FEATURED Q&A

What Will China & Nicaragua Get Out of a Trade Accord?

Nicolás Mariscal Chairman, Grupo Marhnos

Q

Nicolás Mariscal said July 25 that the country had concluded talks on a free trade deal with China. Though officials didn't release details of the accord, Nicaraguan Finance Minister Iván Acosta said of the agreement could increase the Central American country’s gross domestic product by at least two percentage points. How important is the deal to Nicaragua and to China, and what are its main benefits? What are the political effects of such a deal in both countries? How significant is the deal for China’s influence in Latin America?

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Ryan C. Berg, director of the Americas Program at the Center for Strategic & International Studies: “The announcement of the trade deal follows the Ortega-Murillo regime’s diplomatic pivot at the end of 2021 to China, as well as accession to the Belt and Road Initiative in early 2022. The regime’s turn away from its traditional ally Taiwan has much to do with its efforts to insulate the dictatorship in Managua from U.S., European, and to a lesser extent, regional pressure. Until now, however, we have witnessed less Chinese engagement than expected with the regime. That could start to change with the conclusion of a trade agreement—although the details remain unknown given the opacity that is the familiar hallmark of both governments. From China’s perspective, it has an interest in keeping fellow authoritarian ilk in power. From Ortega’s perspective, a trade agreement with China is critical to offsetting Nicaragua’s traditional dependence on the U.S. market—a dynamic established over years of trade under CAFTA-DR. The realities,

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**POLITICAL NEWS**

Colombian President’s Campaign Received Illicit Money: Son

Colombian prosecutors said Thursday in a court hearing that President Gustavo Petro’s son, Nicolás Petro, acknowledged that his father’s campaign received money of illicit origin, The Washington Post reported. Prosecutor Mario Burgos told a judge that the president’s son, who was arrested last weekend on money laundering and illicit enrichment charges, said that a Colombian contractor who had been charged with murder, an ex-senator who was convicted of drug trafficking and a “powerful” businessman had provided him with large amounts of money, the newspaper reported.

Nicolás Petro said that he used some of the money for his personal benefit, and the rest went to his father’s campaign for president, Burgos told the court. Burgos said the younger Petro agreed to disclose more evidence, step down from his position as a local lawmaker in Atlántico province and avoid taking other political positions. An attorney for Nicolás Petro did not make any immediate comments Thursday night, saying he was still in court, the newspaper reported. On Tuesday, Nicolás Petro pleaded not guilty to the charges facing him, but he agreed to cooperate with authorities, the Associated Press reported. His ex-wife, Daysuris Vásquez, was also arrested last weekend. In March, she told Semana magazine that Nicolás Petro had arranged for a donation of 600 million pesos ($150,000) from a politician who had been convicted in the United States of drug trafficking and who wanted to contribute to Gustavo Petro’s presidential campaign. She said the presidential campaign was unaware of the donation and that the president did not know about his son’s activities. During an event Thursday in Sucre province, the president denied wrongdoing. “The president of the republic has never asked any of his sons or daughters to commit a crime, neither to win, nor to finance campaigns, nor for anything that has to do with power,” he said, The Washington Post reported. “My sons and daughters have

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however, present a stark challenge to the Ortega regime’s attempt to balance the United States and China in economic terms—Nicaragua remains the least diversified economy in Central America, with about 60 percent of its exports bound for the United States. Diverting that trade to China will be difficult, to say the least. Nicaragua’s level of trade dependency on the United States is unlikely to decrease in the near term, meaning that the U.S. government should continue to craft policies that leverage economic ties to pressure the regime over its gross human rights abuses.”

Robert Callahan, former U.S. ambassador to Nicaragua: “I rather doubt that a free-trade agreement between Nicaragua and China will greatly affect either country’s economy. China’s is massive. Nicaragua’s is minuscule. There’s not much to exchange. Perhaps cheaper cigars and better rum to China and some less expensive manufactured goods to Nicaragua. The important change in their bilateral relationship occurred several years ago when Nicaragua severed diplomatic relations with Taiwan and established them with China. But what has become of that? Remember the transisthmian canal? In a geopolitical sense, the agreement merely perpetuates the Ortega-Murillo regime’s membership in good standing among the world’s autocracies. With Russia, Cuba and Venezuela long their closest allies and among their only friends, Nicaragua’s illegitimate government has now added Xi’s China. I suppose they take some comfort from one another’s encouragement and company, but they all fully know that the democratic nations regard them as political pariahs, not worthy of inclusion in any group that promotes political freedom and respect for individual rights. China’s influence in

