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FEATURED Q&A

Will the USMCA Function Well Amid the Pandemic?



The trade accord between the United States, Mexico and Canada takes effect July 1 as the countries grapple with the Covid-19 pandemic. // File Photo: Municipality of Torreón.

Q The United States-Mexico-Canada Agreement, or USMCA, is set to enter into force on July 1, prompting automakers in Mexico to rush to meet new regional content rules while facing additional challenges brought on by the coronavirus pandemic. How well will the USMCA function in the present regional economic context? How prepared are different sectors in the three countries, including Mexico's auto industry, for changes under the new trade deal given the current circumstances? To what extent does the USMCA provide an opportunity to help the three North American economies recover quickly from the aftermath of the Covid-19 health crisis?

A Luz María de la Mora, trade undersecretary at Mexico's Economy Ministry: "The USMCA offers certainty in times of great uncertainty generated mainly by the Covid-19 pandemic but also by trade tensions among key players in international trade. During these very challenging times, the USMCA offers rules that will enable us to speed up economic recovery and will allow North America to get back on its feet, to economic growth and to generating jobs. For the private sector, having the USMCA in place will be an important tool to continue operating, even as the economy seeks to recover in very challenging times. To cope with disruptions in value chains, many firms are now considering near-shoring and decoupling their production from suppliers in different regions. The USMCA offers producers in manufacturing and agriculture as well as service providers a set of rules to strengthen value chains in North America. For Mexico, it is an opportunity to further participate in regional value chains and to consolidate its already strong

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At Least Five Killed as Quake Strikes Mexico

At least five people were killed Tuesday when a powerful earthquake struck Mexico's Oaxaca state.

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BHP Announces Stricter Health Controls in Chile

The mining company announced the stricter health protocols after an increase in Covid-19 cases among workers at the company's mines in Chile.

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POLITICAL

Brazilian Court Investigates U.S. Trip of Former Brazilian Minister

Brazil's federal audit court has opened an investigation into former Education Minister Abraham Weintraub's trip last Friday to the United States. Weintraub resigned a day earlier, saying he didn't want to discuss the reasons for his stepping down.

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Weintraub // File Photo: Brazilian Government.

POLITICAL NEWS

At Least Five Killed as Powerful Earthquake Strikes Mexico

At least five people were killed Tuesday when a powerful earthquake shook parts of Mexico, the Associated Press reported. The earthquake, which struck at 10:29 a.m. local time, was centered in the Pacific Ocean, about 14 miles off the coast, near the popular beach town of Crucecita, according to Mexico's national seismological service, The New York Times reported. The Mexican seismological office recorded the magnitude at 7.5, while the U.S. Geological Survey measured it at 7.4. Among the casualties, one person was killed when a building collapsed in the town of Huatulco, according to President Andrés Manuel López Obrador, who added that there were some reports of damage, including collapsed walls and broken windows, the AP reported. "Fortunately, there was no major damage," said López Obrador, The New York Times reported. "I hope and I wish with all my soul that there will be no more damaging aftershocks," the president added. Another person was killed when a house apparently collapsed in the mountain village of San Juan Ozolotepec, said Oaxaca Gov. Alejandro Murat, the AP reported. The governor said a third person was killed, though he did not explain the circumstances. Federal civil defense authorities reported two other deaths. A worker of state-run oil company Pemex died after falling from a structure at a refinery, and a man was killed in San Agustín Amatengo, a village in Oaxaca state, when a wall fell onto him. Pemex added that the earthquake set off a fire at its refinery in Salina Cruz on the Pacific coast. The company added that the flames were quickly put out but that one worker was injured. There were also reports of churches, bridges and highways sustaining some damage, the AP reported. The country also sustained more than 140 aftershocks, mainly small ones, said López Obrador. The earthquake caused buildings to sway in Mexico City, more than 300 miles away from

the epicenter, though local media reported little damage in the capital other than debris that had fallen from the facades of some buildings, The New York Times reported. Mexico City Mayor Claudia Sheinbaum said that neither the city's security command center nor authorities inspecting the capital from the air had reported any serious damage.

Brazilian Court Probes Ex-Brazilian Minister's U.S. Trip

Brazil's federal audit court is investigating whether former Education Minister Abraham Weintraub was on official business when he traveled to the United States a day after announcing he had resigned last week, Reuters reported Tuesday, citing a court document. In a video announcing his resignation alongside President Jair Bolsonaro, Weintraub said he

Weintraub said he didn't want to "discuss the reasons" for his resignation.

didn't want to "discuss the reasons" for his departure, Folha de S.Paulo reported. However, Weintraub expressed concern over a Supreme Court probe targeting him and other officials suspected of organizing defamation and disinformation campaigns on social media, The New York Times reported. The investigation involves many of Bolsonaro's supporters, including family members. Weintraub flew to Miami on Friday, despite a current entry ban on Brazilians due to the Covid-19 pandemic. His resignation became effective Saturday in the official gazette, which has led to speculation as to whether Weintraub traveled using a diplomatic passport in order to enter the United States. Lucas Furtado, a prosecutor with the federal audit court, requested authorization to investigate whether Weintraub was on an official government trip to the United States, funded with taxpayer money, Reuters reported.

