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THEDIALOGUE

FEATURED Q&A

Are U.S.–Argentina Relations Now on Firmer Ground?

Argentine President Mauricio Macri and U.S. President Barack Obama in Buenos Aires discussed several issues including defense, security, energy and climate change last week in Buenos Aires. // Photo: Argentine Government.

Q U.S. President Barack Obama said last week in Buenos Aires that the United States and Argentina had entered a new era in bilateral ties. What will this new relationship look like, and what are the most likely areas for cooperation? Now that "holdout" bondholders have reached a deal with Argentina, will foreign investment and trade increase between the two countries? Will the relationship change when the United States inaugurates its new president in January, or have Obama and Macri laid a strong enough foundation for collaboration?

A Eduardo Amadeo, member of Argentina's Chamber of Deputies and chairman of its Finance Committee: "There are plenty of areas where Argentina and the United States can cooperate in a mature way. For a number of reasons (the situations in Brazil and Venezuela come to mind), the United States needs reliable partners in the region, as well as in the multilateral arena. The fight against organized crime is another critical area for collaboration. Presidents Obama and Macri have been clear about their common commitment on climate change and human rights. The deal with the bondholders puts Argentina again in the financial markets, generating new opportunities for the enormous prospects offered by our economy. Argentina badly needs investment in infrastructure, value-added for its primary production and energy, as well as the expansion of existing foreign firms. Obama and Macri have laid a very strong foundation for collaboration, and it is in the best interest of Argentina to keep and strengthen it. In addition to the above-mentioned areas for collaboration, there are many

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TODAY'S NEWS

POLITICAL

Rousseff Cancels Trip Abroad Due to Crisis at Home

Brazilian President Dilma Rousseff has canceled a trip scheduled this week to Washington as her ruling coalition crumbles in the wake of the PMDB's decision to split with the governing coalition.

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POLITICAL

Former Mayor of Bogotá Sentenced to 14 Years in Jail

Samuel Moreno Rojas, who served as Bogotá's mayor from 2008 to 2012, was sentenced to at least 14 years in prison after being found guilty of corruption in the appropriation of city contracts.

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POLITICAL

Venezuelan Assembly Passes Amnesty Bill

The unscheduled maneuver, led by opposition legislator Delsa Solórzano, drew jeers from government supporters on the floor of the assembly, while family members of prisoners celebrated above in the balcony.

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Solórzano. // Photo: Delsa Solórzano via Twitter.

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POLITICAL NEWS

Venezuelan Congress Passes Amnesty Bill for Political Prisoners

Venezuela's opposition-controlled National Assembly on Tuesday passed an amnesty law aimed at liberating 77 political prisoners, The Wall Street Journal reported. The unscheduled legislative maneuver drew angry jeers from government supporters on the floor of the assembly, while family members of imprisoned politicians, students and military leaders celebrated from the balcony, according to the report. President Nicolás Maduro and his predecessor, Hugo Chávez, have incarcerated the prisoners for years on charges ranging from instigating violence to committing treason. The new amnesty law, which was sponsored by deputy Delsa Solórzano, will be sent next to the Supreme Court, which is dominated by the president's backers and is unlikely to allow it to take effect, according to the report. In related news, Venezuelans protesting against a bus fare hike killed two police officers Tuesday in the western town of San Cristobal, ABC News reported. The victims, aged 21 and 25, were stricken by a bus hijacked and later abandoned in Tachira state, according to police. The government has doubled bus fares recently and increased gas prices, moves that has caused erratic street protests. At least 31 people were arrested during Tuesday's protest. Earlier this month, Venezuela's opposition launched a high-profile protest campaign to oust President Maduro, but support was thin and the ruling Socialists countered it with their own "anti-imperialist" rally, Reuters reported, a reflection of a deadlocked society that has increasingly turned to violence out of frustration. Referring Tuesday to videos posted in social networks depicting lynching scenes earlier this month, Venezuelan Ombudsman Tarek William Saab told reporters that "taking the law in your own hands turn people into killers," El Universal reported. Some three dozen people were killed in mob lynchings in Venezuela last year, Fox News Latino reported.

