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## FEATURED Q&A

# Does Mexico's Deal With the U.S. Bode Well for NAFTA?



U.S. President Donald Trump announced Monday that U.S. and Mexican negotiators had reached a preliminary agreement to revise key portions of the North American Free Trade Agreement, redubbing it the "United States-Mexico Trade Agreement." // Photo: White House.

**Q The United States and Mexico reached a preliminary agreement this week to revise key parts of the 24-year-old North American Free Trade Agreement. U.S. President Donald Trump announced the deal, adding that the United States would be negotiating with Canada "pretty much immediately." What are the most important provisions of the U.S.-Mexico deal, and which side won or lost most in the negotiations? What does the deal mean for the U.S. and Mexican economies? What are the thorniest issues to be worked out with Canada, and how important is Canada's participation? How might the upcoming U.S. midterm elections and the change in Mexico's presidential administration affect the deal?**

**A** Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House: "President Trump's announcement on Monday that a 'huge bilateral deal' was reached between the United States and Mexico only reaffirms what critics of the U.S. leader have consistently maintained. That is, that when the going gets tough for him on domestic issues, he diverts attention with another announcement or tweet that changes the subject and helps him politically. There is no bilateral trade agreement with Mexico as of today, and most probably won't be any in the near future either. Both Canada and Mexico insist that NAFTA is an existing trilateral agreement and that any renegotiation needs to have the acquiescence of all three North American partners. Trump's congressional mandate is limited to a renegotiated trilateral NAFTA, not applicable to bilateral agreements. While Canada accepted

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International markets in recent weeks have shown investors are losing faith in the prospects for a quick economic recovery.

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Banco Santander, agricultural giant Bunge and The Nature Conservancy said they have developed a financing mechanism for soy farmers in the Brazilian Cerrado designed to promote production without further deforestation.

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## Brazil's Bolsonaro Favors Protecting Police in Killings

Right-wing Brazilian presidential candidate Jair Bolsonaro said this week that police should be given license to kill criminals and those who do should receive medals, not face prosecution. Voters fed up with crime and violence have put him at the top of polls.

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Bolsonaro // File Photo: Brazilian Government.

## ECONOMIC NEWS

## Argentina's Macri Requests Early Release of IMF Funds

Argentine President Mauricio Macri announced Wednesday that he had requested an early release of funds from the country's \$50 billion standby deal with the International Monetary Fund, in a move that seeks to stabilize markets, Clarín reported. "We have agreed with the International Monetary Fund to advance all the necessary funds to guarantee compliance with the financial program next year," Macri said in a televised address, Reuters reported. He added, "This decision aims to eliminate uncertainty." According to government sources, the early release means the \$29 billion from the IMF that was originally scheduled for 2020 and 2021 will instead become available next year, Clarín reported. Analysts estimate the Argentine government would need \$18 billion in 2019 to



Macri // Photo: Argentine Government.

cover the budget deficit and the debt load. On Tuesday, Argentina's central bank sold \$200 million worth of its reserves in two currency auctions after the peso hit an all-time low of 31.60 per U.S. dollar earlier that day, Reuters reported. It later recovered to 31.50 to the dollar, a record close for the weakened peso, which has fallen 40 percent so far this year. The government expects the economy to shrink by 1 percent this year, but to grow at least 1.45 percent in 2019. International markets in recent weeks have shown investors are losing faith in the prospects for a quick economic recovery, however. Argentina's yield spread over Treasuries—the extra cost it pays to borrow in the bond

market compared with the United States—has climbed this month to the highest since December 2014, Bloomberg News reported.

## POLITICAL NEWS

## Brazil's Bolsonaro Favors Protecting Police in Killings

Right-wing Brazilian presidential candidate Jair Bolsonaro said this week that police should be given license to kill criminals, and those who do should receive medals, not face prosecution, the Associated Press reported. "This kind of [criminals], you cannot treat them as if they were normal human beings, okay? We can't let policemen keep dying at the hands of those guys," Bolsonaro said on TV Globo's nightly news program Tuesday. "If he kills 10, 15 or 20 with 10 or 30 bullets each, he needs to get a medal and not be prosecuted." Bolsonaro consistently has ranked at the top of polls ahead of Brazil's October presidential election, polling often behind jailed former President Luiz Inácio Lula da Silva, who is likely to be barred from running by electoral authorities for a corruption conviction. The election outlook has left pundits puzzled, with many calling it the country's most uncertain in modern history. At least \$33 billion of mergers, acquisitions, and stock and bond sales have been put on hold pending the outcome of the election, analysis compiled by Bloomberg News released Wednesday shows. "The campaign has deeply unsettled investors already worried about emerging markets," the Financial Times wrote in an editorial this week. "It is no exaggeration to call this an existential moment for Brazil," the U.K.-based newspaper added. Left-leaning candidate Ciro Gomes, who has about 10 percent support in the polls, has dubbed Bolsonaro "a little tropical Hitler," but those comparisons over recent months have failed to dampen Bolsonaro's support with the electorate. A former captain in the military, he has capitalized on growing frustration and anger among voters with crime and violence, with many expressing a willingness to revert to mil-

