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FEATURED Q&A

Who Would Win & Lose From the Trans-Pacific Partnership?

Q The U.S. Senate Finance Committee on April 22 advanced legislation to provide President Barack Obama "fast-track" negotiating authority that would boost the president's ability to negotiate the Trans-Pacific Partnership trade deal. How much support is there among U.S. lawmakers for the TPP, and what does that mean for other countries involved in the negotiations? How important is the TPP for the Latin American countries involved, and which countries would benefit most? Who stands to lose from the TPP?

A Manuel Agosin, dean of the School of Economics and Business at the University of Chile: "As such, the TPP will not bring large gains to most Latin American countries involved. Most of them export raw materials and other commodities with few trade barriers in non-Latin American trading partners. Nonetheless, they could gain from the liberalization of still-restricted food imports in the United States, Japan and other signatories. Mexico, an exporter of manufactured goods, could gain from the TPP by helping manufacturers to diversify destination sources (other than the United States). Moves to liberalize trade generally should be positive in the long run for all Latin American countries involved, since they all have become more export oriented in recent decades. Some governments, particularly that of Chile, have expressed some concern that the TPP could place additional constraints on policies to control excessive capital flows. If the United States and other major movers of this agreement want to keep all countries on board, they should show sensitivity to this argument. In the past, most Latin American countries, with small domestic capital markets and without prudential measures to control capital inflows when they become too large to absorb, have been affected by currency appreciation and stock market and real estate booms. These have led to busts that have been costly in

Continued on page 2

Rocket-Propelled Grenades Used in Mexico Chopper Attack

Suspected members of the Jalisco New Generation drug cartel used rocket-propelled grenades in last week's deadly attack of a Mexican army helicopter, the country's federal police commissioner, Enrique Galindo, said Monday. See story on page 2.

File Photo: Mexican Government.

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NEWS BRIEFS

Rocket-Propelled Grenades Used in Mexico Helicopter Attack

Assailants suspected of being part of Mexico's Jalisco New Generation drug cartel for the first time used rocket-propelled grenades to shoot down an army helicopter last week, the country's federal police commissioner said Monday, *The Wall Street Journal* reported. Enrique Galindo said the attack that killed six soldiers was carried out with the RPGs. At least 15 others were killed on Friday as cartel members staged shootouts with authorities and blocked roads in Jalisco and three other states, *The Guardian* reported.

Chile, Bolivia Take Access to Sea Dispute to World Court

Chile and Bolivia on Monday took their long-running dispute over Bolivia's request for sea access to the International Court of Justice in the Netherlands, *The Wall Street Journal* reported. Landlocked Bolivia says it lost about 250 miles of coastline after a Chilean invasion in 1879 and wants to regain sovereign sea access. Chile on Monday argued that the court doesn't have jurisdiction in the case, which it says was settled in a 1904 peace treaty.

Sweden's Saab Not Planning to Sell Gripens to Argentina

Sweden's **Saab** on Monday said it will not export Gripen fighter aircraft to Argentina after it begins building and exporting the jets from Brazil, Reuters reported. Saab has an agreement with Brazil that will see it manufacture and export the jets from the South American country as soon as 2022, and Argentina has expressed interest in purchasing 24 of them. However, Britain would likely veto any deal to sell the Gripen, which contains 30 percent British content, to Argentina.

Political News

Coca Cultivation in Colombia Increases 39 Percent

Colombia's level of coca cultivation jumped 39 percent last year to approximately 276,000 acres, the U.S. Office of National Drug Control Policy said Monday, the Associated Press reported. Based on average crop yields for the leaf that is used to make cocaine, the potential production of the drug in Colombia increased 32 percent to 245 metric tons, the government office added. Last year's growth followed six consecutive years of falling or steady coca production. The office typically publishes its annual report on coca cultivation in Colombia, Peru and Bolivia later in the year, but some findings were leaked over the weekend, leading it to release partial data for Colombia on Monday. The office, a component of the White House, said the increase in coca cultivation in Colombia was due to higher levels of cultivation in areas that are off limits to aerial eradication programs that are backed by the United States. Spraying and manual eradication in Colombia have fallen since 2012 when Colombian President Juan Manuel Santos launched peace talks between his government and the FARC rebels, the office said. Last month, Colombia's health ministry recommended suspending aerial fumigation of coca after the research arm of the World Health Organization classified glyphosate, the herbicide used, as a carcinogen. Colombian officials could decide at a meeting this month in Bogotá whether to continue the program, and the latest data from the U.S. drug czar's office could put pressure on them to do so. "It's no accident this was released just as the fumigation program is on the edge of being suspended," Adam Isacson, an analyst at the Washington Office on Latin America, told the AP. "The U.S. is probably doing all it can to avoid that outcome." Santos has not yet taken a side in the debate.

