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## FEATURED Q&A

# Can Mercosur Be Modernized and Improved?



Argentine President Mauricio Macri and Brazilian President Jair Bolsonaro discussed the Mercosur trade bloc during their meeting earlier this month in Brasilia. // Photo: Brazilian Government.

**Q Economic integration and the Mercosur trade bloc were high on the agenda for discussion when new Brazilian President Jair Bolsonaro met with his Argentine counterpart, Mauricio Macri, on Jan. 16 in Brasilia. Bolsonaro, who during his campaign had criticized Mercosur as a leftist political forum, is now expressing confidence that Mercosur can be “modernized.” What are the main ways that Bolsonaro and Macri might change the customs union, and what would be the effects on the economies of Brazil and Argentina? What do Mercosur’s other full members—Uruguay and Paraguay—stand to gain or lose from changes in the trade bloc? To what extent will trade relations between Brazil and Argentina strengthen under Bolsonaro and Macri, and which business sectors will be most affected?**

**A Carl Meacham, member of the Advisor board and associate vice president for Latin America in the International Advocacy Division of Pharmaceutical Research and Manufacturers of America:** “Bolsonaro and Macri recently called for structural reforms of Mercosur, including gradually reducing the bloc’s common external tariffs and adding flexibility to its restriction on independent trade agreements. The implications of these reforms could be significant to a variety of industries in each of the bloc’s economies—including industries, such as the innovative biopharmaceutical industry, that depend on strong intellectual property (IP) protections, fair and equitable market access, and the elimination of localization barriers. In addition, the pursuit of new FTAs could prompt Argentina, Brazil and others to commit to improved IP standards, such as the U.S.-Mexico-Canada Agreement’s

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## TODAY'S NEWS

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## Maduro Says He's Open to Talks With Opposition

Venezuelan President Nicolás Maduro said he's open to dialogue, a statement that came amid street protests and National Assembly leader Juan Guaidó's claim to the presidency.

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### BUSINESS

## Five Arrested in Connection With Brazil Dam Collapse

The individuals arrested include three employees of mining company Vale, which owns the dam that ruptured last week, killing at least 84 people and leaving more than 200 missing.

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### POLITICAL

## Ex-Guatemalan Chief Prosecutor Eyes Presidency

Thelma Aldana, who played a key role in the prosecution of several high-level officials, including former President Otto Pérez Molina, is planning to run for president.

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Aldana // File Photo: Guatemalan Government.

## POLITICAL NEWS

## Venezuela's Maduro Says He's Willing to Talk With Opposition

President Nicolás Maduro said today that he is willing to engage in talks with Venezuela's opposition, following violent street protests and National Assembly leader Juan Guaidó's declaration that he is the country's legitimate president. In an interview with Russian state-owned news agency RIA Novosti, Maduro said he was open to dialogue. "I'm willing to sit down for talks with the opposition so that we could talk for the sake of Venezuela's peace and its future," Maduro said, adding that countries such as Mexico, Uruguay, Bolivia, Russia and the Vatican could serve as mediators. In the interview, Maduro also accused Donald Trump of seeking to kill him, saying he was aware of "orders" from the U.S. president for Colombia's government and local organized crime to kill him. "If something happens to me one day, Donald Trump and Colombian President Iván Duque will bear responsibility," Maduro said. The U.S. and Colombian governments have routinely denied such claims. Speculation about possible U.S. military plans in the region increased this week when U.S. National Security Advisor John Bolton appeared at a news conference with a notepad showing the handwritten words "5,000 troops to Colombia." When asked about the note, the White House said in an emailed statement that "as the President has said, all options are on the table," the Associated Press reported. On Tuesday, acting Defense Secretary Pat Shanahan would not rule out sending U.S. troops to Colombia or elsewhere in the region in connection with Venezuela's political crisis, the AP reported. Shanahan also noted steps that the U.S. government has taken in the situation, including new sanctions against Venezuelan state oil company PDVSA. Last week, the Trump administration officially recognized Guaidó as Venezuela's president. Other countries, including Brazil and Colombia, have done the same. Venezuela's Supreme Court, which is stacked with supporters of Maduro, on Tuesday

banned Guaidó from leaving Venezuela and froze his bank accounts, Reuters reported. The court also approved a request from Attorney General Tarek Saab to investigate Guaidó on claims that he helped foreign countries to interfere in internal Venezuelan matters. Large protests are expected today in Venezuela after Guaidó urged his supporters to take to the streets. [Editor's note: See related [Q&A](#) in Tuesday's Advisor.]

