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FEATURED Q&A

What Is Driving China's Overtures in Latin America?



In the past decade, China has bought large amounts of Latin America's raw materials, but few of its manufactured exports. // Image: People's Republic of China.

Q Chinese Premier Li Keqiang in late May made a four-nation tour of Latin America, with stops in Brazil, Colombia, Chile and Peru. Li announced deals worth billions of dollars, investments some analysts have said show a shift in China's economic engagement with the region away from a focus on raw commodities. What was behind Li's trip to the region, and how significant were the announcements? What factors are driving China's economic engagement with the region, and is there really a shift underway? What would that mean for Latin American economies?

A Jorge Heine, Chile's ambassador to the People's Republic of China: "The tour by Prime Minister Li, with a high-level official delegation and executives from 120 Chinese companies, was the highest-profile trade and investment Chinese visit to South America ever. Much of the attention focused on the announced feasibility study for the \$30 billion, trans-Amazonic railway project from Santos, Brazil to northern Peru. However, Chile's becoming the regional platform for the RMB and the announced free-trade agreement negotiations with Colombia should not be underestimated. After expanding at breakneck speed from 2000 to 2011, China-LAC trade (at \$258 billion in 2014) may have hit a plateau, though some sectors don't show it (Chile's food exports to China grew 48 percent in the first quarter of 2015). The challenge now is to expand Chinese investment in the region. The time is right as China starts to export more capital than it imports. Financial cooperation, as well as investment in physical and digital infrastructure and in energy, take center stage. As South America contends with the

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Ricardo Teixeira is facing charges including money laundering. A former business partner also stands accused.

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Baidu, China's largest search engine that went live with its services in Brazil last year, is looking to expand its presence in Latin America as part of a strategy to invest in developing markets.

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Top Aide to Guatemala's President Quits Amid Graft Claims

Gustavo Martínez became the latest official to step down from Guatemala's government, which has been shaken by corruption allegations.

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Martínez // File Photo: Guatemalan Gov't.

POLITICAL NEWS

Aide to Guatemala's President Quits Amid Graft Claims

A top aide to Guatemalan President Otto Pérez Molina on Tuesday became the latest official to resign amid a raft of corruption allegations that have shaken the Central American coun-

“To avoid this harming the presidency, it's better I step down.”

— Gustavo Martínez

try's government, Reuters reported. Gustavo Martínez, secretary general to the presidency and the fiancé of Pérez Molina's daughter, stepped down following media reports that he had acquired a large property that was beyond his means. Martínez's visa to visit the United States had also been withdrawn, according to the reports. “To avoid this harming the presidency, it's better I step down,” Martínez told reporters at the presidential palace in Guatemala City. Martínez did not address the allegations that have been raised against him. Martínez's departure follows the resignations of several top officials of Pérez Molina's government amid corruption claims. Vice President Roxana Baldetti and several cabinet members have quit and at least 15 others have been arrested including the head of the country's central bank. The Central American nation has a presidential election scheduled for September, and Pérez Molina is barred from re-election. In recent weeks, thousands of Guatemalans have flooded the streets to protest Pérez Molina's government and demand his resignation. The president, a center-right retired army general, has not been accused of wrongdoing and has vowed to finish out his term. [Editor's note: See [Q&A](#) on whether the corruption scandals will topple Pérez Molina's government in the May 20 issue of the Advisor.]

Brazilian Authorities Seek Indictment of Former Soccer Chief

Brazil's Federal Police force has requested that prosecutors indict Ricardo Teixeira, the former head of the country's soccer confederation, The Wall Street Journal reported Tuesday. The Federal Police also asked for the indictment of Sandro Rosell, the ex-president of Spanish soccer club FC Barcelona. The allegations stem from corruption allegations surrounding soccer's world governing body, FIFA. Last week, U.S. authorities indicted nine FIFA officials as well as five corporate executives in connection with an alleged \$150 million bribery and kick-back scheme involving alleged malfeasance surrounding the awarding of locations to host



