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FEATURED Q&A

Will the Failed TPP Give Rise to a New Trade Accord?



Chilean Foreign Minister Heraldo Muñoz met this week with Japanese officials during this week's summit in Viña del Mar, Chile in which officials from several countries discussed trade deals that could follow the Trans-Pacific Partnership. // Photo: Chilean Government.

Q Countries that had signed onto the failed Trans-Pacific Partnership, or TPP, met this week in Chile with the goal of searching for another way to achieve an inter-regional trade deal after the United States pulled out of the TPP earlier this year. If the group can agree to create a new trade pact, what aspects are likely to change as compared to the previous deal? How will the nature of the talks change now that China, which was excluded from the original TPP, and other new countries now plan to attend the meeting in Chile? What do the Latin American countries most hope to achieve from the talks in Chile?

A Manuel Agosin, professor of economics and dean of the School of Economics and Business at the University of Chile: "The clout of any replacement for the TPP will be much less than the original. Without the United States, we are talking about Hamlet without the Prince. In a sense, President Trump's first act (shredding the TPP) was an unnecessarily gracious gift to China, which has stepped into the senseless vacuum left by the United States as the paladin of free trade. Most Pacific Latin American countries, plus Argentina and perhaps Uruguay and Paraguay, have thrown their lot behind free trade. And this is unlikely to change. Mexico, in particular, under threat from the Trump administration, is anxious to strengthen its trade links with other countries. Even China is no longer a threat to Mexican manufacturing, since Chinese wages have outstripped those of Mexico. I would expect the replacement of the TPP to look a lot like the one approved by

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TODAY'S NEWS

POLITICAL

Colombian VP Resigns Ahead of Possible Presidential Run

Vice President Germán Vargas Lleras said he has not decided whether to run to succeed President Manuel Santos in next year's election. However, Wednesday was the deadline for officials considering a presidential run to step down from their current positions.

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ECONOMIC

Venezuela Threatens to Seize Bakeries

Among the country's economic problems is a shortage of basic foods including bread.

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POLITICAL

Trump Seeking Cuts of 28% at State Dept., USAID

U.S. President Donald Trump is seeking broad budget cuts in order to spend \$54 billion more on the country's military.

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Trump // File Photo: White House.

POLITICAL NEWS

Trump Seeking Cuts of 28% in State Dept., USAID Budgets

U.S. President Donald Trump is seeking to cut the budgets of the State Department and the U.S. Agency for International Development, or USAID, by 28.5 percent as compared to the 2016 fiscal year, according to a budget outline released today, Bloomberg News reported. At the same time, Trump is calling for a \$54 billion increase in military spending that would be paid for by broad cuts to nearly every domestic department, Politico reported. Under the proposal, which faces debate in Congress, the Trump administration proposed slashing funding for multilateral lenders such as the World Bank by \$650 million over three years, Bloomberg News reported. In the 2016 fiscal year, the United States allocated \$2.3 billion in funding to development banks, an amount that included \$1.2 billion for a World Bank fund for the world's poorest countries. "These steps to reduce foreign assistance free up funding for critical priorities here at home and put America first," the administration said, invoking Trump's "America First" campaign pledge. In an appearance today in Tokyo, U.S. Secretary of State Rex Tillerson said he "willingly" accepted Trump's goal of reducing funding to the department. "Clearly the level of spending that the State Department has been undertaking, particularly in the past year, is simply

not sustainable," Tillerson said alongside his Japanese counterpart, Fumio Kishida. The State Department will find "a way forward that allows us to be much more effective and much more efficient to be able to do a lot with fewer dollars." Tillerson said recent spending increases at the State Department were due to U.S. involvements in foreign conflicts and allocations of money following disasters. Members of Trump's own Republican Party, which controls both chambers of Congress, have been among those criticizing deep cuts to the diplomatic budget, which were first floated last month. At the time, the White House was considering cuts of as much as 37 percent to the State Department and USAID budgets. "If it's anywhere in the ballpark of what I've seen about the State Department, that's definitely dead on arrival," said Senator Lindsey Graham (R-S.C.). "That guts soft power and puts our diplomats at risk." Under the cuts, the United States would also end payments to the Global Climate Change Initiative and to United Nations climate change programs. [Editor's note: See related [Q&A](#) in the March 6 issue of the Advisor.]

