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FEATURED Q&A

Should Latin America Be Concerned About China Overheating?

Q In May, China's government increased banks reserve requirements for the third time this year as part of its efforts to roll back economic stimulus measures and prevent overheating. China has also become an increasingly important driver for many economies in Latin America, and has played a critical role in their recovery following the global economic crisis. How concerned should Latin American countries be about the possibility of China overheating? How will they be affected by economic tightening in China?

probably result in a slight reduction in Chinese imports of some commodities like iron ore and copper, but probably with no harm to imports of agricultural commodities or manufactures. Other areas of the China-Latin America relationship shouldn't suffer too much. The purchase of Chinese products and investments in LAC will not be greatly affected by a slightly slower rate of growth in the Chinese economy. On the other hand, if China's economy goes through a hard landing—and so far there is no strong reason to believe it

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A Lara Azevedo, international analyst at the China-Brazil Business Council in Rio de Janeiro: "Latin American countries (LAC) don't need to worry, at least for now. The Chinese government's measures to decelerate the economy are already taking effect in some important sectors. Economic data for May shows the beginning of a controlled deceleration, with higher inflation rates. Fixed-asset investments, the main contributor to Chinese growth last year, rose annually 20.6 percent in April, down from 24.1 percent in the first quarter. The property market is also showing signs of cooling as national house sales volume decreased 15.8 percent month-on-month in May. What could be the effects for LAC? With a drop infrastructure investment and housing construction, Chinese industrial production will probably decelerate more, mainly heavy industry. All of this would



García, Lula Meet in Manaus, Agree to Energy Cooperation

Presidents Alan García of Peru and Luiz Inácio Lula da Silva of Brazil (L-R) met Wednesday in Manaus, Brazil, where the two governments agreed to cooperate in areas including energy. See story on page 3.

Photo: Brazilian Government.

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NEWS BRIEFS

Former Haitian Prime Minister Marc Bazin Dies at 78

Marc Bazin, who was Haiti's prime minister for a year and twice ran unsuccessfully for president, died of cancer Wednesday at age 78, the Associated Press reported. In his first run for the presidency in 1990, Bazin lost to Jean-Bertrand Aristide, but was appointed prime minister in 1992 after Aristide was toppled in a coup. Bazin ran again for president in 2004, but lost to current President René Prével. [Editor's note: See Bazin's commentary on Haiti's earthquake on page 3 of the Jan. 27 [Advisor](#).]

Brasil Telecom Shareholders Reject Terms of Oi Share Swap

Minority shareholders of **Brasil Telecom** have rejected terms of a share swap with **Telemar Norte Leste**, known as Oi, that would simplify the two companies' corporate structure after Oi gained control of Brasil Telecom in 2008. Brasil Telecom investors turned down the offer after Oi cut the proposed swap ratio by 21 percent, Bloomberg News reported.

Guatemala Will Allow Goldcorp Mine to Continue Operating

Guatemala's government will not shut down a controversial gold mine unless ordered to do so by the Organization of American States, the country's vice president told Bloomberg News in an interview published Wednesday. The Inter-American Commission on Human Rights, a part of the OAS, has given Guatemala until June 24 to close the Marlin mine, which is owned by Vancouver-based **Goldcorp**, while allegations over the company's treatment of indigenous people are investigated.

Political News

Cuba, Vatican Officials Express Optimism in Talks

Top diplomats from Cuba and the Vatican City expressed optimism on the progress of bilateral talks in Havana and on the possibility for more such encounters in the future. The talks with the Catholic Church have been "fluid, profound and constructive," said Cuban Foreign Minister Bruno Rodríguez, EFE reported. "All the conditions" are present for "these fruitful exchanges" to continue, he added. The Vatican's top diplomat, Archbishop Dominique Mamberti, said he hoped the talks would "strengthen" dialogue between Cuba and church officials on the island. "Monseñor Mamberti is arriving in our country at a very favorable time. The Catholic Church in Cuba, the Cuban government and the Cuban lay state have maintained a fluid, profound and con-

“The Catholic Church in Cuba, the Cuban government and the Cuban lay state have maintained a fluid, profound and constructive communication.”

