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FEATURED Q&A

How Important Is U.S. Fast-Track Authority for Trade Deals?

Q U.S. Senators Max Baucus and Orrin Hatch and Rep. Dave Camp on Jan. 9 introduced a bipartisan Trade Promotion Authority bill. The legislation would give the president the authority to negotiate trade accords that Congress would then be able to approve or reject, but not amend. How important is fast-track authority for pending trade deals such as the Trans-Pacific Partnership? What will happen this year with regard to U.S. trade with Latin American countries? What could derail closer trade ties between the United States and the region?

A Peter Hakim, member of the *Advisor* board and president emeritus, and Cameron T. Combs, program associate, both at the Inter-American Dialogue: "Trade promotion authority (TPA) means the United States is ready to negotiate seriously. It assures other nations that Congress will not unduly tamper with what the United States agrees to at the negotiating table. TPA will be particularly important for the Trans-Pacific Partnership and E.U.-U.S. talks because so many of the issues at stake go beyond typical trade items and involve highly sensitive economic policies. The Trans-Pacific Partnership is a promising approach, though it has left some Latin American countries worried about stiff competition from Asia. Since the turn of the century, U.S. trade with Latin America has more than doubled; it has nearly tripled with South America, with Peru, Chile, and Colombia increasing the fastest. Trade is flourishing with countries that have free-trade arrangements with the United States, but also with those that do not. Even during this period of considerable volatility, faster expansion is possible. The first places to look are Brazil and Mexico, which already account for two-thirds of U.S. trade with the region (Mexico alone accounts for 55 percent). Mexico's far reaching reforms, particularly the opening of its energy and telecommu-

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European Union to Seek Closer Ties With Cuba's Government

E.U. foreign ministers plan next month to give the go-ahead to talks with the government of Cuba's Raúl Castro in an effort to increase trade, investment and discussions on human rights, Reuters reported Thursday. See story on page 2.

File Photo: Granma.

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NEWS BRIEFS

Panama to Release 32 Crew Members of North Korean Ship

Panama has ordered the release of 32 crew members of the Chong Chon Gang, the North Korean ship that was seized at the Panama Canal in July and found to be carrying Soviet-era weapons and jet planes, BBC News reported Thursday. Cuba said the weapons were being sent to North Korea for repairs, but the United Nations said the shipment violated sanctions against the Asian country. The ship's captain and two officers, who documents show had knowledge of the cargo, will remain detained and face 12-year sentences for arms smuggling.

Mexico City Considers Increasing Residents' Marijuana Allowance

Mexico's leftist opposition party, the Party of the Democratic Revolution (PRD), which governs Mexico City, said Thursday that it will propose an initiative in the next two weeks that would increase the amount of marijuana that residents of the capital can possess for personal consumption by seven times the current limit, from five grams to 35 grams, Reuters reported.

CaixaBank's Profit Declines on Charge Related to YPF's Seizure

CaixaBank, the third-largest lender in Spain, said today that its profit for the fourth-quarter declined due to a charge incurred after Argentina's nationalization in 2012 of oil company **YPF**, Bloomberg News reported. CaixaBank is the largest shareholder in **Repsol**, from which Argentina's government seized YPF. CaixaBank's net income declined to 45 million euros ($61 million) as compared to 57 million euros in the same quarter a year earlier.

Political News

European Union Eyeing Stronger Relations With Cuba

The European Union is planning to agree next month to strengthen ties with Cuba in its largest move toward deepening relations with the island since it lifted sanctions against it in 2008, Reuters reported Thursday, citing people close to the matter. Foreign ministers from the 28 European Union countries will give the green light on Feb. 10 to start talks with Cuba's government on an accord to boost trade, investment and discussions on human rights, the wire service reported. The European Union and Cuba could agree on a pact by the end of next year. "Cuba wants capital, and the European Union wants influence," a person familiar with the situation told Reuters. "This cooperation could serve as a prelude to much more." Earlier this week in Brussels, officials reached an agreement that would help boost the momentum of market-oriented reforms launched by Cuban President Raúl Castro. The consensus among E.U. leaders would also help Europe-based companies in the event of a transition to a more capitalistic economy in Cuba. The possible opening with the European Union comes after the Community of Latin American and Caribbean States, which excludes the United States and Canada, backed the right of countries in the hemisphere to choose their own political systems. Although the United States has exerted pressure in the past on Latin American and European nations to isolate Cuba, Washington is not seeking to block current E.U. efforts at strengthening ties with Cuba, people close to the talks told Reuters. The United States has called on Cuba to improve its human rights record and release Alan Gross, the U.S. contractor who has been imprisoned in Cuba since December 2009. "We'll continue to look at this balance as to how do we advance necessary changes that could improve the situation but at the same time continue to express our concerns on these human rights issues," Ben Rhodes, U.S. President Barack Obama's deputy national security advisor, told reporters Wednesday.

