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FEATURED Q&A

What Will a Trade Deal Update Mean for the E.U. & Chile?

E.U. Trade Commissioner Valdis Dombrovskis, Chilean Foreign Affairs Minister Antonia Urrejola and E.U. foreign policy chief Josep Borrell (L-R) announced a new trade agreement on Dec. 9. // Photo: @Minrel_Chile via Twitter.

Q The European Union and Chile on Dec. 9 reached an updated trade deal that will improve Europe's access to key metals and minerals, including lithium and copper, to support its green transition as it shifts away from Russian gas. Under the agreement, Chile will drop tariffs on all imports other than sugar and will facilitate European investments. The European Union, in return, will grant Chile more favorable access for its exports, especially food and professional services. What makes this agreement significant for both parties? What does it highlight in terms of their respective strengths and weaknesses related to trade and investment?

A Mark S. Manger, professor of political economy and global affairs in the Munk School of Global Affairs and Public Policy at the University of Toronto: "The updated agreement eliminates nearly all remaining tariffs, reaffirms Chile's openness to foreign investment and provides for improvements in Chile's access to E.U. markets. Given the already very comprehensive two-decade old free trade agreement, these improvements are small. Although much has been made of the chapters on renewable energy sources and mining, it should be noted that crucial sectors such as lithium mining are still very much under Chilean government control, and the authority of the Comisión Chilena de Energía Nuclear is preserved. The various chapters that are not directly related to trade or investment are intriguing. Governments often use international negotiations to sell policies at home that they would have wanted to implement anyway, but that faced domestic resistance. The new chapter on trade and sustainable development and the language

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U.S. Embassy in Cuba to Resume Visa Processing

The U.S. Embassy in Cuba will today resume visa processing and consular services, nearly six years after halting those functions.

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ECONOMIC

Remittances to Mexico Decline to $4.8 Billion in November

Mexico's level of remittances declined to $4.8 billion in November following six consecutive months of the transfers topping $5 billion, the central bank said.

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POLITICAL

U.S. to Maintain Venezuela Stance: State Department

The United States will maintain its stance of not recognizing Nicolás Maduro as Venezuela's president, State Department spokesman Ned Price said Tuesday. Venezuela's opposition last week voted to dissolve Juan Guaidó's interim government.

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Maduro // File Photo: @NicolasMaduro via Twitter.

POLITICAL NEWS

U.S. to Maintain Stance on Venezuela: State Department

The United States is maintaining its stance of not recognizing the presidency of Venezuela's Nicolás Maduro and will continue sanctions on the country, State Department spokesman Ned Price told reporters Tuesday in Washington, Agence France-Presse reported. Price's comments followed the move last week by Venezuela's opposition to dissolve the interim government of Juan Guaidó, who had served as the opposition's leader since 2019. "Our approach to Nicolás Maduro is not changing. He is not the legitimate leader of Venezuela," said Price, AFP reported. Price said Venezuelan assets in the United States would legally remain under the control of the opposition-led National Assembly, which was elected in 2015 but stripped of its powers by Maduro. "We continue to recognize what is the only remaining democratically elected institution in Venezuela today, and that's the 2015 National Assembly," Price said. He added that existing U.S. sanctions on Venezuela would stay in place and that the United States was in touch with the National Assembly on who will oversee Venezuelan government assets in the United States, AFP reported. After dozens of opposition politicians voted last Friday to remove Guaidó from his position, Guaidó said the move would create a "power vacuum" and would lead more countries to recognize Maduro, the Associated Press reported.

U.S. Embassy in Cuba to Resume Visa, Consular Services

The U.S. Embassy in Cuba will resume visa and consular services today, nearly six years after halting those functions since a series of unexplained health incidents among diplomatic staff members there beginning in 2017 led to a diminished U.S. presence at the embassy, the Associated Press reported. The embassy said it will again process immigrant visas and will prioritize reunifying Cubans with family members in the United States. The move comes amid high waves of emigration from Cuba. More than 220,000 Cubans crossed into the United States from Mexico in the last fiscal year, NBC News reported.

