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FEATURED Q&A

Is Mercosur Effectively Promoting Economic Cooperation?

Q Members of the Mercosur bloc agreed at their July summit to promote regional integration, in part through establishing a new economic zone that would include the member states of the Bolivarian Alliance for the Peoples of Our America (ALBA), the Caribbean Community (Caricom) and Petrocaribe with Mercosur, as well as fully activating the Bank of the South. Does all this mean very much? Is Mercosur an effective mechanism for promoting economic cooperation, and how does it compare to other trade and integration initiatives currently underway in the Americas?

A Thomas Andrew O'Keefe, president of Mercosur Consulting Group, Ltd. in San Francisco: "Given the unseemly way Venezuela was incorporated into Mercosur as a full member state in the first place, in essence violating every rule of the trade bloc, it would have been hard to expect anything serious and grounded in reality to come out of the first summit hosted by the bloc's newest member state. As it is, the summit was delayed by more than half a year because of internal political and economic turmoil in the host country. Hence, talk of extending Mercosur to include the remaining ALBA countries, Caricom, and Petrocaribe and activating the Bank of the South can easily be dismissed as meaningless rhetoric. It would be a mistake, however, to dismiss Mercosur as yet another failed Latin American economic integration scheme. The reality is that there is a functioning free trade area among the four original member states, and intraregional trade flows, despite protectionist setbacks, have more than doubled from the golden days of the mid-1990s when Mercosur was considered a 'success.' It is also a mistake to compare Mercosur to other regional economic integration schemes such as the Pacific Alliance. The latter is a purely commercial endeavor which seeks, among other things, to facilitate Colombia's inclu-

Continued on page 2

Peña Nieto Signs Mexico's Energy Sector Reforms Into Law

President Enrique Peña Nieto on Monday signed into law an historic overhaul of Mexico's energy industry, ending the monopoly that state-owned Pemex has had in the sector for more than seven decades. See story on page 2.

Photo: Mexican Government.

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NEWS BRIEFS

Venezuela Sends 17,000 Troops to Border to Fight Smuggling

Venezuela has sent 17,000 troops to its border with Colombia as part of its effort to combat the smuggling of subsidized goods, BBC News reported Monday. Monday was also the first time that the border was closed for the night, a restriction that will remain in place for a month. As much as 40 percent of goods that the Venezuelan government subsidizes, including petrol and food, are illegally taken to Colombia and sold for higher prices.

Brazilian Companies Make $611 Million Bid for Chiquita

Brazilian juice maker **Cutrale** and conglomerate **Safra** have made a $611 million bid for U.S. banana producer and distributor **Chiquita**, BBC News reported Monday. Cutrale and Safra offered Chiquita $13 per share, 29 percent more than their closing price last Friday. The all-cash bid rivals a deal agreed to by Chiquita in March to merge with Dublin-based fruit producer **Fyffes**, which would create the world's largest banana company.

Financial Fraud a Growing Problem in Jamaica: Report

Financial fraud is growing as a problem in Jamaica and has amounted to thefts of some $58,000 for this year through May, the *Jamaica Gleaner* reported Sunday, citing figures from the country's Organized Crime Investigation Division. Obtaining money under false pretenses, fraudulent conversion and debit-card fraud are the most common means of theft from consumers, the newspaper reported. A top banking sector official on the Caribbean island called fraud "one of the few growth industries in Jamaica," according to the *Gleaner*.

Economic News

Peña Nieto Signs Mexico's Energy Sector Overhaul Into Law

President Enrique Peña Nieto on Monday signed legislation to overhaul Mexico's energy industry, opening it to foreign and private investment. The reforms end the monopoly on energy production that state-owned **Pemex** has had since 1938. The overhaul, a main agenda item for Peña Nieto's administration, won final approval from Mexico's Congress last week. Last year, lawmakers approved constitutional changes to allow for the reforms. "The energy reform opens a great opportunity for Mexico, and we need to seize it with complete and fast implementation," Peña Nieto said Monday in a speech at the National Palace in Mexico City, Bloomberg News reported. "I've told different areas of the government to accelerate all of the measures necessary to put this reform into action for the good of Mexico." Peña Nieto said the government will move up the announcement of which oil fields Pemex will retain. The announcement will happen Wednesday instead of on Sept. 17, said the president. He added that the accelerated announcement will allow for the first private contracts to be announced in the first quarter of next year. The energy reforms establish guidelines for companies that want to produce oil and electricity in Mexico and also

> "The energy reform opens a great opportunity for Mexico…"
>
> — *Enrique Peña Nieto*

allows the country's government to take on pension liabilities of Pemex and government-owned utility **Comisión Federal de Electricidad**. Officials hope the reforms reverse Mexico's slumping oil production. On July 25, Gustavo Hernández, Pemex's head of exploration and production, said the company was lowering its output forecast for this year to 2.44 million barrels per day from 2.5 million, the lowest level in at least 24 years. [Editor's note: See Q&A on the reforms in Monday's *Advisor*.]

