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FEATURED Q&A

What Would Result From a New U.S. Tariff on Cars?



U.S. President Donald Trump recently threatened to impose new tariffs on cars made in Mexico. A Volkswagen plant in Mexico is pictured above. // File Photo: Volkswagen.

Q U.S. President Donald Trump recently threatened to impose 25-percent tariffs on Mexican cars, seeking to pressure the Mexican government to step up efforts to stem the flow of undocumented immigrants into the United States. How likely is it that the Trump administration will impose new tariffs on Mexico's automobiles? What would be the potential consequences of such levies on the North American economy? What implications do Trump's threats have for the United States-Mexico-Canada Agreement, or USMCA, and its ratification in the three countries?

A Andrés Rozental, member of the Advisor board, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House: "Most of President Trump's threats against Mexico have so far come to naught. No wall at the border; no withdrawal from NAFTA to press Congress to approve USMCA; no mass deportations; and no tariffs on automobiles. This last threat is an empty one if the U.S. government respects the signed side letter agreed to during the USMCA negotiations that exempts Canada and Mexico from any Section 232 (national security) actions against cars, up to a volume which is less today than what each country historically exports to its neighbor. Of course, Trump's disdain for international treaties and other agreements could eventually result in him ignoring the pact already in force between Mexico and the United States and lead him to impose a punitive 25-percent tariff anyway. Any such action would: first, punish U.S. consumers, who would see the price of their cars go up; second, punish the American auto sector that would have to pay the tariff on imports

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Venezuela Funneling Oil Cash Through Rosneft: Report

Venezuelan President Nicolás Maduro is reportedly funneling cash from oil sales through Russian state energy company Rosneft.

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Mexico to Restrict Migrants to Southern States

Immigration authorities in Mexico plan to restrict Central American migrants to the southern part of the country to impede their movement toward the United States.

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POLITICAL

Ecuadorean Judge Orders Ex-Foreign Minister Detained

The judge ordered former Foreign Minister Ricardo Patiño, who served under former President Rafael Correa, to be detained. Ecuador's current government accuses Patiño of involvement with WikiLeaks.

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Patiño // File Photo: Ecuadorean Government.

POLITICAL NEWS

Ecuadorean Judge Orders Ex-Foreign Minister Detained

A judge in Ecuador has ordered former Foreign Minister Ricardo Patiño to be detained on a charge of “instigation,” El Universo reported. The order against Patiño, who served under former President Rafael Correa, came 22 hours after the former foreign minister left the country, and his whereabouts are unknown, the newspaper reported. In a video statement released via Twitter, Patiño said there was no order against

President Lenín Moreno's government has accused Patiño of involvement with WikiLeaks.

him at the time that he departed from Ecuador and that he had no idea “what was about to happen.” He said, “I left the country absolutely legally,” and vowed to defend himself. The administration of current President Lenín Moreno has accused Patiño of involvement with WikiLeaks, Reuters reported. Moreno's government last week withdrew the asylum of WikiLeaks founder Julian Assange, who had been holed up in Ecuador's embassy in London since 2012, allowing police to arrest him. Moreno has accused Assange and the website of publishing private photographs of his family, violating his privacy. Moreno has also accused Correa of planting a hidden camera in his office in order to spy on him. WikiLeaks and Correa have denied the allegations, and the whistleblowing website has said Moreno is attempting to deflect attention from corruption allegations against him. An economist, Patiño has called on his supporters to engage in “combative resistance” against Moreno's government, Ecuador's attorney general's office said in a statement. “The attorney general's office began a criminal process against Ricar-

do Patiño for the alleged crime of instigation,” the office said, adding that Patiño “had given a speech in which he instigated people to take over public institutions and close roads.” Patiño has denied the allegations. The former foreign minister is also accused of having ties to Ola Bini, a Swedish computer programmer whom Ecuadorean authorities arrested last week on hacking charges. Bini denies the allegations, the Washington Times reported. “I'm confident it will be obvious that there's no substance to this case, and that it will collapse into nothing,” Bini said in a statement released by his lawyer. Moreno's government accuses Patiño and Bini of having taken trips to London to visit with Assange while he was taking refuge at the embassy, Reuters reported. Ecuador's interior minister has accused Patiño of trying to “destabilize” Moreno's government. [Editor's note: See [video](#) of Moreno's appearance Tuesday at the Inter-American Dialogue.]

BUSINESS NEWS

Venezuela Reportedly Funneling Oil Cash Through Rosneft

Venezuelan President Nicolás Maduro is avoiding U.S. sanctions by funneling cash from Venezuelan oil sales through Russian state energy giant Rosneft, Reuters reported Thursday.