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**NEWS BRIEFS**

**Deforestation in Brazil’s Amazon Drops 66 Percent Year-on-Year in July**

Deforestation in Brazil’s Amazon fell by 66 percent in July as compared to the same month last year, boosting President Luiz Inácio Lula da Silva’s stature on environmental policy, Reuters reported. Satellite data from Brazilian space research agency INPE indicated that 500 square kilometers (193 square miles) of the rain forest was cut down, the lowest level for July since 2017. “We are seeing the deforestation growth curve invert,” Environment Ministry Secretary João Paulo Capobianco told reporters in Brasília.

**Panama Canal Expects $200 Mn Less in Revenue Amid Restrictions**

The administrator of the Panama Canal, Ricaurte Vásquez, said he expects the waterway’s revenue to shrink by $200 million in the coming fiscal year due to restrictions put in place to conserve water amid a drought, Reuters reported. Between 30 and 32 ships are expected to use the canal daily in the next fiscal year, which begins in October, said Vásquez. That compares to the 36 to 38 ships that use the canal daily at full capacity.

**Uruguay’s Inflation Rate Falls to Lowest Level Since 2005**

Uruguay’s inflation rate last month fell to its lowest level in almost 18 years, Bloomberg News reported Thursday. Consumer prices in July rose 4.79 percent as compared to a year ago, down from 5.98 percent in June, according to the national statistics agency. July marked the lowest inflation rate for the country since November 2005. Uruguay’s central bank said it expected consumer prices to remain within the 3 percent to 6 percent target range through June 2025.
be free. They may make mistakes like every human being. They’ll walk different paths from mine, maybe, but from their father you will never expect that. It has not happened and it will not happen," he added.

ECONOMIC NEWS

Cuba Bans Businesses From Using ATMs to Rein Inflation

The Cuban Central Bank this week issued new regulations banning state and private businesses from using ATMs and restricting cash transactions in a bid to rein in inflation, Reuters reported Thursday. The rules went into effect on Thursday and will be gradually implemented over the next six months. Cash transactions are limited to 5,000 pesos ($208). The government pegs the U.S. dollar to 24 pesos, but for selected businesses, tourists and residents, it is pegged at 120 pesos, Reuters reported. On the informal market, the Cuban peso was trading at an all-time low of 230 to the dollar on Wednesday, Reuters reported. Its value dropped to half its value as compared to a year ago.

BUSINESS NEWS

MercadoLibre Shares Jump After Profit More Than Doubles

Shares of MercadoLibre, the e-commerce and fintech provider, on Thursday jumped to their highest level since May, Bloomberg News reported. The company’s U.S.-traded shares rose to more than $1,300, or as much as 13 percent, their biggest intraday move in nine months. On Wednesday, the company reported that its net income more than doubled from a year earlier, to $261.9 million in the second quarter, well above the $213.9 million that analysts had estimated. MercadoLibre, which was founded above the $213.9 million in the second quarter, well

Who Will Ecuador Choose as its Next President?

Ecuadoreans will head to the polls Aug. 20 in a snap election to choose their next president. Of the candidates registered, only three are polling at or above 10 percent, according to a July poll from Comunicaliza: Luisa González, a fiscal leftist and social conservative who enjoyed a long career in the public sector during the presidency of Rafael Correa; Yaku Pérez, an environmental activist whose green agenda could attract younger generations; and Otto Sonnenholzner, a former vice president who is running as a centrist option. Considering the highly polarized state of Ecuadorian society, what will the next leader have to do to bring unity to the country? How likely is the country to join the region’s turn to the left, and will the future president remain a close ally of U.S. President Joe Biden, as was the current president, Guillermo Lasso? What are possible security concerns around the election?

