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FEATURED Q&A

Will Conflicts Over Global Trade Escalate in 2019?



The past year was marked by new tariffs and conflicts over trade. A ship transiting the Panama Canal is pictured above. // File Photo: Panamanian Government.

Q The past year saw conflict over trade dominate global headlines, with the eruption of a massive tariff war between the United States and China, the signing of a revamped version of the North American Free Trade Agreement, the USMCA, that still requires legislative ratification in the three countries and proposals from Mercosur bloc countries to embrace more trade and modernize rules. Which Latin American countries and stakeholders are most likely to win and lose from global trade developments in 2019, and how can they prepare for the year ahead? How much damage has been done to the global trading system in 2018? Should the world expect more "managed trade" than "free trade" for the near future?

A Gabrielle Trebat, regional director for Latin America at McLarty Associates: "The events of the past year have surely created an uncertain outlook for world trade heading into 2019. In the words of Ambassador Roberto Azevêdo, the multilateral trading system is facing 'its worst crisis since the GATT in 1947.' While the uncertainty does present potential opportunities for Latin America, the region's ability to capitalize on this opportunity depends upon its capacity to overcome challenges. In the short term, continued trade tensions between the United States and China could benefit Latin American commodities exports. China has already surpassed the United States as the top trade partner for Brazil, Chile and Peru. Farmers in Brazil and Argentina see China's 25 percent tariff on U.S. soybean exports as a major opportunity for them to displace U.S. producers' hold on the Chinese market, particularly if the trade war extends into the South American

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TODAY'S NEWS

POLITICAL

Bolsonaro Open to U.S. Military Base in Brazil

New Brazilian President Jair Bolsonaro said in a television interview that he is open to discussing the possibility of a U.S. military base in the country.

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ECONOMIC

Argentina's Industrial Output Contracts 13% in November

The country's industrial production slid in November, marking the seventh consecutive monthly decline.

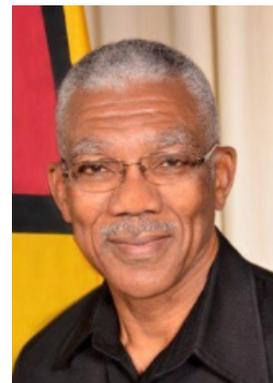
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POLITICAL

Guyanese Gov't Challenging No-Confidence Vote in Court

The government of Guyanese President David Granger is going to court to challenge a no-confidence vote that happened last month in the country's parliament. The vote would force new elections by March.

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Granger // File Photo: Guyanese Government.

POLITICAL NEWS

Bolsonaro Eyes Potential U.S. Military Base in Brazil

Brazil's new president, Jair Bolsonaro, said Thursday that he is open to the possibility of the United States operating a military base in the South American country, a move that would be a sharp shift from Brazil's existing foreign policy, Reuters reported. Russia's support of President Nicolás Maduro, who is running what Bolsonaro called a "dictatorship" in Venezuela, has escalated tensions in Latin America, said Bolsonaro. In an interview on Thursday, Brazil's SBT television network asked Bolsonaro whether that meant he would allow the U.S. military to have a presence in his country, and Bolsonaro said he would be open to discussing it. "Depending on what happens in the world, who knows if we would not need to discuss that question in the future," he said, adding that Brazil wants to have "supremacy here in South America." Bolsonaro, an admirer of U.S. President Donald Trump, has sought to strengthen ties with both the United States and Israel. Earlier on Thursday, Bolsonaro's national security advisor, retired army general Augusto Heleno, said Bolsonaro wants to move Brazil's Israeli embassy from Tel Aviv to Jerusalem, Reuters reported. Heleno added, however, that some logistical considerations are preventing the embassy's move. Though Heleno did not specify those considerations, Brazil's agricultural sector sells billions of dollars worth of halal meat each year to Arab nations and has opposed moving the embassy to Jerusalem for fear of angering those countries. Earlier this week, Benjamin Netanyahu attended Bolsonaro's inauguration, becoming the first Israeli prime minister to visit Brazil. Netanyahu said after meeting with Bolsonaro that the new Brazilian president told him that moving the embassy to Jerusalem was a question of "when, not if." Also during his television interview Thursday with SBT, Bolsonaro said he would propose a weaker pension reform than expected, the Financial Times reported. A weaker reform may

dampen investors' optimism about Bolsonaro's government, but it could also help the reform win approval in Brazil's Congress. On Thursday, Bolsonaro said his reform of the pension system would seek to raise the retirement age for men to 62 and for women to 57. "Everyone must give a little," Bolsonaro told SBT. The previous day, Bolsonaro's economy minister, Paulo Guedes, called pension reform Brazil's "greatest challenge." He added that scaling it back is necessary in order to cut the country's budget deficit. Bolsonaro said Thursday that he wants to "take advantage" of pension reform legislation that is already in the lower house of Congress.