Maduro // File Photo: Venezuelan Government.

Since January, Maduro's administration has been in talks with allies in Moscow about ways to circumvent a ban on clients paying state-run oil company PDVSA in U.S. dollars, sources told the news service. Under the scheme,

NEWS BRIEFS

Mexico to Restrict Movement of Central American Migrants

Mexico announced that it will restrict the movement of Central American migrants to the southern part of the country in order to keep them from journeying north to the United States, Agence France-Presse reported Thursday. The National Migration Institute is to distribute “regional visitor cards” that restrict migrants' movement to southern states.

Brazil's Homicide Rate Falls During Beginning of Bolsonaro's Term

The number of homicides in Brazil has continued to fall in the first three months of far-right President Jair Bolsonaro's term, according to preliminary state crime data compiled by Reuters. Between January and March, there were 5,711 murders in 11 of Brazil's 26 states and the federal district around Brasília, down 27 percent from the first quarter of 2018. However, in some states the number of people killed in confrontations with police rose sharply in the quarter. Brazil's homicide rate set a world record in 2017, with 64,000 killed, and had started to fall before Bolsonaro took office.

Chilean State Commission Holds Estimate Steady for Copper Prices

Chilean state copper commission Cochilco on Thursday held its estimate steady for the price of copper at \$3.05 per pound this year, while forecasting only a slight rise to \$3.08 for 2020, Reuters reported. Improving prospects for growth in China and a 208,000 metric ton deficit in the global market for 2019 should buoy prices, Cochilco said. Production this year in Chile, the world's top copper producer, will increase 2.2 percent over 2018 to 5.96 million metric tons, and output in 2020 should hit 6.21 million metric tons, the agency noted.

Rosneft pays PDVSA immediately at a discount to the sale price and collects the full amount later from the buyer, according to documents reviewed by Reuters. Other major buyers of Venezuelan crude such as India's Reliance Industries have been asked to participate in the practice by paying Rosneft for Venezuelan oil, the documents show. Russia has loaned Venezuela almost \$16 billion since 2006, which is being repaid in oil shipments. Russia this month received an overdue debt payment from Venezuela under the terms of a \$3.15 billion restructuring deal agreed to in 2017, Russian news agency Interfax reported this week, citing Finance Minister Anton Siluanov. Venezuela managed to sell about \$400 million in gold this month despite a growing international push to freeze the country's assets, Bloomberg reported last week. In related news, Spanish oil firm Repsol has suspended its swaps of refining products for crude with PDVSA, as U.S. officials weighed new penalties for foreign firms doing business with Venezuela.

Brazil's Participation in Global Economy Falls to 38-Year Low

Brazil's level of participation in the global economy has fallen to the lowest level in 38 years, Folha de S.Paulo reported today. According to data from the International Monetary Fund, Brazil's share of the world's production of goods and services fell to 2.5 percent last year. The data marks the seventh consecutive year of loss for Brazil, South America's largest economy. One of the main reasons for the drop has been China's relative outperformance of other developing nations, according to the report. As with Brazil, other countries of Latin America have also been outrun by rising Eastern economies such as India, Turkey, the Philippines, Vietnam and Malaysia, which have increased their share of the global economy over the same period. Economists say one of the biggest factors behind Brazil's drop has been continued problems with growth, as repeated boom-bust cycles since the 1980s have proven difficult to break. After struggling

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from Mexico; and, third, harm a Mexican industry that accounts for millions of jobs that keep Mexicans at home. A resulting spike in suddenly unemployed workers could easily lead to a recession in the Mexican economy and a renewed flow of undocumented migrants to the United States. The main pressure on Trump not to go ahead with this particular threat comes from the U.S. automotive industry itself, which is lobbying hard to prevent a Section 232 action against Mexico and Canada, but any such decision would also immediately jeopardize Mexican and Canadian ratification of the USMCA."

A Gary Hufbauer, nonresident senior fellow at the Peterson Institute for International Economics: "Trump's threat to impose a 25-percent tariff on auto imports from Mexico serves just one purpose: a splashy headline for the president. He needs such headlines almost daily. Their flavor is that foreigners are abusing Uncle Sam and

“ Trump's threat to impose a 25-percent tariff on auto imports from Mexico serves just one purpose: a splashy headline for the president.”

