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FEATURED Q&A

How Will New U.S. Tariffs Affect Latin America?



Surrounded by metals workers, U.S. President Donald Trump last Thursday signed orders for new tariffs on imported steel and aluminum. // Photo: White House.

Q U.S. President Donald Trump on March 8 signed into law new tariffs on imported steel and aluminum despite anxious warnings from leading members of his own party, global trading partners and liberal economists. At the same time, he announced that Canada and Mexico would be exempt from the tariffs, pending the outcome of the renegotiations of the North American Free Trade Agreement. The tariffs have support from a diverse coalition of interests ranging from the largest labor union in the United States to right-wing advocates of Trump's "America First" political ideology. What would the tariffs mean for Latin American and Caribbean countries? Which players stand to gain or lose the most? How will concerns about a global trade war come to bear on the current talks to renegotiate the North American Free Trade Agreement?

A Frank Samolis, partner and co-chair of the international trade group at Squire Patton Boggs in Washington: "The steel and aluminum tariffs have been the source of significant concern for stakeholders around the world, including steel/aluminum consuming industries in the United States, U.S. lawmakers and foreign leaders. They are especially concerning for Mexico, a major U.S. trading partner and a critical ally in the Western Hemisphere. Affected parties include: U.S. consumers, due to expected price increases on a wide variety of goods that use steel or aluminum somewhere in the supply chain; the oil and gas industry, which relies on large quantities of these products to expand their operations; and U.S. relations across the globe, as the specter of a trade war increases. It is likely that these tariffs

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TODAY'S NEWS

POLITICAL

Peace Deal Critics Pick up Seats in Colombia Vote

Critics of Colombia's 2016 peace accord with the FARC rebels prevailed in legislative elections. At the same time, the FARC, which has transitioned to a political party, was trounced in the vote.

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ECONOMIC

Venezuela Eyes Use of Petro Currency for Solar Projects

President Nicolás Maduro's government is planning to use the country's new digital currency to finance solar projects, said Foreign Minister Jorge Arreaza.

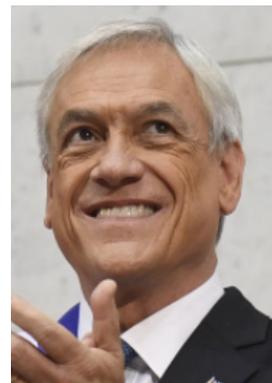
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POLITICAL

Piñera Returns to Chile's Presidency

Sebastián Piñera for the second time succeeded Michelle Bachelet as Chile's president. Piñera called for austerity and also vowed to eradicate poverty in the South American nation. He also said his government would improve public health care.

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Piñera // Photo: Chilean Government.

POLITICAL NEWS

Piñera Returns to Chile's Presidency

Conservative billionaire Sebastián Piñera on Sunday returned to Chile's presidency, a post that he first occupied from 2010-2014, taking over for the second time from Michelle Bachelet. After receiving the presidential sash from Bachelet, Piñera vowed to work to eradicate poverty in Chile and also transform it into a developed country within a decade,

“The state must be austere and efficient in the use of public resources...”

— Sebastián Piñera

Reuters reported. He also called for austerity and more support for Chile's shrinking middle class. “The state must be austere and efficient in the use of public resources... and must never be captured by bureaucracy, corruption or political operators,” said Piñera. He added that his government would perform “major surgery” on the country's public health care system and also strengthen welfare programs while at the same time moving away from what he called a “bulldozer” approach to policymaking toward one based on consensus and gradual change. “To make progress on all these goals, it is fundamental we counter the stagnation of recent years, restoring fiscal equilibrium as well as our leadership, dynamism and ability to grow,” Piñera said in a speech on the balcony of the presidential palace in Santiago. Incoming Finance Minister Felipe Larraín told reporters that the government would rein in spending this year after Bachelet's administration left a fiscal deficit of 2.1 percent of gross domestic product, larger than its 1.7 percent target. “Without a doubt, it's bad news,” said Larraín. “We're going to have to get to work to examine and understand how this deficit increase happened.” During the campaign, Piñera said he would work to balance the

budget over a period of six to eight years. In an effort to boost economic growth in Chile, the world's-largest copper producer, Piñera's new mining minister, Baldo Prokurica said the government would work on rescuing billions of dollars worth of mining investments that have been stalled in bureaucracy. Several dignitaries attended the inauguration ceremony, including the presidents of Argentina, Bolivia, Brazil, Ecuador, Mexico and Peru, The New York Times reported. Just after taking office, Piñera flew by helicopter to a government-run children's center that has been accused providing inadequate care, El Mercurio reported. Over the past decade, improper care is alleged to have contributed to the deaths of more than 1,300 children in the agency's facilities. Piñera said his government will improve care of needy children, including through a new system of audits. [Editor's note: See [Q&A](#) about Piñera's new term in Friday's issue of the Advisor.]