Rhodes

File Photo: White House.

Economic News

Mexico Poised to Overtake Japan as Second-Largest Car Exporter to U.S.

Mexico is expected to speed past Japan this year to become the second-largest auto exporter to the United States, Bloomberg News reported. By next year, Mexico is likely to send 1.9 million cars to the United States, overtaking Canada as the top car exporter to the United States, the news service reported, citing consultant **IHS Automotive**. As recently as 1990, Mexico sent less than 250,000 vehicles into the United States. Japan has been among the top two car exporters to the United States since the 1970s. However, Mexico's auto exports to the United States increased by more than four times between 1993 and 2013, boosted by lower tariffs under the North American Free Trade Agreement, or NAFTA.

Company News

Banco Santander's Fourth-Quarter Profit More Than Doubles

Lower real estate provisions helped Spain's **Banco Santander** more than double its profit for the fourth quarter of 2013, the bank said Thursday in announcing its quarterly results, the Associated Press reported. Although the bank's Latin American units contributed the most to consolidated profit, its operations in Brazil and Mexico saw declines in profit. Overall, Santander's profit amounted to 1.06 billion euros ($1.44 billion) in the final three months of the year. That compared to profit of 423 million euros in the fourth quarter of 2012. For all of 2013, Banco Santander's profit was 4.37 billion euros, a 90.5 percent increase as compared

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to the previous year. The bank "is embarking on a period of strong profit growth in the coming years," said bank President Emilio Botin. The results were short of what analysts had expected. Net profit for the fourth quarter was 13 percent below consensus estimates, according to **Citigroup**, *The Wall Street Journal* reported. Fourth-quarter net profit for Santander's Brazilian unit declined 12.32 year-on-year to 1.4 billion reais ($575 million) For the entire year, **Banco Santander Brasil** saw 5.74 billion reais in net profit, a decrease from 6.36 billion reais in 2012.

Zabalza

File Photo: Banco Santander.

The Brazilian unit's total outstanding loans increased 7.3 percent to 227 billion reais. Provisions for bad loans decreased to 2.4 billion reais as compared to 3.09 billion reais. Banco Santander Brasil's chief executive officer, Jesús Zabalza, said Thursday that the bank expects to grow its loan portfolio faster than its private-sector competitors in 2014, Reuters reported. Zabalza said that credit markets returning to normal, recovering margins and declining loan defaults will help boost lending. Private-sector banks will lend an increasing amount this year in Brazil while state-run banks will ease up on lending, leading to a smaller lending gap between private-sector and state-run banks, he added. Last year, state-run banks in Brazil boosted lending almost five times as fast as their peers in the private sector. Banco Santander's Mexican unit said its comparable net income for the fourth quarter declined 27 percent to 3.1 billion pesos ($231.8 million). The figure excludes some one-off items. **Grupo Financiero Santander Mexico** said its total loan portfolio increased 13 percent year-on-year in the fourth quarter. "We reported a strong performance in loan and deposit growth this quarter, ahead of industry growth rates. This good performance came about even as we continue to face an environment of lower growth," said the unit's president and CEO, Marcos Martínez.

Election Watch

Costa Ricans, Salvadorans Head to the Polls Sunday to Elect New Presidents

In Costa Rica, the four top contenders for president are San José Mayor Johnny Araya of the ruling National Liberation Party, José María Villata of the Broad Front Party, Luis Guillermo Solís of the left-leaning Citizen Action Party and Otto Guevara of the Libertarian Movement Party. No candidate appears positioned to gain enough votes to claim victory, according to recent polls, and a runoff election would take place on April 6 if no candidate receives 40 percent support.

President Laura Chinchilla has had problems with public perception of her leadership and competency; her approval ratings last year fell to 9 percent, the lowest among 17 Latin American leaders, according to a 2013 survey by Mexico City-based pollster **Consulta Mitofsky** cited by Bloomberg News. Her party's candidate, Araya, drew negative attention earlier in the campaign when he was perceived as out of touch with average citizens for not knowing the cost of basic foodstuffs.

Meanwhile, left-leaning Villalta, who surpassed Araya in some December polls, had to step back from comments that he would remove Costa Rica from the Dominican Republic-Central America Free Trade Agreement (CAFTA), conceding it was not viable to exit despite his inclination to do so. Although Villalta, 36, has gained momentum, analysts have suggested a low voter turnout could benefit Araya.

Others say public apathy and distrust of government has become increasingly deep, complicating the outlook. "There is a widespread perception among the voting population that there's a lot of corruption and they want to throw the bums out," Jefferson Finch, an analyst with the **Eurasia Group**, told Bloomberg News. [Editor's note: See Q&A in the Dec. 13 issue of the *Advisor*.]

