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FEATURED Q&A

Are Latin American Economies Finally Going to Integrate?



Brazilian Foreign Minister Aloysio Nunes said last month that Mercosur and the Pacific Alliance are "clearly complementary projects," and that closer ties between the two "herald the advent of a new dynamic pole in global economy." // File Photo: Brazilian government.

Q The presidents of Colombia, Peru, Mexico, Chile, Brazil and Uruguay met July 24 during a joint meeting of the Mercosur and Pacific Alliance trade blocs in the Mexican resort city of Puerto Vallarta. The presidents signed a letter of intent to establish a regional free trade agreement. How much did the leaders of the two trade blocs accomplish at the meeting? How important is deeper trade integration to the economies of the South American countries involved? Which industries stand to benefit the most from such an agreement?

A Shunko Rojas, undersecretary of international trade at the Argentine Ministry of Production: "The leaders of Mercosur and the Pacific Alliance signed a declaration agreeing to continue to work to promote and facilitate trade in the region, as well as to eliminate unnecessary technical barriers to trade. Moreover, the leaders renewed the agreement they reached in Buenos Aires in April of last year, signing a plan with a series of concrete actions that are going to be addressed during the next months in areas such as technical barriers to trade, regional value chain, rules of origin, trade facilitation, regulatory cooperation, small- and medium-sized enterprises, trade in services, e-commerce, among others. Promoting deeper trade integration is perhaps the most fundamental opportunity for regional economic growth for the countries of Latin America, both with regard to closer trade and investment relationships between Mercosur and Pacific Alliance, but also more generally between all countries in the hemisphere. Deeper trade integration means bigger markets for our companies and increased

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TODAY'S NEWS

ECONOMIC

Venezuela Arrests Six in Attempt on Maduro's Life

One of the detained had an outstanding arrest warrant for his alleged role in the August 2017 attack on a military base in Valencia, and another was previously arrested during the 2014 anti-government protests.

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ECONOMIC

Mexico Consumer Confidence Surges to Record in July

Mexico's consumer confidence index in July rose by the most on record. Analysts speculate that post-election euphoria could be behind the surprising data.

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POLITICAL

Brazil's PT Names Haddad as 'Plan B' if Lula Cannot Run

Brazil's Workers' Party named former São Paulo mayor Fernando Haddad to be the party's 'Plan B' candidate if imprisoned former President Luiz Inácio Lula da Silva is not allowed to run in October's election over bribery charges.

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Haddad // File Photo: Government of São Paulo.

POLITICAL NEWS

Venezuela Arrests Six in Alleged Drone Attack on Maduro

Six people have been arrested after Saturday's apparent attempt to assassinate President Nicolás Maduro during a speech in Caracas," Interior Minister Nestor Reverol said on local television Sunday, CNN reported. One of the detained had an outstanding arrest warrant for his alleged role in the August 2017 attack on a military base in Valencia, and another was previously arrested during the 2014 anti-government protests. Two drones armed with powerful explosives detonated, one losing control and falling into an apartment building and the other, perhaps disrupted by authorities, also exploded some distance away from Maduro, according to Reverol. When it became apparent the explosion was an attack, troops assembled on the parade ground scattered. Several were injured. Initial media reports after the incident, which was broadcast live on television, suggested the loud boom echoing through



Maduro // Photo: @NicolasMaduro via Twitter.

the streets may not have been assassination attempts at all, rather possibly a gas generator explosion at a nearby building. Authorities now say they have identified the drones and types of explosives used, however. Maduro on Saturday blamed Venezuelan nationals living in Miami for financing the operation and also accused Colombia's outgoing president, Juan Manuel Santos, with being behind the plot. Both countries denied those charges. "I can say unequivocally there was no U.S. government involvement in this at all," John Bolton, Presi-

dent Donald Trump's national security adviser, told Fox News Sunday. Colombia also rejected Maduro's accusation, Agence France-Presse reported. "It is absurd and unfounded to say that the Colombian president is responsible for the supposed assassination attempt on the Venezuelan president," the foreign ministry said in a statement. Countries around the world issued statements condemning the attack. Spain's foreign ministry on Sunday rejected "all kinds of violence used for political ends" and called for a peaceful, democratic resolution to the "serious crisis" in Venezuela. Attorney General Tarek William Saab said the attempted assassination targeted not only Maduro, but also the military's entire high command on stage with the president at the time, the Associated Press reported. "We are in the midst of a wave of civil war in Venezuela," Saab said.

