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FEATURED Q&A

Is the Dominican Republic's Pivot to China Paying Off?



Chinese President Xi Jinping (L) held talks in Beijing last November with Dominican Republic President Danilo Medina, who decided to reject longtime ally Taiwan in establishing relations with China. // Photo: Xinhua.

Q The Dominican Republic's president, Danilo Medina, in late March met with Chinese Vice Premier Hu Chunhua in Santo Domingo, where they agreed on new economic cooperation accords and followed up on agreements that the two countries made last year. The visit was among the first high-level meetings since the Caribbean nation severed ties a year ago with Taiwan in favor of establishing them with China. What are the most important avenues for cooperation between the Dominican Republic and China? How much have ties with China paid off for the Dominican Republic in the past year? To what extent should the Dominican Republic and other countries in the region be wary of getting too close with China, as the United States has warned?

A G. Philip Hughes, senior director at the White House Writers Group and former ambassador to Barbados and the Eastern Caribbean: "Combine China's and the Dominican Republic's common challenge of sustaining the high economic growth rates to which they've become accustomed, their parallel ambitions for greater economic and political influence, and China's permanent diplomacy to extinguish recognition of Taiwan by offering a better deal to nations that switch recognition, and the economic rapprochement between the Dominican Republic and China is no mystery. The first 10 months or so of the bilateral relationship have seen a flurry of grandiose promises and ambitions for trade, investment and tourism. But the Dominican Republic faces strong headwinds in placing its economic relationship with China on a new footing. For one thing, the country's imports from China have far

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TODAY'S NEWS

POLITICAL

U.S. Security Aid to Mexico Should Be Redirected: López Obrador

Security aid that Mexico receives from the United States through the Mérida Initiative should be redirected toward development for southern Mexico and Central America, said Mexican President Andrés Manuel López Obrador.

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BUSINESS

Petrobras Sees 42% Drop in Profit for First Quarter

The Brazilian state oil company's oil production fell 3.5 percent year-on-year in the first quarter.

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POLITICAL

Venezuelan Agents Arrest VP of National Assembly

Venezuelan government agents surrounded the car of National Assembly Vice President Édgar Zambrano, an ally of opposition leader Juan Guaidó, and towed him away with the vehicle when he refused to leave.

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Zambrano // File Photo: @edgarzambrano via Twitter.

POLITICAL NEWS

Venezuelan Agents Detain Vice President of National Assembly

Officers of Venezuela's Sebin intelligence agency on Wednesday night detained Édgar Zambrano, the vice president of the country's opposition-controlled National Assembly, The New York Times reported. Zambrano's arrest was the government's latest move against the inner circle of opposition leader Juan Guaidó, who last week issued a call for the military to overthrow President Nicolás Maduro. The episode failed to dislodge Maduro from power, and Maduro later vowed to pursue members of the opposition. Late Wednesday, intelligence agents surrounded Zambrano's car after he left his party's headquarters in Caracas. When he refused to step out of the car, he was towed away while still in the vehicle, The New York Times reported, citing Zambrano and witnesses. Earlier on Wednesday, Venezuela's pro-Maduro Supreme Court stripped Zambrano of his legislative immunity from prosecution. Zambrano was the fourth ally of Guaidó to be detained since January when Guaidó proclaimed himself to be Venezuela's legitimate president, saying Maduro's re-election last year

was fraudulent. More than 50 countries have recognized Guaidó as the country's leader. The United States, which is among the countries that side with Guaidó, has said that his arrest would signify a major escalation of the country's crisis. Rather than arresting Guaidó, Maduro has pursued the opposition leader's close allies.

Security Aid Should be Redirected for Development: AMLO

Security aid that Mexico receives from the United States should instead be directed toward a development plan for Central America and southern Mexico to help stop migration north, said Mexican President Andrés Manuel López Obrador, The Wall Street Journal reported Wednesday. López Obrador said the money the United States sends under a plan known as the Mérida Initiative, which has provided \$3 billion in security assistance to Mexico since 2008, should be channeled to fostering growth and employment in southern Mexico, Guatemala, Honduras and El Salvador, instead of focusing on drug lords. "We don't want the so-called Mérida Initiative ... We don't want helicopter gunships. We don't want resources for any kind of military support," the president said,

NEWS BRIEFS

Legislator Blasts Rio de Janeiro Governor Over Record Police Violence

The head of the human rights commission of Rio de Janeiro's state assembly on Wednesday blamed Governor Wilson Witzel for a surge in police killings, accusing him of "legitimizing" police violence, the Associated Press reported. Deputy Renata Souza said Witzel "thinks he is a vigilante and says that the only security protocol applicable in his government is to aim and shoot in the head." Witzel defended his security strategy, calling for "maximum toughness" on organized crime. A record 434 people in the state died at the hands of police in the first three months of this year.