NEWS BRIEFS

Latin America, Caribbean Surpass 100,000 Deaths From Coronavirus

Latin America and the Caribbean on Tuesday surpassed 100,000 deaths from the novel coronavirus, with more than half of those deaths in Brazil, according to a count by Agence France-Presse based on official figures. The region now has more than 2.1 million cases, and the pandemic is accelerating in the region. Brazil has the second-highest number of cases and deaths in the world, after only the United States. Brazilian President Jair Bolsonaro has downplayed the threat of the virus and has urged the reopening of businesses to avoid further economic damage. Bolsonaro has inconsistently worn a mask, but a Brazilian court on Tuesday ordered him to wear one whenever he is in public.

Colombia's Duque Extends Lockdown Until July 15

Colombian President Iván Duque on Tuesday announced an extension of the Andean nation's coronavirus-related lockdown until July 15, Reuters reported. Colombia has reported more than 73,500 cases of Covid-19 and more than 2,400 related deaths. While some restrictions have been relaxed since the nationwide quarantine started in March, the lockdown was due to be lifted July 1.

Brazil's Central Bank Suspends WhatsApp Payments Service

Brazil has suspended WhatsApp's mobile payments service in the country, just a week after its rollout, TechCrunch reported Tuesday. Brazil's central bank said in a statement that the reason for its decision was to "preserve an adequate competitive environment" in the mobile payments sector and to ensure "functioning of a payment system that's interchangeable, fast, secure, transparent, open and cheap."

Bolsonaro said he had nominated the former education minister, a close ideological ally, to be an executive director of the World Bank in Washington, justifying his trip. Adding to the uncertainty, Brazil's government said on Tuesday that Weintraub's resignation notice occurred Friday, which means he traveled when he was no longer part of the cabinet, Reuters reported.

BUSINESS NEWS

BHP Announces Stricter Health Controls in Chile

Global miner BHP announced stricter health protocols on Tuesday after cases of Covid-19 at its Escondida copper mine in Chile, the world's largest, reached 150, with 59 infections at its smaller Spence deposit, Reuters reported. The miner said 76 cases remained active and that there was "a tendency toward the decline" of new infections. "This is a dynamic situation that can change rapidly, which is why we are making our best effort to implement all measures necessary to protect the health of our workers and contractors," the company said. BHP is one of various major miners operating in Chile that have upgraded safety measures in recent weeks as the Andean nation reaches the peak of coronavirus cases and deaths, and hospitals fill up, the wire service reported. Among them, state-owned miner Codelco announced changes in its shift schedule and the suspension of some construction projects after two workers died of the novel coronavirus. Labor unions blasted the measures as insufficient. "It is very important that we find a balance between keeping mining on its feet ... and safeguarding the lives and health of workers," Chilean Mining Minister Baldo Prokurika said Tuesday, Reuters reported. He added that the "indispensable" mining industry's operations needed to be maintained if the government is to sustain its emergency social support packages to address the economic consequences of the pandemic.

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position to continue contributing to a stronger and more competitive North American industry. In the specific case of the automotive sector, companies will have to undergo an overhaul to be able to comply with a more restrictive origin regime that requires a higher regional value content (75 percent); a 40 percent labor value content; the integration of core, principal and complementary parts; and originating steel and aluminum. On the positive side, this new set of rules opens the opportunity to have more Tier 1, 2 and 3 suppliers in Mexico and North America. The USMCA will be a guiding light for businesses as it offers the path for economic integration in the years to come."

A **Fausto Cuevas, director of the Mexican Automotive Industry Association (AMIA):** "The USMCA will surely be an important element in the reactivation of the region's economy. However, it is too soon to know how the region's markets will respond to the deal's entry into force on July 1, particularly following the shutdown of operations in all activities deemed nonessential, such as manufacturing, commerce and services, for almost two months as a consequence of the Covid-19 pandemic. In the current situation, the performance of different sectors regarding the USMCA will not be exactly the same. In some cases, the changes as compared to NAFTA were minimal. In the case of the light-vehicles auto industry, the rules of origin do present relevant changes that imply compliance with higher requirements and a different calculation methodology. These changes require the development of new information systems and very close communication within the chain of suppliers, whose information will be essential to demonstrate compliance with the auto rules of origin. For this reason, it was very important for regulations to be released in a timely manner. However, this happened until June 3, and a subsequent update published on June 17 includes a first phase of implemen-

tation from July 1 through Dec. 31, during which time there will be flexibility allowing companies to obtain documentation to prove compliance with the new rules of origin. In this context, it is probable that the majority of original equipment manufacturers (OEMs) in Mexico will make use of that alternative transition regime, which gives them a longer term than established in the treaty to fulfill the requirements. Surely, the USMCA will be an important factor in the regional economic recovery, but it's still early to clearly identify how soon the modernization between the three countries' trade relationship will be reflected in their economic performance."

