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FEATURED Q&A

Will Brazil & Chile Benefit From a New Trade Deal?



Brazilian President Michel Temer, pictured earlier this year with Chilean President Sebastián Piñera (L-R), said talks for a new trade deal between the countries resulted from closer ties between Mercosur and the Pacific Alliance. // Photo: Brazilian Government.

Q **Negotiators from Chile and Brazil are working out a free trade agreement that includes provisions for telecommunications, regulatory practices and electronic commerce, among others. The two countries' governments are hoping to have an agreement signed by the end of the year. What benefits would an FTA bring to Chile and Brazil? What are the most important provisions to be included in the accord? How important is it to have an agreement signed before Brazil's new president takes office on Jan. 1?**

A **Andrea Ewart, CEO of DevelopTradeLaw:** "The FTA being negotiated between Brazil and Chile should be a boost for both countries and for the two trading blocs to which they belong. The countries already have strong commercial ties. Brazil is the fifth-largest destination for Chile's exports and receives the majority of its investments. Chile is the sixth-largest destination for Brazil's exports. However, trade between the two countries comes nowhere close to the levels that exist with China and the United States, the largest and second-largest trading partners, respectively, for both countries. So, there is much room for improvement. To date, Brazil-Chile trading relations have been shaped by agreements elaborated between Mercosur and Chile within the Latin American Integration Association (ALADI) framework, covering tariff barriers and trade in services. This FTA will be the first bilateral agreement. It is aimed at addressing all non-tariff requirements governing the countries' trading relations. Removal of those non-tariff barriers covered by the agreement can facilitate the growth of cross-border trade and investment. Notably, the countries plan to

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TODAY'S NEWS

POLITICAL

Cuban, Russian Leaders Vow to Boost Cooperation

Cuban President Miguel Díaz-Canel and Russian President Vladimir Putin met in Moscow where they vowed to tighten relations and also called on the United States to end its economic embargo of Cuba.

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ECONOMIC

Brazil Tax Agency Eyes New Rules for Crypto Exchanges

The country's federal tax agency has proposed new rules that would require cryptocurrency exchanges to report monthly on customers making large transactions.

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POLITICAL

Trump Calls Off Planned Visit to Colombia

The White House said the U.S. president's schedule will not allow for a visit to Colombia after the G20 meeting, which is to be held Nov. 30-Dec. 1 in Buenos Aires.

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Trump // File Photo: White House.

POLITICAL NEWS

Cuban, Russian Leaders Vow to Boost Cooperation

Cuban President Miguel Díaz-Canel met Friday with his Russian counterpart, Vladimir Putin, in Moscow, where the two leaders vowed to increase cooperation between the two countries, the Associated Press reported. In a joint statement after their meeting, Díaz-Canel and Putin said they supported closer ties between Russia and Latin American countries and also blasted U.S. “interference into domestic affairs



Díaz-Canel and Putin met Friday in Moscow. // Photo: Russian Government.

of sovereign nations.” The two presidents also called on the United States to lift its more than five-decade embargo of Cuba. Díaz-Canel and Putin said the unilateral use of sanctions was destabilizing for global affairs. In addition to maintaining the embargo on Cuba, the United States has joined the European Union in imposing sanctions on Russia over its annexation of Crimea and its backing of separatist rebels in Ukraine. Among the avenues for cooperation between Cuba and Russia, the two leaders discussed expanding economic ties, including through Russia’s participation in modernizing Cuban railways, Putin said. The Russian president also mentioned involvement by Russian companies Rosneft and Zarubezhneft in Cuba’s oil industry and a contract for Russia’s Inter RAO energy company to construct new power generators in Cuba. After Díaz-Canel and Putin met, Russian Deputy Finance Minister Sergei Storchak said Russia is close to providing Cuba a loan of 38 million euros (\$43.2 million)

to help it buy Russia-made weapons, Reuters reported. Russia had planned to provide Cuba a loan of more than \$50 million for Russian military hardware including tanks, armored vehicles and possibly military helicopters, Russia’s Kommersant newspaper previously reported. In two weeks, a delegation from Cuba’s military will visit Russia where the two sides will likely sign an agreement for the military equipment, Storchak said Friday, Reuters reported. Cuba’s defense minister, General Leopoldo Cintra Frias, will be part of the Caribbean country’s delegation, Russian news agencies reported. “Work on the loan is continuing,” Storchak told reporters after Díaz-Canel and Putin met Friday. “Nobody has refused anyone anything. There is such a theme and there is such a loan. It’s just that there are some parts of it which have yet to be agreed.” In related news, Brazil’s far-right president-elect, Jair Bolsonaro, said he saw no reason to maintain diplomatic relations with Cuba because of its human rights record, Reuters reported. In an interview with Brazilian newspaper Correio Braziliense, Bolsonaro also criticized the Mais Médicos program, through which more than 11,000 Cuban doctors work in remote or poor areas of Brazil. Bolsonaro said Brazil pays three-quarters of the Cuban doctors’ salaries to Cuba’s government and also said it was wrong that Cuban doctors’ children are not allowed to accompany them to Brazil.

