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THEDIALOGUE

FEATURED Q&A

Will a New Accord Boost Argentina-Brazil Trade?

Brazilian Minister of Development, Industry and Trade Marcos Pereira and Argentine Production Minister Francisco Cabrera (L-R) on Aug. 2 signed a deal to reduce trade bureaucracy between the two nations. // Photo: Brazilian Republican Party.

Q The business and investment-oriented administrations of Argentine President Mauricio Macri and Brazilian interim-President Michel Temer signed an agreement this month aimed at reducing bilateral trade bureaucracy in hopes of spurring economic activity in the face of continued recession and lagging investment. How important are bilateral trade ties between Brazil and Argentina, and will these new measures accomplish much? To what extent are Brazil and Argentina, under new administrations, taking significant steps to become better trade partners, and how will their efforts compare to those of the Pacific Alliance countries to advance their trade facilitation mechanisms?

A Devry Boughner Vorwerk, member of the Advisor board and senior policy advisor at Akin Gump: "Bilateral ties between Brazil and Argentina are critical to the economic performances of both economies. Brazil is Argentina's top export market, and Argentina is third for Brazil. While the agreement that Ministers Pereira and Cabrera struck was limited to trade facilitation, it was the right place to begin. If implemented appropriately, the agreement has the potential to significantly reduce the cost of doing business across the border. Lowering the cost of doing business, and therefore the cost of goods and services, is something citizens on both sides can applaud. More broadly, the agreement signifies a willingness by both leaders to liberalize their economies, which is refreshing. Under previous leadership, both of these countries lacked a cohesive trade strategy, and in fact resisted one, to the detriment of economic growth. While it was a small step, Brazil

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TODAY'S NEWS

POLITICAL

Son of 'El Chapo' Among Six Taken in Mexico

Jesús Alfredo Guzmán Salazar, the son of imprisoned Mexican drug lord Joaquín "El Chapo" Guzmán, was among six people kidnapped at gunpoint at a restaurant in Puerto Vallarta.

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POLITICAL

Opponents of Nicaragua's Ortega Call for Election Boycott

The president's opponents accuse him of suppressing democracy in the Central American country.

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BUSINESS

BHP Billiton Reports Record Annual Loss

The mining company said its profit for its fiscal year ending in June declined $6.4 billion, due to slumping commodity prices and last November's deadly dam collapse in Brazil. CEO Andrew Mackenzie said the company is "disappointed with this result."

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Mackenzie // File Photo: BHP Billiton.

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POLITICAL NEWS

Son of 'El Chapo' Among Six Abducted in Puerto Vallarta

A son of imprisoned Mexican drug lord Joaquín "El Chapo" Guzmán was among the six men kidnapped at gunpoint at the Pacific Coast resort of Puerto Vallarta, Jalisco state officials said Tuesday, Reuters reported. State prosecutor Eduardo Almaguer said forensic evidence, security camera footage and eyewitness interviews indicated that Jesús Alfredo Guzmán was among those seized by gunmen Monday at an upscale restaurant in Puerto Vallarta. "We will continue to work with federal authorities to help resolve this," Almaguer said at a news conference. The announcement has sparked fears of increased violence among rival drug cartels in Mexico. Almaguer said investigators believe the gunmen were affiliated with the Jalisco New Generation cartel, which has been described as an up-and-coming cartel that is challenging El Chapo's once-dominant Sinaloa cartel. "It's a war for the inheritance," said Raúl Benítez, a security analyst at the Universidad Nacional Autónoma de México. "I believe the Jalisco New Generation cartel wants to take over the Sinaloa cartel." Some security experts predict that El Chapo's arrest in January will usher in a new wave of gang violence in Mexico, challenging President Enrique Peña Nieto's efforts to crack down on gang violence that has caused the deaths of some 130,000 Mexicans in the past decade. Gang-related murders are up 15 percent through June of this year, as compared to the same period last year, according to official statistics.

> **"I believe the Jalisco New Generation cartel wants to take over the Sinaloa cartel."**
>
> **— Raúl Benítez**

Ortega's Opponents Call for Boycott of Election

Opponents of Nicaraguan President Daniel Ortega on Tuesday called for a boycott of the November presidential election, BBC News reported. An opposition coalition accuses Ortega's government of suppressing democracy and starting a "dynastic dictatorship," UPI reported. Ortega's opponents say he has abused political power to suppress the opposition. In June, the president's allies in the Supreme Court barred opposition leader Eduardo Montealegre from his own Independent Liberal Party, or PLI, BBC News reported. The court also barred his replacement, Luis Callejas, and his running mate, Violeta Granera, from running in the presidential election. Granera, of the National Coalition for Democracy, denounced the upcoming election as "fraudulent" and called for "real elections." Opponents also say

Ortega // File Photo: Nicaraguan Government.