## BUSINESS NEWS

## Five Arrested in Connection With Brazil Dam Collapse

Brazilian authorities on Tuesday arrested five people, including three employees of mining company Vale, as part of an investigation into the dam collapse that killed at least 84 people and left 276 missing last week, The New York Times reported. The dam complex, which Vale owns, ruptured Friday morning, sending a wall of water and mud across the mining company's facilities and nearby homes in the town of Brumadinho in the southeastern Minas Gerais State. The other two people who police detained Tuesday were engineers working for the Brazilian unit of German industrial testing company TÜV Süd, which handled safety inspections of the Brumadinho dam last year, most recently in September, the newspaper reported. Brazilian federal and state prosecutors said in a statement that the arrests and seven search warrants were "aimed at investigating criminal responsibility for the rupture," The New York Times reported. Those who were arrested were individuals involved in the most recent safety and environmental surveys, and they face charges ranging from participating in homicide to false representation and environmental crimes. Also on Tuesday, Vale said it would dismantle 10 dams similar to the Brumadinho dam, halting 10 percent of its annual production, The Wall Street Journal reported. Vale said increasing output at other facilities will offset the loss of production.

## NEWS BRIEFS

## Former Guatemalan Chief Prosecutor to Seek Presidency

A former chief prosecutor known for her role in the investigations of several high-level corruption cases in Guatemala, including of former President Otto Pérez Molina and his Vice President Roxana Baldetti, plans to run for president, the Associated Press reported Tuesday. The secretary general of the recently created Seed Movement party announced Thema Aldana's candidacy Monday night, and the party is expected to officially nominate her at an assembly in March. Guatemala's first-round vote is scheduled for June 16.

## Mexico Ends Program to Fast-Track Migrant Visas

Mexico on Tuesday ended a program to issue fast-track humanitarian visas to Central American migrants who recently arrived at its southern border, The Wall Street Journal reported. Roughly 12,600 migrants, mostly from Honduras, applied for humanitarian visas since mid-January, and Mexico has granted nearly 4,000, according to the National Migration Institute. A senior official said migrants seeking humanitarian visas from now on will have to apply at Mexican consulates in their home countries. An official reason for ending the policy was not provided.

## Visa Launches VisaNet System in Argentina

Visa has launched its electronic payment processing system VisaNet in Argentina, the company announced Tuesday. VisaNet can process 65,000 transaction messages per second. Visa's domestic payments in Argentina were formerly operated by Prisma, which handled the California-based company's businesses there. The credit card company expects the service to boost its market share in Argentina by 10 percent.

## Banco do Brasil to Sell Units, Seek Branch Closures

Brazilian state-owned lender Banco do Brasil will seek to sell its asset management, investment banking and debt collector units, the bank's chief financial officer, Carlos Hamilton Vasconcelos Araújo, told investors Monday during a conference, Reuters reported. Banco do Brasil also may seek to close some branches in coming years as part of its efforts to boost profitability. On the same day, Brazilian President Jair Bolsonaro's secretary of privat-



Mattar // File Photo: Brazilian Government.

ization said Banco do Brasil and another state-owned lender, Caixa Econômica Federal, are among the state entities whose subsidiaries are targeted for privatization, the wire service reported. The minister, Salim Mattar, said the government wants the banks, along with state oil company Petrobras, to sell most of their subsidiaries within the next four years. Banco do Brasil's asset management arm, BB DTVM, as well as all of Caixa's insurance subsidiaries are possible targets for privatization, said Mattar. "Why does the Brazilian state have to sell insurance products? It makes no sense," Mattar said during an investment conference. He added that the divestitures of the Banco do Brasil and Caixa units, as well as of Petrobras units, should be easier than the privatizations of state-owned companies that government ministries control. Among those entities are Brazil's post office and Infraero, which owns stakes in the operators of airports. Brazil could raise 800 billion reais (\$214 billion) by privatizing state-owned companies, Mattar said.

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regulatory data protection for biologic medicines. Given the well-documented positive implications of IP protections for foreign direct investment, this could unlock new investments in innovation and technology in Argentina and Brazil. Meanwhile, Uruguay and Paraguay have also expressed support for the trade bloc changes, which could favor Uruguay's desire to advance trade talks with China and Paraguay's efforts to attract foreign investment. Although the specific structural reforms envisioned for Mercosur remain uncertain, the moment is opportune to ensure that Mercosur members remain competitive globally and help their citizens locally. As Argentina and Brazil's free-market-friendly leaders face intense domestic pressures to deliver economic results, expanding Mercosur's trade agenda could help."