Featured Q&A

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sion in the Trans-Pacific Partnership (TPP). By contrast, Mercosur is an agreement among neighboring states that has always had as much a political agenda as an economic one. On that score, Mercosur's greatest achievement has been to permanently end the unproductive military rivalry that once characterized Argentine-Brazilian relations and in the 1970s had both nations locked in a nuclear arms race."

A Eduardo Porcarelli, executive director of the Venezuelan Council of Investment Promotion (Conapri): "Mercosur and the Pacific Alliance are two of the most important commercial and integration initiatives in the Americas due to the weight of their member countries' GDPs, exports and in reception of investment in the region. Both seek to expand their spheres of influence, however, the Pacific Alliance is more oriented toward building a common market in traditional terms than is Mercosur, with the different vision on integration that Venezuela has. At the recent Mercosur summit in Caracas, leaders proposed establishing a Complementary Economic Zone (ZEC) oriented toward economic complementarity, productive integration in unified and just way, reducing asymmetries and the promotion of cooperation programs, among other objectives. The question that arises immediately is the feasibility, the terms and scope for the ZEC's cre-

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Company News

Slim's Inbursa Rallies Amid Growth in Lending

Shares of **Grupo Financiero Inbursa** have been trading at record levels as investors expect that the bank will see continued growth in lending amid an economic recovery in Mexico, Bloomberg News reported Monday. The Mexican bank, which is controlled by billionaire Carlos Slim, has experienced a 14 percent rally this year in its shares as personal loans more than doubled in the second quarter, while credit-card lending and auto loans also grew. Loan repayment levels have also improved after Inbursa completed restructurings of earlier deals. The bank now has 324 branches after adding 18 in the past year, Frederic De Mariz, an analyst at **UBS** in São Paulo, told Bloomberg News in a telephone interview.

Slim

File Photo: Carlos Slim Foundation.

Political News

Argentina Calls on United States to Intervene in Bond Case

Argentina on Monday called on the Obama administration to intervene in its long-running debt case, Reuters reported. The country said it wanted the United States to rein in U.S. District Judge Thomas Griesa, who threatened Friday to hold Argentina in contempt of court unless it stopped publicly claiming that it was not in default. Argentina has denied that its missed payment to holders of restructured bonds on July 30 amounted to a default because it deposited money to make the payment, but Griesa ordered it frozen until Argentina also pays bondholders who refused to accept restructurings. A State Department official said the United States continues to urge Argentina to negotiate with the holdouts.

Research Alert

Violence Driving Migration of Children to U.S.: Report

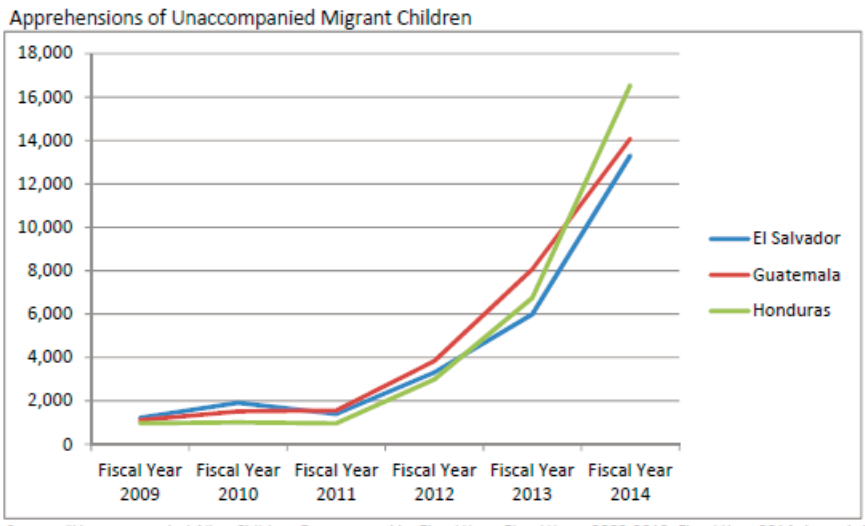
By Megan Cook

Violence is "the most powerful, immediate driver" of the increase of unaccompanied minors migrating to the United States from Central America, according to a report released Monday by the Inter-American Dialogue. Tens of thousands of children, mainly from El Salvador, Guatemala and Honduras, have been apprehended at the U.S. border over the past year, prompting debate over the causes and appropriate responses in the United States and Central America.

