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FEATURED Q&A

Will Ecuador and China Strike a Fair Free-Trade Deal?



Ecuadorian President Guillermo Lasso (second from right) said in February after meeting in Beijing with Chinese President Xi Jinping (second from left) that the countries could reach a free-trade agreement this year. // Photo: Ecuadorean Government.

Q Ecuador and China on July 28 concluded their first round of negotiations on a free trade agreement. The two countries have said they hope to reach a trade deal by the end of this year. What are the largest benefits that Ecuador and China would see from a new trade accord? Which industries in Ecuador would gain the most? What are the biggest obstacles the countries would need to overcome in order to conclude an agreement?

A Nathalie Cely, president of the Centro de Competitividad in Quito and former Ecuadorean ambassador to the United States: "The Chinese market for Ecuadorean exports has been of supreme importance in recent years, especially for shrimp and bananas. There are also clear advantages for products such as flowers, ready-to-eat food products and fruit pulp. In the case of shrimp, the Chinese market is first, followed by the United States. Overall, China is now the second-largest destination for Ecuadorean exports, according to the central bank. However, Ecuador had a trade deficit of \$1.58 billion in 2021. While there is no sensitivity in the national agricultural market, there is in the manufacturing and industrial sectors. It must be recognized that the competitiveness conditions of companies in these sectors are much lower, which is aggravated by the subsidies that the Chinese government continues to grant to certain sectors. Ecuador's government expects to double its exports to China and expand the market by about \$1 billion, and it is hitting the accelerator in the negotiations with the aim of reaching a trade agreement by the end of this year. The

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TODAY'S NEWS

ECONOMIC

Bank of America Expects Zero Growth for Mexico Next Year

Bank of America on Wednesday lowered its growth forecast for Mexico next year from one percent to zero percent.

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ECONOMIC

Massa Sworn in as Argentina's Economy Minister

Sergio Massa took office on Wednesday as Argentina's economy minister, saying he would bring fiscal order to the country, including by ending the money printing that has funded the government's budget.

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POLITICAL

Fourth Prime Minister Under Peru's Castillo Abruptly Quits

Anibal Torres, the fourth prime minister in the year-old government of President Pedro Castillo, resigned on Wednesday after nearly six months in the position.

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Torres // File Photo: Peruvian Government.

POLITICAL NEWS

Fourth Peruvian Prime Minister Under Castillo Quits

Peruvian Prime Minister Aníbal Torres, the fourth person in that position since President Pedro Castillo took office just over a year ago, abruptly resigned on Wednesday citing “personal reasons” for his departure, CNN reported. “I retire from this position after having served alongside you, our homeland [and] particularly the put-off and forgotten people,” Torres wrote in his resignation letter, which he posted on Twitter. Torres was sworn in as prime minister in February, succeeding Héctor Valer, who spent just eight days in the post and resigned amid domestic violence allegations. Torres’ resignation adds to the instability that has beset Castillo’s government since shortly after he was sworn in as president in July of last year. “Pedro Castillo has been a failure as president, and he is not likely to reach his second year in office. He has had four different prime ministers and has changed ministers at least 50 times,” Julio Carrión, associate professor of political science and international relations at the University of Delaware, told the Advisor in a [Q&A](#) published July 19. Castillo faces five investigations, including corruption claims and one alleging plagiarism in his master’s thesis, the Associated Press reported. Torres has said

he wants to return to teaching at a university and has strongly defended Castillo. Torres has criticized journalists and said that those who attack Castillo “belong to the upper class, the right and the ultra-right,” the AP reported. Castillo, who by law can accept or reject Torres’ resignation, made no public comment on Wednesday about the departure.

ECONOMIC NEWS

Bank of America Expects Zero Growth for Mexico Next Year

Bank of America on Wednesday lowered its growth forecast for the Mexican economy next year from one percent to zero percent, Reuters reported. The forecast is among the most pessimistic on the 2023 outlook for Mexico, the wire service reported. Amid a potential U.S. economic downturn, the Mexican economy has struggled during the Covid-19 pandemic, and its future growth prospects have been affected by high inflation and increasing interest rates. “We expect the Mexican economy to decelerate sharply in the following quarters,” the Bank of America analysts said, Reuters reported. “We think the main driver will be the U.S. deceleration, in part driven by higher interest rates, which we expect to impact Mexico with a lag,” Carlos Capistrán, the bank’s chief

NEWS BRIEFS

Judge Suspends Hearing of Arrested Journalist as Lawyers Also Targeted

The initial hearing of Guatemalan journalist José Rubén Zamora was suspended on Wednesday following the judge’s announcement that Zamora’s lawyers are also targets of an investigation by President Alejandro Giammattei’s government, the Associated Press reported. Zamora was arrested on July 29 on a charge of money laundering, and his lawyers were accused of extortion. Zamora, the president of newspaper El Periódico, said the case “is a set-up effectively designed and mounted by the president, attorney general and other people,” the wire service reported.

