LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Friday, October 2, 2020

FEATURED Q&A

Is the U.S. Winning Over New Allies in South America?

Guyanese Foreign Minister Hugh Todd (left) and U.S. Secretary of State Mike Pompeo exchanged signed agreements on joint maritime and air patrols last month. // Photo: Guyanese Government.

Q **During a recent trip to Guyana, Suriname, Brazil and Colombia, U.S. Secretary of State Mike Pompeo warned countries of what he described as political strings attached to Chinese investment in the region, adding that Chinese companies often do not compete on a "fair and equitable basis." Will new governments in Guyana and Suriname be more hesitant toward Chinese investment following Pompeo's visit? Is the United States winning over allies in Latin America and the Caribbean? To what extent are governments across the region feeling pressure to choose between the world's two largest economies?**

A **Guo Jie, associate professor at Peking University's School of International Studies:** "With just over 40 days to go before the U.S. presidential election, Secretary of State Mike Pompeo paid a remarkable visit to Suriname, Guyana, Brazil and Colombia. The trip seems to have both short-term and long-term intentions. The former is directly related to current U.S. domestic electoral politics, which is particularly evident in the secretary's tougher stance and escalating pressure on Venezuela, while the latter reflects the adjustment of the Trump administration's policies toward the region, giving higher priorities to geopolitical and economic factors (petroleum, China, Russia, and so on). It is not yet clear whether the revised approach will be inherited by the next U.S. government, especially if Trump fails to be re-elected. However, it can be expected that the significance of Latin America for the foreign policy of the United States will be further enhanced. With Washington's increasing involvement or even intervention in regional

Continued on page 3

TODAY'S NEWS

POLITICAL

Mexico's Supreme Court Allows Vote on Corruption

Mexico's Supreme Court said it will allow the current president to proceed with a public referendum over the prosecution of former presidents. The court ruled in a 6-5 decision that the measure was constitutional.

Page 2

ECONOMIC

Job Creation Picks Up Pace in Brazil

Formal job creation in Brazil accelerated sharply in August, the economy ministry said. Manufacturing and industrial sectors led the strongest job growth in a decade for that month.

Page 2

POLITICAL

Guatemala Pledges to Turn Back Migrant Caravan

Guatemalan President Alejandro Giammattei has vowed to detain and return members of a new caravan of about 2,000 migrants that set out from neighboring Honduras this week in hopes of reaching the United States.

Page 2

Giammattei // File Photo: Guatemalan Government.

POLITICAL NEWS

Mexico's Supreme Court Allows Vote on Former Presidents

Mexico's Supreme Court ruled Thursday that the president could proceed with a referendum on prosecuting ex-presidents, the Associated Press reported. The court ruled in a 6-5 vote that the measure was constitutional, but said the wording of the question to appear on ballots should be modified. Opponents had claimed it violated the precept that the decision to prosecute should be made by prosecutors, not voters or politicians, as well as the presumption of innocence. President Andrés Manuel López Obrador's proposed referendum question states: "Do you agree or not that the relevant authorities should, in accordance with the applicable laws and procedures, investigate and if appropriate punish, the presumed crimes committed by former presidents?" and then goes on to name five of Mexico's six living ex-presidents. López Obrador proposed the referendum for June 6, 2021, the date of midterm congressional elections that are key for maintaining López Obrador's majority in Congress. With some notable exceptions, the legacy of Mexico's former presidents, and many of their cabinet ministers, over the past several decades have been tainted by accusations of corruption and using their offices for personal enrichment. In August, Mexico's political establishment was shaken by claims that three former Mexican presidents, ministers and high-profile lawmakers and aides were involved in alleged acts of corruption.

López Obrador // File Photo: Mexican Government.

ECONOMIC NEWS

Business Confidence, Job Creation Pick Up Pace in Brazil

Formal job creation in Brazil accelerated sharply in August, the economy ministry said this week, Reuters reported. Manufacturing and industrial sectors led the strongest job growth in a decade for that month, with services also showing a recovery in employment after months of stagnation. A net 248,388 formal jobs were created in August, marking the second month in a row of job gains and almost double the 130,000 forecast in a Reuters poll of economists. It was the highest figure for any August since 2010. Consumer and business confidence increased for the fifth consecutive month in September, with business confidence now above the pre-pandemic level, according to data released this week by the Getúlio Vargas Foundation. Consumer confidence has recovered 85 percent of the March-April drop, and business confidence has recovered 104 percent of the decline in those months. Confidence in the services sector is lagging the recovery seen in other sectors, however.