— Bruno Rodríguez

structive communication," said Rodríguez. Mamberti's trip to Cuba was officially to mark 75 years of bilateral links between Havana and the Vatican. Mamberti, who arrived in the Cuban capital Tuesday, also is expected to attend discussions on Cuba's economic woes and efforts to improve links between Cubans and exiles in other countries including the United States, the Associated Press reported. The month-long round of talks between officials of the Catholic Church and Cuba's government has led to the release of ailing political prisoner Ariel Sigler on Saturday and the transfer of 12

other political prisoners to jails closer to their homes, which began June 1. In Washington, State Department spokesman P.J. Crowley said in a statement that the United States views Sigler's release as a "positive development." However, Cuba bristled at the statement. "Cuba doesn't recognize any authority by the State Department or its spokesman to pass judgments on internal matters," Josefina Vidal Ferreiro, director of the North American affairs office of the Cuban Foreign Ministry, told the AP. "Moreover, the United States doesn't have moral authority to give lessons to anyone." At their joint news conference Wednesday, neither Rodríguez nor Mamberti spoke of the possibility of Cuba releasing any more of its 180 political prisoners and Mamberti said he was not planning to meet with any dissidents, though he did not rule out the possibility. At the news conference, Rodríguez also mentioned the case of Alan Gross, a U.S. government contractor who was arrested in Cuba in December on charges of spying. Gross was in Cuba to distribute computers and communications equipment to civil society groups, according to U.S. officials. Rodríguez said Gross committed "grave crimes in our country at the service of the subversive policy of the United States against Cuba." Gross has still not been charged with a crime after six months of imprisonment. [Editor's note: See related Q&A in Wednesday's [Advisor](#).]

Economic News

Calderón Launches Public Relations Campaign to Boost Mexico's Image

Mexican President Felipe Calderón is launching a public relations effort to improve Mexico's image as a safe place for tourists and investors, Reuters reported Wednesday. "We are promoting a comprehensive advertising project in my government, primarily public relations, and we are hiring the best agencies in the world to promote Mexico's image," Calderón said in a speech this week in Baja California Sur state. "Yes, we will explain the problems we have, but also how we are facing them. Above all we want to show what our

country has to offer, which is a lot." The cost of the campaign, which will be run by the country's tourism ministry, was not disclosed. When he took office in late 2006, Calderón sent thousands of troops and federal police to fight drug gangs. Since then, more than 23,000 people have been killed in Mexico's drug-related violence. In the past several days, Mexico has seen one of the deadliest spikes in violence since Calderón took office. Last week, gunmen killed 19 drug addicts at a clinic in northern Mexico. Earlier this week, assailants killed 10 federal police officers in an ambush in Michoacán state.



Calderón

File Photo: Mexican Government.

Twenty-eight prisoners died earlier this week in a prison gunfight. Fifteen people were killed in a gun battle with the Army in the town of Taxco and five police officers were killed in Monterrey. In response to the latest spate of violence, Calderón delivered a televised address Tuesday pledging to continue fighting drug gangs. Some analysts questioned the advertising campaign. "The president is convinced that foreign investment is dropping off because of the security situation ... he wants to show a safer Mexico, a more advanced Mexico," drug trade expert Edgardo Buscaglia of ITAM University told Reuters. "But the reality is, businessmen are still seeing people decapitated everyday, ambushes ... that can't be solved by an advertising campaign."

Brazilian, Peruvian Officials Sign Energy Cooperation Accords

Officials from Brazil and Peru signed several agreements Wednesday, including ones for energy cooperation, during a meeting between the two countries' presidents in the Brazilian city of Manaus. The main energy accord is an agreement for the supply of electricity to Peru, said Brazilian presidential spokesman Marcelo Baumbach, EFE reported. The two countries also agreed to lay the groundwork for Brazilian companies to participate in

Featured Q&A

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will do so—then LAC should be concerned, as they would be severely affected by the significant drop in trade with a major partner and lose a growing source of investment. In the case of Brazil, we would probably be affected by the

“Latin American countries don't need to worry, at least for now.”