Guyanese Gov't to Challenge No-Confidence Vote

The government of Guyanese President David Granger will challenge a no-confidence vote that happened last month in the country's parliament that would lead to new elections by the end of March, Reuters reported, citing Attorney General Basil Williams. The Dec. 21 parliamentary vote toppled Granger's ruling coalition when one coalition lawmaker voted with the opposition, which accuses the government of mismanaging Guyana's resources by giving oil exploration contract terms that were too generous to ExxonMobil, the wire service reported. The no-confidence vote received 33 votes, but Granger's government plans to argue that it needed 34 in order to pass. Additionally, the government contends that the legislator who cast the deciding vote is ineligible to serve in parliament because he also holds Canadian citizenship, the attorney general said. Granger's government will argue its position first before Guyana's High Court and then would appeal if necessary to the Court of Appeal and the Caribbean Court of Justice, Williams added. The no-confidence vote occurred a day after Venezuela's navy stopped two ships that ExxonMobil had hired to conduct a seismic survey off Guyana's coast. Both Venezuela and Guyana say the incident happened in their territorial waters.

NEWS BRIEFS

Ecuador's Moreno Seeks Investigation of Oil Projects Under Correa

Ecuadorian President Lenín Moreno on Thursday asked prosecutors to probe nearly \$5 billion the government spent on oil-related infrastructure projects under the tenure of his predecessor, Rafael Correa, Reuters reported. Moreno cited cost overruns and non-transparent bidding processes with five projects built during Correa's presidency, including a \$2.2 billion upgrade to the Esmeraldas refinery. "This theft of public funds cannot go unpunished," Moreno said. Correa has denied allegations of corruption in his administration.

Chilean Anti-Monopoly Court Sides With Crypto Exchanges

Chile's anti-monopoly court this week sided with local cryptocurrency exchanges, ordering banks to keep accounts maintained by the exchanges open, Cointelegraph reported Thursday. The ruling by the Tribunal de Defensa de la Libre Competencia, or TDLC, requires Banco del Estado and Itaú Corpbanca to keep open the accounts of the cryptocurrency exchanges, including Buda.com. Additional hearings on the matter are scheduled for next month, when the TDLC is scheduled to hear testimony from both sides.

Jamaica Sees Outbreak of Dengue Fever

Jamaican Health Minister Christopher Tufton on Thursday held an emergency press conference declaring an outbreak of dengue fever on the island, the Jamaica Gleaner reported. Tufton said that 123 cases of the mosquito-borne illness were recorded last month alone, with at least two dengue-related fatalities confirmed by government officials. Dengue fever is caused by a virus, and there is no specific medicine or antibiotic to treat it.

Mexico Seeks Probe Following Tear Gas Incidents at Border

Mexico's foreign ministry on Thursday called on the United States to investigate two recent incidents when border agents near San Diego and Tijuana fired tear gas and other deterrents into Mexican territory as migrants were trying to cross into the United States, The New York Times reported. In a diplomatic note delivered to the U.S. embassy, Mexico requested "a thorough investigation" into two episodes, on Jan. 1 and Nov. 25. The officials said they would hold a meeting with the United States Department of Homeland Security and the Border Violence Prevention Council, a joint U.S.-Mexican body meant to prevent violence at the border, according to the report. In the incident earlier this week, accounts from journalists at the scene contradicted those released by U.S. officials. The U.S. Customs and Border Protection agency has said its policy requires a review of all use-of-force situations. In related news, the U.S. Department of Homeland Security has requested more federal troops be deployed at the border to add 160 miles of concertina wire on top of existing border fencing, NBC News reported, citing three U.S. officials. If approved, the addition of troops could extend the military's current deployment at the border until the end of September. It was set to end on Jan. 31.