Mexico Remittances Continue to Climb

Mexico saw remittances sent home from workers abroad spike in August to their second-highest level on record, Reuters reported. The trend defies experts who predicted earlier in the pandemic that workers vulnerable to job loss and economic contraction in the United States would slow their transfers of money to families back home. Remittances to Mexico in August reached $3.57 billion, a 5.3 percent rise on the same month last year, according to data from Mexico's central bank, Banxico. Remittances hit their highest level since records began in 1995 in March of this year. The third- and fourth-best levels were recorded in June and July. Given the nearly 12 percent depreciation of the Mexican peso against the

NEWS BRIEFS

Guatemala Pledges to Turn Back Migrant Caravan

Guatemalan President Alejandro Giammattei on Thursday vowed to detain and return members of a new caravan of about 2,000 migrants that set out from neighboring Honduras this week in hopes of reaching the United States, the Associated Press reported. Within hours of the border crossing, Guatemalan authorities reported the first migrant death, when a person tried to climb aboard a moving flatbed trailer but fell under its wheels, according to the report.

Argentina's Central Bank Loosens Grip on Currency

Argentina's central bank said Thursday it will allow a faster depreciation of its peso currency in the face of growing pressure to maintain its foreign reserves, Bloomberg News reported. The central bank will end a policy of "uniform devaluation" and allow greater volatility. It also announced that it will create savings instruments with rates that exceed inflation in a bid to encourage Argentines to save and invest in pesos, as opposed to the current tendency of savers withdrawing dollar deposits from the nation's banking system.

Venezuela Rejects E.U. Call to Delay Dec. 6 Elections

Venezuela on Thursday insisted it will hold legislative elections on Dec. 6, rejecting a call by the European Union to delay them, Reuters reported. The European Union sent a delegation to Venezuela last week and on Wednesday issued a statement saying conditions do not exist for a free and fair election. However, Venezuela's Foreign Ministry said on Thursday the E.U.'s position "reflects a biased position on the conditions in which the Venezuelan people will choose the new National Assembly on Dec. 6," and called on Europe to play "a positive and respectful facilitation role" in them.

U.S. dollar from August 2019, when measured in local currency, remittances grew nearly 20 percent year over year, Goldman Sachs economist Alberto Ramos told clients in a research note. "The sharp contraction of activity and employment in the United States have not impacted in a visible way the flow of remittances to Mexico," Ramos said. Remittances provide a lifeline to low-income families, who have a high propensity to consume and are the overwhelming recipients of such transfers. Remittances between January and August totaled $26.4 billion, a 9.4 percent rise on the previous year. One reason for the increase is that Mexicans in the United States disproportionately work in agriculture, food processing and other similar industries that have remained largely open during the pandemic, Mario Trujillo, the CEO of remittances firm DolEx Dollar Express, told the Advisor recently. [Editor's note: See related **Q&A** in the Aug. 13-26 issue of the biweekly Financial Services Advisor.]

BUSINESS NEWS

Occidental Sells Oil Business Onshore Colombia to Carlyle

Occidental on Thursday announced it has signed an agreement to sell its onshore assets in Colombia to The Carlyle Group for approximately $825 million. In a statement, the Houston-based company said it will receive $700 million upfront and the remainder payable subject to certain production and commodity price targets. The transaction, which is expected to close in the fourth quarter of this year, includes operations and working interests in the Llanos Norte, Middle Magdalena and Putumayo Basins. Occidental will retain a presence in the country with its exploration blocks offshore Colombia. Occidental has operated in the Andean nation, in partnership with Ecopetrol, for more than 40 years. The company's president and CEO, Vicki Hollub, said that Occidental will continue its strategic partnership with Ecopetrol in the onshore market in the United States.

FEATURED Q&A / Continued from page 1

affairs, the relationship between China and Latin American countries will inevitably be affected to varying degrees. The Trump administration's accusations against China's economic engagement with Latin America, whether it's about trade and investment conditions or financing portfolio, are basically groundless and somewhat cliché. Due to different situations, Latin American countries may have different responses and leeway under U.S. pressure to take sides between the world's two largest economies. But one thing is certain, seeking advantages and avoiding disadvantages is an innate instinct, and these countries are no exception."

A **R. Evan Ellis, Latin America research professor at the U.S. Army War College:** "The Irfaan Ali government in Guyana and the Chan Santokhi government in Suriname will both pursue trade with and loans and investment from the PRC, but with restraint and effort to avoid the appearance of impropriety that could jeopardize the positive relationship each seeks with the United States and Western investors. In Guyana, Chinese companies are well-entrenched, including CNOOC's 25 percent stake in the Exxon-led consortium developing the Stabroek oil block, Omai in bauxite and magnesium, China Harbor with the international airport, Pegasus hotel projects, among others, and Huawei in telecommunications (including Guyana's fiber-optic infrastructure and smart cities project). Chinese firms have experience working with the People's Progressive Party and its leader Bharrat Jagdeo from the PPP's long pre-2016 period in power. They will be well-positioned to win major infrastructure projects that Guyana's new oil wealth makes possible, including a resurrected Amaila Falls hydroelectric project and an improved highway connecting the coast to Brazil at Lethem. In Suriname, Chinese companies such as Dalian in construction and the Greenheart Group in timber are similarly well established. Suriname's sizeable Chinese minority also makes the investment environment more comfortable for new Chinese entrants in a Dutch-speaking country off-the-radar for most Western investors. Suriname may proceed even more cautiously than Guyana in engaging China because the country's fiscal situation is dire and income from petroleum less, because Chinese do not have experience dealing with Santokhi in a governing role and because Santokhi himself is still cautiously exploring the limits of his coalition's latitude to act."

