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FEATURED Q&A

Why Is China Selling More Arms in Latin America?



Then-Argentine President Cristina Fernández de Kirchner announced an intent to buy nearly \$1 billion in Chinese weapons systems in February 2015. The status of those orders is unknown, however, under current President Mauricio Macri. // File Photo: Argentine Government.

Q As recently as 2005, China had been selling next to no armaments or weapons systems in Latin America. But between 2011 and 2015, Venezuela alone purchased \$373 million of Chinese weaponry, with other ALBA member states having also secured deals with China to purchase arms, as well as some non-member states, including Peru, The Diplomat reported last month. What accounts for the big increase in Chinese arms sales to Latin America over such a short period? Which global arms suppliers stand to lose the most as a result of this trend? Is the influx in Chinese arms in the region a trend that will last, or will it change along with shifting ideological winds and political leadership? What are the implications of China's increased arms sales for U.S. security interests in the region?

A Baiyi Wu, research professor and director-general of the Institute of Latin American Studies at the Chinese Academy of Social Sciences: "China's arms sales in Latin America are nothing contrary to the current arms control regimes, strictly below the relevant ceilings of specific weapons or destination, as articulated by the Missile Technology Control Regime. It's also important to note that all arms are defensive, conventional in category and in nature. Purchases of Chinese arms in Latin America occurred in the marketplace as a deal made on the commercial rule, which is that function and price prevail in the end. Purchasing from China is not an ideological consideration, but rather should be attributed to the comparative advantage of Chinese defense products, which accounts for this recent increase in sales in the region. That ALBA member states happened to purchase more

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TODAY'S NEWS

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Mercosur Nations Threaten to Suspend Venezuela

The trade bloc said it was giving Venezuela until Dec. 1 to comply with the group's membership requirements.

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POLITICAL

U.N. Approves Mission to Monitor Colombia Cease-Fire

The U.N. Security Council unanimously approved the creation of the mission, which will oversee the FARC's disarmament and other aspects of the peace deal.

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ECONOMIC

Brazil's Temer Launches Privatization Plan

Under the plan, the government will sell licenses at auction to operate oil and gas, infrastructure and electricity projects. President Michel Temer called the plan an "extraordinary opening" of Brazil's infrastructure.

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Temer // File Photo: Brazilian Government.

ECONOMIC NEWS

Brazil's Temer Launches Privatization Plan

Brazilian President Michel Temer on Tuesday announced a sweeping privatization plan in an effort to revive the country's economy, which is suffering its worst recession in decades. Under the initiative, the government plans to sell licenses to operate energy and infrastructure projects, Reuters reported. By March, Temer's government is also planning to sell operating

“We need to open up to the private sector because the state cannot do everything.”
— Michel Temer

licenses for the airports in Porto Alegre, Salvador, Fortaleza and Florianópolis. “We need to open up to the private sector because the state cannot do everything,” Temer told cabinet members during a discussion of the plan, which is called “Project Growth.” Privatizations that will include the construction and management of airports, roads, railways, oil fields and mining facilities will occur by 2017 or 2018, Temer said, the Associated Press reported. The plan encompasses an “extraordinary opening” of the country's infrastructure, he added. The government's concessions for the projects will have long-term financing from state-run banks or will be financed through bond sales on capital markets, Wellington Moreira Franco, the government's top official for increasing private sector investment in the country's infrastructure, said Tuesday, Reuters reported. “We will restore confidence by expanding the legal security for investors,” he said. Moreira Franco added that the concessions will offer “realistic” rates of return. Temer's government also wants to

boost investors' interest in Brazil's offshore oil reserves by eliminating a requirement for state-run oil company Petrobras to have a 30 percent stake in new projects. Also, Infraero, the state-run airport manager, will not be involved in the newly announced airport concessions. Additionally, investors who construct railways will be allowed to also operate them, a change from existing policy. The privatization plan also includes the government's selling of six power distributors that state company Eletrobras currently owns in the northern and northeastern parts of the country. Temer's administration also intends to sell Cedae, Rio de Janeiro's state-owned water and sewage company. Officials hope to raise \$24 billion through the privatizations, with \$11 billion of that amount coming from the oil and gas sector.

