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FEATURED Q&A

Are Brazil & the U.S. on a Fast Track to Closer Trade Ties?



Presidents Donald Trump (L) and Jair Bolsonaro met in Florida last March. // File Photo: Brazilian Government.

Q Brazil and the United States this month signed a limited pact that is expected to ease trade barriers, strengthen regulatory practices and fight corruption, according to officials from both countries. However, it is unclear to what extent the new deal will actually increase trade between the two nations, given its limited scope. What are the motivations behind the deal, and what does each country stand to gain from it? How will the United States' offer to finance the deployment of 5G technology in Brazil play out, especially in terms of U.S.-China competition? Is the limited trade pact likely to be expanded in years ahead, and how might the outcome of U.S. presidential and congressional elections next month influence that?

A Francisco Sánchez, partner at Holland & Knight and former U.S. Under Secretary of Commerce for Trade: "On Oct. 19, the United States and Brazil signed a 'mini' trade deal that addresses trade facilitation, customs administration, regulatory practices and anti-corruption. The deal did not address the most important question facing U.S.-Brazil economic relations: commodity tariffs. The deal appears to be a diplomatic step to keep the door open for a broader one, even though that is unlikely. Right now, the mini deal is the most that Trump can do without Democratic support in Congress. In Brazil, Bolsonaro is bound by Mercosur, a regional common market deal, which would have to be renegotiated for Brazil to seek a free trade agreement with the United States. The limitations of the deal may prove to be a missed opportunity for the United States as it competes with China to influence the future of Brazil's IT infrastructure. Through a

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TODAY'S NEWS

POLITICAL

Brazil Plans for June Rollout of Covid-19 Vaccine

The head of the country's health regulator, Anvisa, told Reuters in an interview that although the agency has not yet decided on the minimum efficacy needed for the vaccine, in the past it has approved some with less than 50 percent effectiveness.

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POLITICAL

Argentine Police Demolish Camp of Squatter Families

At least six officers were injured and some 30 people were arrested in the police action. Hundreds of poor families had been living makeshift homes on the contested land for more than three months.

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ECONOMIC

Paraguay Names Llamosas as New Finance Minister

Economist Óscar Llamosas has been selected to be Paraguay's new finance minister. He formerly served as director of the Treasury.

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Llamosas // File Photo: via Twitter @OscarLlamosas.

POLITICAL NEWS

Brazil Plans for June Rollout of Vaccine

Brazil plans to have a vaccine against Covid-19 approved and ready for use in a national inoculation program by June, the head of the country's health regulator, Anvisa, said on Thursday. Antonio Barra Torres told Reuters in an interview that although Anvisa has not yet decided on the minimum efficacy needed for the vaccine, in the past the agency has approved some with less than 50 percent effectiveness. European health authorities are currently debating whether or not to accept an



Pazuello // File Photo: Brazilian Government.

efficacy rate of less than 50 percent in order to be able to begin vaccination programs sooner, The Wall Street Journal reported this week. Torres' comments come days after Brazilian President Jair Bolsonaro suggested his country needed a cure for the novel coronavirus rather than a vaccine. "I'll give my personal opinion: Isn't it cheaper and easier to invest in a cure rather than a vaccine?" Bolsonaro told supporters outside the presidential palace on Monday. Last week, Bolsonaro also rejected the idea of buying potential Covid-19 vaccines from Chinese companies, BBC News reported. "We will not buy a Chinese vaccine," Bolsonaro tweeted, just a day after Health Minister Eduardo Pazuello had announced a deal between the federal government and São Paulo state to buy 46 million doses of the Chinese-developed vaccine, CoronaVac. The Butantan Institute in São Paulo is currently testing CoronaVac, and the state's governor, João Doria, a staunch critic of Bolsonaro, has said an immunization program could begin there as soon as January.

[Editor's note: See the Advisor's [interview](#) on vaccine nationalism with Arachu Castro of Tulane University.]

Police in Argentina Clash With Squatters Occupying Property

Police forces in Argentina on Thursday clashed with a group of squatters while evicting them from makeshift homes on occupied land in the town of Guernica, the Associated Press reported. At least six officers were injured, and some 30 people were arrested. Hundreds of poor families had been living in makeshift homes on the contested land for more than three months. The owners of the occupied field in Guernica had gone to court to reclaim their private property. Photos from the Associated Press showed police firing rubber bullets and later using heavy machinery to destroy shanties made of cardboard, plastic tarps and sheet metal. On Twitter, President Alberto Fernández denied direct involvement in the evictions, Clarín reported. "Obviously, as President of the Nation, I am attentive to everything that happens in our country. But since we are a Federal State, this type of conflict is resolved by the provincial governments," Fernández said in a tweet. Some 600 families had previously signed an agreement with authorities to leave the property in exchange for money to pay rent.

