LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, September 27, 2018

FEATURED Q&A

How Are Trade Tensions Affecting Latin America?

International Monetary Fund Managing Director Christine Lagarde warned recently about threats facing emerging markets due to trade tensions between the United States and China. // File Photo: International Monetary Fund.

Q The International Monetary Fund's managing director, Christine Lagarde, warned this month in an interview with the Financial Times that emerging markets could suffer a "shock" due to the escalating trade war between the United States and China. While Lagarde said her staff does not yet see widespread contagion, developing countries are facing threats due to rising "uncertainty" and a "lack of confidence," she added. How are trade tensions between the United States and China affecting Latin American countries? Which countries and industries stand to gain or lose the most? How should countries in the region protect themselves against the fallout from external factors such as friction over trade?

A **Miguel Braun, trade minister of Argentina:** "It is clear that the current trade tensions generate uncertainty, and emerging markets generally suffer more in times of uncertainty. At the same time, and although it is important to follow events closely, the current situation is not as dire as others faced in the past. Despite the current tensions, the world seems to continue to support the integration process. Trade now represents more than half of global GDP, there are close to 300 trade agreements in place today when they only numbered 25 in 1990 and many countries continue to negotiate agreements, as we've seen between Japan and the European Union, for example. In this context, Argentina continues in its course toward stronger integration, negotiating through Mercosur with the European Union, the European Free Trade Association, Canada, Korea and Singapore, and bilaterally with Chile, Colombia and Mexico, and advancing in intra-Mercosur

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TODAY'S NEWS

Maduro // Photo: United Nations.

POLITICAL NEWS

Venezuela's Maduro Blasts U.S. in Speech at United Nations

Venezuelan President Nicolás Maduro unexpectedly showed up Wednesday at the U.N. General Assembly, where he delivered a 50-minute speech, mainly blasting U.S. policy, the Associated Press reported. Maduro's surprise appearance came after he had threatened to skip the gathering, saying he feared that he might be assassinated. In his address to the global audience, Maduro spoke for well over his allotted time and accused the United States of wanting "to continue giving orders as though the world were its own property." He referred to U.S. President Donald Trump's speech a day before in which Trump described a unilateral "America-first" policy. Maduro responded, saying, "From this very rostrum a threat was issued yesterday to governments of the world that orders should be obeyed and the U.S. policy should be followed or else those countries would suffer from the consequences." During his speech, Maduro also reiterated his allegation that the United States and Colombia were behind the Aug. 4 incident in which a pair of aerial drones exploded near a stage where he was speaking during a military parade in Caracas, the Miami Herald reported. Maduro's government has called the incident an assassination attempt, and Maduro said Wednesday that 28 people had been convicted in connection with the explosions and that an investigation revealed that the attack was planned and financed in the United States and Colombia. Both countries have denied involvement. Both Maduro and Trump said this week that they would be willing to meet with each other, but the White House said there was no immediate plan for a meeting, the Miami Herald reported. Maduro arrived in New York the same day that the leaders of five Latin American nations and Canada met there to sign a complaint with the International Criminal Court, urging it to investigate Maduro's government on allegations of human rights abuses. The action by the six countries, including Argentina, Chile, Colombia, Paraguay and Peru, was seen as a strong rebuke of Maduro. "To remain indifferent or speculative in front of this reality could be perceived as being complicit with the regime. We are not going to be complicit," said Paraguay's foreign minister, Andrés Rodríguez Pedotti, the AP reported. Nearby countries have become increasingly overwhelmed by the exodus of Venezuelans fleeing economic devastation in Venezuela, which includes hyperinflation that the International Monetary Fund has estimated will reach one million percent by the end of the year. Some 2.3 million Venezuelans have left their home country since 2014, according to the United Nations.

