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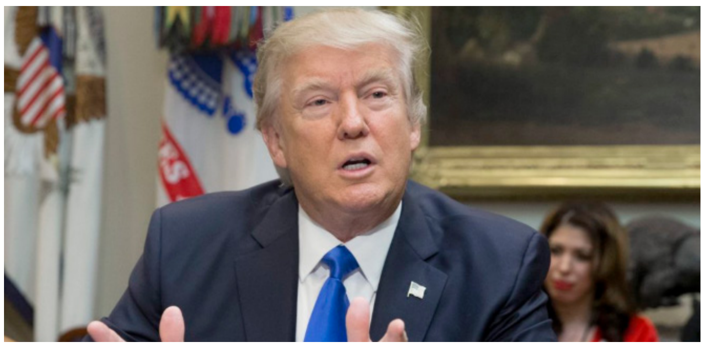
FEATURED Q&A

What Would a Global Trade War Mean for Latin America?



U.S. President Donald Trump's administration last week imposed tariffs on steel and aluminum imported from Mexico, Canada and the European Union. // File Photo: U.S. State Department.

Q **U.S. President Donald Trump's administration on June 1 put into effect tariffs on steel and aluminum from Mexico, Canada and the European Union. Officials from the targeted countries swiftly announced retaliatory measures. While some participants in the U.S. metals industry applauded the move, other sectors of the U.S. economy now targeted for retaliation expressed alarm. What effects will the tariffs have on the economies of the United States and the other countries involved? What is the likelihood of the tariffs being reversed soon? To what extent are the new U.S. tariffs justified?**

A **Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States:** "No one can claim to be surprised that President Trump now has the makings of the trade war he's always wanted. We were all forewarned during the campaign, when in his major foreign policy speech he reiterated that the world had taken advantage of the United States, that he'd make the United States a less 'predictable' nation and articulated a Sinatra Doctrine of my way, or the highway. But to argue that Canada and Mexico are threats to national security in order to impose tariffs is a slap in the face of two countries that have watched the United States' back since 9/11, and, in the case of Canada (even more gallingly), a military and NATO ally. This is how trade wars escalate, and the administration's reckless decision to impose tariffs has opened up various fronts. First, it will cause unnecessary economic pain to farmers, manufacturers and consumers across the United States. It's no secret

Continued on page 3

TODAY'S NEWS

BUSINESS

Equinor, Exxon Grab Blocks in Brazil Oil Auction

A consortium made up by Norway's Equinor, U.S-based ExxonMobil and Petroleos de Portugal offered more than three times the minimum bid for a block in the Santos Basin.

Page 3

POLITICAL

Rescue Crews Suspend Searches in Guatemala

Rescue crews suspended their searches four days after Sunday's violent eruption of the Volcán de Fuego. Authorities said it would be very unlikely to find more survivors.

Page 2

ECONOMIC

Argentina, IMF Agree on $50 Bn Credit Line

The deal is at the upper end of what analysts had been expecting. "We are convinced that we are on the right path, that we've avoided a crisis," Argentine Treasury Minister Nicolás Dujovne told reporters in Buenos Aires.

Page 2

Dujovne // File Photo: Argentine Government.

EECONOMIC NEWS

IMF Staff, Argentina Agree on $50 Billion Credit Line

Argentine officials and International Monetary Fund staff have reached a deal on a 36-month "stand-by arrangement" amounting to $50 billion, the Washington-based lender said Thursday. The amount is equivalent to about 1,110 percent of Argentina's quota in the IMF. The fund's executive board is expected to approve the agreement "in the coming days." Argentine authorities indicated that they intend to draw on the first tranche of the credit line, about $15 billion, but subsequently treat the loan as precautionary. The administration of Argentine President Mauricio Macri last month surprised markets abroad and citizens at home alike when it announced that it would seek assistance from the IMF in response to a sharp weakening of its peso that lead to large expenditures of international reserves to prop up the currency. Much of Argentina's population continues to blame the IMF for Argentina's devastating debt default and economic crash nearly two decades ago. "This measure will ultimately lessen the government financing needs, put public debt on a downward trajectory, and as President Macri has stated, relieve a burden from Argentina's back," said Christine Lagarde, the IMF's managing director. Under the new agreement, Argentine authorities are committing to a faster pace of fiscal consolidation and to more realistic inflation targets, but the terms overall are "relatively light" on Argentine authorities, Goldman Sachs analyst Alberto Ramos told clients in a research note today. "This was likely done by design in order to make sure the authorities deliver on their commitments and the IMF program remains on track during the first year," Ramos said. In a separate statement, Macri's office said Thursday it had clinched agreements for an additional $5.65 billion from the Inter-American Development Bank, the World Bank and the CAF Development Bank of Latin America over the next 12 months, Reuters reported. [Editor's note: See related **Q&A** in the May 11 issue of the Advisor.]