ECONOMIC NEWS

Remittances to Mexico Decline to $4.8 Bn in November

Mexico's level of remittances declined in November to $4.8 billion following several record months, according to data that the country's central bank released Monday, Reuters reported. For six consecutive months, Mexico received more than $5 billion in the money transfers each month, culminating with $5.36 billion in remittances in October, according to the central bank. While the total in November amounted to a 3.9 percent seasonally adjusted decline, the amount Mexico received that month was up 3 percent year-on-year. Approximately 12.2 million remittance transfers were sent to Mexico in November, at an average amount of $393 each. For the year through November, the country's total amount of remittances rose 13.5 percent as compared to the same period a year earlier, to $53.1 billion, according to the central bank. "Generous wage/income support fiscal transfers in the US, a competitive MXN/USD level, and a deep contraction of activity and employment in Mexico have acted as both push and pull drivers of dollar remittances from the U.S. to Mexico in 2020-21," Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York, said in a note. "The moderating activity and income growth profile in the U.S., and high base for remittances in 2021 should lead to a moderation in remittance flows into Mexico in coming quarters," he added. "Robust" remittance trans-

NEWS BRIEFS

Argentina's Fernández Seeking to Impeach Supreme Court Chief

Argentine President Alberto Fernández said Tuesday that he is seeking the impeachment of Supreme Court President Horacio Rosatti and other members of the court, Reuters reported. Fernández's government and the Supreme Court recently clashed over justices' decision to award more government funds to the city of Buenos Aires. It is unlikely that Rosatti and the other court members will be removed from office as Fernández's Peronist coalition lacks the congressional support needed to oust them.

El Salvador's Homicide Rate Falls More Than 50%

Murders in El Salvador dropped 56.8 percent in 2022 amid the President Nayib Bukele's widespread crackdown on gangs, the government said on Monday, Reuters reported. The Central American country for years had held one of the world's worst murder rates. Authorities registered 496 homicides last year, down from 1,147 in 2021, Defense Minister Francis Merino said. The figure does not include gang members killed in encounters with security forces, which could raise the death toll to 600.

Mexican Government Expects Pemex to Pay Q1 Debt Without Assistance

Mexico's finance ministry expects state oil company Pemex to pay its debt due in the first quarter without government assistance, according to people familiar with the matter, Bloomberg News reported Tuesday. The government had financially supported Pemex, the world's most indebted oil major, in recent years. The company is under financial strain amid long-term production declines, compounded by the Mexican government wanting the company to discontinue oil exports and invest in loss-generating refineries.

fers have been bolstering private consumption in Mexico, "particularly for low-income families, who have a high propensity to consume and are the overwhelming recipients of such transfers," Ramos added.

BUSINESS NEWS

Exxon, Chevron Shifting Focus to Americas: Report

Exxon Mobil and Chevron, the two largest U.S. oil companies, are pulling back from large international oil projects to focus on the Americas, The Wall Street Journal reported today. Both fossil-fuel giants plan to spend most of their annual budgets in the Americas this year. Chevron has said it plans to put 70 percent of its capital earmarked for production into projects in the United States, Argentina and Canada, while Exxon has said it will spend a similar percentage of its budget in the U.S. Permian Basin in Texas and New Mexico, as well as in projects in Brazil and Guyana, and in liquefied natural gas activities, the newspaper reported. The move comes amid a priority to grow shareholder revenue and cut expensive frontier drilling projects. "It's a natural consequence of investors demanding higher returns. Companies are being more selective," Ben Cahill, a senior fellow at the Center for Strategic and International Studies, told The Wall Street Journal. Chevron's international output fell by 3 percent last year as concessions expired in Thailand and Indonesia. The U.S. Treasury Department granted it a new license to pump oil in Venezuela, which has been under sanctions since 2019, Bloomberg News reported, though Chevron is not seeking to invest in the South American country. Exxon said it plans to spend some $25 billion each year until 2027 and cut $9 billion in costs by the end of the year, The Wall Street Journal reported. Chevron has said it will increase spending by 25 percent this year to $14 billion, a figure that remains under its pre-pandemic budget, in a bid to attract investors.

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on labor rights and gender equality, among others, are examples of such policies. Wile past Chilean governments might have tried to resist them and would have argued that Chilean domestic laws are wholly sufficient, President Gabriel Boric's administration enthusiastically welcomed these parts of the negotiating agenda. At the same time, the agreement also allows for market access restrictions by Chile to achieve social policy goals, such as the protection of minorities and Indigenous people. Most noteworthy is the fact that the agreement has been negotiated at all, indicating that the European Commission is not 'done' in terms of establishing free trade links but is looking to update existing agreements. We can therefore expect future revisions of existing Latin America-E.U. agreements."