Peace Deal Critics Pick Up Seats in Colombia Vote

Conservative party candidates performed well in legislative elections held Sunday in Colombia in a vote watched for signals ahead of the May presidential vote, the Associated Press reported. The election marked the first time that former members of the Revolutionary Armed Forces of Colombia, or FARC, were on the ballot as a political party after disarming under a historic 2016 peace deal. FARC candidates won less than 0.5 percent of the overall vote, getting only the 10 seats guaranteed to the party under the terms of the agreement. The biggest critic of the deal, the Democratic Center party, led by former President Álvaro Uribe, appears to have won enough races to become the largest bloc in Colombia's Senate, with 19 seats, or 16 percent, El Tiempo reported. Iván Duque, 41, the party's pick for the presidential race, won four million votes, ahead of fellow conservative and former defense minister Marta Lucía Ramírez, who had 1.5 million. President Juan Manuel Santos' centrist coalition, the National Unity party, finished fifth overall, with 14 seats,

NEWS BRIEFS

Cuba's President-in-Waiting Vows More Responsive Government

Cubans on Sunday went to polling places to ratify a government-approved list of National Assembly candidates, as the official who is expected to succeed President Raúl Castro said the next government will be more responsive to citizens, the Associated Press reported. “The people will participate in the decisions that the government makes,” said Miguel Díaz-Canel. He is expected to become president April 19.

Trump to Attend Summit of the Americas

U.S. President Donald Trump will make the first visit of his presidency to Latin America next month, The New York Times reported Saturday. Trump will travel to Peru for the eighth Summit of the Americas, a meeting of the heads of Western Hemisphere nations, on April 13. While in Lima, he will also meet with Peruvian President Pedro Pablo Kuczynski. Trump will also visit Colombia to meet with President Juan Manuel Santos. A Nobel peace prize winner who completes his term as president this year, Santos visited the White House last May.

Consortium Headed by POSCO, Samsung SDI to Build Chile Cathode Plant

A consortium led by South Korea's POSCO and Samsung SDI will build a cathode plant in Chile by 2021 for the country's lithium batteries project, Reuters reported Sunday. The \$54 million plant will be constructed in Mejillones, a Chilean port city in Antofagasta province. The plant will produce 3,200 metric tons of cathode annually starting in the second half of 2021. The product will be used to make lithium batteries for electric vehicles. Twelve other companies had bid on the project. The winning consortium also includes China's Sichuan Fulin Industrial Group and Chile's Molyment.

or 12 percent of the Senate. Leftist candidate Gustavo Petro, a former mayor of Bogotá, won his primary Sunday, netting 2.8 million votes, fewer nationally than Duque, but enough to make him a top presidential contender, according to the Associated Press. "Our results were very positive," Petro told his followers. "The presidential campaign starts today." Eight candidates—six men and two women—are now officially running in the first round of Colombia's presidential vote on May 27.

ECONOMIC NEWS

Venezuela Plans to Use Petro Currency for Solar Projects

Venezuela's foreign minister said Sunday that his government would use its new state digital currency, the petro, to finance solar energy projects in the country as well as Caribbean countries, government-backed newspaper Correo del Orinoco reported. Jorge Arreaza said the Petrocaribe initiative, which over the past decade provided certain Caribbean countries with access to discounted Venezuelan oil when prices for crude surpassed a given level, would be used to implement the solar program. "Through Petrocaribe, our brothers and peoples of the Caribbean, President Nicolás Maduro has launched an initiative to finance solar energy projects," said Arreaza. As prices for crude oil have fallen in recent years, the Petrocaribe program, once a lifeline to small Caribbean states struggling to pay for fuel to power their power plants as prices for oil surpassed \$100 per barrel, has become less of source of economic and political leverage for Venezuela. Maduro said Friday that pre-sales for the petro had generated \$5 billion in sales from more than 186,000 certified purchases, government-funded television network Telesur reported. Critics dispute the government's claims of success with the currency and say the petro, which the government promises will be backed by oil reserves and other natural resources, is likely to fail.

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will ultimately be challenged at the World Trade Organization (WTO). In fact, a number of U.S. trading partners are reportedly beginning to construct their arguments. Such challenges will take years to work their way through the WTO dispute settlement and appeal procedures, but the impacts of increased tensions will be felt today. The European Union has pledged to respond with retaliatory tariffs within weeks; while E.U. officials argue that their response will be WTO compliant, any WTO challenge by the United States would similarly take years to conclude. Tariffs from both countries would remain in place in the interim. At this time, it is unclear how the threat of tariffs may affect the renegotiation of the North American Free Trade Agreement (NAFTA). Canada and Mexico are officially exempt from the president's proclamation, but the president left the door open to tariffs for both countries open. Thus, with NAFTA talks ongoing, the administration may use the ongoing threat of tariffs as a leverage point as talks proceed."