President Mauricio Macri's administration sought assistance from the IMF following a sharp weakening of the peso.

Oliva Becomes Peru's Fifth Finance Minister in a Year

Peruvian President Martín Vizcarra on Thursday swore in Carlos Oliva as the country's fifth finance minister in the past year, Reuters reported. Oliva, whose predecessor David Tuesta resigned Monday following street protests over higher excise tax rates on diesel and other fuels, inherits a combustible situation. Recent street protests left a police car burned with threats of a major transportation strike similar to one that halted commerce across neighboring Brazil recently. Tuesta stepped down after Vizcarra's government negotiated a deal with truck and bus drivers that averted larger protests, a move that irked supporters of Peru's free-market economic model. "Let's hope the departure isn't a response to new policy reversals due to pressure," Alonso Segura, a former finance minister during the government of former President Ollanta Humala, said on Twitter, Reuters reported. Oliva, 53, will also need to help spearhead Vizcarra's promise to recover unpaid corporate taxes, another controversial initiative. In announcing Tuesta's departure earlier this week, Vizcarra said his government would focus on enforcing current tax laws rather than raising taxes. While Oliva has strong credentials as a market-orthodox technocrat, it remains to be seen how adept the new minister will be at finding political consensus. Early in his career, Oliva worked at the Inter-American Development Bank in Washington, from 1992 to 2000, and from 2011 to 2015, he served

NEWS BRIEFS

Rescue Crews Suspend Search After Eruption of Guatemala Volcano

Rescuers in Guatemala suspended their searches on Thursday, four days after a violent eruption of the Volcán de Fuego, or Volcano of Fire, buried victims and homes in lava and destroyed nearby villages, the Associated Press reported. Authorities raised the confirmed number of fatalities to 109 and said 200 others remain missing. Still-hot volcanic material was reportedly making rescue efforts dangerous.

Banco Bradesco Signs on to New SWIFT Service

Banco Bradesco has become the first bank in Brazil to join SWIFT gpi, which stands for global payment innovation, a service aimed at improving cross-border payments, SWIFT announced Tuesday. More than $100 billion a day now flows over gpi, which SWIFT launched last year as "the largest change in cross-border payments over the last 30 years" and "the new standard." Forty-nine of the world's s top 50 banks have signed up to the service. SWIFT is a member-owned cooperative and that provides secure financial messaging services.

S&P Global Puts Barbados' Rating in 'Selective Default'

S&P Global has lowered its long-term foreign currency rating on Barbados to "selective default," the Jamaica Gleaner reported Thursday. New Prime Minister Mia Mottley recently suspended foreign debt service payments, seeking to make interest payments on domestic debt while negotiating a restructuring agreement with creditors. The New York-based ratings agency said it believes that Barbados "will fail to pay its other outstanding external debt obligations as they come due" while it negotiates a restructuring agreement with external creditors, according to the report.

as deputy finance minister at the Ministry of Economy and Finance. [Editor's note: See **Q&A** about Vizcarra's cabinet in the April 20 issue of the Advisor.]

BUSINESS NEWS

Equinor Consortium Grabs Blocks in Brazil Oil Auction

A consortium comprised of Norway's Equinor, U.S.-based ExxonMobil and Petroleos de Portugal made the most aggressive play in Thursday's auction of offshore oil blocks in Brazil,

Monteiro // File Photo: Petrobras.

Reuters reported. The consortium offered in excess of three times the minimum bid for the Santos Basin's Uirapuru block. The companies will have to partner with Brazilian state-run oil company Petrobras, which joined every winning consortium in the auction, the wire service reported. Chevron, BP and Royal Dutch Shell also offered winning bids. The Brazilian government collected signing bonuses worth 3.15 billion reais ($800 million) in the auction, which was held amid concerns of political meddling in Brazil's energy sector. Unexpected changes to the price of diesel fuel last month in Brazil raised concerns about political influence at the state oil company and also led to the sudden exit of Petrobras' chief executive officer, Pedro Parente. The company will continue seeking to increase its exploration portfolio, said Ivan Monteiro in his first public comments as Petrobras' CEO. On Tuesday, the company's board tapped Monteiro, who had been serving as chief financial officer, as CEO.

FEATURED Q&A / Continued from page 1

that—like what we did in 2009 to force American compliance with a WTO ruling on Mexican trucks entering the United States—the rationale behind Mexico's countervailing duties is: a) inflict political pain and costs on pro-Trump states and districts; b) ensure that U.S. actors that pushed for the tariffs bear the brunt of reprisals; and c) avoid disrupting Mexican supply chains, diverting imports away from the United States and toward Canada and the European Union. Second, the prospects for a NAFTA deal have been severely hampered, making the renegotiation more challenging, though not impossible. And third, Trump's disdain for multilateral deals and his willingness to enact aggressive tariffs raise concerns that the WTO could become collateral damage. It's time for free-trading Republicans to stand up to Trump on tariffs—and for Democrats to stand with them. Absent that, and paraphrasing Yoda in the Star Wars saga, begun, the trade war has."

