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FEATURED Q&A

Is the Mercosur Trade Accord on Its Last Legs?

Two members of the Mercosur trade bloc, Brazil and Argentina, recently announced a deal to reduce the bloc's common external tariff. Mercosur's headquarters in Montevideo is pictured above. // File Photo: Carlos Borroni via CC licenser.

Q Brazilian Foreign Affairs Minister Carlos França and his Argentine counterpart, Santiago Cafiero, on Oct. 8 announced an agreement to reduce the Mercosur common external tariff (CET) by 10 percent. The external trade penalties currently paid by members of the regional organization average 13 percent. Both countries compromised in the agreement, as Brazil initially wanted a larger CET reduction, and Argentina wanted no reduction at all. What does this move say about the significance of Mercosur in the Southern Cone, as well as the organization's survival in the region? How will the decision affect domestic economic competition, as well as the broader trade relationship between Argentina and Brazil? How might Mercosur's other members, Uruguay and Paraguay, respond?

A Allison Fedirka, director of analysis at Geopolitical Futures: "Mercosur's significance should not be overstated. While some countries gain quite a bit through membership, others get minimal benefits at a high price. Brazil and Uruguay have made it clear they have trade interests beyond Mercosur, and the CET compromise does not undermine or change that vision. The compromise arose from the fact that Brazil is not in a position to risk Mercosur market access at this moment, and the CET was not a hill to die on. Argentina and Brazil's bilateral trade goes through periodic tensions and disruptions. The revision in the CET will not change that pattern, and a lull in trade tensions should not be mistaken as a full or permanent resolution. Additionally, the current agreement on the CET could be revisited or renegotiated in the future. Uruguay and Brazil have discussed the matter

Continued on page 3

TODAY'S NEWS

POLITICAL

Migrants Clash With Police in Southern Mexico

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Page 2

ECONOMIC

Bolsonaro Pledges Not to Interfere With Fuel Prices

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Page 3

POLITICAL

Colombia Nabs Most-Wanted Drug Lord

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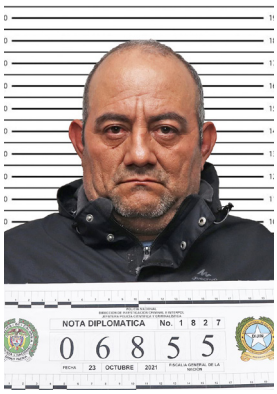
Page 2



Otoniel // Photo: @IvanDuque via Twitter.

POLITICAL NEWS

Migrant Caravan Clashes With Police in Southern Mexico

Several thousand migrants from across the Americas clashed with some 400 Mexican police officers Saturday as they set off from the southern Mexico city of Tapachula heading north toward the U.S. border, Agence France-Presse reported. The caravan, which includes families with young children, plans to march on foot to Mexico City to protest the lack of government assistance in the southern region of the country. Some migrants who attempted to leave Tapachula in September to head north were subject to brutal treatment by Mexican officials, with several of the incidents captured on video. The Mexican government's National Migration Institute condemned the abuse, according to the report. In related news, U.S. authorities said last week they arrested more than 1.7 million migrants, the most ever recorded, at the U.S.-Mexico border over the past 12 months, BBC News reported. Agents apprehended people from more than 160 countries. Those trying to enter the United States illegally were mainly from Mexico, Guatemala, Honduras and El Salvador, according to Customs and Border Patrol data. [Editor's note: See related **Q&A** in the Oct. 1 issue of the Advisor.]

Colombia Captures Most-Wanted Drug Lord

Colombian President Iván Duque on Sunday confirmed the capture of Dairo Antonio Úsuga, Colombia's most-wanted drug lord, CNN reported. In a nationally televised address, Duque said the capture of Úsuga, known as Otoniel, "is only comparable to the fall of Pablo Escobar in the '90s," referring to Colombia's notorious drug dealer who amassed a fortune worth billions of dollars. "Otoniel was the most feared drug trafficker in the world, a murderer of policemen, soldiers, social leaders, and a recruiter of minors," Duque said. The United States, which has sought Otoniel's capture since 2009, issued a statement through its embassy in Bogotá on Sunday congratulating Duque's government, El Tiempo reported. The State Department had offered up to $5 million for information leading to his arrest or conviction. Colombian authorities apprehended Otoniel during an operation in a rural area of Colombia's Urabá region, located in Antioquia province, Reuters reported. One police officer died during the operation.