## NEWS BRIEFS

## Amazon Considers Major Investment in Chile

U.S.-based technology company Amazon is set to announce in October a \$1 billion investment to install a data processing center for astronomy in Chile, El Mercurio reported Wednesday, citing unnamed sources. In May, Teresa Carlson, vice president for Amazon Web Services, said the company would like to invest in Chile in the long term, Reuters reported, and last month President Sebastián Piñera met with Amazon founder Jeff Bezos. Amazon is reportedly also considering investing in Argentina.

## Smurfit Kappa Confirms Venezuela Plant Seizure

Dublin-based packaging company Smurfit Kappa on Wednesday confirmed the Venezuelan government had seized its Venezuelan plant and detained two employees, Reuters reported. Venezuela's state price control agency, Sunde, last week accused the employees of price speculation, boycotting, destabilizing the economy and smuggling, according to the report. In its statement, Smurfit said the government has planned a 90-day takeover of the facility, adding it could not take responsibility for the use of its installation or employee safety while the plant is under government control.

## Peru Fisheries Industry Lobbies for Rule Changes

Peru's National Fisheries Society, or SNP, has asked the country's constitutional court to stop judges from issuing fishing permits through judicial orders, Undercurrent News reported Wednesday. The industry association, which represents some of the largest local anchovy producers, has been lobbying for improved regulation of the sector, saying recent rules issued by regulator SANIPES put at risk "the legal order and the sustainability of marine resources." Peru leads the world in fishmeal and fish oil production.

itary rule that governed Brazil for two decades, from 1965 to 1985. Earlier this month a report showed a record 63,880 people were slain in Brazil last year. More than 4,000 Brazilian soldiers were deployed Aug. 20 across several Rio de Janeiro shantytowns as part of a security operation that led to clashes and at least seven deaths. Since President Michel Temer issued a decree for the military to take over public security in Rio in February, shootings in the Brazilian state have grown by 40 percent, with a total of 736 people killed in raids and some 2,617 registered homicides. [Editor's note: See related [Q&A](#) in Tuesday's issue of the Advisor.]

## BUSINESS NEWS

# New Loan Plan for Soy Farmers Seeks to Reduce Deforestation

The Brazilian unit of Spain's Banco Santander, global agricultural giant Bunge and The Nature Conservancy said Wednesday they had jointly developed a financing mechanism for soy farmers in the Brazilian Cerrado designed to promote agricultural production without further deforestation or destruction of native vegetation. The "first-of-its-kind" plan provides long-term loans to farmers willing to commit to more sustainable farming practices. Most of the loans currently available to soy farmers are for less than a year to finance their annual crop costs, but the new mechanism will offer loans of up to 10 years "recognizing that investments in land acquisition and preparation have a long-term payback," Bunge said in a statement. The financing program will be piloted with \$50 million in capital for loans to farmers in eligible locations. In 2015, Bunge committed to eliminate deforestation from its agricultural supply chains globally, but critics say the practice has continued to flourish in Brazil despite public pressure and government regulations. Soybean production in Brazil nearly tripled between 2001-2017, with nearly 10 million new hectares planned in the Cerrado, a vast tropical savanna overlapping five Brazilian states.

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allowing the United States and Mexico to negotiate automotive rules of origin among themselves, there was no such agreement for the two to decide on the rest of several outstanding issues such as government procurement, intellectual property, dispute settlement or the contentious sunset clause. Now it turns out, that in a rush to have the current Mexican administration sign and take credit for the renegotiated agreement as well as bear the political cost that the incoming López Obrador government would prefer to avoid, together with Trump's obsession to have a 'win' before the November congressional midterms, both Mexico and the United States have sidelined Canada and now are pressuring Ottawa to accept by the end of this week what they negotiated bilaterally. How ironic and how sad a way to treat a friendly partner government that was helping limit damage to the North American free trade structure, often resisting calls by prominent Canadians to throw Mexico under the bus and negotiate a 'deal' alone with the United States."

