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FEATURED Q&A

Is Congress Likely to Approve the USMCA This Year?



Although the leaders of Mexico, the United States and Canada last year reached a deal to revise the North American Free Trade Agreement, its passage in the U.S. Congress remains clouded and will be increasingly difficult as the year progresses. // Photo: U.S. Government.

Q In his annual State of the Union address, U.S. President Donald Trump called on Congress to pass the U.S.-Mexico-Canada Agreement, or USMCA, which negotiators finalized last year to replace the North American Free Trade Agreement.

What is the outlook and most-likely timeline for advancing USMCA in the 116th Congress? Will the draft agreement undergo any major changes there? Is the deal facing roadblocks or unanticipated hurdles in Canada and Mexico? How are business sectors in the three countries and elsewhere around the world preparing for the consequences of the USMCA?

A Carla Hills, chair and CEO of Hills & Company and former United States trade representative: "In my view, the future of the USMCA is clouded with great uncertainty starting with the timeline. The 35-day shutdown not only backed up the congressional calendar, it also prevented the U.S. International Trade Commission from completing its report required under the terms of Trade Promotion Authority on how the agreement will affect our economy. Congress will want to see that report before any vote is taken. There is also political uncertainty. Several members of Congress want changes in the agreement, such as enforcement of labor and environment commitments, or more protection for biologics. The administration, Canada and Mexico have all said, 'no changes!' It is uncertain how House Speaker Pelosi views the agreement and whether, with some in her party insisting on changes or opposing it outright, she will permit the implementing legislation to move forward, and if so, when. Sen. Grassley, Chair of the Senate Finance Committee, and responsible for shepherding the legis-

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TODAY'S NEWS

POLITICAL

Mexican President Favors Legalizing Some Drugs

Andrés Manuel López Obrador's Morena party has introduced legislation in Mexico's Senate to allow the possession of as much as 30 grams of marijuana.

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ECONOMIC

Argentine Central Bank Curbs Rising Value of the Peso

Central bank officials have bought nearly a billion U.S. dollars over the past month in order to control the rising value of Argentina's peso currency.

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POLITICAL

Brazil Backs Aid Plan as Venezuela Closes Borders

Brazilian presidential spokesman and army general Otávio Rêgo Barros said food and medicine would be available Saturday for Venezuelans to pick up at the border in Pacaraima. Venezuela has closed its maritime border with Aruba, Curaçao and Bonaire to prevent aid from entering.

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Rêgo Barros // File Photo: Brazilian Government.

POLITICAL NEWS

Mexican President Favors Legalizing Some Drugs

Mexican President Andrés Manuel López Obrador said Tuesday that he would favor the legalization of some drugs if the move leads to a drop in violent crime rates, *El Financiero* reported. "We are going to launch a campaign to promote and raise awareness among young people so that they do not fall into the vice of drugs," said López Obrador. "At the same time, we will review the consumption of drugs, let's say unarmful, not very addictive and not very dangerous, if this also helps us to achieve peace." Last November, López Obrador's Morena party introduced legislation in Mexico's Senate to allow the possession of as much as 30 grams of marijuana. The measure would al-



López Obrador // Photo: Mexican Government.

low for marijuana use in public, except in areas where smoking tobacco is already prohibited, UPI reported. The Mexican president said his government is planning to work on attacking the causes of drug abuse by creating new employment opportunities and also by more widely disseminating information about drugs. López Obrador said Tuesday that he also wants the U.S. government to have a similar focus. Higher drug consumption in the United States means higher levels of drug trafficking, said López Obrador. "We want to go to the root problem and not just treat the effects, but look deeper into the causes," he said, UPI reported. Last October, Mexico's Supreme Court legalized cannabis for recreational use, but new legislation and regulation changes relating

to marijuana are still pending, the news service reported.

Venezuela Closes Border, Cancels Flights Over Aid

The government of Venezuelan President Nicolás Maduro on Tuesday closed a key Caribbean maritime border and grounded flights in order to keep foreign aid out of the country, CNN reported. Vice Admiral Vladimir Quintero said that there was no date set for lifting the closures on the border with Aruba, Curaçao and Bonaire. In the western state of Falcón, flights have been prevented from leaving from or departing to those islands. Maduro has so far refused to allow aid trucks into Venezuela from neighboring countries. Meanwhile, Brazil has formally joined the opposition's campaign, saying it will send humanitarian aid to its border with Venezuela by this weekend, BBC News reported. Brazilian presidential spokesman Gen. Otávio Rêgo Barros said on Tuesday that, in coordination with the United States, food and medicine would be available in the border town of Pacaraima to be collected by "the government of acting President Juan Guaidó in Venezuelan trucks driven by Venezuelans." Guaidó says that 600,000 volunteers have already signed up to help carry aid into the country on Saturday, a deadline he has set for Maduro and the military to allow humanitarian supplies into the country.

