the war continues?" Santos will also meet with former President Álvaro Uribe, who spearheaded the opposition campaign to the peace deal. Uribe said in a radio interview that he is willing to provide input into how the negotiations should move forward so that the country could reach an end to its protracted civil war. [Editor's note: See related **Q&A** in Tuesday's Advisor.]

BUSINESS NEWS

Peru Pipeline to Resume Operations Early Next Year

Peruvian state-owned energy company Petroperú's president, Augusto Baertl, said Monday that the company's pipeline should resume operations in four to five months after repairs are completed, Reuters reported late Monday. The government had previously said that it would take at least a year for the pipeline to resume operations, following its shutdown in February after it leaked oil in the Amazon. This year, more than 7,000 barrels of oil spilled in the Amazon over the course of at least seven leaks, due to poor maintenance or vandalism, according to data from environmental regulator Oefa. Petroperú blames the several leaks this year on vandalism, and Baertl on Monday said the oil company will ask local communities to help protect the pipeline from further damage as the company works to repair it. He added that local residents may have cut the pipeline with the goal of bringing cleanup jobs to more remote towns often neglected by authorities. In order to prevent further damage,

NEWS BRIEFS

Brazil's Temer Introduces Measure to Cap Public Spending

Brazilian President Michel Temer's government on Tuesday introduced legislation that would cap public spending to the rate of inflation for as long as 20 years, Reuters reported. The Temer administration is hoping that the measure, a constitutional amendment, will win the approval of a congressional committee this week and receive a vote next week in the Chamber of Deputies. The measure is designed to address a budget deficit that last year amounted to 10 percent of Brazil's gross domestic product.

Barrick Resumes Operations at Argentina Mine

Barrick Gold Corp. said Tuesday that it had resumed normal operations at its Veladero mine in Argentina after the company received approval to do so from local authorities, following repairs after the spill of a processing solution containing cyanide last month, Reuters reported. Operations had been suspended at the mine since Sept. 15 after falling ice damaged a pipe and caused it to spill crushed ore saturated by the solution. The spill was the second of its kind for Veladero in slightly more than a year.

Antofagasta Reaches Wage Deal With Supervisors

Chilean copper mine Antofagasta Minerals said Tuesday it had reached a 36-month wage agreement with unionized supervisors at its Los Pelambres mine, Reuters reported. The company said in a statement that the contract "meets the expectations of both parties, as it addresses our supervisors' main concerns and is within the long-term possibilities of Los Pelambres." The terms of the agreement were not given.

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any serious international group to invest. Despite having the world's largest deposits of lithium in Uyuni, no serious investment there has materialized so far. Russian, Iranian, Chinese and other 'non-traditional' investors periodically announce interest in investing, but many have already pulled out. Bolivia in the previous year lost almost half of its export revenues and has kept public expenditure at four times the level of 10 years ago, while keeping the exchange rate capriciously pegged to the dollar. Not good signs for potential foreign investors who have witnessed the defeat of the president in a referendum aimed at allowing him to be re-elected for yet another term, which the Constitution prohibits. On the other hand, the single most important FDI in hydrocarbons, the Incahuasi gas field by Total and others, has financial and operational problems, with one of the partners and subcontractors running into insolvency and leaving workers unpaid. Bolivia's current legal system is severely discredited, and the absence of the rule of law makes FDI highly unpredictable. The Bolivian government's stated policy is to move the country toward socialism. Indeed, that is the name of the government's political party, the Movement for Socialism, or MAS. The government is openly anti-capitalist, and anti 'neo-liberalism.' "

Iván Rebolledo, managing partner at TerraNova Strategic Partners LLC and president of the Bolivian-American Chamber of Commerce: "According to the Bolivian central bank's latest periodic review of monetary policies, foreign direct investment in hydrocarbons was approximately $131 million, or $78 million less than in 2014. More alarming is that investments in the mining sector between January and March only reached $5 million, while last year investors disbursed $32 million in the sale of minerals. It is clear that the prevailing lack of demand for the commodities affects overall foreign direct investment in Bolivia and elsewhere, but Bolivia could do much more to attract FDI. Without hydrocarbons and mining investments—especially in the area of exploration—the prospects for continued growth in Bolivia are obvious. Both state oil company YPFB and state mining company Comibol lack enough resources and human capital to get the job done. The fact that Bolivia still does not have a comprehensive new hydrocarbons law clearly befuddles the investment community. Without the appropriate juridical protections and transparency, as well as a robust and favorable tax scheme, especially in relation to royalties, it is unfathomable to contemplate serious FDI. Companies such as Repsol, Gazprom, Petrobras and BG have all announced future multi-million-dollar investments in exploration. The only one that has already signed on the dotted line and is moving ahead is Total. The government has taken few measures to attract FDI in a solid manner, with the exception of a few cosmetic initiatives such as major international FDI road shows in New York and London, which have led to investor curiosity but nothing substantive. Interestingly enough, the electricity sector, including generation, transmission and distribution, has shown upswings in investments, primarily due to much greater consumer demand."

