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FEATURED Q&A

Will Negotiators Find a Way to Rework NAFTA?



Canadian Foreign Minister Chrystia Freeland, U.S. Trade Representative Robert Lighthizer and Mexican Economy Minister Ildefonso Guajardo (L-R) announced on Oct. 17 that talks to renegotiate NAFTA would continue into next year. // File Photo: Mexican Economy Ministry.

Q The fourth round of negotiations for the North American Free Trade Agreement, or NAFTA, ended on Oct. 17 with U.S., Mexican and Canadian negotiators deciding to prolong the talks through next March, abandoning their goal of reaching an agreement by year-end. Will negotiators be able to strike a deal amenable to all three countries? Will Trump administration demands, blasted as “poison pill” proposals by the head of the U.S. Chamber of Commerce, doom the talks? How will next year’s U.S. midterm elections and Mexico’s presidential election affect the renegotiations? If NAFTA disappears, what would be the consequences for North America’s businesses and economies?

A Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States: “Given the depth and breadth of the U.S.-Mexico trading relationship, which went from \$91 billion in 1993 to \$579 billion in 2017, it’s hard to imagine a scenario in which a NAFTA-less future benefits any of the countries, notwithstanding the fact-free vacuum and mercantilist obsession—and most recently the gobbledygook in internal White House memos—with which the Trump administration has approached trade with its North American partners. The least worrying baseline case would be one in which the three countries revert to their pre-NAFTA levels of protection, with WTO commitments and most-favored nation tariffs. While most of those tariffs are today certainly lower than at the time NAFTA was signed, there’s no question that even this scenario would involve a dramatic and painful unwinding of integrated supply

Continued on page 3

TODAY'S NEWS

ECONOMIC

Mexico's Inflation Slows in October's First Half

Inflation slowed, continuing a steady drop since a peak in August amid falling prices for agricultural produce.

Page 2

ECONOMIC

Ecuador Seeking to Renegotiate Oil Deals With Chinese Firms

Ecuador is seeking better prices for its crude exports to China and also wants to reduce its exports to the Asian country, said the head of state-owned Petroecuador.

Page 2

POLITICAL

Venezuela's Capriles Pulls Out of Opposition Coalition

Opposition leader Henrique Capriles' move to withdraw from the Democratic Unity Roundtable, or MUD, coalition came a day after four opposition governors agreed to be sworn in before the powerful new Constituent Assembly.

Page 2



Capriles // File Photo: Venezuelan Government.

POLITICAL NEWS

Venezuela's Capriles Pulls Out of Opposition Coalition

Venezuelan opposition leader and former presidential candidate Henrique Capriles on Tuesday withdrew from the opposition Democratic Unity Roundtable, or MUD, highlighting a deep public rift in the coalition, BBC News reported. Capriles said he was pulling out of the coalition in protest of the ultimate acquiescence of four opposition governors, of Anzoátegui, Mérida, Nueva Esparta and Táchira states, to be sworn

“**[The coalition] is just some people that grab the bones that are thrown to them.**”

— Henrique Capriles

in by the country's pro-government Constituent Assembly. The opposition governors had originally refused to submit themselves to the assembly, which President Nicolás Maduro's government created earlier this year, but then relented after Maduro threatened to re-hold gubernatorial elections in the five states that elected opposition governors on Oct. 15. They were sworn in Monday before the assembly, in defiance of the opposition coalition's official position. Juan Pablo Guanipa, the governor-elect of Zulia State, has maintained his refusal to take his oath of office before the assembly. In breaking from the opposition coalition, Capriles said he “would not be part” of it “because it is not unity as a concept or a vision.” He added, “It is just some people that grab the bones that are thrown to them,” BBC News reported. Capriles added that now is the time to rebuild the alliance. “What happened yesterday is a unique and historic opportunity,” said Capriles, The New York Times reported. He called for “a reorganization” and “something new.” Polling before the gubernatorial elections forecast a near sweep by the opposition.

However, the official results were the opposite, with Maduro's allies winning 18 of the 23 gubernatorial races. Opposition leaders have alleged widespread fraud, though Maduro has said Venezuela has “the most perfect electoral system in the world.” [Editor's note: See [Q&A](#) on Venezuela's gubernatorial elections in the Oct. 19 issue of the Advisor.]