ECONOMIC NEWS

Argentine Central Bank Curbs Rising Value of the Peso

Argentina's central bank has bought nearly a billion U.S. dollars over the past month in order to control the rising value of its peso currency, Reuters reported Tuesday. Officials are trying to keep the peso within a trading band agreed

NEWS BRIEFS

Bolsonaro Lacks Votes to Pass Austerity Measures

The government of Brazilian President Jair Bolsonaro is still short of the number of votes it needs in the lower chamber of the country's Congress to pass its flagship austerity legislation, Vice President Hamilton Mourão told reporters Tuesday in Brasília, news site G1 reported. Approximately 250 legislators support the measure for a constitutional amendment to reduce spending on pensions, less than the 308 that would be needed for the legislation to pass the lower house. Some 150 opposition lawmakers are against the measure, and the government will seek the backing of 60 or 70 others, said Mourão.

Claro Plans New Data Center in Medellín

Claro Colombia is planning to build a new data center in Medellín, Data Center Dynamics reported Tuesday. The telecommunications service provider's new center, its third, will complement Claro's main data center in Bogotá, a 37,673-square-foot facility, said Carlos Zenteno, Claro's president. Claro is Colombia's largest provider of mobile phone services and is owned by Mexico-based telecommunications giant América Móvil.

Ford Motor Plans to Close Major Factory in Brazil

Detroit-based Ford Motor Co. is shutting a major factory in Brazil in an attempt to turn around its money-losing business in South America, *Fortune* reported Tuesday. Ford will stop production as soon as this year at its São Bernardo do Campo assembly plant, which first opened in 1967 and employs almost 2,800 workers directly and some 2,000 people indirectly, according to Reuters. The automaker expects to record \$460 million in charges related to exiting the heavy-truck business in South America.

to under the International Monetary Fund's \$57 billion loan agreement last year. The currency fell 1.25 percent on Tuesday to 39.29 per U.S. dollar, its weakest close since early October. The unexpected rise in the peso follows a year in which Argentina spent many billions of dollars propping up the currency, which lost half of its value against the dollar as markets soured on the country's economic outlook. [Editor's note: See related [Q&A](#) in yesterday's Advisor.]

BUSINESS NEWS

Chile Could Fine Lumina Copper \$54 Million

Chile's environmental regulator said Tuesday that it had charged Lumina Copper with infractions relating to its alleged extraction of more water than permitted from wells for its Caserones copper mine, Reuters reported. The South American country's Superintendency of the Environment, or SMA, lodged 18 charges related to the operations of the mining company, which Japan's JX Holding and Mitsui control in a partnership. Eleven of the infractions are serious and could jeopardize the mine's operations, the regulator said. SMA opened the process of sanctioning Lumina Copper after it received allegations of noncompliance that included the unauthorized building of new wells, in addition to overconsumption of well water. Lumina could face fines of as much as \$54 million or other penalties including the temporary closure of the Caserones mine or the revocation of the company's environmental permits, Reuters reported. Lumina, which produced 136,500 tons of copper last year, has 15 business days to contest the charges or 10 business days to file a plan to show how it will return to compliance. Lumina has also failed to provide the regulator with requested information related to its partial compliance with orders that the regulator issued last year, Mining.com reported Tuesday. The regulator has fined Lumina on a previous occasion. In 2015, SMA ordered it to pay \$11.9 million for violating environmental rules.

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lation through the Senate, has been clear that the administration's national security tariffs on our neighbors' steel and aluminum exports must be lifted before Congress considers implementing legislation. There is question as to whether the administration will take his advice. Until it does, Mexico and Canada have stated they will not approve the agreement. These challenges are likely to delay any vote until the second half of 2019 or beyond. The uncertainty has adversely affected producers, farmers and workers. Representatives of sectors reliant upon access to Mexico and Canada, our two largest export markets, need to speak out at the local, state and federal level."