A **Thomas Gibson, president and CEO of the American Iron and Steel Institute:** "Nearly 38 million tons of steel were imported into the United States last year. That's more than 100,000 tons a day. The Organization for Economic Cooperation and Development recently estimated that there is nearly 600 million tons of overcapacity in the world. The massive global overcapacity in steel continues to cause this surge in imports. This steel glut is fueled by China and other countries subsidizing their steel production. As a result, they produce vast amounts of steel that is unused in their domestic markets and then dumped all around the world. In many cases, imports include steel that originates in China, which is shipped to third countries for further processing before it is exported to the United States. The steel industry has addressed a number of these import issues through traditional trade cases brought against specific steel products from specific countries. But as soon as the industry wins a trade case, imports of that product shift to another country. In the process, American production, investment and jobs are displaced. Which is why the U.S. producers of

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— Thomas Gibson

AISI fully support the Trump administration's position that any country that is granted an exemption from the tariffs must be subject to a quota, in order to safeguard against the exempt country becoming a conduit for trade diversion, transshipment and import surges. The president wants the industry to achieve 80 percent or more capacity utilization over the long-term. We wholeheartedly agree. We believe the NAFTA discussions should continue as they can be a basis for ensuring use of more NAFTA steel while achieving the objectives of the Section 232 remedies."

A **Ray Walser, retired foreign service officer:** "Achieving a return to 'American Greatness' requires, claims President Trump, a dramatic revision of disadvantageous trade deals. The president maintains that winning trade wars is easy while maneuvering to become the most protectionist president since Herbert Hoover. From the swift withdrawal from the Trans-Pacific Partnership to contentious NAFTA renegotiations and the latest tariff measures on steel and aluminum imports on national security grounds, U.S. trade policy decision-making appears to be increasingly controlled by the president's team of zero-sum economic nationalists.

Continued on page 4

FEATURED Q&A / Continued from page 3

Imposition of steel tariffs will affect trade in the Americas. Although the United States produces approximately 75 percent of the steel it consumes, it is also the world's largest importer. Roughly 40 percent of steel imports come from Canada, Brazil and Mexico. Most knowledgeable trade experts predict the purported benefits in new jobs and a reduced trade deficit will be more than offset by job loss and higher prices in downstream industries and damage to U.S. competitiveness. What is good for U.S. Steel is not necessarily good for John Deere and Caterpillar. Picking economic winners and losers is not a job best entrusted to Washington politicians. Close trade partners are already examining retaliatory measures. G7 ministers stated forcefully that U.S. actions 'undermine open trade and confidence in the global economy.' Canadian officials consider absurd the claim their steel exports threaten U.S. national security. Overall, many see a U.S. trade policy, shaped by nostalgia and myopia, as another indication of presidential readiness to abandon global leadership on the trade for a potentially illusory better deal. How far that abandonment will go depends on a White House that changes with the political and economic winds. Just think of 'Little Rocket Man,' 'fire and fury' and the upcoming Singapore summit with North Korea's Kim Jong-un."

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>
> **— Ray Walser**

A **Tori Whiting, Jay Van Andel Trade Economist at the The Heritage Foundation's Institute for Economic Freedom:** "The Trump administration has advanced many sound, sustainable economic policies that have offered the American people opportunities for prosperity and set the U.S. economy on the path to robust growth. That is why it is frustrating the administration would impose counterproductive tariffs on Canada, Mexico, the European Union and other key U.S allies. For more than two months, American manufacturers have endured higher prices, with domestic steel prices spiking by as much as 40 percent in just a few months. Citing Colorado-based Qualtek Manufacturing CEO Troy Roberts, the Associated Press reported that 'rising steel and aluminum prices have already driven the annual cost of [the] company's key products by $300,000, jeopardizing plans to add 14 jobs to [its] 74-employee staff. It's also delaying shipments.' Companies large and small are experiencing struggles like Qualtek as a result of the tariffs on steel and aluminum. The recent inclusion of Canada, Mexico and the European Union will only exacerbate these negative effects. The last time the United States imposed tariffs like this, 200,000 American workers lost their jobs. This time will be no different. Recent analysis estimates that five jobs could be lost for every one gained as a result of these tariffs, amounting to as many as 146,000 net jobs lost. The effect on jobs could be greater if U.S. allies choose to retaliate. Rather than promoting self-defeating trade policies, the White House should focus on making tax cuts permanent, cutting wasteful government spending, and removing burdensome regulations for businesses."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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