Guatemalan Prosecutors Probe Judge Who Ordered Candidate's Arrest

Guatemalan prosecutors have launched an investigation of Supreme Court Judge Víctor Manuel Cruz, who earlier this year issued an arrest warrant for former Attorney General and presidential candidate Thelma Aldana, officials said Wednesday, the Associated Press reported. Local newspaper El Periódico recently reported that Cruz received millions in return for issuing Aldana's detention order on March 18. The judge has not commented on the report.

Monthly Number of Migrants Crossing Into U.S. Again Tops 100,000

The number of migrants crossing the U.S.-Mexico border surpassed 100,000 for the second consecutive month in April, U.S. border officials said Wednesday, The Washington Post reported. U.S. President Donald Trump again described the situation at the border as a "national emergency" during a campaign rally Wednesday in Florida, saying the migrant caravans amount to an "invasion," Fox News reported.

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exceeded its exports to China. New, showy construction projects will come with Chinese companies—and their workers—entrenching on the island forever, competing with local firms and their local workers for big contracts. Fewer than imagined Chinese tourists will fly 8,000 miles and more to visit the Dominican Republic. Chinese concessional financing will come with strings attached—buy Chinese equipment—and 'gifts' of big, showy projects will come with reminders to be sure that the Dominican Republic votes China's way on international issues, especially now that the Caribbean nation sits on the U.N. Security Council. President

Medina's government may find that this regular nudging drives wedges between the Dominican Republic and its traditional friends and largest trading partners, such as the United States, precisely as intended. If their approach is exploitative—without the necessary investment, local employment and domestic content—Chinese companies using the Dominican Republic to capitalize on DR-CAFTA access to the U.S. market could jeopardize the whole agreement. It's not hard to imagine President Trump's reaction. Amid all the hype in these early days, the Dominican Republic should be cautious. As Medina understandably reaches for means

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Excelsior reported. "What we want is production and employment," he added. The initiative provided \$421 million for military equipment such as aircraft and helicopters when it was first enacted, but Mexico has not received military aid under the Mérida Initiative since 2012, The Wall Street Journal reported. Since then, funds have mostly gone toward projects that promote human rights, protect journalists and strengthen Mexico's investigative capacity, for example. "It's a mistake to change the thrust of crime-fighting programs, which the government of Mexico does not have the capacity to do," Raúl Benítez, a security expert at the National Autonomous University of Mexico, told The Wall Street Journal. Mexico registered a record number of homicides last year. [Editor's note: See related [Q&A](#) in the April 17 issue of the Advisor.]

BUSINESS NEWS

Petrobras Profit, Oil Output Fall in First Quarter of 2019

Brazilian state oil company Petrobras reported a net profit of 4 billion reais, or approximately \$1 billion, in the first quarter of this year, a 42-percent drop as compared to the same period last year, the Rio Times reported Wednesday. However, the results are up by 92 percent in comparison to the 2 billion reais registered in the fourth quarter last year. When adjusted for one-off items, Petrobras said its profit would have been 5.1 billion reais, Reuters reported. The company said its first-quarter results were affected by the adoption of a new accounting law regarding the leasing of equipment, the Rio Times reported. The company's oil production fell 3.5 percent in the first quarter, compared to the January-March period last year, according to Brazilian oil regulator ANP, Reuters reported. The drop in production was a result of a number of maintenance projects and other interruptions at platforms and floating, production, storage and offloading (FPSO) units owned by Petrobras, ANP said.

CAPITOL HILL WATCH

A Look at U.S. Congressional Activity on Latin America

Schumer Blasts Trump Over Puerto Rico

Senate Minority Leader Charles Schumer (D-N.Y.) on Monday blasted U.S. President Donald Trump over funding for Puerto Rico, The Hill reported. "Puerto Rico has NOT gotten \$91B in recovery aid. Just last week, your administration missed its deadline to release more than \$8B in funds for Puerto Rico," the senator said in a tweet. His comments followed remarks to lawmakers by Secretary of Housing and Urban Development Ben Carson that regulations for approximately \$8 billion in disaster funding would be announced May 1. The regulations must be established for the money, which is part of the Community Development Block Grant Disaster Recovery program, to be released. The aid package fell through in the Senate last month after Trump harshly criticized the Puerto Rican government's handling of previous disaster funding, The Hill reported.



