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FEATURED Q&A

Will Mercosur and the Pacific Alliance Strengthen Ties?

Q Foreign ministers of Mercosur and Pacific Alliance countries will meet in Santiago, Chile in November in an attempt strengthen trade ties between the two blocs, Paraguay's foreign minister announced in mid-September. What are the opportunities and challenges presented by the plans to strengthen ties between the two groups? How realistic is it to expect to reach some sort of free-trade accord, and what would that likely entail?

A Peter Hakim, member of the *Advisor* board and president emeritus of the Inter-American Dialogue: "It is not likely that the foreign ministers will reach a free-trade accord in Santiago. Indeed, it is hard to imagine what it is they are going to talk about at all. Mercosur and the Pacific Alliance are from different planets. The Pacific group consists of four of this hemisphere's most open, market-oriented economies. Chile, Colombia, Peru, and Mexico all have free-trade pacts with the United States, and with many, many other countries across the globe. Their interest goes considerably beyond expanding trade. Their governments say they want to integrate their economies as fully as possible—and have made impressive progress in the past four years. Just this month, the presidents of the Alliance announced their commitment 'to move toward deeper economic and commercial integration.' In contrast, Mercosur is today a dysfunctional trade bloc that consistently violates its own rules, and may be limiting, rather than encouraging commerce among its affiliates. The bloc's three largest members—Brazil, Argentina and Venezuela, which account for nearly 95 percent of the group's output—are among the world's most closed, protectionist countries and in recent years have shown little proclivity to change course. Brazil's trade minister recently asserted 'opening the economy would be a disaster for Brazilian industry.' No one, in short, should expect any signif-

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Argentine Central Bank Chief Fábrega Steps Down

The leader of Argentina's central bank, Juan Carlos Fábrega, resigned on Wednesday. Fábrega had criticized high levels of government spending and advocated tougher measures to curb inflation. See story on page 2.

Photo: Argentine Government.

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NEWS BRIEFS

Venezuelan Ruling Party Lawmaker, Partner Fatally Shot

Venezuelan lawmaker Robert Serra, a member of the National Assembly from the ruling Socialist (PSUV) party, was discovered shot dead in his home on Wednesday night, along with his partner Maria Herrera, BBC News reported. Interior Minister Miguel Rodríguez Torres said the killings would be investigated. Serra, 27, was seen as an upcoming leader in the party and was known for his passionate speeches.

Colombian Natural Resources to Restart Mining, Exports

Colombian Natural Resources (CNR) will restart mining operations and coal exports following a deal negotiated by the government that will allow it to use **Drummond**'s Caribbean seaport near Ciénaga for exports, government and industry sources told Reuters, the news service reported Wednesday. CNR, which is owned by **Goldman Sachs**, halted exports from its own port last year because it did not meet environmental standards that took effect early this year.

Surge in Remittances Boosts Guatemala's Currency

A jump in remittances to Guatemala over the past 12 months has boosted the country's currency, leading it to outperform against its counterparts in the region. The quetzal has increased 3.6 percent against the U.S. dollar over that period, one of only three currencies in Latin America and the Caribbean to have gained against the greenback during that time. The amount of remittances sent back to the Central American nation by Guatemalans living abroad increased 9.2 percent year-on-year through August.

Political News

Reputed Drug Lord Beltrán Leyva Captured by Mexican Authorities

Mexican authorities have arrested reputed drug lord Héctor Beltrán Leyva, one of the country's most wanted men and the alleged head of the drug cartel that bears his name, the attorney general's office said late Wednesday, Bloomberg News reported. Beltrán Leyva was captured without a shot fired in a seafood restaurant in the central tourist town of San Miguel de Allende, said Tomás Zerón de Lucio, the head of the criminal investigations unit of Mexico's attorney general's office. Beltrán Leyva had been living in Querétaro state where he was posing as a salesman of art and real estate while he was actually running the cartel, Zerón told reporters Wednesday night in Mexico City. Authorities are conducting DNA testing to confirm that that the man arrested is indeed the accused drug lord, BBC News reported. The arrest of Beltrán Leyva is the result of a policy for security that aims "to achieve the Mexico of peace that we all desire," President Enrique Peña Nieto said in a posting on Twitter, Bloomberg News reported. The president has said that his administration's security efforts have helped cut the number of homicides by approximately 29 percent from the same period in 2012, before his term began in December of that year. Other crimes have worsened, however, the news service reported. The number of kidnappings rose 21 percent last year, while reported cases of extortion increased to a record level in 2013, according to Mexico's Interior Ministry. Authorities in the United States had offered a reward of as much as $5 million for information leading to the capture of Beltrán Leyva, while Mexico had offered a $2.2 million reward. Beltrán Leyva is alleged to have taken over the cartel after his brother Arturo was killed in a shootout with Mexican forces in 2009. Two other Beltrán Leyva brothers are currently in prison, BBC News reported. Beltrán Leyva's arrest came after the arrest in February of Joaquín "El Chapo" Guzmán, the reputed leader of the Sinaloa drug cartel, which is considered to be Mexico's most powerful cartel.