Brazil Fears Trade Fallout of U.S. Election: Amaral

Brazil's newly appointed ambassador to Washington, Sérgio Amaral, said Tuesday he fears the United States will move away from free trade as a result of this November's presidential election. “I fear that whoever is elected will be induced or forced to take some measures in the area of trade which will not correspond to a traditional free trade commitment,” Amaral said Tuesday at the Wilson Center in Washington. Amaral spoke to reporters and the public for the first time since being confirmed as ambassador on Aug. 16. But while Amaral lamented the timing of the U.S. shift away from globalization, he praised the “new possibilities” in its economic relationship with Argentina. Both Brazil and Argentina are moving to liberalize trade and secure foreign investment in order to boost their stagnant economies. The ambassador highlighted the pivotal role of the private sector in Brazil's process of improving infrastructure, as new President Michel Temer prepares to travel to meet with CEOs of U.S. companies next week in New York. Amaral also praised U.S. progress in the region due to President Barack Obama's “commitment to a multilateral approach” in Cuba and elsewhere.

NEWS BRIEFS

Mercosur Member Nations Threaten to Suspend Venezuela

The four founding members of Mercosur announced that they would give Venezuela until Dec. 1 to comply with the requirements for membership in the group, or else Venezuela would be suspended from the trade bloc, the Associated Press reported Tuesday. Mercosur founders Argentina, Brazil, Paraguay and Uruguay released a statement Tuesday giving Venezuela the ultimatum, though the statement gave no details as to which requirements Venezuela had not met. Paraguay's foreign minister did say recently that Venezuela's government must protect human rights and guarantee the free movement of citizens of Mercosur member nations.

SWIFT Integrates Argentina's Central Securities Depository

Global financial messaging network SWIFT announced Tuesday that it has fully integrated Argentina's central securities depository, Caja de Valores, into its network. “This is clear proof of our firm's steadfast commitment to help further the nation's capital markets revitalization,” said Caja de Valores CEO Alejandro Berney.

Santander to Buy Citi's Argentina Retail Operations

Spanish bank Banco Santander Rio will buy Citigroup's retail operations in Argentina, Reuters reported Tuesday, citing a report from La Nación. Earlier this year, the U.S. bank had announced it would exit its retail banking and credit card operations in Brazil, Argentina and Colombia as it looked to cut costs. The amount Santander will pay for the operations is not clear, though they are estimated to be valued at between \$200 million and \$300 million.

POLITICAL NEWS

U.N. Approves Mission to Monitor Colombia Cease-Fire

The United Nations Security Council on Tuesday approved a political mission that will monitor the cease-fire between the Colombian government and the Revolutionary Armed Forces of Colombia, or FARC, rebel group, the Associated Press reported. Security Council members unanimously approved the deployment of the mission, which will be made up of 450 observers and a number of civilians. The mission will be dispersed throughout 40 locations in Colombia and will oversee the laying down of arms by the FARC, as well as other aspects of the peace agreement. The mission is expected to be in force by the time the Colombian government and the FARC sign the formal peace agreement on Sept. 26 and when the deal is voted on in a national plebiscite on Oct. 2. Colombian President Juan Manuel Santos and FARC leaders signed a cease-fire and rebel disarmament deal on June 23. "Colombians will have the opportunity to open the doors to a better future," Colombia's ambassador to the United Nations, María Emma Mejía, said Tuesday.

BUSINESS NEWS

PDVSA Reportedly Must Pay BP Additional \$130 Mn

Cash-strapped Venezuelan state oil company PDVSA will have to pay oil major British Petroleum at least \$130 million more for planned crude imports than it had originally anticipated, according to internal documents seen by Reuters, the wire service reported Tuesday. Despite holding some of the world's largest crude reserves, Venezuela in March made its first crude purchase from BP in order to dilute its

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arms from China than other Latin American countries may be partially due to their tense relations with neighbors, and with Washington as well. However, Chinese sales do not necessarily have a political or diplomatic meaning. The shift to increased sales in Latin America may reveal that in the future, Chinese firms may become a new competitor in the region's diversifying arms market, which may affect the existing interest of U.S. counterparts. But for Washington's geopolitical and security interest, the trend is far less meaningful, because Beijing has no intent to involve itself in such rivalry in the region."