A Celeste Drake, trade and globalization policy specialist at the AFL-CIO in Washington: "For years, firms and workers in both the developed and developing world have supported action against unfair trade practices. In this century, China, in particular, has engaged in currency manipulation, denial of labor rights and overproduction—trade issues that the WTO and other multilateral forums have failed to address. The tariffs to protect U.S. national and economic security are overdue. They are a good step toward strengthening firms and protecting workers in the steel and aluminum industries, providing they are targeted to the countries that caused the problem, such as China. It is important to distinguish between trade enforcement and a trade war. Wall Street's 'chicken little' rhetoric comparing this action to the Smoot-Hawley tariff has no basis in fact. More important, however, is that the

global trading system needs comprehensive changes to prevent the kind of game-playing we have seen in global steel markets. Unions across the Americas are united in calling for sustainable, equitable trade rules that strengthen economies and create wage-led growth. In our globalized economy, workers are always better off with international—not unilateral—solutions. Since the United States, Canada and Mexico are already working to fix NAFTA, the three countries

“It is important to distinguish between trade enforcement and a trade war.”

— Celeste Drake

should develop a coordinated response to global economic challenges like dumping, overcapacity, tax avoidance and currency misalignment—even as they work on improving existing NAFTA labor and investment regimes. Just as inaction in the face of illegal trade practices harms working people, so will a go-it-alone strategy. If President Trump has an interest in hemispheric shared prosperity, he should abandon the nationalist rhetoric that plays into the hands of Wall Street critics of trade enforcement. Now is the time for the countries of the Americas to come together to address beggar-thy-neighbor trade strategies, abandon the race to the bottom, and build economies that work for ordinary families, not just the global investor class.”

A Alberto Pfeifer, visiting professor at the Institute of International Relations of the University of São Paulo and member of the board of the Argentina-Brazil Chamber of Commerce: “Trump’s corollary for his nationalist economic policy, protectionism,

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so far has been more about what the United States won't do—the Trans-Pacific Partnership, for instance—than what it will do. NAFTA's termination was turned into a renegotiation. Steel and aluminum tariffs will be balanced under strategic considerations. It may be the case that the final effect will be softer than expected, and several countries may not be targeted at all. To start with, Canada and Mexico (the number-one and number-four steel exporters to the United States,

“Steel companies at a regional level urgently require a mechanism to counter the economic harm.”

— Luis Rodríguez

respectively) were spared while NAFTA is being discussed. Brazil, the number-two steel exporter to the United States, with a \$3 billion value, is the first in line to suffer. The E.U. market is no promising alternative for Brazilian steelmakers. Last year, Brussels imposed anti-dumping measures against Brazilian steel and, right after Trump's move, announced emergency safeguards in case cheap steel is diverted to its market. A recovering domestic market can absorb part of this production. Trump's aim at steel and aluminum is actually taking the world back into mercantilism. For most Latin American countries, the direct effects will be residual. But structural effects from an escalation of protectionism may come from fewer trade opportunities and the ineffectiveness of the multilateral trade system, increasing the region's economic vulnerability. This might be countered by moves toward more and better regional agreements within Latin America and by getting closer to China. So Trump's real target—China—may be the final beneficiary of this unfortunate trade move.”

A Luis Rodríguez, managing partner at Monarch Global Strategies: “For more than a decade, the North American steel industry has been facing a global oversupply of steel, a drop in international prices and unfair imports, leading to an unprecedented increase of steel imports under unfair trade practices. Such unfair trade practices affecting the North American steel industry have triggered job and investment cuts. Overcapacity in the steel sector and disruptions in the financial markets have triggered an increase in anti-dumping investigations surrounding the importation of steel products. Most of the investigations of unfair trade practices in Mexico and the United States have resulted in anti-dumping duties on steel imports, mainly from China and South Korea; nevertheless, such trade remedies have proven insufficient to address distortions in the steel trade. North American governments, mainly the United States and, to a lesser extent, Mexico, have increased their use of trade remedy measures to protect domestic steel producers from imports under unfair trade practices, causing severe harm to such producers. Dumping is not an isolated phenomenon; it represents challenges to the industry, such as job losses and an impact on security. Moreover, competitiveness and quality could be diminished regionally. Steel companies at a regional level urgently require a mechanism to counter the economic harm, allowing them to strengthen regional competitiveness and promote a unified response to unfair trade practices that affect the regional industry. The measure to impose tariffs on steel imports across the board is not origin-specific and therefore, increases the cost of doing business for all steel imports. The temporary relief for Mexico and Canada provides a unique setting for a regional approach.”

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

LATIN AMERICA ADVISOR

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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 fretrial@thedialogue.org

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