ECONOMIC NEWS

Argentina's Industrial Production Contracts 13% in November

Industrial production in Argentina posted a large 13.1 percent contraction in November as compared to the same month last year, state statistics agency INDEC reported Thursday. The figure is nearly double the decline of 6.8 percent posted the month before. Last Novem-

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ber marked the seventh consecutive monthly decline in the South American country's industrial production, according to the report. The sharp and broad-based contraction "reflects the significant tightening of domestic financial conditions, deterioration of sentiment indicators and the impact of the major contraction of agricultural production," Goldman Sachs an-

Farmers in Brazil and Argentina see China's 25 percent tariff on U.S. soybean exports as a major opportunity..."

— Gabrielle Trebat

United States and China to resolve their dispute. In the long term, Argentine President Mauricio Macri and Brazilian President Jair Bolsonaro have expressed interest in reforming Mercosur to negotiate individual trade agreements, but both countries will need to address competitiveness and productivity challenges (tax, labor, infrastructure) to be able to negotiate from a position of strength. The European Union and Mercosur could focus on finalizing lengthy negotiations on a trade agreement, but negotiations have hit stumbling blocks on agricultural market access, and European leaders have questioned moving forward if Brazil withdraws from the Paris Climate Accord. Given the relative benefits of guaranteeing long-term access to overseas markets or displacing U.S. exports to China in the short term, Latin America has

more to gain in 2019 by supporting a rules-based trading order."

more to gain in 2019 by supporting a rules-based trading order."

Anabel González, nonresident senior fellow at the Peterson Institute for International Economics and former trade

minister of Costa Rica: "Trade frictions are undermining confidence in the global economy and threaten to depress medium-term growth prospects. Rising protectionism and uncertainty are already taking a toll on investors, markets and supply chains, while weakening the rules-based global trading system. The prospects are concerning for Latin America, as the region stands to lose from a return to a trading system in which power and politics—rather than market competition—allocate resources and inform business decisions. As trade conflicts unfold in 2019, there are at least four possible scenarios. First, a full-fledged trade war between the United States, China and others, which would result in the abandonment of international rules constraining the adoption of tariffs and other policy measures. Second, there could be a grand U.S.-Sino bargain that could lead to some form of managed trade with China committing to increase imports of U.S. agricultural products and natural resources to protect its exporters and investors in the U.S. market. The third scenario consists of continued trade frictions and uncertainty that slowly erode and fragment the trading system. In these setups, Latin America would suffer the negative economic effects associated with the deteriorated trade environment, as the systemic consequences of a power-driven trading system. In

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alist Alberto Ramos told clients in a research note. Construction activity also contracted in November, falling 15.9 percent year-over-year. Argentina has been struggling to pull out of a recession, with its economy shrinking by 3.5 percent in the third quarter of last year, after contracting 4.0 percent in the second quarter, Agence France-Press reported.

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a fourth scenario, leading economies work in the bilateral and multilateral context to solve key outstanding concerns to pave the way for a revitalized global trading system. For Latin America, the best alternative is a combination of this fourth scenario with additional efforts to diversify products and markets through deep preferential agreements and strengthened intra-regional integration.”

A José Guilherme Almeida dos Reis, executive director of the office for Brazil and Suriname at the Inter-American Development Bank: “The rules-based trading system was negatively affected in 2018 by the trade war that erupted between the United States and China, as well as by some less-visible but equally damaging threats, in particular the continuous weakening of the WTO appellation body. As expected, the short-term impacts on exports and income were muted, given linkages through global value chains. Some exports from developing countries, including Latin America, actually benefited from the trade war in 2018, as some products became more competitive on U.S. and Chinese markets, such as Brazilian soybeans. These positive impacts from managed trade, however, tend to be short

lived, as the inherent uncertainty prevents firms and players from making longer-term decisions. The potential damage of these trade developments to global trade and income can be huge, as the increased uncertainty from tariff escalation affects global investments. Despite all this, the year ended on a more positive note, with the China-U.S. truce, the G20 agreement to work on WTO reform and several regional integration initiatives. In Latin America, the conclusion of the USMCA, the progress on the Mercosur-Pacific Alliance convergence and the recent Brazil-Chile trade agreement (negotiated in four months) are glimpses of hope that trade can be restored as a significant source of long-term growth in the coming years. Looking forward, the next year will be key to seeing how Latin America will adjust to the new normal in the trade system. It will be important to follow how the new administrations from the two largest economies in the region, Brazil and Mexico, define their trade policy. The new administration in Brazil, in particular, is willing to promote more trade integration and negotiate a series of trade agreements in the coming years.”

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

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