ECONOMIC NEWS

Samsung Secures \$3.6 Billion Deal for Mexican Refinery

South Korea-based Samsung Engineering said today its consortium has secured a \$3.6 billion deal to build refinery facilities in Mexico, Yonhap News Agency reported. The company said it has received a letter of intent from PTI Infraestructura de Desarrollo, a subsidiary of Mexican state-owned oil company Pemex, for

NEWS BRIEFS

Paraguay's President Names Llamosas as Finance Minister

Paraguayan President Mario Abdo Benítez on Thursday appointed economist Óscar Llamosas as the country's new finance minister, Reuters reported. A former Treasury director, Llamosas will oversee Paraguay's economic recovery plan. The nation's GDP is expected to contract just 1.5 percent this year, buoyed by strong growth in the agriculture sector despite a deep regional recession, according to central bank head José Cantero. [Editor's note: See related [Q&A](#) in the Aug. 17 issue of the Advisor.]

Ecuador Regulator Rejects Repsol Asset Sale Plan

Ecuador will reject Spanish oil firm Repsol's planned sale of its assets in the Andean nation to Canada's New Stratus Energy, Energy Minister René Ortiz said on local radio Thursday, Reuters reported. The Calgary-based company said last week that it had signed a letter of intent to buy Repsol's stake in two upstream oil blocks in Ecuador, and another stake in OCP Ecuador, which operates the country's heavy crude pipeline. Ortiz said New Stratus did not meet technical and financial requirements.

Venezuela Charges Opposition Coordinator With Financing Terrorism

Venezuelan chief prosecutor Tarek William Saab said Thursday in a televised address that Roland Carreño, the coordinator of opposition leader Juan Guaidó's Popular Will party, had been charged for alleged "terrorist financing" and conspiring to destabilize the country. Saab said earlier this week that Carreño had been arrested, just hours after Guaidó denounced the coordinator's "disappearance" on Twitter. The U.S. National Security Council said on Thursday that Carreño's arrest was proof of "the Maduro regime's corruption and brutality."

the Dos Bocas refinery project on Mexico's southern Gulf Coast. The refinery will have a daily processing capacity of 340,000 barrels of crude oil per day. Mexican Energy Minister Rocío Nahle said this month that construction of the new refinery, which started in June 2019, was almost a quarter completed, Reuters reported. The government has said it aims to finish the \$8 billion project by 2022. Investors and ratings agencies have criticized the project, arguing that resources should go instead to more profitable parts of Pemex. "President López Obrador's pet projects (including the Mayan Train and the Dos Bocas Refinery) are not the way to energize and protect the economy. Those investments could be better used to help small businesses and independent professionals to survive," Wolfram Schaffler González at Texas A&M International University told the [Advisor](#) in May.

BUSINESS NEWS

Western Union Posts Lower Q3 Revenue in Latin America

Denver-based money transfer company Western Union said Thursday its third-quarter revenue of \$1.3 billion improved substantially from the previous quarter but declined 4 percent as compared to the prior year period. The figure includes a 1 percent benefit from inflation in Argentina. As the coronavirus pandemic raged around the world, digital revenue at the company grew 45 percent to a new quarterly high of more than \$230 million. "The decline in revenue reflects the continuing macroeconomic impact from Covid-19, offset by improving consumer money transfer fundamentals," the company said in an earnings release. Transaction growth was led by Europe and CIS (Russia), the company's U.S. outbound business and the Middle East, partially offset by declines in domestic money transfers in the United States, as well as business in Latin America and the Caribbean, where regional transactions are down 23 percent year-to-date.

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memorandum of understanding, the United States is offering Brazil \$1 billion to walk away from a 5G network deal with Huawei, but that is probably not enough. China is now Brazil's largest trading partner and has committed to investing billions of dollars in factories and infrastructure. The upcoming U.S. election is poised to slow any groundbreaking U.S.-Brazil economic deal. A Biden administration would likely focus on valid concerns over Bolsonaro's poor record on human rights and environmental destruction. If Trump retains office, he will probably still not have the congressional support he needs for a broader deal. With so much uncertainty, do not expect the mini deal to change much in the short term."