ECONOMIC NEWS

IMF Agrees to Boost Size of Argentina Loan Package

The International Monetary Fund agreed to increase the size of the loan package signed with Argentina in June to $57.1 billion, Argentine Finance Minister Nicolás Dujovne and IMF Managing Director Christine Lagarde announced Wednesday, Clarín reported. The IMF will boost its bailout package by 15 percent, providing an additional $19 billion to the Argentine government through next year, when President Mauricio Mari's term ends. "The Fund remains fully committed to helping Argentina tackle the problems that it faces," Lagarde said during a joint press conference with Dujovne in New York, The Wall Street Journal reported. The announcement came a day after Argenti-

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—Christine Lagarde

NEWS BRIEFS

U.S. Plans to Release Text of Trade Deal With Mexico as Early as Friday: Report

U.S. Trade Representative Robert Lighthizer is planning to release the text of a bilateral trade deal with Mexico as early as Friday, CNBC reported, citing two unnamed sources with knowledge of the matter. The deal resulted from trade talks to revamp the North American Free Trade Agreement, or NAFTA, which also includes Canada. One source said the text allows Canada to be added to the deal at a later date.

Mexico's López Obrador Reportedly to Tap Heath for Central Bank Board

Mexican President-elect Andrés Manuel López Obrador is set to nominate independent economist Jonathan Heath to the board of the country's central bank, according to unnamed sources, The Wall Street Journal reported Wednesday. Heath would be the first person from the private sector to be named to Bank of Mexico's board in almost 10 years. He would replace deputy governor Manuel Ramos Francia, whose term ends this year, after approval in the Senate.

Former Veracruz State Governor Duarte Sentenced to Nine Years

A former Mexican state governor from the ruling Institutional Revolutionary Party, or PRI, was sentenced on Wednesday to nine years in prison on money laundering charges and links to organized crime, Reuters reported. Javier Duarte, who governed Veracruz State, pleaded guilty to heading a criminal organization between 2011 and 2016. Mexican auditor ASF said in 2016 that the financial irregularities in the state's public funds under Duarte were the highest amount ever seen, the wire service reported.

na's central bank president, Luis Caputo, unexpectedly resigned less than four months in the position amid reports of disputes with the IMF over the country's exchange-rate policy. The new deal requires Argentina to maintain a floating exchange-rate regime without intervention. The IMF's board still needs to approve the deal for it to take effect. Guido Sandleris, the top Finance Ministry official who replaced Caputo, on Tuesday said the central bank's main goal is to reduce the country's inflation, currently at 34 percent, The Wall Street Journal reported. Argentina's economy contracted 2.7 percent in July compared to the same month a year earlier as the currency crisis hit consumer demand and a drought earlier this year cut agricultural output, according to Indec, the country's statistics agency. [Editor's Note: See related Q&A in the Sept. 12 issue of the Advisor.]

BUSINESS NEWS

Petroperú to Sell Bonds for Refinery Modernization

Peruvian state energy company Petroperú will sell $600 million in bonds next year to pay for the modernization of its Talara refinery, James Atkins, the company's president, said Wednesday, Reuters reported. Atkins told reporters the issuance would take place in New York. Petroperú has been working on $5 billion of upgrades at Talara to expand its production capacity. Also on Wednesday, the company posted a job listing of 127 open positions at the refinery, which processes between 30,000 and 45,000 barrels of oil per day, Gestión reported. Last year, Petroperú sold $2 billion in 30-year corporate bonds. Atkins added that several companies, including Spanish energy company Cepsa and Argentina's Pluspetrol, have expressed interest in operating Block 192, the country's largest oil block, when Canada-based petroleum company Frontera Energy's contract ends in September of next year, Reuters reported. [Editor's Note: See related Q&A in the Sept. 18 issue of the Advisor.]

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issues. Argentina firmly believes in the need to strengthen the multilateral trading rules-based system and is doing its part toward that end from the presidency of the G20. In that sense, we are pleased that both the G20 ministerial meeting on investment and trade and the Global Steel Forum recently arrived at consensus reports."

