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FEATURED Q&A

Will Pacific Alliance Countries Benefit From New FTAs?



Presidents Michelle Bachelet of Chile, Juan Manuel Santos of Colombia, Enrique Peña Nieto of Mexico and Pedro Pablo Kuczynski of Peru—the leaders of the four full member Pacific Alliance countries—met last month in Cali, Colombia. // Photo: Pacific Alliance.

Q Trade ministers from Australia and New Zealand on July 1 both announced they would start talks for new free-trade agreements with the Pacific Alliance. The alliance, which Colombia, Chile, Mexico and Peru founded in 2011, has more than 221 million consumers and a combined GDP of \$3.85 trillion, equivalent to the world's sixth-largest economy. How would the free-trade agreements affect the economies of the Latin American member states? Which sectors stand to gain or lose the most from the potential agreements?

A Wolfram F. Schaffler, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University: "Other countries or world economic blocs could learn from some of the things that the Pacific Alliance has done in its short existence. By going beyond just trade, Peru, Chile, Colombia and Mexico have set the potential tone for other multilateral agreements. Tourism, education, shared diplomatic spaces and even a common stock market (MILA) are some of those areas, all of which, in one way or another, generate results beyond the flow of their respective national exports. When (and not if) Australia and New Zealand become a part of the Pacific Alliance, nations on both sides of the ocean will benefit. One example of this would be livestock from those two nations, which produce meat and milk products and will now have access to additional low-cost animal feed pellets from Peru. This will certainly benefit the internal market consumption of Australia and New Zealand, but also capitalize zero-tariff exports to the other countries of the alliance. As the

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TODAY'S NEWS

POLITICAL

Guatemala to Extradite Former Mexican Governor Next Week

Guatemalan authorities are planning next week to extradite former Mexican Governor Javier Duarte, who is wanted in Mexico on embezzlement and organized crime charges.

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BUSINESS

Antitrust Unit Backs Itaú's Buy of Citi Brazil Assets

The watchdog approved Itaú Unibanco Holding's purchase of Citigroup's retail banking assets in Brazil, with conditions.

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POLITICAL

Brazil's Lula Sentenced to Nearly 10 Years

Former Brazilian President Luiz Inácio Lula da Silva was convicted and sentenced to nine and a half years in prison in connection with the Petrobras corruption scandal. Lula denies wrongdoing, and his lawyers have vowed to appeal.

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Lula // File Photo: Lula Institute.

POLITICAL NEWS

Lula Sentenced to Nearly 10 Years in Petrobras Case

Former Brazilian President Luiz Inácio Lula da Silva on Wednesday was convicted of corruption and money laundering in connection with the massive graft scandal at state-run oil company Petrobras and was sentenced to nine and a half years in prison. Once hailed as an

“No matter how important you are, no one is above the law.”

— Judge Sérgio Moro

innovative leader in the Western Hemisphere, Lula has been seen as a frontrunner ahead of next year's presidential election in Brazil. However, his conviction puts his political future in doubt. “No matter how important you are, no one is above the law,” Judge Sérgio Moro said in announcing the verdict, The Washington Post reported. Lula's actions were part of a “scheme of systemic corruption” at the state oil company, Moro added, The New York Times reported. Lula's lawyers have said the former president, the highest-profile person so far convicted and sentenced in the Petrobras scandal, will appeal, The Washington Post reported. That process could take a year and a half, and Lula is expected to remain free while the case continues. Legal scholars say Lula still could run in Brazil's next presidential election, scheduled for October 2018, while his case is on appeal, The New York Times reported. However, if Lula loses the appeal, his Workers' Party could be left without a candidate in next year's election; if he wins the election, he could be prevented from taking office. Lula was convicted on charges that he accepted the use of a beachfront apartment and free renovation work

on the property from engineering company OAS in exchange for helping the company to secure lucrative contracts with Petrobras, The Washington Post reported. Lula's lawyers have said the property belonged to the construction company and that Lula had visited it only once. Lula denies wrongdoing. In a statement issued late Wednesday, Lula's lawyers said the former president is innocent and said he is the victim of a politicized prosecution, “a famous strategy that has been used to brutal effect by various dictatorships throughout history,” The New York Times reported.