Guatemala Declares State of Emergency Over Mine Protests

Guatemalan President Alejandro Giammattei on Sunday declared a state of emergency in the wake of clashes in recent days between Indigenous groups protesting mining activity and police in the town of El Estor in the department of Izabal, Prensa Libre reported. The decree establishes a curfew from 6:00 pm to 6:00 am for the next 30 days in the town of some 20,000 inhabitants, as well as restrictions on rights to assembly and to bear arms. Over the past 17 days, thousands of police have confronted demonstrators opposed to a nickel mine run by Switzerland-based Solway Investment Group, the Associated Press reported. Protesters, who say they were not consulted about the mine, have thrown stones at law enforcement, which responded with tear gas. Meanwhile, Giammattei's government issued a statement Sunday saying that guidelines for pre-consultation of the mining activities were followed, and that "a small group of people" from outside the area had established illegal blockades, which led to four national police officers being wounded by firearms. In related news, Guatemala's expanding palm oil industry has faced resistance from Indigenous people fighting for land rights, Al Jazeera reported last week. Oil palm plantations have nearly doubled in some areas over the past decade, sparking agrarian conflicts between companies and local communities, according to the report.

NEWS BRIEFS

Former Nicaraguan VP to Live in Spain in Face of Arrest Warrant

Former Nicaraguan Vice President Sergio Ramírez announced Friday he will live in Spain after the government of President Daniel Ortega tried to arrest him and banned the writer's latest book, the Associated Press reported. Ramírez, 79, had served as vice president during Ortega's first government, from 1985 to 1990, but later distanced himself from the socialist revolutionary turned autocrat. In September, Ortega's government issued an arrest warrant for him for "acts that foment and incite hatred and violence." Nicaragua is scheduled to hold elections Nov. 7 that most observers consider to be undemocratic.

South Africa Miner in Talks to Acquire Nickel, Copper Mines in Brazil

South Africa-based mining company Sibanye-Stillwater today advised shareholders that it has entered into negotiations to acquire the Santa Rita nickel and the Serrote copper mines located in Brazil. Together, the mines could fetch $1 billion including debt, The Wall Street Journal reported, citing people familiar with the matter. Santa Rita is one of the largest open-pit nickel sulphide mines in the world, according to Appian Capital Advisor, an investor in the mine.

Schlumberger Revenue Rises on Double-Digit Growth in Latin America

Houston-based oil services firm Schlumberger Limited on Friday said the Latin America region led its international revenue growth in the third quarter. "Double-digit growth in Latin America" helped push the company's international revenue to $4.68 billion, up 4 percent sequentially and 11 percent year-on-year, Schlumberger said in an earnings statement.

ECONOMIC NEWS

Bolsonaro Pledges Not to Interfere With Brazilian Fuel Prices

Brazilian President Jair Bolsonaro said Sunday his government will not interfere if state-controlled oil company Petrobras raises fuel prices in the coming days in response to higher global prices for crude oil and a weakening real currency, Bloomberg News reported. "Some want me to interfere in the price," said Bolsonaro. "We've done this in the past and it didn't turn out well." Speaking to reporters at an event broadcast on Facebook, Bolsonaro added that Brazil would not see fuel shortages similar to recent problems in the United Kingdom. Investors in Brazil have become wary that reckless spending on social programs ahead of next year's national elections could mean even more trouble for Brazil's sluggish economy, Latin America's largest. The IMF expects economic growth of only 1.5 percent in 2022 after reaching a forecasted 5.2 percent recovery in GDP this year. On Friday, Brazil's stock exchange dropped 4 percent at the open, recovering somewhat later in the day to close down 1.34 percent. Economy Minister Paulo Guedes, who accompanied Bolsonaro during Sunday's event, said that privatizations, tax reform and an overhaul of public administration would help compensate for increased social spending, Bloomberg News reported. Bolsonaro also assured reporters that Guedes would remain in charge of the Ministry of Economy, saying that they both will "go out together," Folha de S.Paulo reported. In related news, Economy Ministry official Esteves Colnago will be appointed to replace outgoing Special Treasury and Budget Secretary Bruno Funchal, who resigned last Thursday, Reuters reported. Colnago, who was planning minister under former President Michel Temer and stayed on with the economic team when President Jair Bolsonaro took office in 2019, now serves as chief advisor for institutional relations, according to the report. [Editor's note: See related **Q&A** in the Aug. 24 issue of the Advisor.]

FEATURED Q&A / Continued from page 1

and will coordinate their actions. Paraguay is inclined to engage in dialogue and support the Argentine side, in large part because Argentina's river access has been the traditional route for Paraguayan exports. As for the bloc's future, the Mercosur originally intended in the Treaty of Asunción will never come to fruition. Its role has grown increasingly less important to key member countries in the past 30 years, and there's little hope for revival. Rather, the bloc will trend toward being marginalized, which means that outright departure from the bloc would not necessarily be needed. Instead, countries will conduct trade according to national interests with Mercosur as a secondary thought."