Alberto Acosta, editor of Weekly Analysis in Guayaquil: “In the upcoming election, it is likely that Ecuador will take a turn toward the left. Among the top three candidates with the highest voter support, all of them advocate for increased state intervention, albeit with different nuances. Luisa González, the leading candidate of the Correismo movement, embodies a populist social democratic vision. Her proposal focuses on strengthening the state and expanding its role in all spheres of society. Limiting economic freedom is seen as legitimate in pursuit of greater equality. Also from a social democratic perspective, Otto Sonnenholzner proposes to reclaim the state’s role and ‘implement a public social policy that strengthens the presence of the state at the national level and guarantees social services, aiming to build a less inequitable society.’ Yaku Pérez seeks to position himself as a ‘third way’ candidate with his Indigenous communitarianism. His vision places the state (always under strong community controls) at the center as an instrument to create equity, redistribution and economic reorganization. Regarding their relationship with the private sector, González and Pérez take an interventionist position. They believe in social engineering in line with state guidelines. At the productive level, they seek a return to central planning through industrial policies and import substitution. Foreign trade is acceptable only if the state manages it. Both hold a hostile position toward certain productive sectors, particularly banking and large corporations. However, Sonnenholzner does not believe in state dirigisme; he aims to promote private activity through incentives and actively open markets. González and Pérez will likely maintain some distance from the sphere of influence of the United States and probably seek closer ties with China and other countries with whom they share greater ideological affinity. With Sonnenholzner, the most centrist of the three, the relationship with the United States would be closer. If the United States accepts it, a trade agreement could be reached, in addition to deepened cooperation in various areas, including security.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in Monday’s issue of the Advisor.
Latin America has grown considerably over the past couple of decades, and this may enhance that along the margins. But, again, it was far more consequential when Nicaragua jettisoned Taiwan and embraced China. Like so much else that the Ortega-Murillo diarchy champions and touts, this is primarily a rhetorical exercise. To quote the words Gertrude Stein used in another context, ‘there is no there there.’

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Alexandra Solórzano, chief executive owl at Owl Consultancy Group: “China’s interest in Latin America is no secret. Over the past decade, Chinese interests have been on the rise. Entering and establishing itself in the United States’ backyard signals a challenge to the strongly U.S.-influenced region. This challenge is manifesting itself through trade deals and strategic alliances. China and Nicaragua have 13 trade agreements at present, giving China preferential treatment in the Nicaraguan market. The new free trade agreement will secure a stronger foothold in the country and grant exclusivity to the Nicaraguan market. The real impact of this FTA is the growing influence of China in the region. The region used to have strong trade ties with Taiwan, and it’s now trading that relationship for China. Many of the China-Latin America FTAs accept the yuan as the currency of choice. This shift and acceptance of the yuan puts the U.S. dollar in a perilous position. While it is important to note that the dollar will not lose its place in the immediate future, it is at risk of losing its preferred position in the region. When a currency loses importance, its value and influence associated with it also decline. This means the United States will have to start making a real effort to maintain regional alliances and not take them for granted. China’s increased focus on the region should not be ignored. Economic alliances, particularly with developing countries, can easily and rapidly translate into political and military alliances. Latin America holds a strategic geographic location in the global world stage, and if the region is aligning itself with China, then the western alliance will be left with minimal influence and power on the global stage.”

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Gary Clyde Hufbauer, senior fellow at the Peterson Institute for International Economics: “Reminiscent of certain U.S. FTAs in eons past (including one with Bahrain), the China-Nicaragua pact illustrates politics clothed in economics. Now that team Biden has abandoned conventional FTAs, Latin America offers tempting ground for more Chinese pacts. Autocratic nations will gladly sign the dotted line, but so too will Latin American democracies that already have strong Chinese trade ties. It’s sad to say, but Chinese economic diplomacy romps far ahead of that of the United States, not only in Latin America but across the Global South. That said, it is worth commenting on Finance Minister Acosta’s optimistic forecast for the new FTA—GDP growth of 2 percent. Currently, Nicaragua’s annual GDP is about $14 billion, so 2 percent growth translates to around $280 million additional GDP. Is this plausible? Nicaragua’s two-way trade with China amounts to about $1.4 billion annually, almost entirely imports from China. Nicaragua exports to China are only $15 million. Based on econometric analysis of developing countries, an increase in two-way trade of $10 billion delivers supply-side GDP growth of $5 billion. Thus, for the new FTA to deliver $280 million additional to Nicaragua’s GDP, two-way trade with China should expand by around $560 million. That’s a hefty lift, a gain of more than 30 percent in current China-Nicaragua two-way trade. Possible, yes. Plausible, no.”

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