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FEATURED Q&A

What Is the Road Ahead for NAFTA's Replacement?

U.S. President Donald Trump last week called the new United States-Mexico-Canada Agreement, which is to replace NAFTA, "a terrific deal for all of us." // Photo: White House.

Q The United States, Mexico and Canada are on track to sign the new United States-Mexico-Canada Agreement, or USMCA, with ratification of the deal in the three countries pending until next year. What does the road ahead look like for USMCA? How will the U.S. midterm election in November and Mexico's incoming presidential administration in December affect the deal's ratification? What does the accord say about U.S. President Donald Trump's bargaining strategies, and what lessons can other countries hoping to renegotiate trade agreements with the United States draw from USMCA?

A Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House: "Although the three countries of North America were finally able to bridge differences and agree on a 'new' deal, the road ahead looks precarious. It will not be possible for the current U.S. Congress to ratify the USMCA (I hate this acronym and Mexicans have already changed it to one of several alternatives: AMEC, MUCA, MUSCA, etc.) so it will fall to whatever Congress results from the midterm elections in November. If, as polls indicate, the Democrats win a majority in the House—and maybe even in the Senate—the path forward for the agreement could be considerably more complex. There are already legislative voices expressing opposition to at least one of the deals reached on Sept. 30, and once the details of the text are studied other important actors may also turn against it. The Mexican Congress—recently elected and totally dominated by López Obrador and his party—will most certainly approve the agreement after it is signed and once what will happen in

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Advisor to Brazil's Bolsonaro Probed in Fraud Case

A top advisor to Brazilian presidential candidate Jair Bolsonaro is under investigation for alleged investment fraud involving $4.3 million in state-controlled pension funds.

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Petrobras, Murphy Oil Form Venture in Gulf

The companies formed a joint venture to explore for oil and gas in the Gulf of Mexico. Murphy will have 80 percent of the venture.

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POLITICAL

Peru's Keiko Fujimori Arrested in Campaign Probe

Powerful Peruvian opposition leader Keiko Fujimori was arrested in connection with allegations that she received illegal campaign contributions from embattled Brazilian construction conglomerate Odebrecht.

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Fujimori // File Photo: Peruvian Government.

POLITICAL NEWS

Peruvian Police Arrest Keiko Fujimori in Campaign Probe

Peruvian police on Wednesday arrested Keiko Fujimori, the leader of the country's opposition Popular Force party, in connection with an investigation into alleged illicit campaign financing, El Comercio reported. Fujimori's arrest came a week after Peru's Supreme Court annulled a pardon that then-President Pedro Pablo Kuczynski gave her father, former President Alberto Fujimori, and ordered that he be arrested and sent back to prison. A court on Wednesday ordered that Keiko Fujimori be detained for 10 days, saying she posed a flight risk and could obstruct prosecutors from investigating the campaign finance case, the country's judiciary said in a posting on Twitter. Nineteen other people were detained along with Fujimori, including Jaime Yoshiyama, her former campaign finance director, Bloomberg News reported. Investigators are probing allegations that Fujimori received illegal donations from scandal-plagued Brazilian construction conglomerate Odebrecht for her 2011 campaign for president. The multi-country Odebrecht bribery scandal has already led to corruption allegations against four former Peruvian presidents. Most recently, Kuczynski resigned in March amid allegations that a firm he owned accepted money from Odebrecht, which has admitted to paying millions of dollars in bribes across Latin America. Prosecutors began the probe against Fujimori last year and at the time, she denied wrongdoing, saying the allegations were politically motivated. In addition to probing the alleged illegal campaign contributions, investigators are looking into allegations that Fujimori met with a Supreme Court judge to talk about the case. Authorities arrested Fujimori as she went to downtown Lima to testify to prosecutors, her attorney, Guiliana Loza, told Canal N. Loza called Fujimori's arrest "arbitrary and abusive." Fujimori's arrest has led to greater political risk in Peru, analysts at Chile-based brokerage LarrianVial told clients in a note, Bloomberg News reported. "We expect the legislative branch to exert greater scrutiny of government actions, thus diverting government focus and slowing down infrastructure works," analysts at the brokerage wrote.

Fujimori is accused of accepting illegal campaign donations from embattled Brazilian builder Odebrecht.