Colombian VP Quits Ahead of Possible Presidential Run

Colombian Vice President Germán Vargas Lleras resigned Wednesday, fueling speculation that he may run for president next year, Reuters reported. Vargas, of the center-right Cambio Radical Party, said he has not decided whether

NEWS BRIEFS

Mothers of Victims Led Authorities to Mexico Mass Grave

A group of mothers of missing Mexicans led authorities to a mass grave in Veracruz state that officials this week said contains more than 250 skulls, The Wall Street Journal reported Wednesday. Last May, two men dashed out of an SUV during a march held by mothers in Veracruz and pressed crudely drawn maps into their hands showing the location of the mass grave. Officials said killers have likely been depositing bodies into the mass grave for at least four years.

Demonstrators in Brazil Protest Temer's Pension Reform Plans

Brazilian civil servants, rural workers and labor unions staged nationwide protests Wednesday against President Michel Temer's pension reform plan, with hundreds of demonstrators occupying the finance ministry in Brasília, as well as street demonstrators disrupting bus and subway services in São Paulo. Temer and his allies in the country's ruling coalition have said that capping pension benefits and increasing the retirement age will help fix public finances and keep the country from sinking further into what has been its worst recession in more than a century. Many unions have vowed to fight the pension reform proposal.

Brazil Court Allows Petrobras to Proceed With Asset Sales

Brazil's federal auditing court, known as the TCU, on Wednesday overturned a ruling that had frozen state-run oil company Petrobras' asset sales since December, allowing the company to proceed with plans to alleviate its debt load by selling \$21 billion in assets by the end of 2018.

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the executive branches of the original signatories. A few clauses seem to stick in the throats of some of them. This is especially true of the right it gives companies to seek measures against countries they view as harming their interests. Hopefully, these will be removed. It is extremely important that Latin American countries send a strong message to the United States in support of freer trade. This would be the best outcome of the Viña del Mar meeting."

A Gary Horlick, Washington-based international trade lawyer:

"The TPP was well-negotiated by the representatives of the 12 countries, and each of the countries got something it wanted (such as for farmers and ranchers, tech industries and manufacturing.) As a result, each of the countries has an incentive to put it into force, unless it has reason to believe it can get a better deal some other way. The new U.S. administration

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to run to succeed President Juan Manuel Santos, but Wednesday was the deadline by which any government official would have to step down in order to run for president in next year's election. Political analysts have said recently that Vargas might mount a challenge to the candidate of Santos' U Party. Vargas, who has been vice president since 2014, has focused on infrastructure projects. Santos named former national police chief General Oscar Naranjo to succeed Vargas as vice president.

ECONOMIC NEWS

Venezuela Threatens to Seize Bakeries Amid Bread Shortage

Venezuela has threatened to seize bakeries that fail to abide by government regulations as the country grapples with a bread shortage in the latest development in the country's crippling recession, BBC News reported Wednesday. Officials said bakeries would face fines if Venezuelans were forced to stand in line to purchase bread. Due to severe shortages of basic goods, Venezuelans often have to stand in line for hours to purchase essential items. Venezuela does not produce wheat, but instead the government will import wheat and then send it to mills, where it is ground and distributed to bakeries. The government has blamed bakeries for the bread shortages, saying they are using the flour to bake pastries rather than loaves of bread as a way of increasing profit. The prices for simple baguettes are controlled by the government. New government regulations require bakeries to use 90 percent of the flour they are allotted for baking ordinary bread and the other 10 percent can be used for pastries and sweetened goods. On Sunday, Venezuelan President Nicolás Maduro said he would be sending inspectors to 709 bakeries in Caracas in order to ensure that the bakeries were complying with the regulations. "They're going to pay, I swear. Those responsible for the bread war are going to pay and they better not complain that it was a political persecution," he said.

IN FOCUS

Mexico's López Obrador Seeks to Protect Migrants in Petition to OAS Rights Body

By Nicole Wasson

WASHINGTON—Mexican presidential hopeful Andrés Manuel López Obrador on Wednesday delivered a petition to the Inter-American Commission on Human Rights, an autonomous organ of the Organization of American States, calling for the commission to issue an injunction to protect immigrants he said have been subject to discrimination and arbitrary deportation, due to executive orders issued by U.S. President Donald Trump.