Ortega is establishing a family dynasty, after he chose his wife Rosario Murillo as his running mate in July. The president is seeking his third consecutive term and fourth overall. Ortega removed PLI legislators from the National Assembly after they refused to recognize Callejas as their party's new leader, saying he is close to Ortega. The move to strip some PLI lawmakers of their seats gave complete control of the National Assembly to the president's Sandinista Party and its allies. Polls conducted by the firm M & R between July 27 and Aug. 1 showed Ortega in a commanding lead with 79 percent, according to Agence France-Presse. They survey polled 2,000 likely voters and has a margin of error of 2.2 percentage points.

NEWS BRIEFS

Brazil's Rousseff Vows to Continue Fighting to Remain in Office

In a speech broadcast live Tuesday via Facebook, suspended Brazilian President Dilma Rousseff vowed to continue fighting to remain in office, The Wall Street Journal reported. Her speech came just over a week before her impeachment trial is set to begin in Brazil's Senate. "Impeachment without a crime, if consummated, would be a coup," she said.

Former FIFA President Havelange Dies at 100

João Havelange, who served as president of FIFA from 1974 to 1998, and who is often credited as having transformed soccer's international governing body into one of the world's most powerful sports organizations, died Tuesday at the age of 100, FIFA confirmed, NBC News reported. He died in Rio de Janeiro, his hometown, as the city was hosting the Summer Olympic Games. Havelange had personally led the country's bid process to host the games. While president of FIFA, Havelange challenged FIFA's concentration in Europe by spreading the organization's decision-making and income around the world, including to the United States.

Chile's Energy Costs to Fall Over Next Decade: Minister

The cost of energy in Chile will likely fall in the next decade, after an energy auction designed to provide approximately a third of the country's energy needs attracted more competitively priced bids than had been expected, Chilean Energy Minister Máximo Pacheco said Tuesday, Reuters reported. The winners of the auction will be announced today. The winning bidders in the 12,430-gigawatt hour auction will provide energy for 20 years, starting in 2021 and 2022, divided into five blocks.

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U.S. Boosts Cooperation With Immigration Officials

The United States is pushing to expand its cooperation with several Latin American countries amid a surge of African, Middle Eastern and Asian immigrants traveling through Mexico toward the border between the two countries, Reuters reported Tuesday. Immigration agents apprehended 6,342 such migrants attempting to enter Mexico during the first six months of 2016, a substantial increase from 4,261 in all of 2015 and 1,831 in 2014, according to data seen by Reuters from the Mexican immigration authority. At a detention camp in Tapachula, near Mexico's border with Guatemala, U.S. Customs and Border Patrol agents have been training their Mexican counterparts on interviewing techniques and how to use U.S. criminal databases to investigate detainees, according to internal documents reviewed by the wire service. Approximately two or three U.S. agents have been stationed in Tapachula since October. Mexican officials had acknowledged the presence of U.S. agents, but had given few details as to the nature of their cooperation. The increased effort to coordinate with Latin American partners stems from increased security concerns, said Alan Bersin, the U.S. Department of Homeland Security's assistant secretary of internal affairs. "While many citizens of these countries migrate for economic reasons or because they are fleeing persecution in their home countries, this group may include migrants who are affiliated with foreign terrorist organizations, intelligence agencies and organized criminal syndicates," Bersin told the U.S. House Committee on Foreign Affairs in March. The U.S. Customs and Border Patrol is "actively working to enhance regional collaboration with border and customs authorities from Mexico all the way down to Argentina," a Homeland Security official told Reuters. The agency has stationed operatives in Panama and southern Mexico, many of whom were dispatched to vet detainees. [Editor's note: See related Q&A in the Aug. 9 issue of the Advisor.]