A **Jim Kolbe, senior transatlantic fellow at the German Marshall Fund of the United States and former member of the U.S.**

House of Representatives (R-Ariz.): "The trade protocol that the United States and Brazil signed on Oct. 19 should not be confused with a trade 'agreement' or even a trade 'pact.' It is an outgrowth of the conversations between Presidents Trump and Bolsonaro last March. It covers provisions on trade facilitation, customs administration and good regulatory practices, among other areas. In the area of trade facilitation, for example, it encompasses advance rulings to settle disputes, setting levels for penalties and automation questions. But none of this is enshrined in law. The protocol neither requires nor provides for congressional approval nor contains enforcement provisions. Notably, no tariffs rates currently in effect in either country are affected or changed. The motivation for the protocol seems to be two-fold: first, to draw Brazil away from an increasingly expanding trade and investment relationship with China, and second, to demonstrate President Trump's support for a Latin American leader with an autocratic streak. While it could be a launching pad for deeper, more far-reaching agreements in a

number of areas, further advances will almost certainly depend on the outcome of the election in a few days. Both the chairman of the House Ways and Means Committee and its Trade Subcommittee have denounced the agreement, citing Brazil's dismal record on human rights and the environment, and the administration's circumvention of Congress in reaching it. In the event of a Democrat sweep of Congress and the White House, it is hard to imagine a Biden administration moving forward to expand the boundaries of this agreement. The bottom line is that the U.S.-Brazil protocol is unlikely to affect the economic relationship in any significant way and is not likely to provide a template for agreements with other countries or a path to deepen the U.S.-Brazil relationship."

A **Renata Amaral, co-director of the certificate program on the WTO and U.S. trade law at American University's Washing-**

ton College of Law: "The protocol updates the 2011 Agreement on Trade and Economic Cooperation (ATEC) with three new provisions on customs administration and trade facilitation, good regulatory practices and anti-corruption. Although it has been called a 'trade package,' it's not a trade agreement per se and has limited scope (and it does

“ **Brazil's government clearly expects to expand ATEC to a broader trade agreement in upcoming years.**”

— Renata Amaral

not include tariffs reduction). But ATEC allows engagement on a wide range of issues that affect business, and there is great value in terms of easing bilateral trade and investments, through commitments to historical demands from the private sectors of both countries in terms of automation

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of customs, greater previsibility of regulations, adoption of uniform standards and anti-corruption practices. Brazilian exports to the United States are expected to increase 7.8 percent with better regulation cooperation and coherence. The protocol does not require U.S. congressional approval, but it will need approval by the Brazilian Congress before entering into force. Brazil's government clearly expects to expand ATEC to a broader trade agreement in upcoming years. On the U.S. side, the upcoming elections might affect the protocol's expansion to a trade agreement, as U.S. priorities in terms of future trade deals could significantly change. Additionally, the Export-Import Bank of the United States (EXIM) announced it had signed an MOU with Brazil's Economy Ministry to explore and identify potential opportunities for EXIM financing of more than \$1 billion. This comprises facilitation of financing related to the deployment of 5G technology in Brazil, which directly affects Chinese interests in the country. The center of the dispute is Huawei. The United States is trying to get Brazil to exclude China from the upcoming 2021 bid. Both sides of the dispute suggest that Brazil could suffer sanctions depending on how the government decides to position itself."

A Peter Hakim, president emeritus of the Inter-American Dialogue: "The U.S.-Brazil trade facilitation agreement is a modest, but constructive advance for the sluggish commercial relationship between the two countries. A quick surge of trade or investment flows, however, is not in the cards. Sharp policy disputes sank, in 2005, a decade of hemisphere-wide trade talks, co-chaired by the two nations. Limited trade deals that Brazil subsequently negotiated with the Bush and Obama administrations never took hold. With an economy in dismal shape, Brazil would surely benefit from more

robust trade and financial relations with the United States—its second-largest trading partner, the main market for its manufactured goods and its largest foreign investor. And President Bolsonaro is personally and politically invested in a close political bond with Donald Trump. The U.S. stake is smaller. Sure, Washington welcomes Brasília's steadfast support on international matters, but its highest priority is a cooling of Brazil-China ties, and firm backing for the

“Overall, Brazil sells twice as much to China as it does to the United States, and Chinese investment continues to climb.”

— Peter Hakim

United States in its rivalry with the Asia Giant. That comes with a high price for Brazil. Its debilitated economy now depends on China, and so does the president's political future. Brazil's agro-business sector, a crucial ally of Bolsonaro, sends 80 percent of its exports to China. Overall, Brazil sells twice as much to China as it does to the United States, and Chinese investment continues to climb. China aside, expanding U.S.-Brazil trade will require policy changes that both nations have long rejected. Brazil will have to abandon a raft of protectionist measures and reshape its difficult business environment. And negotiations take time. Minor alterations in the 25-year-old NAFTA accord took three years. Brazil and the United States start from scratch. A Biden administration, with concerns about the environment and labor rights, will be an even more demanding negotiating partner."

[Editor's note: See related [Q&A](#) in the May 28 issue of the Advisor.]

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