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FEATURED Q&A

Can the Mercosur Alliance Modernize Without Unraveling?



The government of Uruguayan President Luis Lacalle Pou recently announced that the country would seek trade deals outside the Mercosur bloc. // File Photo: Uruguayan Government.

Q Uruguay's government recently roiled its partners in Mercosur by announcing that it would seek bilateral trade deals outside the customs union, which also includes Brazil, Argentina and Paraguay. Uruguay reiterated that it remains a full member of Mercosur, but its announcement broke with two decades of precedent during which Mercosur has required approval from the bloc if any member wants to strike trade deals with nonmember countries. What are the reasons behind Uruguay's move, and how will it affect Mercosur? Which countries will Uruguay target for trade deals, and which sectors in Uruguay will see the most benefits? How are the political leanings of the Mercosur member countries playing a role in the tensions, and will upcoming elections, notably next year in Brazil, change dynamics within the bloc?

A Allison Fedirka, director of analysis at Geopolitical Futures: "Mercosur stifles the ability of member countries to engage in free trade agreements, and the bloc's utility has been in question for years. Uruguay's decision to strike its own bilateral trade deals reflects its need for flexibility and control, two critical abilities for a country to have in managing its trade relationships and which Uruguay did not have. Montevideo seeks agreements that not only allow it to prioritize the country's needs but also to finalize agreements in a timely manner. It has its eyes set on the world's major economies—the United States, China, Japan, India, Britain, Turkey and Russia—that it has been unable to seriously engage under the confines of Mercosur. Uruguay's decision is in line with the bloc's devolution. In 2018,

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TODAY'S NEWS

POLITICAL

Top Haitian Security Official Arrested in Probe

Haitian authorities arrested Jean Laguel Civil, a top security official for slain President Jovenel Moïse. Civil's attorney said his client's arrest was politically motivated.

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POLITICAL

Warring Factions of Mexico's Gulf Cartel Announce Truce

Three factions of Mexico's Gulf drug cartel announced that they have entered a truce. They made the announcement via printed banners that were hung in the border city of Reynosa and other towns in Tamaulipas state.

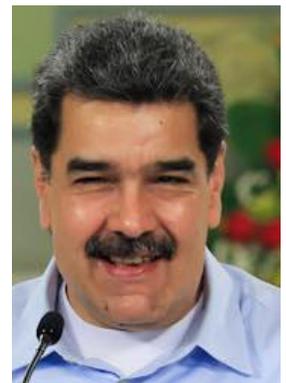
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POLITICAL

Maduro Says He's Ready for Talks With Opposition

Venezuelan President Nicolás Maduro said he is ready for talks with the country's opposition, which are set to begin next month in Mexico.

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Maduro // File Photo: @NicolásMaduro via Twitter.

POLITICAL NEWS

Top Haitian Security Official Arrested in Assassination Probe

Haitian authorities on Monday arrested a top security official for late Haitian President Jovenel Moïse in connection with the slain president's assassination, the Associated Press reported, citing the man's attorney. Jean Laguel Civil is among more than two dozen people who have been arrested in connection with Moïse's July 7 assassination. Civil's attorney, Reynold Georges, called the arrest politically motivated, the AP reported. It was unclear on Monday whether Civil had been charged. Civil's arrest happened as more than 1,000 demonstrators rallied around gang leader Jimmy Cherizier, a former police officer who now heads the so-called "G9" federation, a group of nine gangs that police blame for a rise in kidnappings and violence this year. "Everyone needs to wait on my order before we respond to the killing of Jovenel Moïse," Cherizier, who goes by the nickname "Barbecue," told supporters. Haitian officials have vowed to pursue those responsible for Moïse's assassination. "An investigation is underway by the Haitian National Police, Department of Justice and all relevant ministries to ensure that the culprits of this heinous crime are brought to justice," Haitian Ambassador to the U.S. Bocchit Edmond told the Advisor in a [Q&A](#) published July 9.

Warring Factions of Mexico's Gulf Cartel Announce Truce

Three factions of Mexico's Gulf drug cartel announced Monday that they have entered a truce, the Associated Press reported. The warring factions made the announcement via printed banners that appeared in the border city of Reynosa and other towns in Tamaulipas state, police said. "We hereby inform all the citizens of the state that today, July 19, we agree to a

truce of tranquility and we stand in solidarity with the people and with coherent principles and ideologies that generate peace," read one of the banners, according to photographs, Infobae reported. The banners were printed in red, white and green, the colors of the Mexican flag, and some included slogans such as "Long live peace!" State authorities said four people had been arrested under suspicion of putting up the banners in buildings or overpasses in more than six cities across Tamaulipas, including Padilla, Matamoros and near the U.S. border in Río Bravo, Infobae reported. Three factions of the Gulf cartel that have been engaged in a decade-old turf war, the Metros, the Scorpions and the Reds, signed the banners. It was unclear whether a fourth faction known as the Cyclones was part of the peace agreement, the AP reported. The announcement came slightly more than a month after a 15-person massacre in Reynosa allegedly carried out by the Gulf cartel, Infobae reported.