A **Margaret Myers, director of the China and Latin America Program at the Inter-American Dialogue:** "Chinese arms sales to Latin America have increased rather remarkably in recent years, along with China's arms sales elsewhere in the world. This growth is due in large part to the country's own effort to grow its military arms and other high-tech industries, which has resulted not only in more weapons exports, but also in the export of increasingly sophisticated military machinery. Latin America nonetheless represents a rather small portion of China's overall arms sales. According to The Stockholm International Peace Research Institute (SIPRI), from 2010-2014 more than 68 percent of Chinese exports went to just three countries: Pakistan, Bangladesh and Myanmar. As China's weapons industry continues

to grow, U.S. and other arms dealers should expect more competition from China's burgeoning military weapons industry, although the United States and Russia far outrank

“In general, China's ambitions in Latin America should be viewed as primarily economic in nature.”

— Margaret Myers

China in global sales. In general, China's ambitions in Latin America should be viewed as primarily economic in nature rather than part of Beijing's perceived geo-strategic calculus. The region is an attractive market for Chinese exporters of all sorts. Weapons sales to Venezuela and other left-leaning partner nations were largely encouraged by strong government-to-government ties and attractive financing arrangements. It remains to be seen whether new Latin American leaders will be as receptive to Chinese arms deals as some of their predecessors. There is always the risk, of course, that a surge in military sales to Latin American nations, whether by Chinese or other sellers, could fuel regional tensions. The recent development of a China-funded deep space research facility in Argentina generated plenty of concerns in neighboring Brazil."

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own extra-heavy crude. Venezuela awarded BP a large tender, for which the South American country had expected to pay \$230.9 million, or approximately \$31 per barrel, in prepaid shipments of 7.4 million barrels. Venezuela's delays in payments, however, had prevented BP from sending its crude to Venezuela on time, which resulted in BP repricing some of its cargoes, as well as charging PDVSA for keeping vessels offshore. The news comes as pending invoices to providers have been stacking up, unpaid by the state oil company. PDVSA is currently rac-

ing to refinance foreign bonds maturing in 2016 and 2017 in order to avoid a \$3 billion payment that is due in the last quarter of this year. At the end of last year, the oil company had \$43.8 billion in consolidated financial debt. The cash shortage has impaired the company's ability to import much-needed diluents that allow PDVSA to formulate exportable crude gases as well as produce refined products for the country's domestic market. The company has been trying to make up for its cash shortage by swapping oil in order to acquire imports of light crude.

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A **R. Evan Ellis, research professor of Latin American Studies at the U.S. Army War College Strategic Studies Institute:** “Chinese companies have sold limited quantities of low-technology military goods like uniforms and small arms to Latin America for some time. The HN-5 air defense weapons famously sent out of Bolivia before Evo Morales’ 2006 inauguration were Chinese. Hugo Chávez, who provided the breakthrough opportunity for the Chinese, initially bought Russian end items, but later Chinese systems as well, after the United States restricted arms sales to his regime. After Venezuela purchased the Chinese JYL-1 radar, the PRC leveraged Chávez’s relationship with Ecuador’s Rafael Correa to sell that country a similar system, although the deal ended badly. China similarly used Venezuela’s purchase of K-8 aircraft to sell additional K-8s to Bolivia. Within Venezuela, China leveraged its special relationship, convenient financing and low cost to diversify sales to Y-8 and Y-12 transport aircraft, L-15 fighters, Z-9 helicopters and armored vehicles. Doing so arguably concerned Russia’s Rosboronexport, whose aftermarket support, financing and electronics suites (in some cases) compares unfavorably to the Chinese. Peru’s purchase of Chinese trucks and Type 90-B

self-propelled artillery over Russian competition suggests that China continues to make inroads in the region, partly at Russia’s expense, in and beyond ALBA member states. The perceived low-quality of Chinese equipment, and the United States’ response, are

“China-based defense companies will continue to make progress as they improve quality and performance.”

— R. Evan Ellis

concerns for many Latin American militaries. Yet as with Chinese cars, motorcycles and cellphones, China-based defense companies will continue to make progress as they improve quality and performance, leverage internal financing and government support, and as their executives become more adept at working the region’s arms market.”

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

Subscription inquiries are welcomed at
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