Advisor to Brazil's Bolsonaro Probed in Fraud Case

A top advisor to Brazilian far-right presidential candidate Jair Bolsonaro is being investigated for alleged investment fraud that caused losses of up to $4.3 million to state-controlled pension funds, Folha de S.Paulo reported Wednesday. Federal prosecutors say investment funds owned by economist Paulo Guedes, who is considered a potential finance minister in a Bolsonaro presidency, received one billion reais ($270 million) from some of Brazil's largest pension funds to invest in the education industry in illegal arrangements with the pension funds' administrators for six years, The Wall Street Journal reported. The pension funds, whose administrators are currently under investigation for alleged mishandling of workers' savings, control the retirement plans of employees working at state companies. "There is evidence that, between February 2009 and June 2013, managers of pension funds ... colluded with [Guedes] to commit fraudulent or reckless management [and] to issue or trade securities without collateral," prosecutors say, the newspaper reported. Guedes' lawyers are "perplexed" the news is coming out during the election, and they said in a statement that they intend to demonstrate that the investments under investigation were profitable for investors.

NEWS BRIEFS

Chile's Piñera Open to Talks With Bolivia on Border Dispute

Chilean President Sebastián Piñera on Wednesday said he would consider an appeal by Bolivian President Evo Morales for renewed dialogue over a long-running border dispute, adding Bolivia must first drop its demand to access the Pacific Ocean through Chilean territory, Reuters reported. Bolivia surrendered its coastline to Chile in a 1904 treaty, leaving it landlocked. On Oct. 1, the United Nations' International Court of Justice ruled Chile was not obliged to negotiate Bolivia's access to sea.

Ex-Argentine Planning Minister Sentenced in Train Crash Case

Former Argentine Planning Minister Julio De Vido was sentenced to five years and eight months in prison for defrauding the public administration, in connection to a deadly train crash in 2012, the Associated Press reported. The crash, which Argentina's independent auditor general later suggested was a consequence of mismanagement, corruption and disrepair, killed more than 50 people and injured 700 people. De Vido is already serving time on corruption-related charges.

Panama Begins Sharing Client Data With Foreign Tax Authorities

Panama's government has started to share client information with tax authorities in 31 countries in order to meet global transparency standards of the OECD, Uruguayan daily newspaper El País reported today. The first automatic information exchange involves approximately 660 reports from 337 financial entities under the Common Reporting Standard, according to Panamanian tax authorities, International Investment reported.

BUSINESS NEWS

Petrobras, Murphy Oil Form Venture to Explore in Gulf

Brazilian state-owned oil company Petrobras and Murphy Oil are forming a new joint venture to explore oil and gas fields in the Gulf of Mexico, the U.S.-based company said in a statement on Wednesday. Petrobras will have a 20 percent stake in the joint venture, while Murphy will hold the remaining 80 percent stake. Both companies will contribute all their existing producing assets in the Gulf of Mexico to the joint venture with Murphy overseeing all operations. The joint venture will produce 75,000 barrels of oil equivalent per day during this year's fourth quarter, according to a Petrobras securities filing, Reuters reported. This adds approximately 41,000 net barrels of oil equivalent per day to Murphy's Gulf of Mexico production, of which 97 percent is oil, the company said. "We believe the combined strengths of Petrobras and Murphy will yield significant long-term value for both companies," said Roger W. Jenkins, president and chief executive of Murphy, in the statement. The deal is one of the few that Petrobras has been able to reach since Supreme Court Justice Ricardo Lewandowski ruled in June that all sales of subsidiaries should go through Congress, Reuters reported. The Brazilian company will receive $1.1 billion in the transaction, which Murphy expects will close by the end of the year.

Jenkins // File Photo: Murphy Oil.

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Washington becomes clear. Despite current President Peña Nieto having pushed hard to be the one to sign the agreement at the end of November, it falls on the new AMLO administration to lobby the left-dominated Mexican Congress and others to go along with it. I don't believe this trilateral agreement necessarily has application to other trade negotiations that the United States has or will have with third countries or regional groupings because each relationship is different, and they do not have the advantage of an existing treaty on which to base a renegotiation."