A **Kim A. Nolan García, assistant professor at FLACSO Mexico, and Tamara Kay, associate professor at the University of Notre Dame's Keough School of Global Affairs:** "The entering of the USMCA into force could not come at a worse time. The pandemic has hit Mexico especially hard, and the government's response, like that in the United States, has been unfathomably incompetent. The required changes on two fronts—to meet tighter rules of origin by 2024 and to establish safe workspaces as Mexico reopens—are daunting. The sustained rate of growth of the auto industry in North America has been upended, in part because of the disruptions in supply chains. Plant-level adjustments are so uncertain that U.S. auto manufacturers and the Mexican auto industry will request extensions because they are completely unprepared to implement the changes. Despite the government-ordered shutdown in late March, many manufacturers producing nonessential products—including in the auto sector—kept their factories open. Unsurprisingly, a shocking number of workers became sick or died from the virus, while labor activists walked out in protest and mobilized to close the factories. Due to pressure from the United States, Mexico recently reclassified the auto sector as a 'neo-essential' industry to allow plants

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to open. The classification underscores the weight of the sector in keeping the economy from imploding. The price of going back to work, however, is high for Mexican workers. Recent labor ministry inspections of plants in the neo-essential sector where Covid-19 cases were identified revealed that only a minority of those plants had adequate safety protocols in place. Auto manufacturers are not ready to implement the new USMCA, and Mexico is not ready to guarantee that automotive workers will return to the job with basic protections."

A **Edward M. Lebow, Larry B. Pascal and Alberto de la Peña, members of the International Practice Group at Haynes and Boone, LLP:** "In an era in which globalization and free trade are being challenged, the upcoming entry into effect of the USMCA represents an important victory for North American trade. The USMCA updated a historic but dated NAFTA in various areas such as digital trade and intellectual property, and it addressed criticism as to enforcement of environmental and labor standards in Mexico. The entry into effect of the USMCA nevertheless comes at an ominous time due to a worldwide pandemic, a major disruption in the global economy and significant trade and geopolitical tensions between China and the United States. In particular, the automotive industry faces significant challenges, such as a change to a more mobility-focused industry, the transition from gas to electric-powered vehicles and a growing consumer preference in the United States for larger vehicles. Moreover, the automotive sector is arguably the sector that will see the most dramatic change under the USMCA as rules of origin are tightened to better protect workers in the United States and Canada. The entry into effect of the USMCA at the time of Covid-19 highlights the trend toward shorter supply lines and near-shoring. However, the USMCA is not a panacea, as evidenced by the recent disruption in supply lines between the United States and Mexico

caused by different approaches for the opening of essential businesses. However, compared to trade tensions with other major U.S. trade partners such as China and the European Union, the North American trade bloc appears relatively calm and may stand to benefit."

A **Antonio Ortiz-Mena, senior vice president at Albright Stonebridge Group:** "The USMCA is more relevant than ever. With WTO dispute settlement facilities at an impasse, the USTR threatening to reset U.S. most-favored-nation tariffs, pervasive trade tensions between China and the United States, and between the European Union and the United States, the USMCA can provide a welcome respite with stable rules for trade and investment in North America. Its deep coverage of trade in services, including financial services and telecoms, digital commerce and e-trade, coupled with strong intellectual property rights, will be especially relevant for companies as they adjust their production and distribution strategy to the new reality where uncertainty is the norm. The higher and more stringent rules of origin for automobiles can attract investment into the region and boost employment, albeit at a cost: the ITC has estimated that the price of cars will likely increase, and this could translate into lower sales in North America and decreased market share in exports outside the region. The USMCA provides a set of modern and comprehensive trade and investment rules but will not significantly curtail the recent U.S. penchant for unilateral actions or actions by the Mexican government to undermine independent regulatory bodies or force the renegotiation of contracts, as was the case last year with Canadian and U.S. gas pipeline companies. While NAFTA complemented pro-market economic policies in the three North American countries, the USMCA is an imperfect counterweight against new U.S. and Mexican protectionism. Still, it's better to have an imperfect counterweight than none at all."

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