A **Ivelaw Lloyd Griffith, senior associate with the Center for Strategic and International Studies (CSIS):** "Secretary Pompeo's swing through northern South America, with maiden visits to Suriname, Guyana and Brazil, some of his pronouncements and the responses have raised the specter of heightened great power geopolitical competition and questions about how countries might align themselves. Some harsh realities should be kept in mind as we ponder these. First, it remains a cardinal rule of international politics that national interests command a place of primacy when countries decide on foreign policy pursuits. Thus, while the South American leaders surely were flattered by the visit, their future dealings likely will be guided by what they deem as being in their national interest and not just by Pompeo's touchdown. Neither preference for continued U.S. hegemony nor a choice between the greater powers is a foregone conclusion. Leaders will be guided by their national interest, including dictates to not choose sides but engage with both powers. Alignment with the United States is not automatic, especially in light of another harsh reality: China's domestic growth trajectory and its concomitant global outreach already have resulted in massive investments in Latin America and the Caribbean. These are poised to expand, protestations by Secretary Pompeo or President Trump notwithstanding. Finally, the contemporary

Continued on page 4

FEATURED Q&A / Continued from page 3

leadership meltdown and social discontent in the United States are generating understandable skepticism among some Latin American and Caribbean leaders about the wisdom of investing high trust and confidence in Pompeo's promises, especially given the uncertainty about the outcome of the presidential elections."

A **Dan Erikson, managing director of Blue Star Strategies:** "Secretary Pompeo's trip to Guyana and Suriname marked the first-ever visit by a U.S. secretary of state to both countries. While the United States has maintained diplomatic relations with Guyana since 1966, Guyana has garnered significantly more international attention since ExxonMobil discovered oil fields off its coast in 2015. Shortly thereafter, China increased regional relationship-building and investment, signing a Belt and Road Initiative Memorandum of Understanding (MOU) with Guyana in July 2018, and establishing a 'strategic partnership' with Suriname in November 2019. Secretary Pompeo's visit demonstrated increased U.S. attention to these often-overlooked countries and sought to strengthen relations with the newly elected governments in both nations. However, the United States has had a pretty mixed record of warning Latin American and Caribbean partners of the dangers of Chinese trade and investment, without offering much in substance in its place. When asked, Surinamese President Chan Santokhi stated that Suriname would work with the United States on 'defense of democracy and strong democratic institutions,' but that he did not see a competition between the United States and China. Guyana is also attempting to navigate the divide, becoming the second country in the Caribbean to sign a 'Growth in the Americas' agreement with the United States, intended to promote private sector engagement. Given the depth of the economic crisis that the Covid-19 pandemic has provoked in much of Latin America and the Caribbean, U.S. rhetoric will be most effective when matched with U.S. investment. Still, China is poised to remain a key partner in the years to come."

A **Margaret Myers, director of the Asia & Latin America program at the Inter-American Dialogue:** "It is true that Chinese companies often do not compete on a fair and equitable basis in the Latin American and Caribbean (LAC) region. A continued preference for behind-closed-door deal making in certain countries limits opportunities for other-than-Chinese companies. This approach can also facilitate corruption, as we've seen in a number of different cases. Low-interest financing from Chinese policy and commercial banks also gives Chinese companies a distinct advantage, even when competing in open tenders. So, Pompeo's concerns are at times justified. But reducing LAC dependence on China will require extensive investment in the region, along with a commitment on the part of the United States to building and nurturing productive partnerships. Pompeo's warnings, and indeed threats from the administration and members of Congress to withdraw security and development assistance, will result in a few short-term 'wins' for the United States, as countries refrain from partnering with China on certain projects. Panama limited its involvement with China on key projects at the urging of U.S. officials, for example. But the Trump administration's often heavy-handed approach is unlikely to limit China's engagement with the region in the longer term. It fails to address the many structural factors promoting of stronger China-LAC ties, including demand for more infrastructure and other investment. It also reinforces the notion—already popular in LAC—of a hegemonic United States, which undermines the considerable efforts of previous administrations to build partnerships. It is notable that Pompeo's was the very first visit of a U.S. secretary of state to Guyana and Suriname, but U.S. officials must use their limited time with regional leaders to talk about what the United States can do with the region rather than what China should not."

LATIN AMERICA ADVISOR
is published every business day by the Inter-American Dialogue, Copyright © 2020

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at
ebrand@thedialogue.org