Rousseff Cancels Trip to Washington Amid Political Crisis

Brazilian President Dilma Rousseff on Tuesday afternoon canceled a trip this week to Washington where she was scheduled to attend a nuclear security summit due to increasing political turmoil at home, Agência Brasil reported. Earlier in the day, the Brazilian Democratic Movement Party (PMDB) decided to split with Rousseff's federal governing coalition. The party also decided that six cabinet posts held by PMDB ministers should be vacated. Brazil's lower chamber of congress is considering an impeachment bid launched by Speaker of the House Eduardo Cunha, himself a PMDB member and the subject of a corruption probe. As the Advisor went to press, it remains unclear whether Rousseff's Vice President Michel Temer, the PMDB's president, will resign over the party's vote to split with the ruling coalition. International investors have been hoping Temer could assume the presidency and restore confidence by reversing some of Rousseff's less market-friendly policies.

PMDB leaders celebrate the vote. // Photo: Agência Brasil

BUSINESS NEWS

Latin American Aircraft Fleet Size Expected to Double

Latin America's commercial aircraft fleet will at least double in size within the next

NEWS BRIEFS

Former Mayor of Bogotá Sentenced to 14 Years in Prison for Corruption

Samuel Moreno Rojas, the Colombian politician from a powerful family who served as Bogotá's mayor from 2008 to 2012, on Tuesday was sentenced to at least 14 years in prison after being found guilty of corruption in the appropriation of city contracts, El Tiempo reported. The court also barred Moreno Rojas from holding public office for life.

Chilean Power Produced From Natural Gas Surges in February

Chile's energy ministry said Tuesday that demand for liquefied natural gas from the power industry rose sharply in February, Platt's reported. A dry summer in the South American season has caused hydroelectric generation to fall, pushing demand from gas-fired plants up 27 percent in February compared to the month before. Hydroelectric generation fell 22 percent in February, contributing nearly 40 percent of the country's total power generation.

Mexico Establishes Low Local Supplier Rule for Deep-Water Oil Projects

Oil companies operating in Mexico's deep waters must use national suppliers for at least eight percent of projects by 2025, the government said Tuesday, Reuters reported. The relatively low rate is meant to attract foreign and private firms to bid on contracts. Mexico's oil regulator has scheduled its first deep-water auction for early December. Interested parties will have the option to bid on 10 blocks in the Gulf of Mexico. The government had previously set the minimum at three percent for use of national suppliers, but adjusted it to eight percent by 2025. The content minimums are much lower than those for onshore and shallow water projects, which reach as high as 35 percent.

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others where we can work together on, like science and technology, trade policies for commodities and many others. Obviously, success will depend on the attitude of the new U.S. president toward foreign partners. On the Argentine side, the United States will continue to be regarded as a strategic partner."

Claudio Loser, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "Diplomatic relations between the United States and Argentina have fluctuated markedly since the return of democracy in 1983. Even so, there has not been such a swing as that seen in the current transition from the Fernández Kirchner administration to the Macri administration. However, it will be extremely important for the two governments to work on the restoration of these links. The United States needs to pay greater attention to Latin America—beyond Cuba—and Argentina should have a more consistent and less suspicious approach toward the United States. There is little question that the United States will support Argentina under a Democratic/Clinton government. No serious prediction can be made at this point about a Republican-led government. The resumption of stronger economic ties will take some time. The deal with holdout creditors is almost complete, but not yet over, and little will happen until payments are made, hopefully within the next two months or so. Even then, foreign and Argentine investors will wait to see if and when macroeconomic conditions, and particularly fiscal policy and inflation performance, improve. There is significant interest in Argentina, particularly when Brazil is doing poorly, and there is greater commonality with the countries in the Pacific Alliance. Lending to Argentina can be expected to become normalized by mid-year, but it is unlikely that foreign investment flows will pick up before late this year or early next. However, nothing will be automatic, and hard work will be required from both sides for substantive progress to be made."

Rodrigo López, economist and sociologist at the Centro de Estudios Económicos y Sociales Scalabrini Ortiz (CESO): "During his visit to Buenos Aires, U.S. President Barack Obama referred to a 'new era' of relations between the two countries. The 'old era' wasn't very good. His visit coincided with the 40th anniversary of the military coup that led to the disappearance of 30,000 individuals in the 1970s and early 1980s.