ECONOMIC NEWS

Mexico Consumer Confidence Makes Surprise Comeback

Mexico's consumer confidence index in July rose by the most on record, the national statistics agency said Friday, Reuters reported. The consumer confidence index jumped 15 percent to 101.7 in July when adjusted for seasonal factors, the highest level since 2008 and the biggest percentage gain on record in data going back to 2001. The "very large and unexpected" spike in consumer confidence is "hard to square" with recent macroeconomic data, Goldman Sachs analyst Alberto Ramos told clients in a research note Friday. Wire reports attributed the significant increase in sentiment indicators to the outcome of the July 1 general elections and the landslide victory by President-elect Andrés Manuel López Obrador. Another factor could be workers' remittances sent home from abroad, which reached a much higher than expected \$3.1 billion in June, a 23 percent increase year-over-year. In May and April, remittances also exceeded expectations by a large margin, putting cash into the pockets

NEWS BRIEFS

Lula Wins Party Backing With Haddad as 'Plan B'

Brazil's once-dominant Workers' Party on Saturday named imprisoned former Brazilian President Luiz Inácio Lula da Silva as its candidate to run for president again in October's elections, Folha de S.Paulo reported. Lula, who has been jailed on bribery charges, leads most opinion polls, but courts are likely to block his candidacy. On Sunday, the party named former São Paulo mayor Fernando Haddad, 55, as Lula's running mate on the slate, placing the left-leaning politician as the party's 'Plan B' candidate if Lula is not allowed to run.

Lower Inflation in Jamaica Triggers IMF Consult

A sharp drop in Jamaican domestic food prices has led to lower-than-expected inflation and automatically triggered a consultation with the International Monetary Fund, the Jamaica Gleaner reported Saturday. The Bank of Jamaica said factors such as better weather, oil price considerations and foreign exchange rate changes were behind the unexpected consumer price drop. The next IMF mission is slated to visit Jamaica in September. The Jamaican dollar has slid in value this year, trading at a new record of 135.44 per U.S. dollar on July 31.

Argentine Fuel Prices Rise by 5 Percent Nationally

Argentine state oil company YPF on Saturday bumped up fuel prices by an average of 5 percent across the entire country, La Nación reported. It's the company's second price increase in a little more than one month. YPF's competitors, including YPF-Shell, Axion and Petrobras, are expected to increase their fuel prices today, as well. According to analysts, the fuel price increases will set Argentina's inflation floor for August at around 2.5 percent and may push consumer prices over 3 percent this month, La Nación reported.

of primarily low-income Mexican consumers who have a propensity to buy consumer goods. The U.S. economy has grown strongly in recent quarters, providing jobs to Mexican migrants in key industries such as construction and agriculture.

BUSINESS NEWS

Brazil's Petrobras Posts Strong Profit on Higher Oil Prices

Brazilian state oil company Petrobras on Friday posted a profit of 17 billion reais (\$4.58 billion) in the first half of 2018. The company said an increase in international oil prices, associated with the depreciation of the Brazilian real against the U.S. dollar, helped the bottom line surpass its biggest profit in seven years, Bloomberg News reported. In the same period, net debt at the heavily burdened company fell 13 percent over first six months of the year, to \$73.66 billion. Cash inflows of \$5 billion from divestments in the first half helped reduce debt, the company said. On the negative side, Petrobras noted there was also a reduction in sales volume in Brazil, mainly gasoline products due to increased ethanol competition and increased biodiesel content in the mix. Utilization rates at Petrobras refineries also rose to 81 percent in June from 72 percent in March. The results beat market expectations, Reuters reported.

HSBC Sees Revenue Gains of 3.2 Percent in Latin America

Global financial services giant HSBC said Monday its Latin America revenue grew 3.2 percent in the first half of the year to \$344 million. Lending in the region helped to offset narrower margins, especially in Mexico due to interest rate gains, the company said. Latin Americans had 22,678 customer accounts with the bank

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competitiveness for exports of goods and services to countries in the region. Furthermore, a deeply integrated market increases the attractiveness of Latin American countries for foreign investors that would have access both to a larger 'domestic' market and to the possibility of setting up efficient regional value chains. We are convinced that attaining this objective is one of the keys to sustained growth for our industry, our food and agricultural sectors and, in particular, for the small- and medium-sized companies that together make up the largest source of employment in the region."