Beltrán Leyva

File Photo: Mexican Government.

Economic News

Argentina's Central Bank Chief Fábrega Steps Down

Juan Carlos Fábrega, who had served as Argentina's central bank chief for less than a year, resigned Wednesday. Fábrega stepped down less than 24 hours after President Cristina Fernández de Kirchner publicly criticized the bank, saying it released inside information to lenders about a new policy requiring them to reduce their holdings of foreign currency, Bloomberg News reported. Fernández will name securities regulator Alejandro Vanoli as Fábrega's replacement, presidential spokesman Alfredo Scoccimarro told reporters in a conference call after the financial markets closed Wednesday in Argentina. Vanoli would become Argentina's fourth central bank head in less than five years. Vanoli is more in line with Fernández's policies than was Fábrega, according to analysts, BBC News reported. In January, Fábrega presided over the peso's 18 percent devaluation. He had also voiced opposition to the government's high levels of fiscal spending and backed stricter measures in order to hold down inflation. Argentina is facing economic woes including annual inflation of about 40 percent, along with an ongoing battle with holdout bondholders.

Fábrega stepped down less than 24 hours after Fernández criticized the central bank, saying it leaked information.

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Company News

Citi Ordered to Turn Over Documents in Banamex Loan Case

A magistrate in the United States has ordered **Citigroup** to turn over to a pension fund files related to the $430 million in loans allegedly involving fraud that were extended by its **Banamex** unit in Mexico, Bloomberg News reported Wednesday. Delaware Chancery Court Magistrate Abigail LeGrow ordered New York-based Citigroup to provide the records to the Oklahoma Firefighters Pension and Retirement System, which is suing Citigroup. The case stems from Citi's announcement earlier this year that Banamex made loans to Mexican oil services firm **Oceanografía** that were backed by allegedly fraudulent invoices. The matter led Citigroup to reduce its previously reported 2013 earnings by $235 million. The Oklahoma pension fund is probing whether executives at Citigroup ignored red flags about the loans and whether fraud-detection policies in place at the bank were followed, according to court documents. The documents that the magistrate ordered Citi to turn over could show what executives at the financial services company knew. "Plaintiff had stated a credible basis to infer possible mismanagement or wrongdoing by the board or senior management at Citigroup regarding the fraud at Banamex," LeGrow said in issuing the order. A judge must approve LeGrow's order for it to take effect, Bloomberg News reported. Mark Costiglio, a spokesman for Citigroup, declined to comment to the news service on LeGrow's ruling. The U.S. Department of Justice and the Securities and Exchange Commission have opened investigations into the effectiveness of the bank's internal controls and whether money laundering was involved.

LeGrow

File Photo: Delaware Court of Chancery.

Featured Q&A

Continued from page 1

icant new agreements between the two groups any time soon. Still the conversation in Santiago could be useful and constructive if the participants focus on the longer term and begin a process to seriously explore alternative approaches to regional economic integration, which has been a long-held aspiration of most Latin American nations. The foreign ministers are probably not the best ones to lead this process, which will require substantial technical expertise, but they can give it legitimacy and set it in motion."

A Samuel George, project manager at the Bertelsmann Foundation in Washington: "There is considerable opportunity for collaboration. Mercosur represents a large market that is highly protected from international trade. If Pacific Alliance countries could negotiate privileged access to these markets, exports from the 'Pacific Pumas' could be very competitive in Atlantic Latin America. Given the decelerating growth in Asia and the muddled recovery in the United States, the Alliance countries are certainly open to expanding trade with other partners. From Mercosur's perspective, countries such as Uruguay, Paraguay and increasingly Brazil are uncomfortable with the direction of Mercosur. The smaller River Plate countries view the Alliance model of global integration as more conducive to their economies. Brazil, facing stubbornly low growth, is under increasing pressure from the private sector and pundits to adopt a more market-friendly stance. The November talks are preliminary and are unlikely to produce any groundbreaking results. But if stakeholders establish momentum, the conversation could eventually redefine (or at least redirect) Mercosur. Uruguay, Paraguay and Brazil are unlikely to leave Mercosur precisely because it guarantees access to large, otherwise protected markets. But these countries may push for changes in Mercosur statutes that could, for example, offer countries more leeway in negotiating agreements bilaterally. Ongoing E.U.-Mercosur negotiations could be informative for Pacific Alliance-Mercosur talks. The more trade-friendly Mercosur countries want a deal with the European Union, and within Mercosur they have discussed a two-track negotiation process that would allow some countries to enter a trade agreement with the European Union while others would not. This could set a precedent moving forward."