> "It's no accident this was released just as the fumigation program is on the edge of being suspended."
>
> — ***Adam Isacson***

Featured Q&A

Continued from page 1

terms of output, employment and growth. Therefore, if the sponsors of this agreement want to keep some countries from defecting, they should show sensitivity to this argument."

Carlos Mateo Paz-Soldan, member of the *Advisor* board and partner at DTB Associates in Washington: "The United States already has free-trade agreements with most of the countries negotiating the Trans-Pacific Partnership deal. Japan and Vietnam are the big exceptions. It is precisely opposition to specific components of trade with these two countries —autos with Japan and textiles, labor and human rights protections and state-owned enterprises with Vietnam—that has energized various Democratic constituencies against the deal. This pits a primarily Democratic congressional opposition, together with some Tea Party representatives interested in denying the president a key achievement, versus a White House interested in cementing the United States' strategic 'pivot to Asia' and solid Republican majorities in both houses of Congress that support the enhanced market access, particularly for U.S. agricultural goods, that the deal offers with Japan and Vietnam. For Chile, Mexico and Peru, the three Latin American countries participating in the TPP negotiations, the deal further strengthens their own pivot to the Asia-Pacific region and enhances the Pacific Alliance's role in Latin America as a

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Company News

Chile's ENAP Delays Ecuador Investment Due to Low Oil Prices

Chilean state oil company **ENAP** will postpone investments in Ecuador due to lower international oil prices, CEO Marcelo Tokman told local newspaper *La Tercera* on Sunday, Reuters reported. ENAP has reduced its total investment plan by $124 million this year to $651 million, of which $94 million is slated for exploration and production. ENAP has agreements with the Ecuadorean government, but Tokman said that Ecuador's local and federal government authorities agreed to delay the investment. "These are projects in the Amazon region of Ecuador, where we managed to agree with the government of that country relating to postponing the activity of exploration and exploitation of hydrocarbons," Tokman said. "We also established that we will begin to execute the plans when oil recovers to a certain level," he added, without giving further details. In April, ENAP signed an $82 million production contract for the Paraiso-Biguno-Huachito Block, and it also has a 42 percent stake in block 28. Tokman also said Sunday that ENAP is looking for partners to develop electricity projects in Chile in which it would hold a minority stake.

Tokman

File Photo: ENAP.

The Dialogue Continues

In Which Direction Should a New Leader Take the DEA?

Q Michele Leonhart, the head of the U.S. Drug Enforcement Administration, announced last month that she would step down from the position. The announcement followed weeks of criticism about the agency's handling of reports about agent involvement in "sex parties" with prostitutes in Colombia and her disagreements with President Barack Obama over drug policy. How much has the scandal affected the DEA's credibility, and in which direction should a new head take the agency? What is the state of the War on Drugs across the Americas?

A Steven Dudley, co-director of InSight Crime: "The DEA is at a crossroads. It has to deal with changing drug policies in the United States and Latin America, which make its focus (and its name) appear anachronistic. The scandals plaguing the agency are but mere sideshows compared to the soul searching it must do as it contemplates a near future in which marijuana, which it still considers a gateway drug, will be legal throughout the hemisphere. But the DEA should look at this as an opportunity, not a threat. With the changes in drug policy, the agency has a chance to refocus its efforts on the more addictive and deadly types of drugs such as heroin and methamphetamine. It can steer its limited resources toward fighting the violence associated with open-air markets for crack and other cocaine derivatives that are plaguing the region and are at the heart of the rising violence in Latin America and the Caribbean. The DEA has a lot to offer in this arena. While it has pushed for foreign governments to go after so-called 'high value targets' (often referred to as the 'kingpin strategy') and high-profile extraditions, it has quietly implemented a more sensible violence-reduction program in the United States (working closely with local and state police forces, of course). That same emphasis should be applied abroad as well, since partner governments are more interested in lowering the violence than capturing kingpins. Indeed, the kingpin strategy has proven to be a mixed blessing in Latin America: it offers local governments a chance to ramp up intelligence capabilities and cooperation among agencies, but it leaves chaotic and leaderless groups and often leaves more violence in its wake. It's time the DEA took a step back, away from a policy guided by 'kingpin' captures and extradition—the type that Leonhart championed in front of Congress year after year to win yet more resources for her agency—and start focusing on what matters: human lives."

Editor's note: The above is a continuation of a Q&A published in Monday's Advisor.