BUSINESS NEWS

Attorney Who Fought Chevron in Ecuador Case Is Convicted

Steven Donziger, a disbarred attorney from the United States, on Monday was found guilty of six counts of criminal contempt of court in the latest development of a nearly three-decade case against oil company Chevron in Ecuador, The Wall Street Journal reported. Judge Loretta Preska of the U.S. District Court for the Southern District of New York found Donziger guilty, writing in an order issued Monday that "it's time to pay the piper." Donziger, who has spearheaded the fight against Chevron over pollution in the Amazon, has been under house arrest for nearly two years awaiting trial over charges that he repeatedly neglected court orders. Preska said the contempt case is unrelated to any responsibility Chevron might bear regarding accusations of environmental harm by the company's predecessors in the Andean nation's jungles. Chevron has repeatedly denied any

NEWS BRIEFS

Venezuela's Maduro Says He's Ready for Talks With Opposition Next Month

Venezuelan President Nicolás Maduro said he expects to begin a dialogue with the opposition in August, expressing hopes that the United States would embrace the talks, Reuters reported Monday. The negotiations are set to begin next month in Mexico, with Norway acting as an intermediary. High-level officials from the United States, the European Union and Canada said last month that they would be willing to review sanctions against Maduro's government if there was significant progress toward free and fair elections in Venezuela.

Mexico Signs Deal With U.S. FAA in Hopes of Recovering Safety Rating

Mexico has inked a deal with the U.S. Federal Aviation Administration, or FAA, with the hopes of recovering its Category 1 air safety rating, Mexico's ministry of communications and transportation said on Monday, Reuters reported. FAA representatives are set to visit Mexico in August to provide technical assistance and an evaluation of the country's efforts to reverse a safety demotion to the lowest level in May. The downgrade bars Mexican airlines from adding new flights to the United States.

BHP Delivers Final Offer in Labor Negotiation at Chile's Escondida Mine

Mining giant BHP has delivered what it says is a final offer to workers amid labor negotiations at its Escondida mine in Chile, Reuters reported, citing an internal memo. The company and its workers' union have been engaged in talks for two months, with the discussions being conducted in secrecy. BHP told workers that its offer incorporates benefits in "highly valued" areas including performance bonuses, career development opportunities and health care.

culpability, and it has accused the disbarred lawyer of bribing the judge in Ecuador following a 2011 decision ordering the company to pay \$9.5 billion in damages, The Guardian reported. Donziger said Monday that he plans to appeal the decision, adding that it marked “a sad day for the rule of law, for our democracy and our planet.” He faces as many as six months in jail, The Guardian reported. Sentencing is expected in the coming weeks.

Brazil’s Nubank Begins Money Transfer Service

Brazilian digital bank Nubank on Monday began offering a remittance service that will allow customers to send and receive money from abroad through its application, Reuters reported. Nubank is offering the service through a partnership with Remessa Online. “Offering international transfers through a partnership was the best way we found to make this facility more available to our customers as quickly as possible,” said Nubank’s co-founder, Cristina Junqueira, the wire service reported. The agreement between Nubank and Remessa Online will guarantee Nubank’s customers a discount on administrative fees. During the first eight weeks of the partnership, the administrative fee will be reduced by 15 percent, Reuters reported. Customers will be able to send money to a recipient in another country through the app via the “Transfer Internationally” function. The customer fills in the amount of the transfer in local currency and the destination country, and the app will show the converted value. In order to receive an international transfer, Nubank customers will need to be registered with Remessa Online, which will give them an international bank account number. Through the partnership, Remessa Online is expecting its number of customers served to jump from 350,000 to one million over the next year. The company is also expecting revenue growth of 150 percent next year, the same growth that it is expecting for this year.

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Brazil started pushing strongly for the bloc’s modernization through greater flexibility and dilution of restrictions. Montevideo’s recent actions support Brazilian efforts. And while Argentina criticized Uruguay, the Montevideo move builds on the concept of acting more independently, a precedent Argentina set in 2020 when it decided not to engage in future trade talks involving the bloc. The ineffectiveness of the bloc means it lost much of its economic character, and political leanings gained prominence. Future political ties and alignment will help decide if or how the bloc is preserved moving forward. But it will not be enough to have Uruguay backtrack on its decision or for Brazil to change its tune on needing greater flexibility. The individual economic needs of member countries will dictate their trade behavior.”