Cuba Seeks to Purchase Dollars at Five Times Current Exchange Rate

Cuban Central Bank President Marta Wilson González on Wednesday said that the country is set to purchase dollars and other convertible currencies today at the state-run banking system’s new rate of 120 pesos to the dollar, five times the current rate of 24 pesos, Reuters reported. Cuba’s government said the measure is an effort to disrupt the informal money market. Economy Minister Alejandro Gil said the government hopes to resume currency exchanges in the near future.

Brazil’s Embraer Posts 9.6 Percent Decline in Second-Quarter Profit

Brazilian aircraft manufacturer Embraer today posted \$39.4 million in adjusted net income for the second quarter, a 9.6 percent decline as compared to the same quarter last year, Reuters reported. The company’s profit recovered in the second quarter following a \$78.5 million net loss in this year’s first quarter. Embraer said its profit in the April-to-June period was driven by price hikes and its product mix.

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second round of negotiations is scheduled for August and the third is in September, according to the Ministry of Production. During the 11 days of negotiations scheduled for this month, market access, investment cooperation, customs procedures, trade facilitation, rules of origin, sanitary and phytosanitary measures, economic cooperation, electronic commerce, dispute settlement, and competition will be discussed. What is being negotiated is not a state-of-the-art trade agreement that includes investment protection, transparency of public compa-

nies for subsidy purposes, nor labor and environmental issues. The private sector is cautious, in contrast to the government’s optimism regarding the closing of the trade deal. It would seem that China is open to a longer period of tariff reduction and that there is political interest in doing so. International geopolitics could interfere in the closing of this agreement, and such an agreement would have to be ratified by the National Assembly, with which the president has very few options to reach agreements, even if they are circumstantial.”

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economist for Mexico and Canada, said in the note, Bloomberg News reported. “The internal factors that will slow down activity in Mexico are higher interest rates, a still strict fiscal policy and renewed uncertainty given the T-MEC energy dispute,” he added, referring to Canada and the United States’ dispute filing under the U.S.-Mexico-Canada free trade agreement. Bank of America expects Mexico’s economic growth for this year to reach 1.9 percent, 0.2 percentage points up from its previous 1.7 percent estimate, Reuters reported.

Massa Sworn in as Argentina’s Economy Minister

Argentina’s new economy minister, Sergio Massa, was sworn in to the position on Wednesday, and during a news conference he said that he would not be announcing extensive economic measures that would immediately change the course of Argentina’s economy, the Associated Press reported. The Argentine economy has in recent months been suffering from a sharp depreciation of the peso, soaring inflation and a shortage of central bank foreign currency reserves. “I’m not super anything, nor a magician nor a savior,” Massa said, the wire service reported. “This team has the obligation to give answers that will not come in a day nor too ... Magic doesn’t exist,” he added. Massa, the third person to head Argentina’s economy ministry in just over a month, vowed to bring fiscal order to the country, the Financial Times reported. He also said he would end the money printing that has funded the government’s budget, saying that he would instead seek deficit reduction or borrowing from the private sector, the newspaper reported. Massa also said he would work to build the country’s dollar reserves and promised a “reworking” of state subsidies to meet budget targets. Economists expect Argentine inflation to exceed 90 percent this year, and a central bank survey shows that the country is expected to see a contraction in the third quarter of 2022, the Financial Times reported. “[The economy] needs a strong economic plan that involves bruising measures like a devaluation, higher interest rates ...

THE DIALOGUE CONTINUES

How Is the Internet in Latin America Likely to Change?

Q **The technologies that underpin the global Internet are largely products of the United States and grew out of U.S. research projects and companies that commercialized and innovated the technology, the Council on Foreign Relations said in a recent report. However, the global Internet has become “less free, more fragmented and less secure,” the report says, adding that countries around the world now exert more control over the Internet by localizing data, blocking content and launching political “influence campaigns.” What is the current state of freedom and openness on the global Internet, and how is it changing? What does control over the Internet mean for politics, economics and commerce in Latin America and the Caribbean? Which big players are exerting more—and less—influence over how the global Internet operates, and what policies are needed in order to shape a future that will be most productive for the digitization of the Americas?**

