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## FEATURED Q&A

# How Important Are European Trade Ties to Mexico?



Mexico is setting its sights on expanding its free-trade agreement with the European Union, said Deputy Economy Minister Juan Carlos Baker. // File Photo: Mexican Government.

**Q** The expansion of a free-trade agreement signed in 2000 with the European Union is at the “top of the trade agenda for Mexico,” the country’s deputy economy minister, Juan Carlos Baker, said in early April. Baker’s comments came the same week that Mexican Foreign Minister Luis Videgaray met in Washington with his counterpart, Rex Tillerson, as well as with U.S. Homeland Security Secretary John Kelly. What are the most likely ways for Mexico and the European Union to strengthen their free-trade accord? What could be the benefits for Mexican businesses and consumers? Are recent frictions with the United States making stronger ties with Europe more important for Mexico, or is Mexico’s fate destined to be tied to the United States?

**A** Wolfram F. Schaffler Gonzalez, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University: “NAFTA has been beneficial for Mexico in many ways that go beyond the growth of its economy. Supply chains have achieved an almost clockwork integrated efficiency, and FDI has grown more than ever (more than 1,350 international companies have investments and plants just in Querétaro, 495 of those from the United States). But one of the things that I think has greater value is the knowledge that the Mexican government and the private sector now have of a globalized economy where foreign trade agreements are of the utmost importance. That is why Mexico now has 12 treaties with 46 countries, as well as another 32 complementary economic agreements already operating; chief among them (after NAFTA)

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## Spirit Airlines to End Service to Havana

The Florida-based airline's CEO will cut back on its twice-daily flights to Havana next month and end flights there completely in June.

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## Mercosur, European Union to Sign Trade Deal

The South American trade bloc and the European Union are planning to sign a trade deal by the end of the year, said Argentine President Mauricio Macri.

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### POLITICAL

## Fugitive Former Mexican Governor Arrested in Guatemala

Javier Duarte, who was governor of Veracruz state, was arrested Saturday night in Guatemala. Duarte has been on the lam for six months and is accused of embezzlement and ties to organized crime, which he denies.

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Duarte (center) was arrested Saturday night. // Photo: Guatemalan National Civil Police.

## POLITICAL NEWS

## Fugitive Ex-Mexican Governor Arrested in Guatemala

Javier Duarte, the fugitive former governor of Mexico's Veracruz state, was arrested Saturday night in Guatemala following a six-month manhunt. Duarte, who was in office from 2010 until last October, was arrested at a hotel in the resort town of Panajachel on Lake Atitlán, The New York Times reported. Mexico has sent Guatemala a request for Duarte's extradition, Agence France-Presse reported. "Now there

**Duarte has been a fugitive since resigning from office in October.**

is a 60-day period in which bilateral extradition issues are looked at. Then the judge will determine if the necessary conditions are met and that he should be extradited," Mexico's top prosecutor, Omar García, said in a briefing at the Mexican Embassy in Guatemala City. Duarte is accused of embezzling hundreds of millions of dollars during his time in office. Much of the money he is accused of pocketing was tied to social programs. In December, state police in Veracruz raided a property belonging to the former governor and found millions of dollars worth of stolen goods, UPI reported. The following month, Mexico's health ministry said it was probing allegations that children battling cancer in the state were given water instead of chemotherapy during his time in office. Duarte is also accused of links to organized crime, and prosecutors assigned him some of the blame after a large mass grave was found in Veracruz. Duarte denies wrongdoing. A member of the ruling Institutional Revolutionary Party, Duarte resigned last year

and went into hiding. Another former Mexican governor, Tomás Yarrington, who was governor of Tamaulipas state from 1999 to 2005, was arrested last week in Italy on drug-trafficking and money-laundering allegations and was a fugitive for nearly five years.

## Venezuela's Maduro Reportedly Offers Deal to Opposition

Venezuelan President Nicolás Maduro's government has secretly offered to hold regional elections in a bid to appease the growing numbers of Venezuelans protesting against him and his administration over claims that his regime is becoming dictatorial, according to sources close to the negotiations, The Miami Herald reported Friday. The offer is attractive to a small number in the opposition who are less hostile to Chavismo, and who could see gaining power in the governorships as enough progress to allow Maduro to stay in power until the 2018 elections. "The government, in its desperation, is offering to hold regional elections by the end



Maduro // File Photo: Venezuelan Government.