ECONOMIC NEWS

Venezuela Exodus Will Cost Colombia \$1 Billion: World Bank

The World Bank on Friday released estimates suggesting that Colombia will need to spend \$1 billion to care for Venezuelan migrants who have crossed the border fleeing an economic and humanitarian crisis at home, the Associated Press reported. The amount includes “substantial investments” in areas including health and education. However, the study also notes that, in the longer term, the Venezuelan migration to Colombia could generate

NEWS BRIEFS

Trump Cancels Planned Visit to Colombia

U.S. President Donald Trump has canceled an upcoming visit to Colombia, which had been planned for early December, the White House announced Friday, Reuters reported. Trump had been scheduled to visit the South American country after participating in the G20 summit in Buenos Aires. Trump also called off a planned visit to Bogotá in April in order to remain in Washington following a chemical weapons attack in Syria.

First Migrant Caravan Reaches Mexico City

The first travelers with the so-called caravan of Central American migrants traversing Mexico for the United States arrived in Mexico City Sunday, BBC News reported. About 450 people were given temporary shelter and water at a sports stadium. U.S. President Donald Trump has deployed thousands of federal troops to stop the group, estimated to number more than 5,000 people, from crossing the U.S.-Mexico border. Critics accuse Trump of using the threat of illegal immigration to rally supporters ahead of Tuesday’s mid-term elections.

Brazil’s Embraer to Sell American Airlines \$705 Million Worth of Jets

Brazilian aircraft maker Embraer announced today that American Airlines has signed an order worth \$705 million to purchase 15 of its E175 jets. Deliveries of the 76-seat jets will take place in 2020. American Airlines has bought 104 of Embraer’s E175 jets since 2013. Embraer, which has focused on manufacturing regional aircraft with fewer than 150 seats as opposed to larger transcontinental passenger planes, says it has more than 80 percent market share in the North American market segment for that class of jet.

economic growth, with new arrivals boosting consumption and tax revenues. About two million Venezuelans have fled their country since 2015, according to the United Nations. Currently, the World Bank does not have a portfolio of active loans in Venezuela. In related news, last week a group of Brazilian doctors raised alarms over a measles epidemic that has crossed into numerous other countries of the Americas, The Washington Post reported. It marks the first time in nearly two decades that the highly contagious virus has appeared in Brazil's Amazon region.

Brazil's Tax Agency Proposes New Rules for Crypto Exchanges

Brazil's federal tax agency has proposed new rules requiring cryptocurrency exchanges to provide monthly reports revealing who has made large transactions, CNN reported Friday. The Department of Federal Revenue, or RFB, recently announced plans to clamp down on tax evasion and money laundering in the digital currency industry. According to local news outlet G1, the RFB's new rules would require both businesses and individuals to report crypto-related transactions that exceed 10,000 reais (\$2,706) through the agency's virtual service center, known as e-CAC. Until now, anybody buying and selling bitcoin and other digital currencies have been able to do so anonymously, according to Bitcoin News. Those who fail to report transactions will face fines. The tax agency is accepting public input to the draft guidelines between now and Nov. 19. Regulators have been scrambling to articulate guidelines for the fast-expanding digital currency sector. In the absence of clear rules, banks have closed accounts of some cryptocurrency exchanges out of compliance concerns. Last December, Brazil saw more than four billion reais used to buy and sell cryptocurrencies such as bitcoin, according to Brazil's government, and the total trading volume this year could reach 45 billion reais. [Editor's note: See related Q&A in the April 19-May 2 edition of the biweekly Financial Services Advisor.]

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eliminate all international roaming charges for mobile calls and data between Brazil and Chile. Other meaningful provisions include those covering government procurement, investment in financial institutions, sanitary and phytosanitary measures, and technical barriers to commerce. It remains to be seen whether provisions on gender, environment, labor and micro/small/medium businesses can address the unique challenges in those areas. The incoming Bolsonaro administration seems supportive of this initiative. Paulo Guedes, the likely finance minister, has signaled that Brazil intends to look beyond Mercosur, and Bolsonaro's first international trip will be to Chile."