In another highly contested race, Salvadorans will choose among three candidates including ruling leftist FMLN candidate Salvador Sánchez Cerén, 69, considered more a party stalwart than President Mauricio Funes, who doesn't share Sánchez Cerén's roots in the party's more radical days. Former President Antonio Saca (2005-2009) and Norman Quijano of the pro-U.S. Arena party, are also in the race.

Some critics say Saca is running again as a part of an under-the-table agreement with the FMLN to split the opposition vote in exchange for immunity from corruption charges should the FMLN win the election, former George W. Bush administration official Jose R. Cardenas wrote Wednesday in the *Washington Times*. If no candidate obtains a 50 percent majority on Sunday, as seems likely, a runoff will be held on March 9. [Editor's note: See Q&A in the Jan. 13 issue of the *Advisor*.]

Corruption has been in the headlines daily in El Salvador. This week, President Funes said ex-President Francisco Flores, who is under investigation over alleged misuse of $10 million donated by Taiwan, tried to flee the country but was turned back at the border. Flores said he decided not to attend a business meeting in Guatemala and turned around of his own free will.

Also in Central America election news, Panama is slated to hold its presidential elections May 4. Its ruling Democratic Change party on Thursday nominated Marta Linares, the wife of President Ricardo Martinelli, who cannot run again, as its vice presidential candidate, joining the ticket of José Domingo Arias. [Editor's note: See Q&A in the Jan. 27 issue of the *Advisor*.]

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Featured Q&A

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nications sector, are expected to produce a wide range of new opportunities. Brazil, on the contrary, has become more closed and protectionist in recent years, but its leaders are aware that the country's future depends on re-energizing its economy. A U.S.-Brazil free-trade agreement is not in the cards. Still, the South American giant may decide that serious trade talks with the United States would serve its longer-term interests. But Washington will also have to be ready to make concessions. It may take only one to samba, but two are needed at the trade table."

Arturo Sarukhan, chairman of global solutions at Podesta Group in Washington and former Mexican ambassador to the United States: "No big things happen in Washington without leadership and without bipartisanship. The success of the United States' on-going trade negotiations—and thus the vitality of U.S. commercial and political ties with a core group of like-minded Latin American nations—will depend mainly on the current partisan landscape in Washington. Trade Promotion Authority, or fast-track, is and has been the keystone of U.S. trade diplomacy. Without this instrument in his toolbox, it is hard to see how U.S. Trade Representative Michael Froman can convince his negotiating counterparts to move forward on controversial issues that remain pending in the Trans-Pacific Partnership (such as currency manipulation or environmental standards), or that the United States will abide by whatever it negotiates with them without Congress then nitpicking the agreement. Mexican Economy Secretary Ildefonso Guajardo suggested as much in a recent press interview. A bill seeking to provide the president with fast-track authority was introduced in early January, and getting TPA passed would be a major victory for the administration. However, the White House will first have to convince Democrats to go along with it. The bill will only pass if it gets substantial Republican support, and the GOP House leadership has already stated that it will not bring the legislation to the floor for a vote unless the Democrats provide at least 50 votes. The situation will require forceful White House leadership if an acceptable bill is to pass. Moreover, the realities of electoral politics suggest that TPA could be pushed back to the post-midterms lame-duck session, delaying the conclusion of the TPP negotiations months beyond the current target date of spring 2014."

James R. Jones, member of the *Advisor* board and co-chair of Manatt Jones Global Strategies: "Fast-track authority in Congress has become essential for the successful conclusion of trade agreements. I first noticed this in the late 1970s as a member of the House Ways & Means Subcommittee on Trade. Bob Strauss was the U.S. trade representative and shepharding the global trade package that he was negotiating. In that process, he met regularly with members of the Trade Subcommittee to give progress reports and solicit comments and recommendations. We in turn kept other key members of Congress apprised and provided feedback to Strauss. When the treaty was negotiated, its approval by Congress was assured. Without this fast-track authority prohibiting amendments, it would be much more difficult to conclude trade negotiations. Negotiators from other nations would be reluctant to play their trade cards if they knew the U.S. Congress could amend and trump them. The good news is that despite the highly partisan, vitriolic relationships in Congress and against President Obama, there is a growing sense that expanded trade is very important to continuing and accelerating America's economic recovery. Thus, at this stage, it seems that Trade Promotion Authority will be granted and that the Trans-Pacific Partnership negotiations can move to closure at a more rapid pace. It is vitally important, however, that during this process that the U.S. trade representative emulate the example of Ambassador Strauss and keep important leaders of Congress fully in the loop."

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