of the year and to leave the presidential election and the election of mayors and city officials for the next year," one of the sources said. The deal would stipulate that the opposition must cease to claim that Maduro perpetuated a self-coup when the judiciary attempted to take over the legislative branch and remove it from power. "To do away with the coup d'etat claim is critical for [the Maduro government]. It was the first point in the agenda." The deal would also require the opposition to accept the current Supreme Justice Tribunal's justices, who the opposition claims were appointed

## NEWS BRIEFS

## Spirit Airlines to End Flights to Havana

Florida-based Spirit Airlines is the latest carrier to cut back on its service to Cuba, the Associated Press reported Saturday. The carrier began service to Havana in December with two flights daily from Fort Lauderdale-Hollywood International Airport. However, CEO Bob Fornaro said Friday that "the costs of serving Havana continue to outweigh the demand for service." Spirit plans to end flights there completely on June 1. Silver Airways and Frontier Airlines have also announced they will end service to Cuba, citing high competition and low demand.

## Jamaica Eyes Faster Access to Dormant Bank Accounts

Jamaican Finance Minister Audley Shaw is considering a proposal that would shorten the time frame that a bank account must be dormant before the government can access it, the Jamaica Observer reported Saturday. Billions of Jamaican dollars are in dormant bank accounts in the country, and under the current Banking Act, an account must be dormant for 15 years before the government can take the account over and add it to its revenues. A new proposal Shaw wants to submit to cabinet would reduce the time frame. Some of the funds from the dormant accounts would then be used to benefit small and medium-sized enterprises, Shaw said.

## Earthquake Shakes Northern Chile, But No Damage Reported

A magnitude 6.2 earthquake hit northern Chile early Sunday morning, though government officials said there were no reports of damage to people, basic services or infrastructure, the Associated Press reported. The earthquake was centered 42 miles east-southeast of San Pedro de Atacama, and the epicenter was located 84 miles below the surface.

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is the one with the European Union. With this perspective, the rude awakening that was the threat to NAFTA will now allow Mexican producers and manufacturers to look beyond the North American marketplace, so they can shift some of their exports (and even imports) to other markets, such as Europe. The challenge now is not to fall back on the easy and complacent position of relying once again on the U.S. and Canadian markets for most of their exports and imports, if the NAFTA renegotiation is successful. The real opportunity now is to move some of the eggs that Mexico has placed in that one basket (NAFTA) to the many other baskets that already exist among the other nations of the world with which Mexico already has foreign trade agreements, many of them in Europe."

**A** **James R. Jones, member of the Advisor board, chairman of ManattJones Global Strategies and former U.S. ambassador to Mexico:** "Mexico would prefer to strengthen economic ties with the United States because of the strong family, cultural and commercial relationships that have grown since the inception of NAFTA. Additionally, Mexicans believe that developing the North American economic region would make it the strongest in the world, greatly benefiting all three countries. But both of those aspirations depend on the United States and its attitude about trade. The Trump administration's trade policies seem to be evolving in a positive direction. But the earlier inflammatory rhetoric by President Trump awoke the Mexican government to the urgent need to diversify its global trade practices. Having more free-trade agreements than any other country, Mexico needed to pursue the promise of those agreements. Europe is now coming out of its economic slumber and is looking to be more active in world trade. Some of us were surprised that Mexico could conclude an FTA with Europe 15 years ago, especially since Europe turned a cold

shoulder of disinterest to Mexico when it sought a free-trade pact before launching negotiations with the United States and Canada 30 years ago. I wouldn't predict how a free-trade pact would turn out, but this outreach, plus Mexico's efforts to increase trade ties with China and Japan as well as agricultural producers in Brazil, Argentina and Australia, should awaken U.S. policy-makers and Congress to the risks to our economic future if we let our strong ties with Mexico begin to slip away. I believe that reality and facts will prevail and that all three governments will get back on the road to harmonizing and strengthening North America's economic resources."

**A** **Arnulfo R. Gómez, professor at Anáhuac University in Mexico:** "Many countries have based their development on exports, and they have been very successful. Mexico, taking into account this experience, decided to sign free-trade agreements with more than 40 countries, becoming the free-trade agreements champion. Nevertheless, since 2001, setbacks in all its economic variables have been enormous and, as a result, it has fallen as economic power from ninth to the 15th place; as an exporting country from 12th to 13th place; and as a destination for foreign direct investment from sixth to 16th place. Today, Mexican officials say the expansion of a free-trade agreement signed in 2000 with the European Union is at the top of Mexico's trade agenda, at a time when Mexican exports to the European Union represent just 5 percent and exports to United States represents 80 percent of the total. This concept shows what little idea the government has of the operation of international trade, since its officials are incapable of setting real priorities. An important part of this problem is the poor quality of public institutions which, according to the World Economic Forum, from 2001 to 2015 fell from 56th to 116th place. Also, confidence in authorities and politicians fell from 94th

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illegally and who they believe follow Maduro's orders implicitly. In exchange, the government would restore some of the National Assembly's constitutional functions, including its power to approve the government's budget, as long as the body approves Maduro's use of debt to finance spending and does not block deals by Maduro to obtain additional financing from international oil companies.