A **Pablo Heidrich, assistant professor in the global and international studies program at Carleton University:** "First, this is not a new FTA but only an update to an existing one signed between Chile and Mercosur in 1996. Brazil and Chile have now negotiated an expansion or modernization of that. Argentina was doing the same with Chile, but farm protectionists in the Chilean Congress stalled it a few weeks ago. It is part of the Mercosur convergence toward the Pacific Alliance model that Macri and Temer declared in 2016. One can deduce that online services and sales platforms, professional services companies and logistics firms will be among the beneficiaries. Chile has some sharp players in those sectors, but Brazilian companies tend to have much larger scale. Moreover, they will have an additional line of defense in state-level regulations. Thus, it is too early to tell who and where the beneficiaries will be. From a Chilean perspective, the most important provision is to give treaty rank to the presidential act signed last April to protect foreign investments there. Brazil is the main destination of Chilean FDI, accounting for 29 percent of its outbound stock, positioned now for a new round of privatizations under Bolsonaro. From a Brazilian view, phytosani-

tary regulations will be harmonized, reducing Chilean arbitrary protectionism in the food sector, and deregulating Chilean public sector purchases will increase contracts for large Brazilian infrastructure firms. This update of the FTA includes 'progressive' chapters on gender issues, labor rights, the environment, as well as support for small and medium exporters. However, none of these have a single operational indicator to measure compliance, unlike all the others dedicated to deregulation. Piñera needs to show he is promoting Chilean capital abroad and set himself up as the 'natural' leader of the Pacific Alliance countries. Bolsonaro seems eager to play along, as he has announced his first trip abroad will be to Santiago. On both sides, their goal is to strengthen the Pacific Alliance model of economic integration via wholesale deregulation."

A **Manuel Agosin, professor in the school of economics and business at the University of Chile:** "Chile and Brazil are seeking to update their FTA, which was signed two decades ago. In goods, Chile has the most to gain, because Brazilian tariffs are an order of magnitude higher than Chile's, a flat 6 percent on all imports. After so many years of trade opening in Latin America, Brazil still applies relatively high tariffs to many sectors. The problem for Chile, however, doesn't reside in market access as much as it does in supply capabilities. While manufacturing exports to Brazil, as well as to other regional economies, are growing, the capacity of the country's economy to supply markets abroad is very restricted. Chilean businesses in Brazil, and Brazilian businesses in Chile, will benefit from the elimination of roaming on cell phone services and other new sectors that are being opened to trade. Nonetheless, after almost 30 years of breakneck government activity in signing free trade agreements, Chile has little to show by way of diversifying its export basket. Again, the problem resides in the country being able

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to take advantage of these agreements to diversify its exports and accelerate growth.”

A **José Carlos Faria, head of Latin America economic research of BNP Paribas Brasil:** “We believe that a new free trade agreement between Brazil and Chile would be positive for both countries, especially for Brazil, which has a notoriously closed economy. Although the two countries had already eliminated import tariffs on bilateral trade, the current negotiations cover several non-tariff issues such as services trade, e-commerce, telecommunication and intellectual property. Consequently, the new agreement could further stimulate investment flows between the two countries and, therefore, economic growth in the region. In the case of Brazil, the agreement would place the country closer to the Pacific Alliance, indicating a stronger inclination to seek deeper integration in the global economy. We believe that Brazil’s relatively low exposure to international trade is detrimental to productivity growth, and efforts to open the economy would be positive for long-term growth. As for the new government that will take office in January, we believe that it would welcome the trade agreement, as the president-elect and some of his advisors have clearly stated that they intend to liberalize Brazil’s international trade.”

A **Thomas Andrew O’Keefe, president of Mercosur Consulting Group:** “It is important to keep in mind that this is not a new free trade agreement between Chile and Brazil but rather an update to the existing Chile-Mercosur free trade agreement that both countries have had since 1996. In that sense it is similar to what Chile did with Argentina earlier this year and is attempting to do with Uruguay, by bringing in new matters that were not included in the original agreement. What is notable is that these updates have been done on a bilateral basis and not with all four countries at once,

underscoring the diminished importance of Mercosur today. Even though Brazil is Chile’s largest trading partner among the four core Mercosur nations, and is currently the most important destination for Chilean foreign direct investment globally, a failure by either country’s legislature to ratify a new agreement any time soon simply means that the older, narrower accord remains in effect. That could well happen as the new Chamber of Deputies that takes office in Brazil in February will be divided among 30 political parties (as opposed to 25 before), while the Senate will include 21 parties (up from 16 before).”

A **Gary Hufbauer, senior fellow at the Peterson Institute for International Economics:** “A Chile-Brazil FTA would be a signal event for three reasons. First, it would demonstrate that South America has no intention of following Trump’s rediscovery of import substitution. Raúl Prebisch may enjoy a second coming, but in Washington, not

“It would lay the groundwork for Brazil to turn away from decades of protection and subsidization...”

— Gary Hufbauer

Santiago or Brasília. Second, it would lay the groundwork for Brazil to turn away from decades of protection and subsidization, and instead embrace market-oriented policies—not only vis-à-vis Chile, but with the world. And third, if the agreement extensively liberalizes services, it could decisively energize lagging sectors of both economies. Whether or not the agreement is signed before Jan. 1 makes little difference. What matters is that Bolsonaro fully embraces the deal.”

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