INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Managing Director,
Eton Park Capital Management

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Jason Hafemeister
Vice President,
Allen F. Johnson & Associates

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris International

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

Craig Kelly
Vice President,
The Cohen Group

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.-Start Content-

FEATURED Q&A

How Will Including Canada and Mexico Affect the TPP Talks?

Q The countries involved in talks for the Trans-Pacific Partnership welcomed Mexico and Canada into the discussion last month during the G-20 meeting in Mexico. How will the two countries' inclusion affect the negotiations and the design of a future agreement? How will TPP affect its signatories' economies? Will the 11 countries now involved in the talks agree on a pact by the end of this year, as officials have hoped?

A Luis de la Calle, former undersecretary for international trade negotiations in Mexico's Economy Ministry: "Canada and Mexico joining the TPP is very good news for trade policy in North America and the world. During the last 20 years, trade policy has been hijacked by the fear, grossly exaggerated in my view, that trade opening was unpopular and a political loser. Elections are not won on trade matters, but trade rarely translates into electoral losses. The recent U.S. passage of trade agreements with Colombia, South Korea and Panama broke the myth that trade could not be advanced. Furthermore, macroeconomic conditions have changed in such a way that the United States has now an incentive to develop an offensive trade policy so that its large current account deficit is reduced not just through fewer imports, but rather larger exports. This is where Canada and Mexico come in. NAFTA was first envisioned as a preferential agreement to increase trade among North American countries. Now, the challenge, and opportunity, for the three countries is to expand regional trade with the world. Moving North America toward a net exporter position can only be done with the collaboration of the NAFTA partners; Mexico will be key in becoming an export platform of goods to the world with high North American content. This means exporting much more to Asia and other BRICs. The TPP is the cornerstone to crack up the rel-

Continued on page 4

Mine Project Opponents Blast Humala After Deadly Protests

Leftist leader and former Roman Catholic priest Marco Arana was among those criticizing Peruvian President Ollanta Humala after deadly protests against the Conga gold mine project. On Thursday, a fifth person died after thee clashes with police. See story on page 2.

File Photo: TV Peru.

Inside This Issue

FEATURED Q&A: How Will Including Canada and Mexico Affect the TPP Talks? 1

Mexican Electoral Authorities Confirm Peña Nieto's Win 2

Lawmakers Blast Peru's President Over Deadly Mine Protests.....2

Cuban, Chinese Officials Sign Accords During Raúl Castro's Visit.....2

Fernández Forces Banks to Lend Below Suspected Inflation Rate.....3

The Dialogue Continues: Are Market Forces Eroding Latin America's 'Food Sovereignty'?. ..3

Copyright © 2012, Inter-American Dialogue

NEWS BRIEFS

Cuban, Chinese Officials Sign Accords During Raúl Castro's Visit

Cuban and Chinese officials on Thursday signed eight accords during a visit to China by Cuban President Raúl Castro, the *Miami Herald* reported. Among the pacts were agreements for interest-free loans and donations from China to Cuba, according to Chinese state media reports. The amount of time it took Castro to reach China has also led to speculation that he made a secret stop along the way. Cuban government-run newspaper *Granma* reported that Castro left Havana on Sunday for his visit to China and Vietnam, but Chinese state media reported that he arrived in Beijing on Wednesday. The trip would normally take 24 hours.

Ecuador Seeks FLAR Loan to Avoid Liquidity Crisis

The Latin American Reserve Fund, or FLAR, has approved a $515 million loan to Ecuador as the Andean nation seeks to stave off a liquidity crisis, Bloomberg News reported today. Ecuador has previously sought two other loans since 2005 from FLAR to finance its balance of payments.

Suzlon to Build Turbine Components Factory in Brazil

Suzlon, India's biggest wind-turbine maker, plans to build a components factory in Brazil as result of the country's local manufacturing requirements, Bloomberg News reported today. Earlier this month, Brazilian state development bank BNDES suspended loans for wind turbines from foreign companies while it investigates if those companies are meeting the 40 percent requirement of Brazilian components. BNDES is deciding whether or not to make the ban permanent.

