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FEATURED Q&A

Is the USMCA Deal Doomed If Congress Fails to Ratify It?



The leaders of Mexico, the United States and Canada signed the successor to the North American Free Trade Agreement last November, but nearly a year later, only Mexico's lawmakers have ratified the accord. // Photo: Mexican Government.

Q Nearly a year after U.S. President Donald Trump's administration reached a trilateral agreement on the United States-Mexico-Canada, or USMCA, trade pact, the U.S. Congress has yet to ratify the deal. Meanwhile, the U.S. manufacturing sector saw the worst reading in 10 years, and Mexico's manufacturing sector ended the third quarter with its worst performance in eight years, according to an IHS Markit survey. How likely is the U.S. Congress to approve USMCA this year, and what sorts of complications would pushing its ratification into 2020 bring? How are political dynamics affecting the deal's passage? If the trade pact is delayed further, to what extent will North America's manufacturers suffer?

A Jim Kolbe, senior transatlantic fellow at the German Marshall Fund of the United State and former Republican member of the U.S. House of Representatives from Arizona: "When negotiations were completed for the USMCA, most supporters breathed a sigh of relief. Such relief was premature. While Mexico and Canada moved swiftly toward approval, the process soon stalled—or slowed to glacial speed—in the United States. The reason? The convoluted process for approval by Congress requiring agreement on the provisions before the text is submitted to Congress for an up or down vote. With Democrats in control of the House, there are some who don't want to give this president a victory on any trade agreement. For others, there was a genuine concern over the labor provisions and whether the Mexican government's budget was sufficient to ensure adequate enforcement. Fortunately for the USMCA, while much of the administration has

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Ecuador's Moreno Orders Curfew Amid Protests

Ecuadorean President Lenin Moreno ordered a nightly curfew around government buildings and military installations amid continuing protests over his elimination of a fuel subsidy.

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ECONOMIC

CAF Proposing \$400 Mn Credit Line for Venezuela

The development bank is proposing a credit line that President Nicolás Maduro's government will not manage, said opposition leader Juan Guaidó.

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BUSINESS

U.S. Senators Call for Investigation of Brazil's JBS

U.S. Senators Marco Rubio (R-Fla.) and Robert Menendez (D-N.J.) called on the Treasury to investigate the Brazilian meatpacker over alleged ties to Venezuela's government. JBS said it has cooperated with U.S. authorities.

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Rubio // File Photo: U.S. Senate.

POLITICAL NEWS

Ecuador's Moreno Orders Curfew as Protests Continue

Ecuadorian President Lenín Moreno on Tuesday ordered a curfew around government buildings and military installations as violent protests against his austerity measures continued into a sixth day, *El Comercio* reported. The curfew will be in effect nightly between 8 p.m. and 5 a.m. and has exceptions for individuals including police, members of the military, diplomats, medical personnel and emergency crews, the newspaper reported. The protests have led Moreno to temporarily relocate his government to Guayaquil from Quito. On Tuesday, a group of protesters broke through security barriers to briefly enter the National Assembly, where they waved flags and chanted, "We are the people!" Reuters reported. Elsewhere in Quito, demonstrators wielding sticks and throwing rocks fought with security forces who shot back with tear gas. Nineteen civilians and 43 police officers were injured, authorities said. The protests were sparked last week with Moreno's elimination of a decades-old fuel subsidy that costs the government approximately \$1.4 billion annually. Moreno ended the subsidy as part of his government's loan agreement with the International Monetary Fund. Moreno has refused to reinstate the subsidy and told domestic TV channel Teleamazonas that he has no intention of resigning. "Under no circumstance," he said. "I don't see why I should [resign] if I'm making the right decisions." [Editor's note: See related [Q&A](#) in last Friday's issue of the Advisor.]

Colombia's Uribe Testifies Before Supreme Court

Former Colombian President and current Senator Álvaro Uribe on Tuesday testified to the country's Supreme Court as part of a probe into his alleged involvement in witness tampering

and bribery, *El Tiempo* reported. Uribe, who has repeatedly declared his innocence and questioned the court's independence, arrived at the Supreme Court early in the morning accompanied by legislative allies and bodyguards, Reuters reported. He declined to provide a statement to reporters. The private hearing, which one of Uribe's lawyers said could last days, is the first time a former Colombian president has been called to testify before the court, Reuters reported. Uribe could eventually serve time in prison if convicted in the case. The hearing is the latest development in a long-standing feud between Uribe and leftist Senator Iván Cepeda. In 2012, Uribe accused Cepeda of orchestrating a scheme to falsely link him to right-wing paramilitary groups during jail visits to former fighters. However, in February of last year, a court that probes all criminal matters involving lawmakers said Cepeda had not paid or pressured former paramilitaries while gathering information, and it added later that year that the former president's allies had tampered with witnesses even after the February decision, Reuters reported. President Iván Duque said last year that he was certain Uribe's "honor and innocence" would prevail in the case, the wire service reported. On Sunday, hundreds of Colombians took to the streets in some of the country's largest cities, most notably Medellín, in a show of support for Uribe ahead of the hearing, according to Colombia Reports. Uribe thanked demonstrators for their support on Twitter. [Editor's note: See related [Q&A](#) in the Aug. 9, 2018, issue of the Advisor.]

