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FEATURED Q&A

Is There Any Hope for the E.U. Trade Deal With Mercosur?



The trade agreement between the European Union and Mercosur is on the verge of collapse. // File Photo: Argentine Government.

Q The landmark free trade deal between the European Union and the Mercosur trade bloc, which consists of Brazil, Argentina, Paraguay and Uruguay, is on the verge of collapse after Austria announced this month that it will block the agreement out of concern over the deal's environmental effects. Other E.U. member states and civil society organizations across Europe and South America have also called for the agreement's disposal. Why are European nations so cautious of ratifying the agreement, and is it likely to be scrapped altogether? What other markets can Mercosur look to as an alternative, and how can the bloc leverage close ties with China and the United States, both of which are enjoying strong economic recovery, to create new trade and investment opportunities? To what extent do member countries have competing priorities, and what collaborative steps can the bloc take during its scheduled virtual summit on Friday and in the future, to boost regional economic recovery?

A Jon E. Huenemann, member of the Advisor board, council member of GLG Inc. and former assistant U.S. trade representative: "The E.U.-Mercosur situation comes as no surprise for longstanding and emerging reasons. An underlying anxiety in the European Union has always surrounded agriculture. The environmental maelstrom regarding the Amazon is another political obstacle. Moreover, E.U. political calendars and trends also complicate matters. I would expect the European Union to position itself by doing what it is doing and pursue more disciplines with Mercosur driven by E.U. politics. That is never easy, no less with emerging agriculture economies

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TODAY'S NEWS

POLITICAL

Brazil's Death Toll From Covid Passes 300,000

Brazil on Wednesday became the second country in the world, after the United States, to exceed more than 300,000 recorded deaths from Covid-19. The previous day, the country hit a record number of daily deaths.

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ECONOMIC

Argentina Cannot Pay \$45 Billion it Owes IMF: VP

Argentina is unable to repay the \$45 billion that it owes the International Monetary Fund, said Vice President Cristina Fernández de Kirchner.

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POLITICAL

Harris to Lead U.S. Efforts to Stem Flow of Migrants

U.S. President Joe Biden tapped Vice President Kamala Harris to lead the administration's efforts to stem the flow of migrants arriving at the country's border with Mexico.

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Harris // File Photo: White House.

POLITICAL NEWS

Brazil's Death Toll From Covid-19 Surpasses 300,000

Brazil on Wednesday became the second country in the world, after the United States, to record more than 300,000 deaths from Covid-19, the Associated Press reported. The country's health ministry reported 2,009 daily deaths from the disease, bringing its total to 300,685. The previous day, the country hit a daily record of 3,251 deaths. A local variant of the novel coronavirus, which is believed to be more contagious than a previously circulating version, has spread in Brazil and has been detected in other countries, as well. Recently reported figures from the health ministry may have been affected by changes in the way the government tallies the statistics, according to local media reports. Brazil's newly appointed health minister, Marcelo Queiroga, told reporters that he would look into whether the numbers had been artificially lowered, the AP reported. President Jair Bolsonaro, who has repeatedly downplayed the severity of the pandemic, on Wednesday announced he was launching a new committee to address the crisis, Agence France-Presse reported. Bolsonaro met with the heads of both chambers of Congress, the Supreme Court chief justice, the central bank chief, most of his cabinet members and six of the country's governors. "The prevailing sentiment was solidarity and the commitment to minimize the effects of the pandemic," said Bolsonaro, AFP reported. "Life comes first." Bolsonaro said Senate leader Rodrigo Pacheco would head a coordinating council and that he himself would convene a crisis committee that would meet every week. Brazil's escalating death toll and Bolsonaro's minimizing of the pandemic have led to mounting criticism of the president. Newspaper Folha de São Paulo accused Bolsonaro of "lying" when he said his government has tirelessly worked to fight Covid-19. "For 12 months, Bolsonaro minimized the pandemic, promoted crowds, spoke out against mask use and halted talks to secure vaccines," it said.

Thousands Flee Venezuela Amid Border Clashes

Thousands of Venezuelan civilians have fled to Colombia in recent days as violent clashes between Venezuela's armed forces and illegal armed groups continued on Wednesday, Bloomberg News reported. More than 3,100 Venezuelans have crossed the border "in a forced manner" since the fighting exploded this week, Colombia's foreign affairs ministry said on Twitter. The government of Venezuelan President Nicolás Maduro has accused Colombia of supporting illegal activities of "criminal groups" at the countries' shared border, including those involved in drug trafficking and illegal mining. Maduro's government alleges the armed groups have attacked civilians as well as electrical and oil infrastructure.