A Sergio Díaz-Granados, director of Colombia and Peru at the Inter-American Development Bank: "This meeting was a very important event since it is the first among presidents of two commercial blocs that represent 81 percent of Latin America's GDP. Also, the meeting was important because it had a clear purpose: to promote regional integration and free trade between the two blocs. This step is important because, since 1960, the countries have made efforts to achieve free trade within Latin America, as with the ALALC Treaty, for example. Given the inability to do so, blocs were created within the region, from the MCCA in 1960 and CAN in 1969 to Caricom in 1973 and Mercosur in 1991, and more recently the Pacific Alliance in 2011. In addition to these blocs, there are 33 bilateral trade agreements between countries in the region. The incredible thing is that after almost six decades, the region still does not have a set

at the mid-year mark, down about a thousand accounts from the year-earlier period, with more than 17,000 of those in Mexico. HSBC remains heavily invested in Asia by comparison, which accounted for 49 percent of its revenue in the first half of the year, while Latin America contributed 5 percent. Overall, the bank posted a 4.5 percent increase in pre-tax profit for the first half, a higher figure than markets expect-

of harmonized rules that facilitate free trade. Therefore, it is necessary to improve trade rules, such as reducing non-commercial barriers, boosting regional value-added chains through the accumulation of rules of origin, expanding trade in services and stimulating more investment. A recent study by the Inter-American Development Bank indicates

“The incredible thing is that after almost six decades, the region still does not have a set of harmonized rules that facilitate free trade.”

— Sergio Díaz-Granados

that the benefits of a free trade agreement with these characteristics would boost intra-regional trade in intermediate goods by 9 percent, and trade could rise up to 3.5 percent, a figure that is not insignificant if one takes into account that intra-region trade fell by 26 percent between 2012 and 2017."

A Thomas A. O'Keefe, president of Mercosur Consulting Group: "The July 24 agreement culminates years of efforts by Chilean foreign policymakers to downplay the notion that the Pacific Alliance and Mercosur are competing forms of regional economic integration. It remains to be seen, however, how the announced closer relationship will

Continued on page 4

ed. In 2016, HSBC closed on a deal to sell its entire business in Brazil to local lender Banco Bradesco for \$5.2 billion. Although HSBC said it took a \$1.7 billion accounting loss on the sale, the company said the deal took a "significant step" toward its goal "to reduce complexity." The transaction was expected to decrease its risk-weighted assets by around \$37 billion, according to a company statement.

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manifest itself. For example, will it lead to a revival of Unasur's goal to establish a common market that will now encompass Mexico, or will it be akin to the Latin American Free Trade Area of the 1960s? For the moment, the July 24 announcement is better seen as a political statement that South America and Mexico are committed to free trade and closer commercial links with Asia-Pacific in contrast to an increasingly protectionist United States engaged in self-destructive trade wars."

A **Andrea M. Ewart, founder and CEO of DevelopTradeLaw in Washington:** "The letter of intent signed by the leaders of eight members of the region's two largest trade blocs, Mercosur and the Pacific Alliance, is one of the bright spots emerging from the Latin American region in 2018. The leaders met during the July 2018 Presidential Summit of the Pacific Alliance, which issued the Declaration of Puerto Vallarta. The declaration affirms the Alliance's commitment to meeting its goals of complete integration of the economies of Chile, Colombia, Mexico and Peru, and negotiation with other countries as a unified group. The declaration indicates that the leaders of the two blocs created an action plan that includes removal of non-tariff barriers to trade and expansion

of tourism among the eight countries. They also plan to work on trade promotion, particularly for small- and medium-sized enterprises, as well as trade facilitation in goods and services. With protectionism on the rise in the United States, this move to increase intra-regional trade is timely. It also builds on the vision of the Pacific Alliance to consolidate itself as a platform for economic integration within the Americas.

“ It is noteworthy that there is no mention of tariffs.”

— **Andrea M. Ewart**

As for the action plan, it is noteworthy that there is no mention of tariffs. Instead, the focus appears to be on improving regulatory cooperation and on building the infrastructure to support the flow of goods, services and people within and across the two blocs. This should provide a good boost for those industries able to take advantage of open borders. Logistics providers, and perhaps construction companies, also stand to benefit as the Puerto Vallarta action plan gets implemented."

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2018

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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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