In addition to seeking to protect immigrants, López Obrador said he also traveled to Washington to petition against Trump's plan to build a massive wall along the U.S. border with Mexico. López Obrador said he delivered the petition to the Inter-American Commission on Human Rights, saying he cannot petition the United Nations because he is not Mexico's head of state.

After delivering the petition, López Obrador criticized Mexican President Enrique Peña Nieto's relationship with Trump, saying the current Mexican president has taken a submissive stance toward Trump.

"As a Mexican, I am disappointed in President Peña, who has been humiliated by President Donald Trump during their phone call," López Obrador told reporters Wednesday at the National Press Club.

He said the content of the conversation between the two during the phone call in January should be released, but that he be-

lieves Peña Nieto's conversation with Trump was "shameful."

"We do not want a relationship of subordination, and we won't accept it," said López Obrador. "Mexico is an independent and free

country, not a colony or protectorate." He said Trump uses migrants as a scapegoat for the United States' problems.

"We will not permit the discourse based on hate, which, in the end, is neofascism. It is not true that Mexicans are at fault for the prob-

lems of the United States. There are other causes: for instance, the great inequality in the United States, and the tax system—we need to look into the United States to see if it could be more progressive and fairer to all Americans."

López Obrador added that if he is elected Mexico's president next year, he hopes to foster a relationship with the United States that is based on respect and friendship. When asked how he would approach renegotiating NAFTA with the United States, López Obrador said that for both countries, it is important to maintain commercial and diplomatic relations, but that he hopes neither side will rush into any decisions on changing the free-trade agreement.

"I think that we will achieve it in time, and that we will not bring about any commercial revisions before Mexico's [upcoming presidential] elections," he said.



López Obrador spoke to reporters Wednesday in Washington. // Photo: Latin America Advisor.

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thinks it can get a better deal with Japan than the United States got in the TPP. It can hardly come back to the U.S. Congress with a worse deal. So there will be a real-world test of the theory. An important point—possibly the most important part—is that countries are not waiting to see if the TPP is revived. Australia, for example, already has FTAs with China and Japan. The latter already gives Australian beef exports a 28 percent tariff in Japan, which will decline

“The TPP was well-negotiated by the representatives of the 12 countries, and each of the countries got something it wanted...”

— Gary Horlick

further, while U.S. exports face a 38 percent tariff and are losing sales and pricing. And Australia is accelerating its negotiation of an FTA with Indonesia, a growing developing country with the fourth-largest population in the world. In Latin America, the Pacific Alliance (Chile, Colombia, Mexico and Peru) is seeking further expansion in Latin America and in the Asia-Pacific region, including a possible revival of a TPP without the United States, but with Colombia and Korea, and possibly with some link to China. Most importantly, the European Union has announced acceleration of the implementation of FTAs already negotiated with Singapore and Vietnam, and of the completion of the E.U.-Japan FTA. If that occurs before the United States completes FTAs better than the TPP with Japan, the United States could find itself with worse access to Japan and Vietnam than the European Union has, and worse access to the E.U. market than Japan. And that is before getting to NAFTA, which

the United States is renegotiating while the European Union implements its much more modern FTA with Canada and accelerates modernization of its FTA with Mexico. Stay tuned.”

A Ryan Mellske, attorney at Dechert LLP and lecturing fellow at the Duke University School of Law: “If the previous TPP deal

had gone through, it might not have provided for investor-state dispute settlement (ISDS), as do most free-trade agreements, due to political opposition within the United States. Now that the United States will not participate, ISDS might once again be included. This is all the more probable following the recent decision of an arbitral tribunal in the case Philip Morris v. Uruguay. ISDS provides confidence to foreign investors to commit to long-term projects needed for economic development by providing basic rights and neutral arbitration in the event that an investor is mistreated by a host government. However, some critics feared that any ISDS provision in the TPP would unduly allow companies to sue sovereigns that change policy in the areas of public health or the environment. The Philip Morris decision—released in July 2016 and confirmed in September—should ease those concerns (albeit not in time to affect the issue in the last U.S. election cycle). In 2010, Philip Morris claimed compensation for the alleged deprivation of its intellectual property rights after Uruguay enacted plain-packaging requirements for tobacco products. The tribunal ultimately rejected Philip Morris’ claim, finding that Uruguay had made a valid exercise of its powers to protect public health. Having had more time to take stock of the Philip Morris decision, the remaining TPP countries may be inclined to include ISDS in the TPP after all.”

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2017

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at freetrial@thedialogue.org

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