**A** **Carlo Dade, director of the Centre for Trade and Investment Policy at the Canada West Foundation and non-resident senior associate in the Americas Program at CSIS:** "The announcement of an agreement in principle between the United States and Mexico on outstanding issues, mostly bilateral, in the tri-partied NAFTA negotiations was good news for Canada as it has moved renegotiation of the pact closer. The removal of U.S.-Mexico bilateral issues leaves on the table only outstanding Canadian-U.S. issues, such as granting access to Canada's protected dairy and poultry markets, and this makes resolution of those issues easier for the Canadian government. With the fate of NAFTA hanging in the balance on this issue, the Trudeau government should finally have the political cover it needs to make concessions and explain those concessions to voters in advance of next year's federal elections in

Canada. Current protestations to the contrary by Canadian officials should be read as theatre to build 'we tried everything and fought to the end' credibility for a domestic audience in advance of making concessions. While this will not assuage the dairy industry and farmers, it should be enough to mute criticism in the rest of the country. The U.S.-Mexican agreement on wage rates and auto manufacturing should also help the Canadian government in gaining support from the auto workers' union, a critical constituency for this government. One issue that is not on the negotiating table is the Trudeau government's so-called 'progressive' trade agenda and its initial demands for inclusion of gender and first-nations or indigenous chapters in a revised NAFTA agreement. This development is likely being watched closely by China and other countries looking ahead to trade negotiations with Canada."

**A** **Peter Hakim, member of the Advisor board and president emeritus of the Inter-American Dialogue:** "After 18 months of haggling, U.S. and Mexican negotiators have a deal. NAFTA is no longer at risk of being scrapped, as Trump repeatedly threatened. It has been, in concept and content, largely preserved. Canada has not yet signed on, devilish details remain and approval of the U.S. Congress and Canadian and Mexican governments is required. But the final version will likely stick close to what has been agreed. Commerce between the United States, Mexico and Canada will remain mostly unhindered by tariffs. Integration of their economies will continue. True, the United States will produce a few more cars and car parts, and Mexico a few less. Mechanisms for resolving disputes will be modified, and patents gain increased protection. But NAFTA will not be fundamentally altered—even by the new requirement for regular reviews. Mexico deserves most of the credit for saving NAFTA. Its government understood it would have to make concessions

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to Trump's demands—that accommodating Washington was better than losing NAFTA, which is too important to Mexico's economy to put at risk. The incoming Mexican president seems to share that view. Still, U.S.-Mexico relations have been damaged. Mexican distrust of Washington has catapulted—partly due to Trump's verbal assaults on NAFTA, but also his rants against Mexican immigrants and insistence on a border wall. Instead of seeking Mexico's counsel and cooperation on the vital issues of the bilateral agenda, he directed insults and demands toward Mexico. Trump succeed in securing concessions from Mexico—but he has also driven a wedge between the United States and its most important ally and partner.”

**A** **Julissa Reynoso, partner, and Rodolfo Herrera-Moro, associate, at Winston & Strawn:** “This bilateral agreement comes as a political gain both to the Mexican and U.S. governments. It gives embattled Mexican President Enrique Peña Nieto a material achievement as he finishes his term. It also cleans President-elect Andrés Manuel López Obrador's slate to begin his U.S. foreign policy anew, with thorny issues still pending, such as security cooperation, immigration reform and Trump's wall; and it relieves the Mexican economy from a two-year period of uncertainty, easing the financing of the incoming government's macro projects in Tabasco and Yucatán. On the U.S. side, the deal gives Trump a ‘win,’ provides substantive content to the GOP midterm campaign, and forces Canada to negotiate. The political value of the agreement, however, doesn't come hand-in-hand with its quality: the automotive production chain will be restructured, with an increase in new car prices being likely; the 16-year sunset clause, though less perilous than Trump's original proposal, still creates long-term investment insecurity; and from the scarce information disclosed so far,

it seems the dispute resolution mechanisms were weakened. It remains to be seen whether these provisions are offset by the positive effects emerging naturally from the updating of sectorial chapters on digital trade, financial services, IP and energy, among others. This agreement could still face challenges. The midterm elections could jeopardize it in the U.S. Congress, and, if not signed before López Obrador's inauguration on Dec. 1, Mexico's new president may want to revise terms including the energy chapter. In any event, this deal is better than no deal—and the uncertainty that has surrounded the negotiations.”

**A** **Gary Hufbauer, senior fellow at the Peterson Institute for International Economics:**

“The U.S.-Mexico Free Trade Agreement contains new and welcome provisions (largely adapted from the erstwhile TPP): digital trade guarantees, stronger IP protection, \$100 de minimis threshold and safeguards against government meddling in goods trade and financial services. But the agreement also contains three fat turkeys: restrictions on auto trade, which are sure to gouge American pocketbooks; a sunset clause that could be worse and will also create uncertainty for firms investing in Mexico; and an erosion of ISDS coverage, which will also foster uncertainty. Essentially the agreement combines castor oil with chocolate cake. Now the big question is whether Trump actually negotiates to ensure Canadian participation or continues to behave like a schoolyard bully. Without Canada in the deal, it's hard to see how the president's team can round up the requisite 218 votes in a Democratic House in 2019. Even with Canada aboard, this will be a very tough slog.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gene.kuleta@thedialogue.org](mailto:gene.kuleta@thedialogue.org).*

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