Haitian Court Frees Moïse Opponents Accused in Plot

An appeals court in Haiti on Wednesday freed more than a dozen people accused of attempting to stage a coup against President Jovenel Moïse, the Associated Press reported. The individuals were arrested in early February. They included a judge and a police inspector general. The arrests led to a wave of protests by opposition leaders. Authorities detained the judge despite his having immunity from prosecution, and he was soon released even though the others remained jailed. Moïse alleged at the time that members of the group were planning to kill him and topple his government. The people who were arrested denied the accusation. André Michel, an opposition leader who led recent protests against the president, told the AP that the people who were arrested had not been released by early afternoon. The wire service was unable to immediately reach representatives of Moïse's government for comment. Moïse's tenure has been tumultuous since he took office in February 2017.

NEWS BRIEFS

Biden Taps Harris to Lead U.S. Efforts to Stem Flow of Migrants

U.S. President Joe Biden on Wednesday assigned Vice President Kamala Harris to lead the administration's efforts to stem the flow of migrants heading to the United States, The Hill reported. Harris is "the most qualified person to do it, to lead our efforts with Mexico and the Northern Triangle and the countries that are going to need help in stemming the movement of so many folks, stemming the migration to our southern border," said Biden. [Editor's note: See related [Q&A](#) in the March 12 Advisor.]

Mexico Eyeing Larger Role in Production of Lithium: López Obrador

The Mexican state is considering a bigger role in lithium production, President Andrés Manuel López Obrador said Wednesday during a conference alongside his Bolivian counterpart, Luis Arce, Reuters reported. In response to question about mining companies selling stakes in lithium projects in Mexico despite the government's halt of new concessions, López Obrador claimed companies are using mining concessions for speculation rather than mining the metal.

Canadian Miner in Talks Over Labor Dispute at Mexico Project

Canadian miner Americas Gold and Silver Corp. announced on Tuesday that it had engaged in talks with senior Mexican officials in an effort to resolve a labor dispute at one of its mines in the Mexican state of Sinaloa, Reuters reported. Mexican President Andrés Manuel López Obrador last week said the mining company could have its concession revoked if it did not accept new trade union representation in Sinaloa. The firm said it had been subject to "extortion and organized crime" at its San Rafael mine.

The country has seen mass protests, political gridlock and gas shortages, CNN reported. But the country is planning a vote later this year on overhauling the constitution, as well as a general election. [Editor's note: See related [Q&A](#) in the Jan. 25 issue of the Advisor.]

ECONOMIC NEWS

Argentina Cannot Pay \$45 Bn it Owes IMF: VP Fernández

Argentina is not able to repay the \$45 billion debt it owes to the International Monetary Fund under current negotiating conditions, Vice President Cristina Fernández de Kirchner said on Wednesday, as government officials met with IMF representatives in Washington this week, Bloomberg News reported. "We can't pay because we don't have the money to pay," Fernández said during an event in Buenos Aires, describing the terms and conditions as "unacceptable." Her remarks followed a Tuesday meeting between Argentine Economy Minister Martín Guzmán and IMF Managing Director Kristalina Georgieva, both of whom described the discussion as a "very good meeting." "Our teams are working together constructively to help strengthen economic stability, protect the vulnerable and promote sustainable growth," Georgieva said in a tweet following the meeting. "Our close dialogue will continue." Fernández, who during her time as president 2007 to 2015 also battled with creditors, reportedly wants to delay a deal with the IMF until after the Covid-19 pandemic has eased, Bloomberg News reported last month. Such a delay would also shield the government from implementing tough austerity measures before the country's midterm elections in October. "For the sake of macroeconomic stability, it would be much better to have a program agreed upon before the midterm elections," Claudio Loser, president of Centennial Group Latin America and former head of the Western Hemisphere department at the IMF, told the Advisor in a [Q&A](#) published Feb. 25.

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at variance with the European Union in their willingness to reorient development to meet E.U. demands. At the same time, Mercosur's options looking elsewhere for agreements are also not easy. The combination of the U.S.-China dynamic, not to mention the larger global dynamic and Mercosur's own endless internal meddling, makes a path forward unclear. The good thing is that economic growth in both the U.S. and Chinese 'engines' are resuming. Brazil's interest in building a more formed relationship with the United States is a potential catalyst, but the new U.S. administration and Congress are occupied and have not shown interest in this catalyst. As with the European Union, the politics of agriculture also are vexing, as is climate. A message of Mercosur's embrace of sustainability/climate and rational economic policy coming from its March summit would be good. However, an overt reach to China in the absence of such a good Mercosur step would raise big questions. In short, we are looking at a wasteland at present of strategic imminent Mercosur trade deals."