— Lara Azevedo

decrease of Chinese exports of machinery and inputs for our industries—more than 70 percent of Brazilian imports from China are machinery and industrial inputs—as well as a drop of Brazilian sales to our main trade partner. Moreover, an important new feature of our relationship with the Chinese, the increase of Chinese investments in Brazil (in 2010 alone, the Chinese have already announced \$12.7 billion in investments here), would be significantly damaged, as China would probably retrench from investing abroad."

Peru's energy sector. The agreements are part of "the process of electricity interconnection between Brazil and Peru,

AR. Evan Ellis, assistant professor of National Security Studies, Modeling, Gaming & Simulation at the National Defense University in Washington: "To date, China's investment in Latin America has been limited by a lack of experience in the region, rather than a lack of capital to invest. The counter-expansionary effects of China's actions to manage growth pale in comparison to the imperatives moving ever larger quantities of Chinese resources into Latin America. China has \$2.5 trillion in foreign reserves, and will be approaching \$3 trillion by mid-2011. China is actively looking for alternatives to investing its reserves in U.S. treasury bonds, and has set aside \$300 billion in a sovereign wealth fund (the world's largest) to invest its resources more strategically. During the past decade, starting from virtually zero experience with or presence in Latin America, Chinese banks and state companies have scrambled to identify viable investments in the region which also support other national goals: securing access to primary products and opening up new markets for Chinese goods. Following many years of exploratory trips, enabling agreements, mistakes and false starts, China's ability to put together rational, reasonable-risk

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the exportation of surplus to Brazil and also will provide for the necessary action to guarantee the environmental sustain-

“The accord will establish general rules for Brazil's participation in hydroelectric projects in Peru”

— Marcelo Baumbach

which aims to strengthen the energy security of both countries," said Baumbach. "The accord will establish general rules for Brazil's participation in hydroelectric projects in Peru including

ability" of projects, he added. Officials from the two governments also signed agreements on health, finance and education during the meeting, Agencia Andina reported.

Featured Q&A*Continued from page 3*

projects in Latin America is beginning to catch up to its available funds. Recent examples include a \$10 billion loan to Petrobras, a \$20 billion loan to Venezuela, a \$10.2 billion debt swap with Argentina,

“China's ability to put together rational, reasonable-risk projects in Latin America is beginning to catch up to its available funds.”

— *R. Evan Ellis*

a \$16.3 billion commitment in Orinoco oil, a \$5 billion joint venture for a Brazilian steel mill, more than \$5 billion in Peruvian mining, \$3 billion for a 50 percent stake in Bidas, \$3.1 billion for a stake in Brazilian offshore oil, \$2 billion for an Ecuadorean hydroelectric project, and even bigger deals yet to come.”

A Osvaldo Rosales, director of the Trade and Integration division of the United Nations Economic Commission on Latin America in Santiago: “An eventual overheating of the Chinese economy would be more serious for Latin America—par-

ticularly South America—than the Greek crisis and its impact on European economies. This is because of the strong and growing commercial links between China and our economies. In effect, an overheating of the Chinese economy and the subsequent explosion of real estate or equity bubbles would mean a drop in demand and in the price of the region's commodity exports, severely affecting the external accounts of those economies that depend on China as their primary (Brazil, Chile) or secondary (Argentina, Costa Rica, Cuba and Peru) export market. However, these risks are lessening due to recent Chinese data showing a contraction in credit growth, deceleration in fixed investment and a drop in real estate sales. Taking these factors into account, the GDP growth projection of 10 percent for China this year remains robust. As a result, prices for Latin America's commodity exports will stay high, favoring economic growth and an improvement in the terms of trade for the South American economies. Overall, measures to control liquidity reduce the risk of the Chinese economy overheating and constitute good news for Latin America and the world economy.”

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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