A **José Luis Ruiz V., professor of finance at the University of Chile:** "Chile is a small economy that has based its economic growth on an extensive policy of free trade agreements. This new agreement with the European Union goes beyond the trade agreement of two decades ago and adds political elements, cooperation, energy transition, gender equality and sustainable development. As of 2021, the commercial exchange between Chile and the E.U. was around $20 billion, with approximately 40 percent of Chilean exports (natural resources such as lithium copper, agricultural and fishing products) and 60 percent imports (medicines, vehicles and machinery). In terms of investment, the European Union is the largest investor in the country with a stock of $65.3 billion in 2021. For its part, Chile invests some $7.8 billion in the European Union. The agreement makes explicit references to addressing climate change, seeking to protect the environment and the impact of natural resource extraction. Chile is committed to giving more favorable access to its lithium and copper exports, which will help the European Union become a greener economy. A positive economic impact of about $5 billion is expected from an extension of tariff reductions to 99.6 percent of E.U. exports to Chile. In addition, barriers to Chilean exports are reduced, mainly in small and medium-sized companies. Another positive element is establishing a permanent court that resolves disputes between investors and states, which provides greater guarantees for commercial exchange."

A **Anna Ayuso, senior research fellow at the Barcelona Centre for International Affairs:** "In the two decades since the first association agreement that the European Union and Chile signed in 2002, bilateral trade has multiplied, and European investments in the country have doubled. However, the world has changed remarkably since then, and the European Union has been relegated to third place as Chile's trading partner with only 11 percent of trade share compared to 38 percent with China. We are also in a scenario of growing competition between powers, in a production transformation process with an impact on value chains and facing energy and digital transitions that pose new challenges for all countries. The 2022 agreement modernizes the rules related to trade, but it goes much further, by introducing, for example, regulations that are under negotiation in the global multilateral agenda such as the protection of biodiversity, pollution, animal suffering, digital policy and data protection. It also introduces a gender perspective in trade regulations. Additionally, the agreement advances an improvement in the institutional framework for the participation of civil society and creates a common mechanism for the protection of investments, as well as an arbitration process for the solution of controversies. The modernization of the treaty between the European Union and Chile sends a positive signal to relaunch not only bilateral, but also biregional relations. With this agreement, as with those adopted but pending closure

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with Mexico and Mercosur, the European Union tries to recover part of the lost ground against China and other competitors, especially in the most innovative sectors. Chile seeks to maintain a balance between its different trading partners, while also increasing its competitiveness and adapting its economy to the changes required by the new international context."

A **Peter M. Siavelis, professor of politics and international affairs at Wake Forest University:** "If Chile and President Gabriel Boric seek anything today, it is political normalcy following a tumultuous period of instability and uncertainty surrounding Chile's constitutional future and the role of private property in the economy. The Chile-E.U. trade agreement sealed last month provides both a modicum of predictability and a significant political victory for Boric's faltering government. Like the best trade agreements, the pact represents a victory for both sides. The most important part of the agreement will provide increased E.U. access to Chile's lithium and copper reserves and diminish the bloc's geopolitically dangerous dependence on Russian natural gas. The agreement's environmental guarantees also provide for a more coordinated approach in fighting climate change. The European Union is Chile's third largest trading partner, and the agreement has the potential to significantly expand trade between Chile and Europe. Chile will also gain better access for marketing non-mining related products, like services, agricultural goods and livestock. From a broader, symbolic perspective, the Boric government touts the agreement as a sign of Chile's membership in the club of modern nations, as the first South American country to sign a comprehensive trade agreement with the European bloc. The agreement's environmental, human rights and gender provisions guarantee to bolster this image. The only remaining hurdle is ratification by the 27 E.U. national parliaments. A similar agreement that the European Union struck with Canada in 2016 has not been ratified. Still, the agreement is arguably more important for Chile than it is for Europe, especially in bolstering a government that many in Chile have seen at sea for the last year."

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>
> **— Peter M. Siavelis**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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Erik Brand
Publisher

Gene Kuleta
Editor

Lara Kovandova
Reporter

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