A **Arturo Sarukhan, board member of the Inter-American Dialogue former Mexican ambassador to the United States:** "Getting the revamped NAFTA across the finish line on Capitol Hill was never going to be a walk in the park. NAFTA survived to fight another day, but North America lost a unique opportunity to truly modernize trade. A good crisis should never be wasted, and when president Trump rammed through the renegotiation of NAFTA, the three partners should have aimed for an ambitious and groundbreaking agreement to ensure NAFTA—now USMCA—delivered the new gold standard for international rules-based trade in the 21st century. Instead, we ended up with a ho-hum combination of new disciplines mixed with managed trade (in the automotive sector). This leaves some stakeholders with little incentives beyond defending a framework similar to what we had in the past. The weaponization of trade policy by this administration does not help. Steel and aluminum tariffs already jeopardize congressional passage, but the new threat to use Section 301 of the 1974 Trade Act to enforce provisions of USMCA and the electorally-driven decision to withdraw from a suspension agreement

with Mexico on tomatoes will trigger Canadian and Mexican retaliation, and further constrain the political maneuverability of Mexico in a highly sensitive area—agricultural exports—of our two-way trade. Lurking in the foreground, there's Trump's ongoing threat of unilateral withdrawal from NAFTA. Now, both timing and political calculations—and miscalculations—are conspiring to potentially complicate ratification further. The U.S. government shutdown has already delayed the ITC's report to Congress, reducing what was already a tight window for congressional passage. Polarization and hyper-partisanship could mean that Democrats decide that they have no incentive to ratify USMCA—and award Trump a victory—until after the 2020 elections. We can still cobble the 218 bipartisan votes needed for passage in the House, but the road just got bumpier."

A **Pascale Siegel, managing director, and Miyako Yerick, senior associate, both at Ankura:** "The 116th Congress will likely pass the USMCA with only minor changes given that the agreement does not differ dramatically from NAFTA and that most of the changes originated from TPP, an agreement President Obama negotiated and that most Democrats supported. The likelihood of it passing decreases over time, however, as the risk of becoming election campaign fodder increases in the run-up to the 2020 campaign season. The exact timing for ratification remains uncertain, and Washington remains in the driver's seat as both Ottawa and Mexico City want the U.S. Congress to take up the agreement first. Neither Canada nor Mexico will ratify it until the United States lifts steel and aluminum national security tariffs. Another issue complicating the timeline is the fact that several U.S. lawmakers want to see the result of an economic impact study before voting. The recent shutdown pushed the report release

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to mid-April. Washington will likely push a vote this year to avoid making the USMCA a campaign issue for either the United States or Canada, where parliamentary elections are due next October. Businesses should expect implementation to be several months if not a year away but should start planning for the necessary changes now."

A **Christopher Sands, senior research professor and director of the Center for Canadian Studies at Johns Hopkins University:** "It is unlikely, but not impossible, that the 116th Congress will approve legislation implementing the United States-Mexico-Canada Agreement (USMCA) in 2019. Under the terms of the 2015 statute that governs the U.S. administration's trade promotion authority, after the three countries sign an agreement, the White House must send six things to the Congress in a submission package: 1) the final text of the agreement; 2) draft implementing legislation; 3) an analysis of the agreement by the U.S. International Trade Commission; 4) an environmental impact assessment; 5) a labor market impact assessment; and 6) an enforcement plan. Once the USMCA implementing legislation is introduced in the House, the House Ways and Means Committee and the Senate Finance Committee have 45 session days to hold hearings on the agreement, after which it will be considered an additional 15 session days in each chamber. No amendments are allowed, and so the House and Senate can consider the USMCA simultaneously. On average, there are three session days each week. The 60 legislative days would translate into a roughly 20-week approval process if both chambers act concurrently. The Trump administration would like to see strong business support to persuade Congress to act on USMCA approval in 2019, but if the process is delayed into 2020, election year politics could lead Democrats and Republicans to hold off on approval in the hope

that presidential and congressional elections produce a chance to reset the process or even revise the USMCA in 2021."

A **Andrés Rozental, member of the Advisor board and president of Rozental & Asociados in Mexico**
City: "Getting the new trilateral

trade deal (USMCA in English, T-MEC in Spanish) through all three countries' legislative approvals is fraught with risks. The U.S. Congress has already shown divisions between Republicans and Democrats on the substance of the agreement. Democrats want stronger labor enforcement provisions—Nancy Pelosi has said that these have to be part of the agreement, not side letters or other mechanisms—while Republicans are unhappy with some of the pharmaceutical and intellectual property provisions, as well as with the rules of origin for the automotive sector. While Mexico doesn't have any specific problems with the text agreed on last November, there will undoubtedly be a tough debate in its Congress, especially if the Trump administration reneges on its promise to lift steel and aluminum tariffs, and applies new anti-dumping investigations on tomatoes and other goods. Bashing Mexico in tweets and official policies doesn't help. Canada is also conditioning its approval on the lifting of Section 232 tariffs. The business sectors of all three countries would like the agreement to come into force relatively quickly, especially because of Trump's threats to withdraw from NAFTA as a way to pressure his Congress to ratify. It remains to be seen if this actually works, but in any case, I would be surprised if the agreement comes into force before the end of 2019. After that, it becomes a political football in the run up to the 2020 U.S. elections."

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

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