> **"Only speculative financial investments will enter Argentina's economy, which will open explosive debt dynamics."**
>
> **— Rodrigo López**

Obama admitted that the United States was not quick enough to denounce the violence, but he should have expanded more on the topic. The new agenda for the United States and Argentina is the same as for all countries: trade openness and military cooperation on the international stage. In the distribution of tasks, Argentina sent armed forces to Africa and received Syrian refugees. The agreement with the vulture funds and the praise from Obama for Macri's speed in implementing economic reforms (which has led to the layoffs of thousands of public employees and the devaluation of the peso by 60 percent) will not be enough for foreign investment to enter into Argentina, because these policies will cause Argentina to fall into a deeper recession. Only speculative financial investments will enter Argentina's economy, which will open explosive debt dynamics. Obama's words

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two decades, leading manufacturers Boeing and Airbus said Tuesday at an industry trade conference, Reuters reported. At the FIDAE regional airshow in Chile, executives from Europe's Airbus projected Latin American airlines will need 2,540 new planes by 2034, doubling of the number of airliners in operation. Competitor Boeing forecast that Latin American airlines will need 3,050 new planes worth $350 billion over the next two decades. "In the long term, the economies of Latin America will grow faster than those in the rest of the world," said Donna Hrinak, president of U.S.-based Boeing in Latin America, according to Reuters. Air traffic during that time will grow 4.7 percent annually in the region, the company predicted. Brazilian jet maker Embraer has forecast that Latin American airlines will take delivery of 720 new planes with between 70 and 130 seats over the next 20 years, Air Transport World reported Tuesday. The increased passenger and cargo traffic could strain the region's air infrastructure, local media have warned. In January, Jamaican authorities were reported to be in a position of "scrambling" to secure the Caribbean nation's air space in the wake of a decision by air traffic controllers to stop working in protest over inadequate equipment and lax safety measures, the Jamaica Gleaner reported. Ten years ago, South America's largest economy, Brazil, faced a crisis as its civil air control system buckled under increasing traffic pressure, causing massive flight delays and cancellations, air controller strikes and safety concerns that made international headlines. In 2011-12, Brazil registered 801 air incidents involving commercial airliners, the Financial Times reported, some 50 percent more than the United States over that two-year period, even though Brazil's fleet is a tenth of the size. International investors are jockeying for position to meet rising demand for improved services. At least three airport operating companies in Europe have been reported to be eyeing Brazil's upcoming international airport concessions, Business News Americas reported last week. And Brazil's state airport operator, Infraero, plans an initial public share offering this year for a subsidiary running its domestic hubs in São Paulo and Rio de Janeiro, Reuters reported last month.

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will not mean much in a few months; all will need to be re-evaluated once a new U.S. president is elected in November. Argentina has become accustomed to listening to the odious Donald Trump; it cannot be overlooked though that he has called himself a 'friend of Macri'—they have done business before. But two structural constraints still remain: commercial incompatibility (the United States produces and protects the same products that Argentina exports) and a historic mistrust of the United States—the global policeman—on the part of the Argentine people. 'Her lips on fire, again I want to kiss,' goes the tango that Obama danced to in Buenos Aires."

Julio Darío Burdman, president of the Observatorio Electoral Latinoamericano: "President Mauricio Macri is quite interested in closer ties with Washington, something not at all surprising, given that he has spoken about it several times. What's new is that the president of the United States is also interested in an alliance with Buenos Aires. After 15 years of progressive and revisionist governments in most of South America, which sought to foster autonomist foreign policies and closer ties with two big extra-regional powers, China and Russia, Washington believes the arrival of a center-right coalition in Argentina to the presidency could start a political backlash to the neo-populist wave. Therefore, this new era in bilateral ties will have a clear political shape. President Barack Obama said in Buenos Aires that Macri is 'an example' for South America; that's a strong definition. Macri is going to confront Venezuela's Bolivarian government, strengthen the OAS, cooperate with the United States in an enhanced security agenda, and support U.S. initiatives like the Pacific Alliance. Meanwhile, there are huge expectations in Argentina regarding how closer ties with the United States will help the economy. Macri is convinced that there will be an increase in foreign investment and trade. Nevertheless, most of what would lead to this outcome depends on U.S. political trends: a possible free-trade agreement between the United States and Mercosur—or Argentina—will have to be approved by a future Congress and under the next U.S. administration. That gives Macri's bet an extra degree of uncertainty."

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> **— Julio Darío Burdman**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

LATIN AMERICA ADVISOR

Energy Advisor

The answers to questions that informed executives are asking ... every week.

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