BUSINESS NEWS

BHP Billiton Reports Record Loss After Brazil Mine Disaster

Anglo-Australian mining giant BHP Billiton reported a record loss of $6.4 billion for its fiscal year ending in June, largely due to last year's mining disaster in Brazil as well as slumping commodity prices, BBC News reported Tuesday. The company said its revenue declined 31 percent year-on-year to $30.1 billion. BHP Billiton also booked write-downs in the amount of $4.9 billion in its U.S. oil and gas assets, USA Today reported. "We're clearly really disappointed with this result," said CEO Andrew Mackenzie. He added, however, that the company's earnings before interest, taxes, depreciation and amortization, or EBITDA, "remained healthy," amounting to $12.3 billion. "We are pleased by the strong cash generation of our assets which has resulted in a free cash flow of $3.4 billion," Mackenzie added. The miner said its profit was hit by last November's collapse of a Brazilian dam, which BHP Billiton owns with Vale. Nineteen people were killed in the incident. BHP Billiton said last month that it would record a provision of more than $1 billion related to the disaster. The company also slashed its payout, setting a dividend of 30 cents, down from 62 cents last year.

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and Argentina stepping up to the 'trade plate' heightens awareness among Mercosur partners of the benefits of reducing hidden barriers. Hopefully, this agreement is contagious. The agreement is backstopping what appears to be a more trade-embracing agenda across Latin America. The Pacific Alliance is the gold star with solid commitment made to eliminate almost all barriers to trade. With Uruguay potentially joining the ranks of the Pacific Alliance, and with countries like Paraguay under the Cartes administration becoming more forward-leaning on trade, the region is slightly leaning toward a more integrative model. The true outlier at the moment is Venezuela, but that is a discussion for a different day and requires a different solution. For now, let's commend President Macri and interim-President Temer on a job well done. Investors are watching, which is a good thing."

> **"If implemented appropriately, the agreement has the potential to significantly reduce the cost of doing business across the border."**
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> **— Devry Boughner Vorwerk**

Pablo Heidrich, adjunct research professor at Carleton University: "Bilateral trade remains very relevant for both countries in several key industrial and agro sectors, even though both economies have greatly diversified their respective export markets in geographical terms since the 1990s, when Mercosur began. The sectors where bilateral links still are most important are automotive, chemicals, light metallurgy and some specific agro-industrial ones. In all cases, these are industries where an extended market, under the protective umbrella of Mercosur tariffs, has assisted their growth in spite of their lack of true international competitiveness. The new intentions signed a few days back might reduce some of the bilateral administrative hindrances set up by the governments of former Argentine President Cristina Fernández and now-suspended Brazilian President Dilma Rousseff, but the new intentions will do little to improve

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national accounts or investment flows in the short term. The new declarations, plus highly publicized visits this year of trade and foreign ministers, have sought to assure firms in both countries, as well as foreign investors already present there, that Mercosur—and especially the bilateral Argentina-Brazil alliance—is here to stay. Whether this might catalyze easier bilateral flows of trade remains to be seen. Both countries have always seen Mercosur as something more than just a customs union to foster regional trade; it is in fact a political and economic platform through which to negotiate with the rest of the region and with the rest of the world. These new efforts on the part of these two Mercosur countries are very small compared to the ones already undertaken and apparently planned at the Pacific Alliance. The latter has little to nothing to show in terms of bilateral trade growth, thanks to all the measures undertaken so far. This type of commercial diplomacy remains more a game of statements than any significant change in rules."

Mark S. Langevin, professor and director of the Brazil Initiative at the Elliott School of International Affairs at The George Washington University: "Argentina and Brazil need more than a trade facilitation agreement to drive economic development in the long term. The recent agreement is long overdue and will assist exporters from both nations, especially new and smaller firms. Cutting red tape can increase trade and contribute to national economic growth for both countries. The recent agreement also signals to the European Union that both Argentina and Brazil are interested in expanding trade at a moment when Mercosur is in disarray. While bilateral trade is significant, it remains rooted in agricultural commodities, industrial intermediate goods and vehicles. Indeed, in a recent Confederação Nacional da Indústria (CNI) opinion poll among hundreds of Brazilian companies, only 3 percent favored a new trade agreement with Argentina. Most of the respondents favored new trade agreements with China, the European Union and the United States. Argentina and Brazil are likely to increase trade as the Brazilian economy recovers, but their respective national development is increasingly dependent upon further integration into global value chains associated with agribusiness, biotechnology and electronics, as well as trade in services. This challenge requires game-changing industrial and trade policy reforms that deepen integration with Asia, Europe and North America to advance in the technologically intensive industrial activities and maximize participation in the higher-added-value fragments of the global assembly lines. President Macri of Argentina has focused on restoring foreign investor confidence, but will face substantial opposition to deeper global integration. Brazil's interim government will struggle with its own legitimacy and will avoid any reform process that might undermine its fragile congressional majority. For now, marginal increases in bilateral trade will satisfy both governments."

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

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