A **Nathalia Foditsch, senior policy and regulatory specialist at the Alliance for Affordable Internet of the World Wide Web Foundation:** “The Internet is a significant enabler of economic growth and human development, and a meaningfully connected population is more informed and engaged as well as more likely to have access to educational opportunities. All countries throughout the Americas

even though Massa has the political support, we’re still a way off from signs that there is a solid economic plan in place,” said economist Fernando Marull. Argentine President Alberto Fernández tapped Massa for the post last week after he fired economist Silvana Batakis less than a month after he named her to the position. Batakis had replaced Martín Guzmán, who resigned amid fighting in the ruling Peronist

have realized the importance of having sound policy and regulatory frameworks to allow for all individuals to have meaningful connectivity. However, not all of these countries have been able to successfully develop and/or implement these frameworks, or sufficiently invest in the deployment of networks. Even countries that have significantly advanced their policies and regulatory efforts in recent years are generally diverse and unequal, and their general numbers frequently hide important information. Research developed by the Alliance for Affordable Internet shows that in Colombia, for example, while the affordability target of one gigabyte of data established by the U.N. Broadband Commission (less than 2 percent of the gross national income per capita) is met, only 26.2 percent of the population in the country is meaningfully connected. This means that around one in every four people in the country owns a device and can connect to the Internet daily, with sufficient speed and data. Thus, debates around the deployment of mobile and fixed networks should not only be focused on the digitization of productive sectors, but also address the urgent need of solving the access and connectivity gaps of the population.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in the July 28 issue of the Advisor.

coalition over the direction of the country’s economic policy. Guzmán had sought government spending reductions in order to lower the budget deficit and adhere to the country’s debt restructuring deal with the International Monetary Fund. Massa had been the speaker of the lower house of Argentina’s Congress since late 2019 but stepped down from that position on Tuesday to become economy minister.

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A **Santiago Herdoiza, senior associate at Dentons Global Advisors-Albright Stonebridge Group:** "A free trade agreement could inject much-needed capital into Ecuador's pandemic-battered economy. Expected to boost commerce by 35 percent, it taps into increased Chinese investments and an expansion of export opportunities estimated at \$1 billion. An agreement could provide momentum to President Guillermo Lasso's stalled liberalization agenda, spurring job creation, bolstering domestic production and generating revenues to meet exorbitant public spending commitments. Food producers would benefit the most from a Chinese tariff wipeout. Key exports such as bananas and shrimp, for instance, would be better able to compete against duty-free Philippine bananas and preferentially treated Indian and Vietnamese shrimp. Ecuador's vehicle assembly and pharmaceutical sectors could also access broader sources of Chinese capital. China's potential gains, however, are mainly geopolitical. It stands to displace the United States as Ecuador's main partner for non-oil trade by 2023, Minister of Production Julio José Prado has claimed. A free trade agreement would also expand China's influence in setting regional investment standards, including on the digital economy. However, challenges remain. The ambitious year-end deadline risks producing a watered-down agreement, as comprehensively aligning interests and regulatory frameworks make FTA negotiations notoriously lengthy. Ecuador must also develop a road map for the gradual liberalization of sensitive sectors, protecting industries such as textiles from being overrun by Chinese producers. Embedding review mechanisms could allow for readjusting protective measures as the FTA's impact on domestic companies materializes over time. Moreover, entrenched protectionist sentiments and an opposition-controlled legislature make socializing

the benefits of an FTA with China a daunting task for Lasso's government."

A **Peter Romero, producer and co-host of the American Diplomat podcast and former U.S. ambassador and assistant secretary of state for Western Hemisphere affairs:** "Ecuador is the latest Latin American country to proceed with a free trade agreement (FTA) with China as the United States watches from the sidelines. For Ecuador, an agreement with China is a no-brainer. China is one of 10 countries that Ecuador is currently in negotiations with to produce free trade agreements and the critical accompanying dispute mechanisms when deals break bad. These follow a campaign pledge by President Lasso to take Ecuador 'more into the world than the world to Ecuador.' Lasso also hopes to renegotiate Ecuador's debt to China, delinking it from payment in oil. It's hard to find a downside for Ecuador. Non-petroleum trade between China and Ecuador is now about \$5 billion per year, with Ecuador's exports to China growing at the expeditious rate of 110 percent year-on-year. Ecuadorean producers of bananas, vegetables and other foods, shrimp, fish and flowers are poised to expand production to meet demand in the growing Chinese market. At the same time, Ecuador pleads with the United States for an FTA. Apologies from Latin American hands at the State Department and the National Security Council are sounding hollow. This even after Ecuador, following the U.S. lead, discontinued exports to Russia over the Ukraine war, representing an annual loss of \$2 billion, mostly in cut roses. After a China-Ecuador FTA is cemented, and if or when China were to move against Taiwan or commit some other egregious aggression, would the United States be able to count on Ecuador in the same way that it responded to Russian aggression?"

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