A **Arturo Porzecanski, research fellow at the Center for Latin American & Latino Studies at American University:** "The recently agreed marginal cut on most import tariffs from non-Mercosur countries, from 13 percent to 10.8 percent, is a meaningless compromise between Argentina and Brazil that does nothing to revive the fortunes of this floundering Southern Cone trade agreement. Mercosur was supposed to have become a seamlessly functioning customs union, in which intra-area commerce flowed freely, supplemented by a single trade regime vis-à-vis the rest of the world. However, despite the passage of three decades, there is neither unfettered trade among its four members nor do they apply equal treatment to trade with nonmember countries. Argentina has been a chronic violator of the letter and spirit of Mercosur, applying as it has a multitude of varying taxes, subsidies, restrictions and controls on its exports, imports and capital flows that have disrupted and distorted trade flows within Mercosur. Argentina has also blocked progress on a preferential trade agreement between Mercosur and the European Union, the negotiations for which have taken more than a decade. Paraguay and Uruguay have been on the losing end of Mercosur: their residents have been discouraged from buying cheaper and better-quality manufactured goods from Asia, Europe and the United States to support inefficient industries in Argentina and Brazil. Other than dissolving Mercosur and going their separate ways, the four countries would be best off by abandoning their quest for a common trade regime versus the rest of the world, while focusing all their efforts on eliminating barriers to trade among themselves."

A **Thomas Andrew O'Keefe, president of Mercosur Consulting Group:** "Mercosur's common external tariff (CET) today is more of a myth as it is filled with national exceptions that should have long been eliminated but are retained for political expediency. When member states uniformly apply it, the CET ranges anywhere from zero to 20 percent. Brazil's proposal to reduce the CET by half would have been a game changer, but the face-saving 10 percent compromise is insignificant and is unlikely to have much of an impact on the pocketbooks and wallets of Mercosur consumers. The CET in its current form is an instrument that primarily exists to protect obsolete Argentine and Brazilian industries from global competition. The fact that the current administration in Brasília acknowledges this is a welcome change. More significant reforms to Mercosur's sclerotic trade policies may come from efforts led by

> **"The CET in its current form is an instrument that primarily exists to protect obsolete Argentine and Brazilian industries from global competition."**
>
> **— Thomas Andrew O'Keefe**

Continued on page 4

FEATURED Q&A / Continued from page 3

Uruguay to unilaterally negotiate free trade agreements, a move Brazil supports and may soon emulate."

A Tatiana L. Palermo, president of Palermo Strategic Consulting and former Brazilian vice minister of agriculture and chief agricultural trade negotiator: "Since 2018, Brazil has been moving toward a 'unilateral tariff disarmament' to increase its competitiveness and break the cycle of low growth by raising the share of trade in its GDP (currently, it is half the global average of close to 60 percent). But it is limited in its options to do so without the other Mercosur countries. Mercosur was created as a customs union in 1991, and the founders, inspired by the E.U. model, wanted to transform it into a common market that would eventually include all Latin American countries. Mercosur, however, never became a common market and is imperfect as a customs union, with many exceptions and bureaucratic rules. It is currently a very difficult moment for Mercosur, marked by ideological and political polarization and economic hardship aggravated by the pandemic. While Argentina opposes changes, the others are actively seeking modernization and trade openness. It is symbolic that Argentina agreed to tariff reduction, even though it was half of what Brazil proposed (Uruguay and Paraguay will support the decision), but this does not bring significant changes. Mercosur's tariffs will remain among the highest in the world. It is not uncommon to hear in Brazil that Mercosur has acted as a 'drag' on members' intentions to negotiate free trade agreements. Recently, in a Brexit-like moment, Uruguay announced that it would seek trade deals alone, against the customs union's rules. If Argentina continues opposing changes, it is possible that the others will propose to transform Mercosur into a free trade agreement."

A Renata Vargas Amaral, adjunct professor and co-director of the certificate program on the WTO and U.S. trade law at American University's Washington College of Law: "The CET was established in January of 1995, by Decision 22/94 of the Common Market Council (CMC). Since it was created, there have not been significant changes in the CET import tariffs, although many exceptions were approved over the years for each of Mercosur's members. Each member has its own lists of exceptions that are criticized in many instances because they allow for unilateral initiatives of members that pierce the CET, and they make it harder for Mercosur to implement a common trade policy. According to its guidelines, the CET should encourage the competitiveness of the members, and its tariff levels should help to avoid the formation of oligopolies or market reserves. But for the past 25 years there were no substantive changes in the CET, and no substantive modification or modernization was implemented. The average import tariff of Mercosur members is among highest in the world, and it made sense that Brazil and Argentina, the biggest economies in the bloc, took the first step for an agreement in this regard. Paraguay and Uruguay, also members with the same status in the bloc, would have to agree on the reduction, but it is very likely that they would welcome the decision to modify the CET. It is important to highlight that, although some sectors may be more affected than others in terms of competitiveness—notably the industrial sector—we are talking about one percentage point of reduction on import tariffs, which is not necessarily an aggressive change on the CET. Mercosur's lack of flexibility has been a constant complaint of all the members over the past years, so maybe this agreement will pave the way for the much-needed modernization of the bloc."

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