ECONOMIC NEWS

CAF Proposing \$400 Mn Credit Line for Venezuela: Guaidó

Latin American development bank CAF has proposed a credit line to Venezuela of \$400 million, but President Nicolás Maduro's government will not manage it, opposition leader Juan Guaidó said Tuesday. Guaidó, whom dozens of countries recognize as Venezuela's

NEWS BRIEFS

Mexican Senate Approves Medina Mora's Departure From Supreme Court

The Mexican Senate on Tuesday overwhelmingly approved the resignation of Supreme Court Associate Justice Eduardo Medina Mora, who in an unusual move served just four years of a 15-year term, *Excelsior* reported. The factors that led to Medina Mora's resignation are still unclear, although reports in recent months raised questions about transfers to accounts abroad that allegedly exceeded Medina Mora's declared income.

El Salvador Begins Mass Trial of More Than 400 Alleged Gang Members

El Salvador on Tuesday began a mass trial involving more than 400 alleged gang members, including 17 supposed leaders of transnational crime group Mara Salvatrucha, or MS-13, the Associated Press reported. Sixteen suspects attended court while the rest watched via videoconference from prisons. Prosecutors said they took depositions from 150 people, but only 34 are expected to testify.

Brazil Eyes Legislation to Allow Some Accounts in Dollars, Other Currencies

Brazilian President Jair Bolsonaro's government has submitted a bill to the country's lower chamber of Congress to reduce bureaucracy over foreign exchange operations, *Folha de S.Paulo* reported Tuesday. The proposal would allow some Brazilians to have accounts in U.S. dollars and other currencies and would be restricted to segments including tourism service providers. However, it could later be expanded to others, the newspaper reported. The package, which would also allow fintechs to act independently in the foreign exchange market, would repeal more than 100 existing laws, decrees and provisions.

legitimate interim president, told parliament that the proposed loan's aim is to help alleviate the country's five-year recession. Venezuela is facing an unprecedented economic crisis, a political standoff, U.S. sanctions and the exodus of millions of citizens. "Those who don't pay don't get loans," Guaidó said, in reference to the Maduro government, Reuters reported. Guaidó did not specify an alternative arrangement as to who would manage the funds. The Caracas-based CAF in December had approved a \$500-million credit line to Venezuela's central bank, a move that opposition lawmakers criticized for financing a "dictatorship," the wire service reported. CAF did not respond to Reuters' request for comment, and there was no immediate comment from Maduro's government. Also on Tuesday, the U.S. Agency for International Development, or USAID, signed what it called a "historical bilateral agreement" with representatives from Guaidó's administration, which includes an additional \$98 million in aid to the South American country, the Miami Herald reported. USAID said the funds would go toward supporting civil society, human rights organizations and independent media, according to the report.

BUSINESS NEWS

Two U.S. Senators Call for Investigation of Brazil's JBS

Two U.S. senators called Tuesday on the U.S. Treasury to investigate Brazilian meatpacker JBS over alleged ties to the government of Venezuelan President Nicolás Maduro, Reuters reported. In the letter to Treasury Secretary Steven Mnuchin, Senators Marco Rubio (R-Fla.) and Robert Menendez (D-N.J.) asked for the Committee on Foreign Investment in the United States to review JBS' transactions. The Brazilian company, the world's largest meat processor, in recent years has bought several U.S. meat companies. In a statement, JBS said it has cooperated "transparently" with U.S. authorities on "past events" in Brazil.

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been in open warfare with Congress, the USTR—Ambassador Robert Lighthizer—has cultivated a positive working relationship with key Democrat leaders in the House and has been transparent in attempting to resolve Democrats' differences over the provisions. Now, however, the impeachment imbroglio raises another barrier to approval of the agreement. Will the House leadership want to take up a trade agreement in the midst of impeachment proceedings? Will they carve out time to get it done before the end of 2019? If submission of the text or a vote in the House is delayed until 2020, the prospects for passage in an election year will be significantly dimmed. In that event the question is reduced to whether the president attempts to initiate a withdrawal from the existing NAFTA agreement. Were that to happen the consequences for the economies of Canada, Mexico and the United States, the largest three-way trading agreement in the world, are likely to be catastrophic."