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

“Uruguay’s move follows an earlier proposal by the Lacalle Pou administration to reform Mercosur in order for its members to be allowed to negotiate trade agreements outside the bloc. At the time, Brazil supported the proposal, but Argentina and Paraguay opposed it. In that sense, it can be seen as reflecting internal divisions in Mercosur regarding the degree of modernization and flexibility. The initial proposal would have also seen Mercosur reduce its external common tariff, moving to a less protectionist trade policy. It is speculated that the aim of the Uruguayan government is to begin negotiations with China, its biggest trading partner (as it is for much of the region). The government has also suggested in the past that it would seek trade negotiations with the United States and Britain. For Brazil, which holds the Mercosur pro-tempore presidency and which is least opposed to the Uruguayan proposals among the bloc’s members, Montevideo’s move has been received as an additional signal to modernize the trade bloc in line with geopolitical devel-

opments and to address its relatively limited competitiveness in global and regional trade. Upon assuming the presidency, Brazilian President Jair Bolsonaro pledged to pursue

“**Much could change regarding the support from the bloc’s major economies for Uruguay’s proposals.”**

– Elena Lazarou

changes to the bloc’s rules, to launch new negotiations and to conclude pending trade agreements, alluding to the E.U.-Mercosur trade deal. But with presidential elections coming up in Brazil in 2022, which may, according to current polls, usher in a new left-wing administration opposed to the policies of Bolsonaro, much could change regarding the support from the bloc’s major economies for Uruguay’s proposals.”

A **Thomas Andrew O’Keefe, president of Mercosur Consulting Group, Ltd.:** “It is perplexing why the administration of Luis Lacalle Pou has agonized over the decision for Uruguay to exercise its sovereign right to negotiate a free trade agreement with whatever country it wants as there is already a precedent for this. In November 2003, Mexico and Uruguay signed a free trade agreement. Although both countries are members of the Latin American Integration Association, or ALADI, under whose umbrella Mercosur officially exists, the fact is this bilateral agreement, which took effect in 2004, represented a serious perforation of Mercosur’s vaunted Common External Tariff (CET). In any event, the CET today is more fiction than fact as it is riddled with exceptions that are added or removed at the whim of Buenos Aires and Brasília to the detriment of consumers in Paraguay and Uruguay. The primary objective of Mercosur’s current CET

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is to protect obsolete industries in Argentina and Brazil that produce goods that are not globally competitive. The ones who pay the biggest price for this folly are Mercosur's poorest citizens. By negotiating its own trade agreements, Uruguay may finally provide Mercosur with an overdue reality check and force the member states to focus on perfecting the bloc's only real achievement to date: the creation of a regional free trade area."

A Héctor B. Viana, partner at Dentons Jiménez de Aréchaga: "Uruguay has taken an important step toward modernizing Mercosur. Uruguay's proposal of bringing more flexibility to Mercosur comes with the idea of allowing partners to negotiate trade deals with third parties, but not necessarily as a group. This proposal, which Uruguay made to promote Mercosur—not against Mercosur—will, if adopted, allow each partner to decide how to negotiate trade deals outside the bloc, either unilaterally or with other or all Mercosur partners. While still awaiting reaction from its partners, Uruguay has reported that it is already negotiating bilateral trade deals with third parties, and those negotiations are kept confidential. Uruguay's first markets to approach should

be those importing its basic agricultural products, where Uruguay currently faces overpricing challenges because of import duties and taxes on its products. Treaties with countries such as China—currently its largest commercial partner—should significantly boost exporting capabilities. Britain, in areas of agribusiness, technology and pharmaceuticals, has said that bilateral negotiations with individual Mercosur partners should not be discarded. Entering the Pacific Alliance trading agreement is also seen with interest. Uruguay's proposal comes from its impending need to facilitate access to its basic exports in its natural markets, today taken by competitors (such as Australia and New Zealand) entering under better trading conditions. Therefore, if this initiative does not succeed, it will not come as a surprise that Uruguay may have to re-evaluate a different status within Mercosur. Perhaps it may become an associate country, like Chile? But with Brazil seemingly supporting Uruguay's idea of flexibility, there is hope this initiative may fly and, if so, the challenge will be for Uruguay to successfully manage its way into desired new markets."

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

LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue ISSN 2163-7962

Erik Brand

Publisher
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Anastasia Chacón González

Reporter & Associate Editor
achacon@thedialogue.org



Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at ebrand@thedialogue.org

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Federico Merke, Universidad de San Andrés
Natalia Saltalamacchia, ITAM
Thomas Carothers, Carnegie Endowment for Int'l Peace

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