ECONOMIC NEWS

Mexico's Inflation Slows in First Half of October

Mexico's inflation slowed in the first half of October, continuing a steady drop since August's peak as prices for agricultural produce helped to offset a jump in energy prices, The Wall Street Journal reported Tuesday. The annual inflation rate dropped to 6.3 percent from 6.35 percent at the end of September, due to a 0.62 percent increase in the consumer-price index during the first two weeks of the month, the National Statistics Institute said. Inflation had reached a 16-year high in August of 6.66 percent, affirming the central bank's decision to hold its interest rate steady during its two previous policy meetings after a streak of overnight-rate hikes. The central bank expects consumer prices to ease through the rest of the year, and it expects inflation to return to its 3 percent target by the end of next year. Increases in energy costs were the strongest factor contributing to inflation, as subsidies in 15 cities which are designed to help Mexicans pay for air-conditioning costs came to an end with the close of the summer season. Public transportation costs and telecommunications costs also increased after a drop in costs in September following a deadly earthquake that led lawmakers to waive fares for the city's subway system and led the country's telecommunications companies to provide free phone calls, as well as messaging and mobile data services, so that anyone could use their phones to communicate in the aftermath of the crisis. Agricultural prices rose 1.52 percent during the

NEWS BRIEFS

Amazon Launches Cash-Payment Program in Mexico

Seattle-based retail giant Amazon on Tuesday launched a cash-payment program in Mexico in a bid to lure customers who are worried about credit-card fraud and often earn a living in paper currency, Reuters reported. Amazon is the third-largest online retailer in Mexico. The company's 2016 sales of \$253 million lag far behind the country's top online retailer, Argentina's MercadoLibre, and are only slightly higher than Wal-Mart de México's online sales.

Ecuador Seeking to Renegotiate Oil Deals With Chinese Firms

Ecuador's government wants to renegotiate several oil deals with Chinese firms in order to get higher prices for the country's crude exports, Byron Ojeda, the head of state-owned Petroecuador said Tuesday, Reuters reported. Ecuador has shipped approximately half of its oil to China under deals signed by former President Rafael Correa. Ecuador also wants to reduce its oil exports to China, said Ojeda.

Eight Guyanese Bank Directors Released on Bail

Eight directors of the Guyana Bank for Trade Industry were released on bail after appearing in court on Monday, the Caribbean Media Corporation reported. The directors had been charged with failing to comply with a court order to provide information regarding the movement of \$500 million in the account of the Guyana Rice Development Board. The eight directors have denied the allegation that they failed to comply with a court order made by the chief justice. Guyana's Special Organized Crime Unit recently launched an investigation into tracking down more than \$500 million that the Guyana Rice Development Board handled starting as many as seven years ago.

FEATURED Q&A / Continued from page 1

chains and production platforms. There's no question either that termination would involve higher consumer prices, business failure and substantial job loss in all three nations. The more relevant question for the United States in the near future, however, might be 'who lost Mexico?' There's already substantial public-opinion and political backlash to the stuffing the Trump administration is attempting to pull off with its two neighbors. This will severely constrain the Mexican government's maneuverability to agree to poisonous or damaging clauses, particularly as the crunch-time of both the negotiations and the Mexican electoral campaign converge. Mr. Trump should be very careful what he wishes for. The United States has had the luxury of having an ally nation on its southern border for decades now. Torpedo NAFTA and its political and economic foundations, and it will have a huge and detrimental impact on all of the edifices of the strategic bilateral relationship that we have so painstakingly built since NAFTA and since 9/11."

A **Clifford Sosnow, partner at Fasken Martineau in Canada:** "All countries go into negotiations aware of the domestic political situation that will be affected by the talks. NAFTA is no different. If the U.S. positions are not flexible and there is absolutely no room to negotiate, then they raise the risk of NAFTA failure. Even though Canada and Mexico have rejected some of the United States' proposals on procurement, dispute settlement, dairy access, automobile rules of origin and a sunset clause, among others, the United States has agreed to continue discussions until the first quarter of 2018. This means that the United States is introducing 'wish list' proposals and is prepared to see if or how the proposals can be modified to obtain agreement. The likelihood a substantial NAFTA negotiation being completed before the end of 2017 was highly unlikely, even though all three countries are aware of the

U.S. midterm and Mexican presidential elections. Next year's elections, at the very least, will add another layer of uncertainty to an already uncertain negotiation. Annual trade between the NAFTA countries is \$1.2 trillion.

“Next year's elections, at the very least, will add another layer of uncertainty to an already uncertain negotiation.”

– Clifford Sosnow

Supply chains by some of the largest employers and smaller businesses have been built to take advantage of NAFTA. Since its inception, the NAFTA countries have become more integrated. It is true that if the United States left NAFTA, Canada and Mexico could still keep NAFTA between them, the older Canada free-trade agreement would apply between the United States and Canada, and WTO rules would apply to Mexico-U.S. trade. But the disruption in supply chains, the increased tariff and administrative costs and the confusion created by the U.S. withdrawal could seriously harm the economies of all three countries."