Political News

Mexican Electoral Authorities Confirm Peña Nieto's Win

After a partial recount, Mexico's electoral authority late on Thursday officially confirmed that Enrique Peña Nieto of the Institutional Revolutionary Party, or PRI, won Sunday's presidential election, the Associated Press reported. With nearly 100 percent of the ballots counted and approximately half of them re-checked due to allegations of fraud, the Federal Electoral Institute said Peña Nieto had won more than 38 percent of the vote and that Andrés Manuel López Obrador of the Democratic Revolution Party, or PRD, finished second with more than 31 percent. Peña Nieto won by more than 3.3 million votes, the institute said. López Obrador, who has said the election was marred by fraud, has not specified how many votes he believes the PRI bought. He is also likely to mount a legal challenge, the AP reported. Josefina Vázquez Mota of the ruling National Action Party, or PAN, finished third and also said violations of campaign spending rules marred the election. However, she has not challenged the outcome. Mexico's Federal Electoral Tribunal is scheduled to certify the vote in September. In previous contests, the tribunal has certified the results of contested elections, including the 2006 presidential vote, which López Obrador lost to Felipe Calderón by less than one percentage point. Accusations of vote buying by the PRI, which held Mexico's presidency for 71 years before losing it in 2000, surfaced last month. The accusations intensified in the days after the election as thousands of people rushed to grocery stores in Mexico City to use gift cards worth about 100 pesos ($7.50) each. Many of the recipients said they received the cards from PRI supporters before the election. Mexican law allows political parties to give such gifts, though it is illegal to give them in order to influence votes. Eduardo Sánchez, a spokesman for the PRI, accused López Obrador supporters of orchestrating the scene to create a false impression that the PRI had distributed gift cards. "They mounted a clumsy farce, a theatrical representation in which they dressed people in PRI T-shirts," Sánchez told the AP. César Yanez, a López Obrador campaign spokesman denied the accusation. "That's absurd. I don't think even they believe that," said Yanez. "They would do better to just accept their responsibility."

Mexico's Federal Electoral Tribunal is to certify the vote in September.

Lawmakers Blast Peru's President Over Deadly Mine Protests

Peruvian lawmakers who previously sided with President Ollanta Humala criticized him Thursday over his government's actions to crack down on protesters of a $5 billion mine project in the northern part of the country, Reuters reported. A fifth protester died Thursday following two days of clashes with authorities over U.S.-based **Newmont Mining**'s Conga mine. Protesters say the mine threatens water supplies, will cause pollution and will generate few economic benefits for the area where it is to be located. Opponents of the project also say Humala has put mining companies' interests ahead of those of poor residents. In an open letter, five legislators who recently left Humala's Gana Peru party in recent weeks said Prime Minister Oscar Valdes and Interior Minister Wilver Calle should step down because of the deadly clashes. "We demand they quit immediately ... for their manifest political and administrative incapacity to resolve the social conflict that exists in Cajamarca," the lawmakers said in the letter. Marco Arana, a left-wing leader and former Roman Catholic priest, has led protests against the mine and was released from police custody on Thursday

Humala

File Photo: Peruvian Government.

Copyright © 2012, Inter-American Dialogue

after televised video showed him being beaten by police. "The government is mistaken if it thinks that with bullets, torture and punches it will control the just demands of Cajamarca," Arana told reporters, Reuters reported. "The president shouldn't just defend investment. He should defend the fundamental rights of Peruvians." Arana is believed to have his sights set on running for president in 2016. His supporters say Humala has moved too far to the right since taking office a year ago. Humala has not spoken about this week's violence. His cabinet ministers, however, suspended rights to free assembly in an effort to end the protests. As part of the mine project, Newmont Mining has agreed to an environmental mitigation plan that outside experts recommended. The plan includes reservoirs that would replace two or more lakes. The company said it began work on the reservoirs last weekend after nearly all of the other work on the mine had been halted since November due to protests. [Editor's note: See related Q&A in Thursday's *Advisor*.]

Economic News

Fernández Forces Banks to Lend Below Suspected Inflation Rate

The government of President Cristina Fernández de Kirchner is forcing Argentina's largest commercial banks to lend at rates believed to be below the country's inflation rate, the Associated Press reported Thursday. The new rules, which took effect Thursday, force the banks to lend $3.3 billion worth of their depositors' savings at interest rates of no more than 15 percent annually. Fernández's government has said inflation is less than 10 percent a year. However, the government's inflation figures are widely distrusted and analysts estimate it is approximately 25 percent, which would make it among the world's highest inflation rates. The government helped banks when they faced difficulties and now banks must come to the country's aid by boosting lending to small- and medium-sized businesses, said Fernández. However, some economic analysts say that forcing banks to lend more does not address what they contend are the main reasons for investors ' discouragement about Argentina: high inflation and a volatile business climate. "This is a negative development inasmuch as requiring banks to lend at negative real rates erodes the capital base of banks and by distorting the cost of capital will lead to a misallocation of credit," wrote Alberto Ramos, a senior economist at **Goldman Sachs**, in a research note.

The new rules force the banks to lend $3.3 billion worth of their depositors' savings at interest rates of no more than 15 percent annually.

The Dialogue Continues

Are Market Forces Eroding Latin America's 'Food Sovereignty'?