> "To strengthen the regional market is not a matter of diplomatic tactics or slogans, but rather a must."
>
> *— Jorge Rosenblut*

A Jorge Rosenblut, chairman of Endesa-Chile: "Can the Pacific Alliance afford to totally ignore Mercosur? No. And vice versa. The commodities tide has changed, and Latin America faces challenging times. Pacific and Atlantic countries alike are forced to react. To strengthen the regional market is not a matter of diplomatic tactics or slogans, but rather a must. And it is no longer a tariff-driven negotiation, as more than 90 percent of bilateral trade in Latin America is already done under preferential access. The Pacific countries will benefit from a larger regional market, especially as they look to diversify away from natural resources. The Atlantic countries will benefit from better access to Asia. As Chilean Foreign Minister Heraldo Muñoz has stressed, to link Mercosur and the Pacific Alliance 'is not a fusion.' This sums up well my own feelings about the forthcoming meeting between the two blocs. Foreign relations, and especially neighborly relations, never advance on a single track. There will be parallel conversations and multi-speed advancement. Many topics need to

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Featured Q&A

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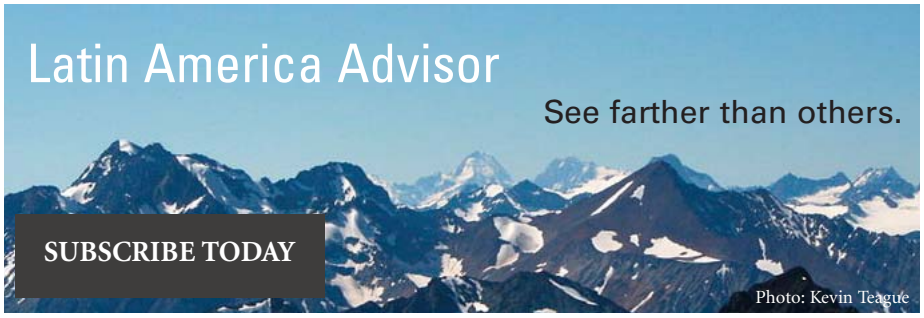
be covered, but the engineering of a regional alliance is in full motion. The architecture of any solution between the two entities may be years away, but the effort must be undertaken. Deepening economic integration with Mercosur will in no way slow the Pacific Alliance agenda. In fact, one could argue the opposite. The Pacific Alliance has broached a new form of regional economic collaboration, quite distinct from previous efforts and more attuned to today's challenges. The roadmap into the Asian market is clear, as is the agenda for stronger services and investment relations within the Alliance; both need to be firmly pursued."

Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States: "In recent months, relevant actors in the Americas, particularly from Southern Cone nations, have been elliptically—or in some cases openly—carping about how the Pacific Alliance is purportedly 'dividing' nations in Latin America or driving a wedge between those nations on the Pacific Rim of the hemisphere and those that are either landlocked or on the Atlantic coast. What I find particularly galling is that some of those voices, which had also posited the fallacy of Latin America as a geopolitical unit and the reality of a North, a Central and a South America, now suddenly seem to be concerned about the state of a unified Latin America. Moreover, in what's also a paradoxical turn of events, criticism of the Pacific Alliance as an allegedly 'closed club' of countries emanates from within nations that have not for one second thought twice before forging ahead in the constitution of subregional organizations that, per their charter and stated mandate and objectives, do explicitly exclude Western Hemisphere nations north of the Darién Gap. What precisely differentiates the Pacific Alliance from other subregional organizations is that it is not about who isn't in the club, but actually about who wants to join the club. The only entry criterion is that all member nations share a free-trade agreement among themselves. As one of the most innovative, and so far effective, inter-American groupings, the Alliance is a coalition of free-trade willing nations committed to economic growth and trade facilitation under the aegis of a rules-based 21st century international free and fair trading system. If Mercosur is indeed serious about forging greater ties and eventually an agreement with the Pacific Alliance, so much the better for the hemisphere. However, we should be careful to ensure that engagement with Mercosur does not distract the Alliance from its task of forging ahead in a real, substantial and achievable agenda for economic prosperity and well-being, or that this dialogue is not a Trojan horse in disguise seeking to slow down the most compelling subregional conversation taking place today in the Americas."

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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