Ex-Venezuelan Transport Minister's Relatives Accused in Bribery Case

Venezuela's state prosecutor's office on Wednesday said it would indict two relatives of former Transportation Minister Haiman El Troudi for their alleged involvement in bribery schemes related to Brazilian construction conglomerate Odebrecht, Reuters reported Wednesday. The state prosecutor on Twitter wrote that Maria Baptista and Elita Zacarias “are linked to the ex-Minister Haiman El Troudi and must appear July 27,” but did not provide



El Troudi // File Photo: Venezuelan Government.

any further details. El Troudi said that his relatives, identified by local media as his wife and mother-in-law, had nothing to do with the case against him. “To get to me, Mrs. Prosecutor, my immunity is no obstacle and my family shouldn't be the way forward,” El Troudi wrote on Twitter. “As this case is chiefly political, know that I will be the one to present myself to the prosecutor's office, with my conscience

NEWS BRIEFS

Guatemala to Extradite Former Mexican Governor Duarte Next Week

Guatemala plans to extradite former Mexican governor Javier Duarte, who is wanted on charges of embezzlement and organized crime, next week, Guatemala's foreign ministry said Wednesday. Duarte, who was governor of Veracruz State and a member of the ruling Institutional Revolutionary Party, or PRI, until last year, could be returned to Mexico on July 17, Guatemalan foreign ministry spokesman Tekandi Paniagua said. Under Duarte's governorship, Veracruz State saw an increase in gang violence and kidnappings, and Duarte came under fire over accusations of widespread corruption in his administration.

Paraguayan, Taiwanese Presidents Meet in Taipei

Paraguayan President Horacio Cartes on Wednesday met with Taiwanese President Tsai Ing-wen in Taipei and marked the 60th anniversary of establishing diplomatic ties between the two countries, Taiwan Today reported. At the start of the three-day state visit, the leaders signed an economic cooperation accord and a mutual recognition agreement. Tsai said the accords will help promote bilateral business ties and deepen cooperation.

Argentina Refinances \$840 Million in Maturing Treasury Notes

Argentina has refinanced \$840 million in maturing treasury notes that were denominated in dollars after it received orders totaling \$1.75 billion, Reuters reported Wednesday, citing a statement by the country's Finance Ministry. Included in the refinancing was \$500 million in 273-day treasury notes maturing next April and \$250 million in 455-day treasury notes maturing in October 2018. Public entities were directly sold another \$90 million of debt.

clear and my head high." Reuters was unable to obtain comments from Baptista and Zacarias on the matter. Last year, Odebrecht admitted to paying some \$98 million in bribes over the course of several years to politicians in Venezuela in exchange for public contracts. Earlier this year, Venezuelan prosecutors sought the arrest of the head of Odebrecht Venezuela, Euzenando Azevedo, but were unable to do so, and he is now presumed to have left the country.

BUSINESS NEWS

Antitrust Watchdog Backs Itaú's Purchase of Citi's Brazil Unit

A unit of Cade, Brazil's antitrust watchdog, has approved the planned purchase by Itaú Unibanco Holding of Citigroup's retail banking assets in the South American country, Reuters reported Wednesday. Cade's general superintendency recommended that the purchase be approved on the condition that Itaú and Banco Citibank Brasil implement a so-called "concentration act." The full details of the act were not released. Last October, Itaú, Latin America's largest bank by market value, agreed to pay \$220 million for the retail banking and insurance assets of Banco Citibank Brasil. The deal also included Citigroup's stakes in automated teller machine operator TecBan Tecnologia Bancária as well as consumer structured finance firm Cia. Brasileira de Securitização, the wire service reported.

J&F Investimentos Selling Stake in Havaianas Maker

Alpargatas, the maker of Brazil's Havaianas flip-flops, on Wednesday announced its controlling shareholder, J&F Investimentos, which has been at the center of Brazil's latest corruption scandal, will sell its stake in the company

FEATURED Q & A / Continued from page 1

Pacific Alliance grows with new members, its importance will propel it beyond its current status as an economic bloc, solidifying it as a geopolitical counterweight to other multilateral agreements, or even international isolationist or protectionist economic policies."

A Jose Blanco, chairman of the Australia-Latin America Business Council and senior partner at Blanco Partners: "The FTAs would enable the countries involved to capture some of the benefits that would have come their way had the Trans-Pacific Partnership come into existence. They represent a timely vote of confidence in free trade and in the Pacific Alliance, contributing to entrenching the alliance as an important model for regional integration and for engagement with global markets. The FTAs will provide a platform for expanding and deepening commercial, social and political relationships. The Australian FTA will offer the Latin American member states—with Mexico being a notable exception, because of the scale of its sizeable manufacturing sector—an opportunity to engage with and to learn from a commodities-based market that has achieved a high level of economic development through the efficient exploitation of natural resources, a growing investment in

technological innovation and an emphasis on high-quality education. The Australian FTA will generate greater interest in Australia in connecting with the member states and should deliver increased trade flows in both directions. The Pacific Alliance is already

“The FTAs will provide a platform for expanding and deepening commercial, social and political relationships.”