A **Arturo Sarukhan, board member of the Inter-American Dialogue and former Mexican ambassador to the United States:**

"The Democratic working group on USMCA recently provided the U.S. trade representative a counteroffer for how to address its concerns, and hopefully the USTR will revert when Congress returns from recess next week. Enforceability of the agreement is undoubtedly at the center of Democrats' worries, and this explains the congressional delegations that have recently traveled to Mexico—including one by Ways and Means Chairman Neal—and AFLO-CIO president Trumka's trip to meet with President López Obrador and discuss Mexico's budgetary commitments to ensuring implementation of the country's landmark new labor law. The problem, however, is that with an even more polarized landscape in Washington as a result of impeachment investigations into Trump's diplomatic malfeasance and political-electoral vandalism, the rhetoric

about Speaker Pelosi now emanating from the Oval Office is clearly unhelpful and counterproductive. That it also aligns with the accusations leveled by GOP Senate and House leaders who—in an effort to pressure the Democratic leadership—have said the speaker was purposely delaying a vote,

“**Enforceability of the agreement is undoubtedly at the center of Democrats' worries...**”

— Arturo Sarukhan

ensures that two wild cards threatening ratification remain in the deck. First, when, or if, the agreement will be ratified, depends heavily on the speaker's willingness—and electoral calculations—to bring it up for a vote. Clearly, she understands that Democrats cannot afford to be seen as the responsible party for USMCA's defeat, particularly in states that they will either need to win or remain competitive in for 2020. Why alienate her and scupper the possibility of a potential early November vote? Second is President Trump's willingness to announce a withdrawal from NAFTA as a means of pressuring Congress to act. While the president has been silent on the issue of late, this gambit is still on the table, particularly if USMCA implementation legislation doesn't reach Congress in the next two to three weeks."

A **Michelle DiGruttolo, senior managing director, and Miyako Yerick, senior associate, both at Ankura Consulting Group:**

"The USMCA is stalled in the U.S. Congress, but the House has little incentive to move it along. The dynamics around the impeachment inquiry are already affecting talks, and pundits argue that impeachment could drain all the political energy in Washington, leading to legislative paralysis. Vice President Pence has already begun campaigning on

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the message that the 'Do Nothing Democrats' are stalling important legislation such as USMCA, hoping it resonates in areas that Trump won in 2016. But, given that the Democrat-controlled House has already passed more than 50 bills, including a budget, they have little political incentive to ratify the agreement that would give Trump a win. They will likely counterspin the message and make it about Mitch McConnell's 'Grim Reaper' persona in the Senate graveyard, where bills go to die. As long as Democrats feel they have the upper hand, they will continue to stall, and the USMCA will creep along at glacial pace. The Mexican government released an initial budget last month that decreases previous spending levels for labor rules enforcement, making it even more unlikely it will pass this year. Further speculation as to the diminishing likelihood of passage is the fact that we have seen no resolution on environment rules or prescription drug provisions. Both Democrats and Republicans have said that if the USMCA does not get passed by November or December of this year and gets pushed to 2020, ratification is unlikely until after the election, and then passage would depend on who is elected president."

A **Tamara Kay, associate professor of Global Affairs and Sociology at the University of Notre Dame's Keough School of Global Affairs:** "With an impeachment inquiry underway in the U.S. House of Representatives, U.S. and Mexico manufacturing faltering and President Trump's trade war with China and other countries creating economic and political instability, the likelihood that the U.S. Congress will pass the USMCA this year is dwindling. The primary reason the NAFTA reboot will likely not see the light of day is political. House Speaker Pelosi

and the Democrats do not want to hand President Trump a victory on NAFTA before the 2020 elections. If Trump doesn't deliver on NAFTA, the Democrats' mantra going into 2020 is that the president, who promised to renegotiate or terminate NAFTA and who claims to be a great dealmaker, failed. But given the political turmoil and damage this administration is wreaking on the nation, the Democrats may also be gambling on the possibility that the Republicans will lose the

“**The primary reason the NAFTA reboot will likely not see the light of day is political.**”

— Tamara Kay

presidency and possibly even the Senate in 2020. If that happens, they will be in a much better position to renegotiate a significantly stronger NAFTA revision than the current USMCA. Although the Democrats are using the USMCA as a political football, their concerns about its current form are real. For more than 25 years, key Democrats, labor unions and environmental and consumer organizations have advocated for a fair trade policy that incorporates 'swift and certain enforcement' of labor and environmental standards in trade agreements. The USMCA's enforcement provisions are sorely lacking. Moreover, the USMCA would allow pharmaceutical companies to price-gouge consumers for medicine. If Democrats gain control of the White House and Senate, the political dynamics of a revised NAFTA would shift dramatically."

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

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Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter
achacon@thedialogue.org



Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

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