Teixeira // File Photo: Agência Brasil.

the World Cup as well as the commercialization of “media and marketing rights associated with soccer events and tournaments,” the U.S. Justice Department said last week. Teixeira and Rosell are not among the 14 people named in the U.S. indictment. However, in Brazil, Teixeira faces charges including money laundering and tax evasion, and Rosell is facing allegations of presenting false documents and concealing information, a source told The Wall Street Journal. The newspaper was unable to reach either of the two men for comment, and Brazil's CBF soccer confederation did not respond to its requests for comment. Before heading FC Barcelona from 2010 to 2014, Rosell was a partner of Teixeira's in a sports marketing company. Also in the FIFA case, Interpol today issued warrants for the arrests former FIFA Vice President Jack Warner, a Trinidadian, and former FIFA executive committee member

NEWS BRIEFS

Special Assembly to Debate Presidential Re-election in the DR

Lawmakers in the Dominican Republic have voted to establish a special commission that will debate whether to allow for re-election of the Caribbean country's president, the Associated Press reported. The legislation won approval Tuesday in the Chamber of Deputies. The measure under discussion would allow presidents to hold office for two terms consecutively. The controversial proposal could allow President Danilo Medina to seek re-election next year.

Brazil Eyeing Sale of Stake in Reinsurer

The government of Brazilian President Dilma Rousseff may sell a portion of its stake in IRB-Brasil Resseguros, Latin America's largest reinsurance company in an initial public offering, Bloomberg News reported Tuesday, citing unnamed sources with knowledge of the matter. The government owns 27 percent of IRB, while BB Seguridade Participações and Itaú Unibanco Holding also hold stakes in the reinsurer and may offer shares. A sale of a portion of the Brazilian government's stake could help the government boost its finances at a time that it is struggling to meet budget goals, the news service reported.

Chilean Prosecutor Seeking Jail Sentences for Ex-La Polar Executives

A prosecutor in Chile wants multi-year prison terms for former executives of La Polar in punishment for their alleged roles in crimes at the retailer. Seven executives, including former Chairman Pablo Alcalde, are awaiting trial. The company nearly went bankrupt after acknowledging several problems including charging customers higher interest rates without their consent.

Nicolás Leoz, a Paraguayan, The New York Times reported. Interpol also issued arrest warrants for four corporate executives, three Argentines and a Brazilian, who are accused in the scandal. On Tuesday, FIFA President Sepp Blatter announced, just days after being re-elected as the organization's chief, that he would step down. Blatter is the target of a U.S. investigation into the graft allegations at FIFA.

BUSINESS NEWS

Baidu Eyes Expansion in Latin America

Baidu, China's largest search engine that went live with its services in Brazil last year, is looking to expand its presence in Latin America as part of a strategy to invest in developing markets, ZDNet reported Tuesday. Executives reportedly told Brazilian newspaper Valor Econômico that the company is looking into Argentina, Chile or Mexico as possible locations to set up its next Latin American base, adding that a key focus would be positioning Baidu as a service aggregator for disparate apps. Last October, Baidu acquired Peixe Urbano, a Brazilian online discount company, Reuters reported. Baidu reported revenues of \$2.05 billion in the first quarter, down 9.4 percent sequentially but up 34 percent from the year-ago period, with mobile revenues accounting for 50 percent of Baidu's total first-quarter revenue, according to Zacks Investment Research.

ECONOMIC NEWS

Peru Likely Saw 4% Growth in April

Peru's economy likely grew 4 percent in April as compared to the same month last year, Finance Minister Alonso Segura said Tuesday in an interview, Reuters reported. "The

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slowdown after the commodities boom, the challenge is to make the most of this opportunity."