— Jose Blanco

a growing market for Australia, with total two-way trade in goods and services being valued at \$4.4 billion in 2016, which is more than double the amount 10 years ago. More importantly, there should be increased investment flows into sectors where Australian business enjoys competitive advantages, such as natural resources, agribusiness and the services sector. Already, more than 300 Australian businesses currently operate in the member states, and this number can be expected to increase significantly, with the focus on mining, education, environmental services and more."

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to Brazilian investment groups Itaúsa, Cambuhy and Brazil Warrant for 3.5 billion reais, or



Joesley Batista // File Photo: Municipality of Vila Velha.

approximately \$1.1 billion, the Financial Times reported. J&F Investimentos is controlled by

the Batista family, which has been at the heart of the "Operation Weak Flesh" corruption probe into bribes paid by meatpacking companies to government officials. J&F must sell some of its assets in order to pay the fines that came as a result of plea bargains made by the executives of its meat-packing company, JBS. Brothers Joesley and Wesley Batista earlier this year admitted to paying bribes to nearly 1,900 politicians in a scandal that has reached top Brazilian politicians, including President Michel Temer. JBS bought Alpargatas 18 months ago from Camargo Corrêa, a construction company that has also been involved in corruption scandals.

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A **Francisco Durand, professor of political science at the Catholic University of Peru:** “The Pacific Alliance, spearheaded by Mexico (and behind the scenes by the United States) was formed as a block of Latin American nations, all of which had signed free-trade agreements with the United States and were located on the Pacific Rim. The plan was to expand free-trade blocs across the ocean for both economic and geopolitical reasons. Before it was agreed upon, Peru already had trade agreements with all the Latin American members and even with several Asian nations. So the economic component, although important, was not crucial. The additions on the Asian side of the Pacific will reinforce a trade process already underway and, at the same time, may create a zone of geopolitical interaction in this new axis of global investment and commerce. Countries are seeing the Pacific as the most promising trade zone and bloc of the 21st century. The Pacific Alliance may accelerate investment and trade and a time it is most needed, The export bonanza is over and most governments are looking for viable global alternatives at a time of growing economic nationalism.”

A **Peter Quinter, chair of the Customs and International Trade Law Group at GrayRobinson in Miami:** “The very first international trade decision made by the Trump administration was to announce that the United States no longer supported the Trans-Pacific Partnership, or TPP. This was a major blunder by the Trump administration, as the ‘America First’ policy really means that the United States is no longer a world leader. With the absence of the United States as a leader in international trade matters, several of the countries that were to be members of the TPP decided to pursue a multilateral trade agreement among themselves. Hence, the already existing Pacific Alliance will likely add new members. A multilateral free-trade agreement among Asia-Pacific countries is inevitable. On both sides of the

Pacific Ocean, but especially in Asia, there are two stark choices: either join a multilateral free-trade agreement led by China, or be uncompetitive in international trade. The withdrawal of the United States from the

“**A multilateral free-trade agreement among Asia-Pacific countries is inevitable.**”

– Peter Quinter

TPP has directly caused other countries that previously had looked to the United States for leadership in international trade to now negotiate free-trade agreements with China. China already has free-trade accords with countries in Latin America, and it is now in the process of adding several more. The result is that there will be more trade between China and South American countries, and relatively less international trade between the United States and South American countries, with which the United States does not have bilateral or multilateral free-trade agreements. China has become the world’s supplier of manufactured products, and it has a great need for basic materials, such as food, lumber and gold. Latin American countries need to be careful to maintain a balance of trade and investment to benefit their citizens. Chinese citizens are clearly much better off materially than they were a decade ago, and they will be wealthier a decade from now because of their proper management of international trade deals. Unfortunately, under the Trump administration, with policies such as the withdrawal from the TPP, the wealth of the world is clearly shifting to China from the United States.”

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Nicole Wasson
Reporter, Assistant Editor
nwasson@thedialogue.org

 **THE DIALOGUE**

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