A Allison Fedirka, director of analysis at Geopolitical Futures: "The European Union and Mercosur face markedly different geopolitical realities compared to when FTA talks started in 1999. Mercosur never developed into a functional common market that balanced power between Argentina and Brazil. From this perspective, the bloc is defunct. Brazil has outgrown Mercosur; its economy and population now overshadow all others in the bloc. For this reason, Brasília regularly seeks more flexibility for negotiating deals with third parties. Argentina's economic malaise has prompted it to recoil from free trade, and it removed itself from Mercosur's future FTA talks last year. Members' competing interests and regulations greatly restrict Mercosur's ability to leverage trade and investment opportunities from other places such as the United States

and China. The question of environmental effects is the latest of many obstacles that have prevented an agreement over the last 20 years. For the European Union, the Amazon symbolizes a commitment to long-term energy, finance and infrastructure strategies that serve as the foundation for the European Union's multiannual budget for 2021 to 2027. The European Union is motivated to publicly speak in favor of environmental causes so as not to undermine the bloc's fundamental strategies. Brazil cannot compromise on the Amazon due to security concerns. How much the European Union needs Mercosur is also in question as Brussels seeks to recover trade ties with the United States. Through it all, the European Union and Mercosur have continued to trade with and invest in one another, and they will continue to do so with or without an FTA."

A Elena Lazarou, associate fellow in the U.S. and the Americas Program at Chatham House:

"As the E.U.-Mercosur agreement enters the ratification phase, NGOs, civil society organizations and increasingly parliaments in E.U. member countries are opposing the deal. This reflects three elements. First is the dissatisfaction with the deregulatory environmental policies of the government of Brazilian President Jair Bolsonaro and with its attitude toward deforestation, illegal logging and biodiversity. This has raised serious concerns about compliance with the relevant provisions of the agreement and is in stark contrast with the E.U. Green Deal targets to achieve climate neutrality and to promote the fight against climate change globally. Second, the former occurs as the European Union steps up its ambition to incorporate values in trade agreements, and to further use FTAs as vehicles to promote standards on labor and human rights, on the environment and on sustainable development. Finally, concerns about the deal being a 'lost opportunity' reverberate as studies conclude that the im-

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pact of the deal on sustainable development may not have been adequately assessed ahead of the deal and that more solid environment, societal and sanitary guarantees could have been pursued. Beyond environmental concerns, others have criticized the deal as a 'cars for cows' exchange favoring only certain sectors on each side—with a possible boost in agricultural activity in Mercosur also perceived as a potential root of further deforestation. While the future of the agreement is looking uncertain, there is significant value to be reaped if concerns about the above issues are addressed. Apart from being the biggest trade deal ever negotiated by the European Union, the deal could potentially support both sides in the recovery from the economic consequences of the ongoing pandemic. The European Union is Mercosur's key trading and investment partner and a like-minded partner in areas of multilateral interest. While China has undoubtedly expanded its economic reach in the region, the space for political engagement with China is limited. With a new administration in Washington, which favors democracy, transatlanticism and climate multilateralism, compliance with the standards of the deal would be a positive move for the region's relations with both the European Union and the United States."

A **Thomas Andrew O'Keefe, president of Mercosur Consulting Group:** "The announcement in late June 2019 that the European Union and Mercosur had concluded a trade agreement after more than two decades of negotiations was a surprise given continued opposition from many in the European agricultural sector, which had always been a bottleneck to a trade deal. The agreement appeared as an attempt

to reassert the global importance of both trade blocs, particularly after Brexit. The accord's sustainable development chapter, however, always seemed like a poison pill that could be cynically exploited to scuttle eventual ratification of the E.U.-Mercosur deal. Among other things, it requires Brazil to stop illegal deforestation in the Amazon.

“**If the E.U.-Mercosur agreement is not ratified, it is unlikely to incentivize negotiating a free trade agreement between the United States and Mercosur.**”

— Thomas Andrew O'Keefe

The Bolsonaro administration has done the opposite. This has allowed France and Ireland, whose farmers rely on high tariff protection and subsidies, to use protection of the world's largest natural carbon sink as reason for opposing the trade agreement. Austria's opposition is a bit disingenuous as it is premised on the sustainability chapter not going far enough to protect the environment and combat climate change. If the E.U.-Mercosur agreement is not ratified, it is unlikely to incentivize negotiating a free trade agreement between the United States and Mercosur. The more likely scenario is increased trade and investment with China, further displacing Europe's traditional leading role in both areas in South America's Southern Cone."

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

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