A Riordan Roett, director of the Latin American Studies program at the Johns Hopkins University's School of Ad-

vanced International Studies: "Did Li's visit to four countries in South America in May represent a true 'turning point' in economic relations? Possibly so, but probably not. The most dramatic project announced was the long-discussed rail link from Brazil to a port on the Pacific coast. The announcement was vague; it has been discussed for years, and it did not recognize environmental and indigenous challenges. The cost estimates for the railroad range from \$4.5 billion to \$10 billion. And it is clear that while Brazil will benefit from a more rapid route for its commodity exports to China, Beijing's interest is in large part motivated by the desire to reduce shipping costs and to avoid the Panama Canal. Given Brazil's inability to deliver on promised infrastructure projects, because of bureaucracy, corruption and

poor planning, the Chinese may quickly become frustrated given the amount of time the project will take. It is not clear whether Brazilian construction companies will take the lead - if their leaders are out of jail - or if China plans to import large numbers of Chinese workers and Chinese companies. The relationship remains stilted. China wants commodities and raw materials and a ready market in Latin America for its manufactured products. In turn, China buys little from the region since South America produces little in the way of manufactures—often of poorer quality than Chinese products. Perhaps most symptomatic of that relationship is the China-Peru case study—Chinese investment now accounts for about a third of new mining projects. In late 2014, state-owned oil company CNPC bought Petrobras' Peruvian business for \$2.6 billion. In Li's visit to Lima, there was no mention of Peruvian manufactures—just raw materials. Colombia is another example of 'wishful thinking.' In 2011, the two countries discussed a rail and port connection to link the Pacific and Atlantic coasts. It is still on paper. The visit was a diplomatic tour de force, but we shall see

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economy is already in a stage of recovery," Segura told local broadcaster RPP. "In March it grew 2.7 percent and in April it is expected... that [growth] is closer to 4 percent, or higher." The Andean nation's economy is recovering from last year's slowdown, said Segura. The country's economic performance in March was the first sign in months of a rebound. Peru's mineral exports fell last year, leading to an annual growth rate of just 2.35 percent. That economic growth rate followed previous years' expansions in excess of 5 percent. According to preliminary economic data, Peru's mining activity increased 18 percent year-on-year in April amid a rise in mineral production. The country's copper production rose 21 percent, while gold output increased 15 percent and zinc production grew 18 percent, according to the government's statistics agency, Inei. In addition, electrical output, a measure of industrial

activity in Peru, grew 5.45 percent and output of the country's fishing industry rose 154 percent, according to Inei, which added that government investments grew 27 percent in

Peru posted economic growth of 2.35 percent last year.

April. President Ollanta Humala's government wants Congress to provide the president with the authority to implement new reforms aimed at boosting the economy, a move that he said will increase the confidence of businesses and consumers. "The aim is to consolidate the economy's growth in the long term, but it needs to stabilize in this rebound phase first," said Segura, Agencia Andina reported.

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where the promises are in three to five years. One has to be supportive of this 'turning point,' but we need to see results."

A Kevin P. Gallagher, associate professor of Global Development Policy and co-director of the Global Economic Governance Initiative at Boston University: "Chinese Premier Li Keqiang's recent trip to Latin America was truly groundbreaking. As the region is set to experience its worst growth performance in over a decade, the Chinese premier brought much-needed financing. What is more, the financing is for infrastructure which, according to the IMF, has the largest multiplier effect on growth. On the one hand, this stands in stark contrast to what has been on offer for Greece and the other European countries on the brink, which have to take financing from the IMF and turn it right around to global creditors. South American countries, in contrast, have the opportunity to put this money to good use. Much has been made of the possibility that China may be shifting away from a focus on raw commodities in the region. On the contrary, while these new investments are in infrastructure rather than in primary

commodities themselves, make no mistake that China's interests are in facilitating trade in primary commodities through these new infrastructure projects. The challenge for

“Make no mistake that China's interests are in facilitating trade in primary commodities through these new infrastructure projects.”

— Kevin Gallagher

South America, however, will be to execute projects that will transform the region's economy into one that helps countries facilitate trade with each other and with foreigners in a manner that helps diversify the region's economies in an environmentally sustainable and socially inclusive manner."

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