## BUSINESS NEWS

## Mercosur, European Union Eye Trade Pact This Year: Macri

South American trade bloc Mercosur and the European Union are planning to sign a trade agreement this year, Argentine President Mauricio Macri, who is currently holding the rotating presidency of Mercosur, said in an interview published Saturday, Reuters reported. Macri's comments confirm Brazilian Foreign Minister Aloysio Nunes' comments last month that the four member countries of Mercosur would sign a framework political deal with the European Union. "We firmly intend to sign an agreement in the second half of this year," Macri said, without giving details of the agreement. "We also want to move toward the Pacific Alliance comprised of Chile, Colombia and Mexico. It won't happen immediately and will take a couple of years," he added, saying he believed South American countries agreed on the need for closer cooperation. Macri also said during the interview that he plans to use his meeting with U.S. President Donald Trump later this month to work on improving ties between the two countries. "Argentina barely has relations with the USA anymore. There is a great deal we could improve and hardly anything we could make worse," Macri said. Relations were damaged between Argentina and the United States in 2002 after Argentina defaulted on \$100 billion in debt. The relationship improved after Macri took office in 2015 and worked to settle with U.S. bondholders.

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to 124th place, and paperwork and regulations from 117th to 118th. Certainly, the idea of Donald Trump reviewing NAFTA is an opportunity that Mexico should use to define a joint strategy with the United States and Canada to regain the importance that North America lost between 2001 and 2016, when NAFTA's share in the world domestic product fell from 36.29 percent to only 28.37 percent."

**A** **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** "To strengthen Mexican ties with Europe, two channels already exist. In the financial sector, Mexico has had strong investment from the Spanish banks and insurance companies. It would be natural to expand more along those lines. In manufacturing, Mexico has been a long-term partner with Germany—especially in automobiles. Volkswagen has had a long history of making cars in Mexico. As a result, a whole range of auto parts are also made in Mexico. In more recent years, Spanish investment has come in the tourism sector as well. Mexico has been putting in extra effort to bring more investment from these sectors in Europe. Brazil provides a cautionary tale about how bigger ties with Europe can backfire. Unlike Mexico, it has put most of its ties with Europe ahead of the United States. The malaise of Europe over the last decade has Brazilian exports struggling. Geography is destiny. Mexico cannot avoid being the United States' neighbor, potential wall notwithstanding. For perishable items, the United States has become a natural trading partner of Mexico. While the United States is a single economy, it is extremely diversified. It is also roughly the same size as the European Union. Thus, being tied to the United States may not be a bad thing. The value of the U.S. dollar is now at the same level as it was before the new

U.S. president won the election in November. The market thus believes that despite the bluster by the new administration, it will be more business as usual."

**A** **David Ross, global fund manager at La Financiere de l'Echiquier in Paris:** "Today, the European Union free-trade agreement is at the top of the list for Mexico; a few weeks ago, exploring the possibility of duty-free access to Brazilian and Argentine corn imports was the priority. Instead of viewing these as individual initiatives, they should be seen as being part of a 'Plan B' for Mexico. I was part of a group of investors in February who heard Dr. Ildefonso Guajardo, Mexico's economy minister, say regarding NAFTA that if one does not have a 'Plan B,' then you have no negotiating leverage. In this light, while updating and expanding the trade agreement with Europe has its own economic benefits, the larger purpose of the accelerated timetable is to put Mexico in a stronger negotiating position with the United States. It must be noted that these 'Plan B' efforts by Mexico have provided some results, as recent comments and leaked documents from the U.S. administration reflect a more restrained NAFTA negotiating approach than was indicated just a few months ago. The current trade agreement is from 2000, and there are benefits for Mexico in updating it. I would expect the new deal to liberalize trade in some agricultural goods in exchange for more opportunities for European companies to participate in public tenders. The result will not be a giant leap forward, but a new deal with the European Union helps to maintain investor confidence and attract more foreign investment during this period of NAFTA uncertainty."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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