A **Larry B. Pascal, partner and chair of the Americas Practice Group at Haynes and Boone in Dallas:** "The culmination of the fourth round of the NAFTA renegotiation talks and the announcement of the extension of the talks to 2018 highlight several realities. The parties agree that modernizing the agreement is necessary, particularly in areas either not addressed or only lightly touched upon in the current version. Moreover, there appears to be progress in several technical areas. However, the Trump administration has adopted for strong negotiating positions in a variety of areas that jeopardize

Continued on page 4

first two weeks of this month, and overall food and beverage costs fell 0.63 percent.

BUSINESS NEWS

Lawmakers Probing Puerto Rico Contract Given to Small Firm

A \$300 million contract to help rebuild Puerto Rico's energy sector in the wake of Hurricanes Irma and Maria was awarded to two-year-old Montana-based Whitefish Energy Holdings, sparking calls for an investigation by congressional Republicans and Democrats, USA Today reported Wednesday. The company, which had only two employees at the time of the hurricane and is relatively inexperienced compared to other companies that might have been selected for the job, is based in Interior Secretary Ryan Zinke's hometown of Whitefish, Mont., raising questions as to how the company secured such a lucrative contract. Also, Zinke's son had previously held a summer job at a Whitefish Energy construction site. On Tuesday, the House Natural Resources Committee chairman said the committee would be looking into the contract, The New York Times reported. Also on Tuesday, Senator Maria Cantwell (D-Wash.) asked the Government Accountability Office to investigate the circumstances surrounding Whitefish's contract. Puerto Rican opposition Senator Eduardo Bhatia called the awarding of the contract to Whitefish "absolutely outrageous." He said the Puerto Rico Electric Power Authority did not appear to have made any open requests for proposals, to have performed background checks or to have followed the normal safeguards and checks before awarding the company the contract, The New York Times reported. Interior Department and company officials said Zinke had not helped Whitefish to obtain the contract. In related news, the U.S. Senate passed a \$36.5 billion hurricane relief bill on Tuesday that gives Puerto Ricans access to \$4.9 billion in low-interest Treasury loans to help aid in recovery efforts, Bloomberg News reported.

FEATURED Q&A / Continued from page 3

dize the success of the talks, particularly with respect to: 1) eliminating bilateral trade imbalances; 2) increasing requirements for regional and country-specific origin (particularly in the automotive sector); 3) expanding national preferences in government procurement; 4) weakening investor-state and trade remedy dispute resolution regimes; and 5) subjecting the agreement itself to mandatory periodic sunset review in the absence of new negotiations. These demands will be very hard for Canadian and Mexican trade negotiators to accept. Moreover, the upcoming 2018 midterm congressional elections in the United States and presidential and congressional elections in Mexico present additional challenges and may restrict the negotiating room for the trade representatives of these two countries. In particular, leading Mexican presidential candidate Andrés Manuel López Obrador has strongly criticized NAFTA and is expected to run on his own populist platform. If López Obrador is elected, a NAFTA renegotiation would be even less likely to be successfully concluded. A terminated NAFTA would negatively affect the three North American countries by slowing trade between the three countries, which are major trade partners."

A **Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue:** "Until recently, it appeared that President Trump, despite his continued attacks on NAFTA, might be satisfied with few innocuous changes to the 25-year-old pact. A withdrawal from NAFTA seemed improbable, given the opposition of powerful lobbies—giant corporations, Wall Street banks, agricultural enterprises and others. Most Republicans support free trade, as do key members of Trump's economic team. So far, Mexico and Canada are resisting the U.S. negotiators' demands—highly restrictive rules of origin, preferences

for U.S.-made goods, scrapping dispute resolution mechanisms and renegotiating the pact every five years—but they may have to accept some of them, or see the United States abandon the agreement. Calculating the costs of ending NAFTA is an impossible task, but the blow would be greatest for

“**Bilateral cooperation on many vital issues is threatened...**”

— Peter Hakim

Mexico. The main costs, however, may not be economic. Trump's attacks on NAFTA, coupled with his other venomous insults of Mexico and Mexicans, have already provoked a popular wave of anti-U.S. sentiment and growing mistrust between the governments, which could presage the election next year of a Mexican president hostile to the United States. Bilateral cooperation on many vital issues is threatened and could return relations to where they were 30 years ago, when Mexico's priority was protecting itself and its economy from the United States. Governments everywhere are trying hard to find ways to accommodate the Trump administration. They recognize the power and wealth of the United States. But if Washington imposes its demands on Mexico or pulls out of NAFTA—as it has from several other international accords—it will be another sharp warning signal that United States has become an unreliable and unpredictable partner."

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