A **Anabel González, former senior director at the World Bank and former minister of foreign trade of Costa Rica:** "Trade frictions are undermining confidence and threaten to derail economic recovery and depress medium-term growth prospects. Rising protectionism and uncertainty are already taking a toll on investors, markets and supply chains, while eroding the rules-based global trading system. While the United States and China are at the center of this escalating confrontation, underlying systemic issues risk a broader impact. For Latin America, the prospects are troubling, given the region's high trade dependence on both the United States and China, which collectively account for over half of its total trade. There is a view that Brazil, Argentina and other countries could benefit from the mounting trade standoff, with increased or new opportunities to reroute trade and supply the Chinese market—and maybe the U.S. market—and increased prices for some commodities such as soybeans. Similarly, some firms in the electronics sector may consider shifting production from China to other locations, including Mexico—though the outcome of the NAFTA renegotiation would certainly weigh on this. It is not that clear, though, how this will play out. Not only is the impact of tariffs on a given industry dependent on the microeconomics of the specific product and supply chain, but more importantly, it is not evident what the duration or outcome of this ongoing U.S.-Chinese trade confrontation will be. There are at least three possible trade scenarios to consider: a full-fledged trade war, a managed-trade grand bargain and the progressive deterioration of multilateral governance. In all of them, Latin America stands to lose from a return to a trading system in which power and politics, rather than market competition,

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allocate resources and inform business decisions. Be it through increased volatility and uncertainty in the first case, trade diverting and negative terms of trade effects in the second or just plain weakening of the rules and confidence erosion, the conditions would not be conducive to increased growth in the region."

A **Andrés Rebolledo, former director of Chile's general directorate of international economic relations and former minister of energy of Chile:** "Every week, we have new episodes of the trade war. A long saga, which could be defined as the 'new cold war,' starring China and the United States awaits, one that reflects the reshuffle of and fight for technological, economic and political hegemony. In this context, Latin America could be seriously affected if protectionism is installed as the new norm in international markets. The skirmishes arrived in a good period for the global economy, during which central economies were growing together, as forecasts for 2018 showed before tariffs and retaliatory measures introduced uncertainty into the economic recovery. The Trump administration's unilateral imposition of tariffs, which seeks to rebalance its trade deficit with China and other partners, is not

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only mercantilist, but also reflects internal economic unbalances that could potentially have an impact on the global economy. If the United States' goal is to fix its trade balance, then its task is complex and potentially very disruptive given that it currently has a trade deficit with around 100 other countries. The main effect will be the weakening of global trade rules and the WTO, and thus, growing uncertainty in trade and investment, which will especially affect smaller countries like those of Latin America. This could slow the global economy, drive down demand for our exports and in turn negatively affect the prices of commodities that many regional countries rely on. Latin America will have to improve its integration with regional and global markets. It must deepen negotiations, particularly with Asia. Trade deals now operate as a sort of insurance as markets close. This the case with Chile, which has maintained its preferential access in China, the European Union, India and Turkey, thanks to existing FTAs. In sum, in this era of weakened multilateralism and more regional deals: those who don't negotiate, will lose."

A **Ignacio Bartesaghi, dean of the business studies department at the Catholic University of Uruguay:** "Trade tensions between China and the United States will have systemic effects on international trade by affecting economic growth as well as business uncertainty, which has already been reflected in stock markets and investors' decisions. Likewise, and this might be the greatest threat, it will affect the current multilateral trade system as the Trump administration imposes a new paradigm that could change the trade rules that have governed international trade over the past 60 years. There would be an even greater risk if the conflict expands to the European Union, which has been successful in mitigating the effects of Trump's steel and aluminum tariffs. Any analysis on the global trade war must consider the underlying factor behind, which

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> **— Ignacio Bartesaghi**

is far from being the United States' trade deficit. Definitively, it is a bid for international leadership, with the Asian power evidently posing a threat. This component, more geopolitical than commercial, in addition to the aggressive and unpredictable policies of the Trump administration, complicate any predictions of the impact or extent of trade tensions in the coming months. Although we have reached a new phase in the conflict, in which the United States will impose new tariffs and China will respond accordingly, internal pressures by American producers and consumers will progressively set limits to Trump's actions and will open the way for dialogue between the two countries. In any case, it is likely that we are facing a new stage of international trade rules, which will have unclear results."

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

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
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