**A** **Emilia Cerra, specialist, and Megan Cook, lead specialist, both in the political and regulatory risk/strategic affairs practice at Cefeidas Group in Buenos Aires:**

"Bolsonaro's election—and subsequent statements from his administration—raised questions about the future of Mercosur and Brazil's participation. Although the Macri administration favors more openness, it has also been working through Mercosur to deepen engagement. Therefore, it was important to ensure that the bloc's largest economy wouldn't undermine these efforts. At the bilateral meeting, the presidents generally agreed on the need for more flexibility and openness, but details and timelines are unclear. Both seem to favor allowing countries to more easily pursue bilateral trade agreements, which could ultimately open new markets. At the same time, the shared desire to increase trade could give impetus to finalizing Mercosur's ongoing negotiations (not only with the European Union, but also Singapore, Canada and others). A key question is what will happen to the common external tariff. Mercosur could cease to be

a customs union and become a free-trade zone, but this would pose challenges for Argentina. While flexibilization could benefit more competitive sectors, such as agro and minerals, the tariff has played an important

“A key question is what will happen to the common external tariff.”

— Emilia Cerra & Megan Cook

role in protecting Argentina's less-competitive industrial sector, which accounts for 67 percent of total exports to Brazil and is already suffering from a domestic recession. The other full Mercosur members, Uruguay and Paraguay, have pushed for a more open Mercosur in the past and are likely to support some reforms. However, changes are likely to come gradually to mitigate pushback, and also due to the complexity of reaching intra-Mercosur consensus. Regardless, Argentina and Brazil remain among each other's top trade partners, and there are significant efforts underway to streamline processes and improve regulatory convergence that should continue to support bilateral trade. Nevertheless, as Bolsonaro moves to increase Brazil's engagement with the world, Argentina may find itself fighting for its neighbor's attention."

**A** **Thomas Andrew O'Keefe, president of Mercosur Consulting Group in New York:** "Following his inauguration, Bolsonaro must now confront the world, as it is not as he wishes it might be. His efforts to cozy up to Washington will not lead to a free trade agreement with the United States as the commercial disputes that have traditionally

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caused friction between Brazil and the United States are not easily resolved and, in fact, have been exacerbated by the Trump administration's protectionist agenda. Similarly, Brazil is no closer to achieving a free-trade agreement with the European Union on its own rather than as part of Mercosur. Hence, Bolsonaro has no choice but to turn to Brazil's neighbors to increase exports and re-activate the Brazilian economy. If Mercosur can be converted into a genuine free-trade area that permits unhindered cross-border flows of services and investment capital as well as goods, that would be a major achievement. Getting rid of the cumbersome common external tariff (which is full of exceptions anyway) would be a boon for Paraguayan and Uruguayan consumers who are forced pay high import duties to protect uncompetitive Argentine and Brazilian industries. The big question, however, is whether Bolsonaro is willing to make the necessary short-term sacrifices to turn Mercosur into a fully functioning free-trade area, and stop Brazil from engaging in the type of unilateral and nationalist policies that have plagued and undermined Mercosur since its launch in the early 1990s."

**A Welber Barral, senior consultant at Barral M Jorge Consultores Asociados and former Brazilian foreign trade secretary:** "There will be two main important changes: first, the Bolsonaro administration proposed more flexibility for member states to negotiate trade agreements with other countries. This move is based on the mistaken assumption that the process through Mercosur slows down the negotiations. Another

important change will be more flexibility for individual countries to reduce import tariffs. Bolsonaro's economic policy is grounded on the liberalization of Brazilian trade, and the common external tariff limits his capacity to

**Brazil's projected growth in 2019 helps Argentina's recovery, considering that the two economies are strongly interlinked."**

— Welber Barral

expedite this movement. Both countries, and particularly Uruguay, have advocated a more liberal Mercosur for many years. Besides, smaller industrial sectors in these countries reduce the protectionist pressure. There are some doubts, however, as to their capacity to negotiate trade agreements, considering their smaller domestic market (and thus the attractiveness to potential partners). Both presidents have presented an economic liberal agenda and similar interests in the international arena. Besides, Brazil's projected growth in 2019 helps Argentina's recovery, considering that the two economies are strongly interlinked. However, the macroeconomic factors and the electoral calendar in Argentina may change the bilateral relation in the following years."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

## LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue, Copyright © 2019

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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](http://www.thedialogue.org)

ISSN 2163-7962

Subscription inquiries are welcomed at [freetrials@thedialogue.org](mailto:freetrials@thedialogue.org)

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