Q Last month's OAS General Assembly meeting in Bolivia had food security as a main focus. Countries debated the inclusion of the term "food sovereignty," referring to the rights of peoples to largely define their own agricultural systems rather than relying on market forces. What issues does the region face in terms of food security, and how did the OAS debate exemplify those issues? How does increasing Chinese demand for food play into the picture? What positive steps have countries in the region taken and what needs more work in terms of ensuring a stable, sustainable food supply? How could the private sector help provide new solutions?

A Roberto Rodrigues, member of the International Food & Agricultural Trade Policy Council and coordinator of the Getúlio Vargas Foundation Agribusiness Center: "There is no way for a country or a people to isolate themselves from the globalized economy or market forces. Therefore, the most important issue that the region has to face is the short view of Latin American governments about the issue. No Latin American country has a consistent strategy to address food security. The more advanced countries have some policies for the sector, but not a strategy that considers income for farmers and food access for consumers. This implies rural credit, minimum price guarantees, infrastructure and logistics, technology, trade policy and legal security, among other relevant topics. The increased Chinese demand is only one factor of the market forces and it has great importance, as it tends to increase. The region can be a major supplier to China and other emerging countries. However, there is a lack of strategic and coordinated vision between the region's countries. Now there are only conversations and discussions, with scarce achievements. The private sector is doing its part more effectively than governments, incorporating new technologies and management mechanisms. It would be more helpful if they invest in infrastructure and value-added goods, in addition to the search for new markets."

> "No Latin American country has a consistent strategy to address food security."
>
> — *Roberto Rodrigues*

Editor's note: The above is a continuation of a Q&A published in the June 28 issue of the Advisor.

Copyright © 2012, Inter-American Dialogue

Featured Q&A

Continued from page 1

atively closed and large markets of China, Russia, India and Brazil. For Canada and Mexico, TPP represents an opportunity to push for more trade opening in markets relatively closed and to participate, with the United States, in the reindustrialization of the region. Lower natural gas prices, diversification of Chinese risk and the shrinking of the financial sector in the United States mean a renewal of industrial activity in the region. TPP is the road map to give an export orientation to the reindustrialization of North America and its transformation into a net exporter position."

Todd Tucker, research director of Public Citizen's Global Trade Watch: "From leaked texts of the intellectual property, healthcare technologies and investment chapters, we know some things about the TPP, the text of which negotiators have not yet released. For instance, the TPP could undermine access to medicines and lead to a wider range of investor-state suits than NAFTA, which itself has led to hundreds of millions of dollars of corporate lawsuits on government regulations. The only thing worse than a NAFTA-plus agreement with any old country is a NAFTA-plus agreement with NAFTA countries. After all, we have particularly extensive commercial ties with Mexico and Canada, and the menu of possible trade and investment dispute settlements is potentially limitless. Giving more grounds for investor attacks on legitimate North American environmental and consumer protection policies seems misguided. Moreover, it seems like the Obama administration green-lit Mexico and Canada's TPP participation without requiring them to drop their WTO attacks on U.S. dolphin-safe tuna labels and country-of-origin labels. The WTO's recent rulings against these popular U.S. consumer policies have undermined support in Congress for overreaching trade deals. The overall lack of transparency—as well as the harmful contents of the agreements themselves—bodes poorly for any attempt to gain political support to finish the TPP anytime soon."

Kezia McKeague, director of government relations at the Council of the Americas: "The inclusion of Mexico and Canada is a major advance for the U.S. trade agenda. As stalwart defenders of open trade, both countries rightly view the Trans-Pacific Partnership as the most innovative initiative available for like-minded partners in the economic center of gravity of the Pacific Rim. For the United States, their participation is just as vital. By negotiating the TPP with two of our largest trading partners, we have the best chance of strengthening already integrated supply chains and increasing certainty for producers across North America. The high-standards agreement will also provide an opportunity to build on the advances in North American integration while updating certain provisions of NAFTA, a '1.0 trade agreement' that is almost 20 years old. Now that Mexico and Canada have been invited to join, the Obama administration will be sending a notification to Congress to open a period of 90 days of consultations, under the expired Trade Promotion Authority provisions. The Mexican and Canadian governments are pressing for that period to begin as soon as possible, but it appears unlikely that they will have a seat at the next round of negotiations in September. Although negotiators are still working toward the lofty goal of completing the pact by the end of this year, expectations are low, and some have expressed concern that the new entrants will slow the pace ever further. This may be so, despite their agreement to accept the already negotiated text. Nevertheless, the optimal result should be a strategically meaningful agreement rather than one of more limited impact."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2012

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Rachel Sadon
Reporter, Assistant Editor
rsadon@thedialogue.org

Inter-American Dialogue

Michael Shifter, President

Peter Hakim, President Emeritus

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Maria Darie, Director of Finance & Administration

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Remittances and Development Program

Tamara Ortega Goodspeed, Senior Associate, Education

Jeffrey Puryear, Vice President, Social Policy

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.