Economic News

Brazil's Industrial Production Likely Declined in March: Poll

Industrial output in Brazil likely fell in March for the second month in a row due to lower auto and steel production, raising expectations that Latin America's largest economy will experience a recession this year, Reuters reported Monday. The median forecast of 26 economists polled by Reuters is that output from Brazilian factories and mines likely shrank in March by a seasonally adjusted 0.7 percent from February, when it shrank 0.9 percent. The sector contracted in four of the last five months. Other indicators, including a 3.8 percent drop in steel production last month and a 0.7 percent dip in energy consumption and 2.6 percent decrease in auto production recorded by **UBS**, also suggest a drop in industrial output in March. And on Monday, a private survey, the **HSBC** Purchasing Managers' Index, showed that industrial activity in April contracted at the quickest pace in 43 months. Government statistics agency IBGE will release the March industrial output report on Wednesday. Brazil's economy, which is beset by high inflation, rising interest rates and slackening government spending, is expected to shrink 1.18 percent this year, according to a central bank survey. In recent months, manufacturing has been one of the economy's weakest sectors.

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Featured Q&A

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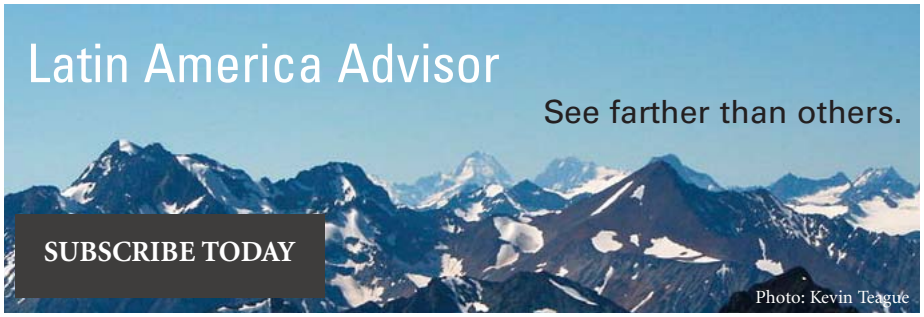
model for growth, openness and global economic integration vis-à-vis the discredited, inward-looking policies of the troubled Mercosur bloc. The key challenge ahead will be to harmonize the TPP's framework with those of the CAFTA countries, Panama and Colombia, all of whom have free-trade agreements with the United States, but are not part of TPP. The participation of Vietnam in the TPP deal has raised concerns among the integrated Western Hemisphere textile/apparel industries who point out that the deal will put them at a competitive disadvantage with this low-cost, rapidly growing, officially communist Asian country where production is controlled by the state and protection of labor standards is suspect."

Gary Hufbauer, senior fellow at the Peterson Institute for International Economics: "The trade-promotion authority (TPA) vote will be a tough but landmark battle, both in the Senate and the House. Without TPA there will, of course, be no TPP or TTIP or TiSA or much of anything else on the trade agenda. In fact, without TPA, the post Second World War era of U.S. leadership of the global economic system will come to an abrupt end. The system will not crash, but other countries—probably China and the European Union—will become the de facto leaders. In the Senate, TPA proponents need 60 votes—meaning at least six to eight Democrats—to shut down a filibuster. In the House, the proponents need 218 votes—meaning at least 20 Democrats, given Tea Party defections—to enact TPA. President Obama must dive deep into 'retail politics' to round up the laggards: White House dinners, Air Force One rides, plus dams, bridges and courthouses will all be on offer. Assuming President Obama and TPP champions win the battle, what does that mean for Latin America? First, the policy divide will widen between insiders and outsiders. The insiders—Mexico, Peru and Chile—will up their game in terms of intellectual property protection, state-owned enterprise behavior, labor and environmental rights, disappearing tariffs and much else. To have a shot at entering the TPP in a second wave, the aspiring outsiders—Costa Rica, Colombia and a few others—will need to enact legislation that parallels the TPP chapters. For the rest of Latin America, the prospect is an ever-widening gap between their trade and investment policy regimes and the TPP club. Slowly but surely, over the course of a decade, those outsiders will fade as participants in global value chains, digital trade and global direct investment. My guess is that, by 2025, econometricians will be able detect a growth differential of 0.5 percent annually between TPP members and non-members, after allowing for all other factors. If I am right, that's a very high cost for failing to enact 21st century trade and investment policies."

> "Without TPA, the post Second World War era of U.S. leadership of the global economic system will come to an abrupt end."
>
> — *Gary Hufbauer*



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is published every business day by the Inter-American Dialogue, Copyright © 2015

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

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