Schumer // File Photo: U.S. Senate.

Engel Backs Colombian Activist

U.S. Representative Eliot Engel (D-N.Y.), who chairs the House Foreign Affairs Committee, on Monday expressed support for Francia Márquez, a prominent grassroots environmental activist in Colombia, after gunmen attacked her at a meeting with community leaders on Saturday, the Associated Press reported. Gunmen launched a grenade and opened fire into a crowd of activists in the southern town of Santander de Quilichao. "155 social leaders murdered in Colombia last year. This violent streak must end," the House Foreign Affairs Committee tweeted, citing Engel. "I stand with [Francia Márquez] and am glad that [Colombian] President Duque has ordered an investigation. The perpetrators must be found and prosecuted," he added. Márquez won last year's Goldman Environmental Prize for her work combating illegal gold mining by armed groups in her Afro-Colombian community, the AP reported.

Rubio Says Guaidó is Winning in Venezuela

U.S. Senator Marco Rubio (R-Fla.) on May 3 said that Venezuelan opposition leader Juan Guaidó is winning the struggle for control of the country's government against President Nicolás Maduro, the Miami Herald reported. "There is a huge misunderstanding in the narrative about this. Juan Guaidó controls no security forces, has no money, controls no television stations ... yet he can freely walk the streets and convene thousands of Venezuelans at a moment's notice," Rubio said, adding that the notion that Maduro is winning is "ridiculous." His comments followed Guaidó's April 30 call for military leaders to abandon Maduro and force him out of power, which ultimately did not result in major military defections.

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and options to sustain the Dominican Republic's remarkable growth, he'll want to avoid the classic economic trap of Caribbean economies: relying on dreams and promises in place of plans and achievements."

A **Margaret Myers, director, and Ricardo Barrios, program associate, both in the Asia & Latin America program at the Inter-American Dialogue:** "Like many other countries in the region, the Dominican Republic is mostly looking to China for help with infrastructure development. China is reported to have offered a package worth \$3 billion in exchange for the Dominican Republic's diplomatic recognition, \$1.6 billion of which was designated for infrastructure projects. Already, the Caribbean nation has secured a \$600 million loan from China's Export-Import Bank to upgrade its power distribution systems, and President Medina has flagged additional projects for possible Chinese support, including the modernization of the Port of Arroyo Barril. In addition to

“China is reported to have offered a package worth \$3 billion.”

— Margaret Myers & Ricardo Barrios

infrastructure-related objectives, Dominicans are also hoping to grow and diversify trade with China through several new agreements, including a protocol on tobacco and related products. The Dominican Republic has already seen a slight increase in exports of raw materials, such as aluminum and nickel, to Chinese markets. The effects of the Dominican Republic's new ties to China will be determined in very large part by the extent of Chinese engagement and the types of deals that Medina and his government sign with China. Growth in Dominican trade with China, including market access for a wider range of Dominican products, will no doubt boost economic growth. Chinese financial support for infrastructure can also

be beneficial, but as we've seen in Latin America and the Caribbean and elsewhere in the world, it has occasional negative effects on countries' economic well-being, quality of governance, regulatory affairs and the environment. The outcomes are already quite varied among recent converts. Costa Rica, which established ties with China in 2007, has since carried out only one major infrastructure project with Chinese assistance. Panama is working with China on a handful of projects, but without major infusions of Chinese state finance."

A **Mary Fernández Rodríguez, founding partner at Headrick Rizik Álvarez & Fernández in Santo Domingo:** "One of the most important avenues for cooperation between the two countries is in the energy sector. A year has already gone by since China and the Dominican Republic established diplomatic ties. Although both governments have signed 18 bilateral agreements aimed at promoting commercial, financial, tourist, aviation, immigration, educational, agricultural and sports cooperation, among others, as of now, these deals have not had a significant impact on the Dominican Republic. Exports have increased, but we still have a huge gap as compared to our imports from China. Although tourism increased by 33 percent as compared to 2017, the total amount is not significant. The Dominican Republic, as any other country, should be wary of entering debt traps, which we have seen happen in other countries. China has financed around 35 ports around the world. One of them, located in Hambantota, Sri Lanka, is now under Chinese control for 99 years after defaults in payments. This case is a typical example of the dangers of entering into agreements to offer assets in exchange for debt, which can happen when projects are not properly structured. Additionally, the potential increase of corruption, due to practices deviating from the Western rule of law, is something that should worry the Dominican Republic very much."

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