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FEATURED Q&A

Will Brazil Gain or Lose From a Global Trade War?

Brazilian Finance Minister Eduardo Guardia told reporters on the sidelines of the G20 ministerial July 21 that growing trade tensions and the normalization of monetary policy in major economies are increasing risks to the global economy. // File Photo: Government of Brazil.

Q The escalating trade dispute between the United States and China has prompted the Asian country to turn to Brazil for goods like soy, corn, poultry and pork, increasing the South American nation's agricultural exports. Moreover, Brazilian steel exports to the United States nearly tripled in June, compared to the same period last year, after the Trump administration slapped a 25 percent steel tariff on other trade partners but not Brazil, which instead agreed to limit its exports of the metal. How is the global trade war affecting Brazil's economy in the near term, and what are the consequences for the long term? Will Brazilian producers be able to take advantage of increased demand? Will changing global trade dynamics help boost Brazil's sluggish economic recovery from its deepest recession on record?

A José Guilherme Almeida dos Reis, executive director, and André Soares, consultant on China-LAC trade, both at the Office for Brazil and Suriname at the Inter-American Development Bank: "In the long run, there are no winners in a trade war. Trade is not a zero-sum game and the only certainty we have is that a trade war ultimately reduces overall trade and economic growth, with negative implications for all countries. The African proverb 'when two elephants fight, it is the grass that suffers' applies very clearly here. There are short-run opportunities associated with trade diversion that can be beneficial for some Latin American countries, and Brazil, being an agriculture powerhouse, is one of them. Brazil is benefiting from stronger (deviated) demand from China for soybeans. Brazilian soybean exports

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White House Weighs in on Nicaragua Crisis

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Mexico, U.S. Plan for 'Rapid Track' on NAFTA Talks

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Peru Seeks Oct. Referendum on Judicial Reforms

Peruvian Prime Minister César Villanueva said Monday his government is "firm" in its commitment to carry out a referendum on political and judicial reforms in the wake of a corruption scandal involving judges and influence peddling.

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Villanueva // File Photo: Government of Peru.

POLITICAL NEWS

White House Weighs in on Nicaragua Protester Killings

The administration of U.S. President Donald Trump announced Monday that it has confiscated U.S.-donated vehicles from Nicaraguan security forces and suspended future donations and sales, the Los Angeles Times reported. The move comes in response to President Daniel Ortega's crackdown on street protests that have taken hundreds of lives since April. The White House accused Ortega and his wife, Vice President Rosario Murillo, of having "brutalized their own people" with "indiscriminate violence" that has killed nearly 400 people in four months. Hundreds more have been jailed, tortured or have disappeared, human rights organizations say. "The United States stands with the people of Nicaragua, including members of the Sandinista party, who are calling for democratic reforms and an end to the violence," the White House said in a statement, referring to Ortega's own political movement that swept the Samoza dictatorship from power more than three decades ago.

Murillo // File Photo: Tavox13 via CC license.

The Trump Administration also on Monday announced an additional $1.5 million in aid to support civil society and an independent media in Nicaragua, and named three Nicaraguan officials under the Global Magnitsky Act for human rights abuses and corruption. Ortega promptly rejected a proposal submitted Monday by eight countries, including the United States, in the Organization of American States to create a special commission to monitor the crisis in Nicaragua, calling the initiative an "act of interference," La Prensa reported. Critics say the OAS has been slow to act on the situation in Nicaragua. "Finally, outside pressure is beginning to appear after a delay by both the United States and the OAS," said Michael Shifter, president of the Inter-American Dialogue in Washington, told the Los Angeles Times. Thus far Ortega has steadfastly refused to allow early elections that opponents have called for. He is slated to remain in office until 2021.

Peru Gov't Pushes for Referendum on Judicial Reforms

Peruvian Prime Minister César Villanueva said Monday his government is "firm" in its commitment to carry out a referendum on political and judicial reforms in the wake of a corruption scandal involving judges and influence peddling, state news agenda Andina reported. "The important thing here is to implement political and justice system reforms. There is an urgency to make these reforms," he said. Villanueva added that holding the referendum alongside regional and municipal elections scheduled for October 7 would be "ideal." As thousands of protesters took to the streets in recent weeks for peaceful marches, President Martín Vizcarra on Saturday challenged the opposition-run Congress to advance plans for the referendum, Reuters reported. The plans call for not only fast-tracking judicial reforms, but also to gauge support for a ban on private financing of political campaigns, an end to the re-election of lawmakers and the creation of a second chamber in Congress. Without backing from lawmakers, Vizcarra would have to collect hundreds of thousands of voter signatures. "This crisis has reached a breaking point," Vizcarra said. In related news, a judge on Monday rejected ex-President Pedro Pablo Kuczynski's request to leave the South American nation to receive health treatments in the United States. Kuczynski is under investigation for alleged payments by corruption-tainted Brazilian construction form Odebrecht to companies linked to him.