— Gary Hufbauer

Trump is America's last defense against plunder. These claims appeal to Trump's political base—so the president thinks. The threat is unnecessary to persuade President López Obrador to stem the flow of asylum seekers across Mexico's southern border. The migrants burden Mexico. Stemming their

with its deepest recession in history in recent years, Brazil's economic growth could accelerate to a 3.5 percent annual rate in the second half of the year with the approval of economic

flow is a task for Mexican border police, not trade threats. As for drugs, Mexican presidents have long cooperated with the United States to interdict cocaine and heroin. Auto tariffs would halt ratification of the USMCA both in Mexico and the United States. They would sharply raise new car prices paid by American households and render U.S. auto firms uncompetitive in foreign markets since critical parts are imported from Mexico. These shocks would not help Trump's re-election campaign. A splashy headline, yes; a meaningful policy, no."

A Monica de Bolle, director of the Latin American Studies program at the Johns Hopkins University School of Advanced International Studies: "Under different circumstances and a different U.S. administration, the likelihood of tariffs being imposed on automobiles from Mexico would be low to nonexistent, given the substantial adverse effects that they would have on the three NAFTA countries. Automobiles from Mexico are not 'Mexican,' but rather contain parts and components imported from Canada and the United States, implying that tariffs would have a cascading effect on production costs and consumer prices everywhere in the North American region that could be very damaging. By raising production costs and consumer prices, these levies would hurt jobs across the region and would serve to make North America-produced cars more expensive compared to those produced in other parts of the world, creating problems for competitiveness that NAFTA itself sought and successfully overcame. The threats also have grave implications for the ratification of USMCA. Currently, the negotiated deal includes side agreements that preclude the imposition of tariffs on

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reforms, Economy Minister Paulo Guedes said in an interview this week with TV channel Globonews, Reuters reported. [Editor's note: See related [Q&A](#) in the April 8 issue of the Advisor.]

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automobiles. Trump's threats therefore could reopen a contentious discussion over the treatment of the automobile industry that would endanger the approval of USMCA in all three countries."

A **Pascale Siegel, managing director at Ankura:** "Tariffs of 25 percent on auto and auto parts would hurt U.S. importers first, since they pay the extra duties, and then reverberate throughout the economy. The Auto Alliance recently testified to Congress that tariffs would result in higher prices, declining production, layoffs and reduced competitiveness globally. The Mexican government thinks it insulated itself from such a mercurial move when it negotiated a side letter to the USMCA that exempts a large quota of imports from any 232 measure. The side letter is already in force, which explains the Mexican government's muted reaction. President López Obrador did not comment on the announcement in his daily press conference. The undersecretary for North America, Jesús Seade, said officials were not concerned. Mexican Ambassador to the United States Martha Bárcena said that while Mexico was working to bring order to its border, migration will never be stopped. If the Trump administration reneges on its diplomatic and legal engagement, it will likely amount to a serious breach of trust for Mexico. Bilateral relations will likely sour as a result. Mexico could respond with any combination of the following measures: delay or refuse to ratify the USMCA; challenge the duties under the NAFTA dispute resolution mechanism; challenge the 232 measure at the WTO; and/or impose retaliatory tariffs, most likely on agricultural products. Meanwhile, a year of uncertainty as to whether tariffs will materialize or not and in what form could dampen enthusiasm for investing in the border region, further hurting the very communities the president intends to help."

A **Celeste Drake, trade and globalization policy specialist at the AFL-CIO in Washington:**

"The administration should neither reduce much-needed aid for Central America nor impose auto tariffs to punish Mexico for migration flows. Either move would be a blunder, undermining both trade and immigration policies. This is a critical time for North American trade relations. To improve trade relations that benefit working people in all three countries, the new NAFTA requires several important fixes, including the addition of effective tools to monitor and enforce labor and environmental rules and the elimination of rules that threaten affordable prescription drugs and the ability to create new public interest regulations. Efforts to fix the new agreement would be impaired by the arbitrary application of new tariff barriers. The application of tariffs should be thoughtful and responsible, not stunts aimed to increase anti-immigrant hysteria. The administration should address the root causes of forced migration and advance policies that uplift working people on all sides of the border. Missing from the discussion has been the impact of corporate-led trade rules, as well as the failure of the United States to adequately invest in programs to build democracy, rule of law and robust, inclusive economies in Central America. Instead of treating families seeking safety and security as enemies, the United States should: welcome refugees and asylum seekers and stop sending families into harm's way; end child and family detention; enact trade deals that raise and enforce labor standards; and invest in decent work and worker rights in Central America to reduce the 'push factors' that breed desperation and displace working families."

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