Jaime Aparicio-Otero, former Bolivian ambassador to the United States: "Basic features to promote private investment are: a strong, transparent and predictable regulatory system, skilled human capital, modern infrastructure, and above all, the rule of law. The decline in FDI in Bolivia is the result of an economic model of statism, which promotes state intervention in the most diverse areas, regardless of economic rationality, and with the deliberate effect of crowding out the private sector or reducing it to a minimum. It is also the reason why public investment is at record highs, and it is the current critical variable for the stability of the economy. According to the Fraser

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Petroperú needs to improve relations with local communities, especially those through which the pipeline runs, Baetrl said.

Citi Investing $1 Bn More in Mexican Unit

Citigroup is investing an additional $1 billion in its Mexican unit and renaming it Citibanamex, Reuters reported Tuesday. The investments will be completed by 2020 and will improve the bank's branches, ATMs and digital tools, the company said. The move to increase investment and rename the unit formerly known as Banamex was seen as a strong sign that Citi intends to keep the operation in the long run, the wire service reported. The money comes from a commitment that Citi made in 2014 to invest in the unit. "These investments in Citibanamex reaffirm our commitment to Mexico

Corbat // File Photo: Citigroup.

and our confidence in its prospects," Citigroup's chief executive officer, Mike Corbat, said in the announcement. Some analysts and investors have called on Citigroup to explore a possible sale of Banamex, particularly amid statements by U.S. presidential candidate Donald Trump to restrict trade with Mexico. The unit accounts for approximately 15 percent of the global consumer revenue of Citigroup, a higher percentage than any other market for Citi, except for the United States. The Mexican unit also has 1,500 branch offices in Mexico, more than any other country including the United States, where it has 700.The Banamex unit also has earned a return on shareholder equity of about 15 percent, higher than the 10 percent goal that Corbat set for all of Citigroup.

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Institute, Bolivia has the 'most substantial barriers to investment in the crude petroleum and natural gas sector among 54 worldwide countries, and Bolivia as a desirable destination for investment by private companies in the mining sector was 66th out of 71 worldwide jurisdictions.' A chain of actions (nationalizations, expropriations, the unilateral termination of contracts, the lack of arbitration agreements, corruption and the subjugation of justice to political power), have eroded investor confidence in government policies. In 2007, Bolivia became the first country to withdraw from the convention establishing the International Centre for Settlement of Investment Disputes (ICSID). To make things worse, from 2014 to the first half of this year, the export price of natural gas to Brazil has fallen by 62 percent and to Argentina by 65 percent. The Bolivian economy has been hit by a very adverse investment climate while the government has to face the end of a decade-long commodity boom. Compared with the situation in other neighboring countries, the prevailing perception cannot be more deplorable. Reversing the loss of a climate and culture of growth is not an easy task, but is essential to revive investment flows. The restoration of the rule of law and legal certainty for investment would lead to the recovery of confidence."

Jose L. Valera, partner at Mayer Brown in Houston: "FDI in Bolivia is at its lowest level since 2010. FDI's downward trend in Bolivia is due to several factors: first and foremost is that the state monopolizes large sectors of the economy, including hydrocarbons, electricity, telecommunications and public services. Second, there has been a contraction in Bolivia's domestic economy, caused by the sharp reduction in the value of Bolivia's main exports, natural gas and minerals, a recession in Bolivia's main export markets, which in 2015 were Brazil and Argentina, and a severe drought affecting the agriculture sector. Because Bolivia's FDI and export revenues are dropping and the trade deficit is growing, the country's international reserves are also dropping. The government has been trying to encourage investments with very little result. It doesn't help that according to the World Bank's Doing Business project, Bolivia ranks 157th out of 185 countries in terms of ease of doing business. The government is now resorting to spending international reserves in the form of low-interest loans to state-owned companies. Most of these companies provide public services on a non-profit basis, and these funds will not be repaid. The government is also increasing its borrowings from China, now the last-resort lender to countries left with no other options, because they don't want to change their ways. Bolivia is on a bad trend overall, with increasing difficulty in financing imports and public spending. The government's actions show that it is not interested in changing policies to reactivate its economy by giving a safe space to the private sector or better confronting external factors."

> **"The decline in FDI in Bolivia is the result of an economic model of statism."**
>
> **— Jaime Aparicio-Otero**

Editor's note: The Advisor invited the Bolivian Embassy in Washington to submit a commentary for this issue, but did not receive a response.

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2016

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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

www.thedialogue.org

ISSN 2163-7962

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