Using data from 900 municipalities in El Salvador, Guatemala and Honduras, Manuel Orozco and Julia Yansura of the Inter-American Dialogue examined the differences between municipalities with emigration and those with low levels or no emigration in relation to indicators of violence and human development. Results showed that the number of homicides occurring in a municipality was more strongly correlated with emigration than was the human development index of a municipality. This relationship was the strongest in Honduras.

A nationwide survey conducted last month El Salvador found that the community perception is that violence is driving the trend. Forty-six percent of respondents identified violence as the primary issue facing the country, while 41 percent said economic problems, either the cost of living or unemployment, are the main problem facing them or family members.

A survey of Central American migrants in the Washington area also found that Salvadorans and Hondurans consider violence to be the leading factor driving migration from their home countries, while Guatemalans cited both violence and economics. Violence was more often identified as a primary cause by those who knew a recent migrant. Violence may be the immediate trigger for migration, but it is "linked in numerous and important ways to economic and human development," the report says. As such, one "cannot address the crisis of unaccompanied minors without addressing the challenges of development," Orozco said Monday in releasing the report. The report recommends implementing policies to improve education, leveraging migrant engagement and remittances to promote development and rethinking development models in Central America.



Source: "Unaccompanied Alien Children Encountered by Fiscal Year; Fiscal Years 2009-2013; Fiscal Year 2014 through June 30," US Customs and Border Patrol. Available at http://www.cbp.gov/newsroom/stats/southwest-border-unaccompanied-children

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Featured Q&A

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ation. The feasibility is certain through the financial muscle that could be activated through the Bank of the South. However, the terms and scope would seem to be more limited, especially considering the individual problems of Mercosur countries, which must be overcome in order to advance intraregional commerce, the common market's main objective. But in order to achieve this, member countries must comply with Mercosur's rules and come to terms with each other's different speeds with respect to the negotiations that Mercosur conducts with third parties."

Lia Valls Pereira, economist at the Fundação Getulio Vargas and adjunct professor at the Universidade do Estado do Rio de Janeiro: "The declaration about the creation of a new economic zone is exactly that, just a declaration. The Mercosur project faces a long list of problems: barriers to intra-regional trade, the operation of a full customs union is increasingly distant; the countries have difficulty building common proposals in negotiations with other countries (as in the case of the Mercosur-European Union agreement); and the business sectors differ on the importance of Mercosur, among others. In this scenario, it's hard to imagine the start of a negotiation that leads to the formation of a new economic zone. What would this zone be? A 'new zone' as a response to the Pacific Alliance? That would be a political gesture of little importance. At various times, the Brazilian government has declared the importance of reaching an agreement with Mexico and accelerating the full-force entry of free trade with Peru and Colombia (initiated in 2005 within Mercosur). Free trade has existed between Chile and Mercosur since 2005. A week before the Mercosur summit, the BRICS summit occurred in Brazil where the creation of the BRICS bank with initial financing of $50 billion and headquartered in Shanghai was officially announced, an idea that was launched in 2011. The idea of the Bank of the South was proposed in 2007 and until now, there was no consensus about the composition of resources and its operation. It may be that it has emerged now, but perhaps it was another political gesture that shows Brazil's commitment to the region. The BRICS bank does not take away from the Bank of the South project for Brazil."

Roberto Bouzas, professor and vice rector for academic affairs and research at the Universidad de San Andrés: "There was also a proposal to anticipate the application of zero tariff rates to Mercosur's trade with Chile, Peru and Colombia (members of the Pacific Alliance) at the end of this year, instead of 2019. This plethora of initiatives suggests that Mercosur has lost much of its focus on economic integration, turning instead into an arena for shallow economic cooperation and diplomatic activism. In this particular respect, this is not very different from other trade agreements in the hemisphere, such as the Pacific Alliance, which has also been heavily influenced by diplomatic considerations. In my view, the only substantive difference is that the members of the Pacific Alliance have more open trade regimes and all have signed free trade agreements with developed countries, notably the United States. These North-South trade agreements (drawn basically upon the U.S. template) have created a common ground which the members of Mercosur lack. Whether this common ground will be conducive to deeper integration in the region is still to be seen."

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

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