A **Tamara Kay, associate professor of global affairs and sociology at the University of Notre Dame's Keough School of Global Affairs** "In the United States, the fate of the USMCA will likely hinge on how labor unions, environmental organizations, consumer rights groups and other civil society voices respond to the deal in the coming months. The votes in Congress are unlikely to occur until 2019, so there are currently no major media campaigns or mass mobilizations around it, but that could change. Publicly, Democrats, whose votes will be needed for final passage and ratification, are taking a wait-and-see approach, stating that more work needs to be done to win their endorsements. However, organizing is going on behind the scenes with a steady drumbeat among activists and Democrats calling for stronger enforcement mechanisms for labor and environmental standards. If the Democrats gain control of either chamber, they will be in a better position to strengthen the agreement and, therefore, less likely to block ratification of the USMCA. If the Republicans retain control and the agreement does not meet activists' and Democrats' demands, they may fight to kill the deal. In Mexico, the economy is even more dependent on preserving NAFTA, so the Mexican Congress is likely to approve it. In addition, there is tremendous momentum for progressive reform of Mexican labor laws, which AMLO supports. Mexico's Congress has passed labor law reform, and the states have ratified it. Implementing legislation, however, still needs to be passed. USMCA's Labor Chapter Annex on Mexican workers' rights can provide additional pressure and is agreeable to progressive labor activists and lawyers—many of them now in AMLO's administration and in the Mexican Congress—giving them additional reasons to be supportive."

A **Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States:** " 'Much Ado About Nothing'? The newly-minted USMCA does look very similar to NAFTA. Yes, Mexico and Canada survived to fight another day by—not insignificantly—saving North America's FTA and hoping that thanks to the new review mechanisms, they can re-tweak it once Trump is no longer president. Given the current political landscape in Washington, it's no minor achievement. But beyond USMCA's positive impact on international financial markets and new and key provisions on digital flows, energy, stronger IP protection, e-commerce and safeguards against government meddling in trade and financial services, some issues merit careful consideration. This is a political victory for Trump, who wanted a trophy more than a treaty, and got one. Going into the midterms, he will now be able to sell—facts be damned—that

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> — Arturo Sarukhan

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he has gotten rid of 'the worst deal ever,' extracting concessions from Canada and Mexico, including the naming rights to the revamped agreement. And USMCA could end up being a potentially pyrrhic victory for a cohesive North America. Despite Trump's ongoing bromance with López Obrador, his anti-Mexico tirades and dismissiveness toward Ottawa, along with how Mexico and the United States bypassed Canada as they rolled out their respective accord, may leave badly frayed relations. It might also create a strategic disconnect because of Article 32.10, which requires one member to notify the others if it launches trade talks with a non-market economy, and the signatory could be frozen out of USMCA. Given the lack of a common North American footprint (which TPP would have provided) toward China, it could have relevant diplomatic and geopolitical implications for both U.S. neighbors. Add to that that new automotive rules of origin will eventually create more barriers, not less, to the widening and deepening of supply/production chains and our competitiveness in markets—Asia—where auto sales are actually growing."

A **Carlo Dade, senior fellow at the School of International Development and Global Studies at the University of Ottawa:** "As opposed to the United States and Mexico, the political implications of the USMCA have arguably already hit Canada at the provincial level in advance of next year's federal elections. The decision by federal negotiators that Canada will eliminate classes 6 and 7 from the milk pricing structure under Canada's dairy supply management system raises an interesting question of how this will be accomplished. Creation of class 6 and class 7 categories of dairy products was done by the provinces and should, therefore, require their agreement for the government's decision to eliminate class 6 and 7 to come into effect. In his post-USMCA press conference, Prime Minister Justin Trudeau was asked about this and his response—that he looks forward to working with the provinces on elimination of class 6 and 7—indicates that work may still need to be done in Canada. If so, elimination of class 6 and 7 will pose a particular challenge to the just-elected government in Quebec. The Coalition for the Future of Quebec (CAQ) won an outright majority through strong support in the suburbs and, importantly, rural Quebec, considered the national stronghold of the supply managed dairy sector. In the end, and if necessary, it may take the Americans offering relief on 232 tariffs on steel and aluminum and as a result relief to Quebec's important aluminum industry, to move the Quebec government. The larger concern with the agreement, though, should remain the lack of certainty about ratification in the U.S. Congress after the midterm elections and costs of continuing uncertainty. Setting aside questions about negotiating tactics, the larger takeaway for other countries is that the United States has raised the price for simple, continued access to its market."

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> **— Carlo Dade**

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

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