NEWS BRIEFS

First Data Reports Q2 Growth in Latin America

New York-based card processor First Data on Monday reported better-than-expected earnings and revenue for its second quarter, MarketWatch reported. The company posted net income of $341 million in the quarter, up from $185 million in the year-earlier period. In Latin America, revenue in First Data's Global Business Solutions segment was $85 million, up 32 percent, driven by strong growth in Brazil and Argentina. In its Global Financial Solutions segment, Latin America revenue was $36 million, up 6 percent versus the prior year.

Mayor in Colombia Charged With Social Leader's Killing

The mayor of Pitalito, a town in the Huila Department of Colombia, on Monday was charged with arms possession and aggravated homicide in a case investigating the murder of social leader Luis Gerardo Ochoa dating back to April of last year, El Tiempo reported. The mayor, Miguel Antonio Rico, was captured in Bogotá on Saturday. He denied wrongdoing and did not accept the charges. The local prosecutor's office reportedly has evidence suggesting otherwise, including telephone records, texts and a witness confession.

Jamaica's Wheatley Resigns Cabinet Post

Jamaica's Minister of Science and Technology, Andrew Wheatley, resigned his cabinet position on Monday in the wake of ongoing corruption investigations at state-run refinery PetroJam, the Jamaica Gleaner reported. Wheatley had resigned as Energy Minister weeks ago over the controversy, but retained the science and technology portfolio. The opposition People's National Party issued a statement late Monday saying Wheatley's resignation "was long overdue."

ECONOMIC NEWS

Mexico, U.S. Plan for 'Rapid Track' on NAFTA Talks

The United States and Mexico plan to hold ministerial-level talks on the North American Free Trade Agreement on Thursday in Washington, Reuters reported Monday, citing unnamed sources. However, Canadian Foreign Minister Chrystia Freeland is scheduled to leave Canada today for meetings in Singapore, the Canadian foreign ministry said, suggesting it is unlikely Freeland would make it to Washington for the talks. The ministerial would be the second such meeting within a week as efforts accelerate to seal a deal on NAFTA in August. U.S. Commerce Secretary Wilbur Ross said at a conference in Washington on Monday that the talks had advanced. "Our immediate, most close-to-completion negotiations are with NAFTA, particularly with Mexico," Ross said, Bloomberg News reported, adding that President-elect Andrés Manuel López Obrador has "wasted no time" appointing a new trade team. "There's a pretty good chance that we could be on a pretty rapid track with the Mexican talks." U.S. President Donald Trump also said this month that the U.S. is making solid progress in talks with Mexico, but has indicated that his administration may pursue a bilateral deal with that country first before negotiating separately with Canada. Both Mexico and Canada recently rejected the notion of bilateral deals.

BUSINESS NEWS

Chile Copper Mines Face Labor Strife

Workers at the Chuquicamata copper mine in Chile, state-run Codelco's second largest by output, walked off the job on Monday and blocked access to the mine, Reuters reported. Union leaders said they were protesting two "unjustified layoffs," while the company called the strike illegal. "All of the unions have ceased operations," said Liliana Ugarte, president of Union No. 2 at Chuquicamata. "How long the walk-off lasts depends on how negotiations go with management," she added. Meanwhile, the union at BHP's Escondida mine in Chile, the world's largest copper mine, is expected to overwhelmingly reject the final contract offer from the company, increasing the likelihood of a strike, a union leader told Reuters on Monday. Copper accounts for more than 43 percent of Chile's exports. Prices for the metal had been rising this year, reaching a high mark on June 11, but prices in the weeks since then have fallen 15 percent, according to Bloomberg data. Fears over a global trade war and slack demand from China, an important motor for Latin America's natural resource boom of the last decade, have investors worried that bleak days could lie ahead. Officials have said copper prices need to stay above $3 per pound for the government's proposed economic agenda to be viable. Some analysts fear that a sustained fall in copper prices could hinder plans to reduce Chile's fiscal deficit and invest in other reforms. All three major ratings agencies have downgraded Chile's sovereign ratings in recent months citing a deterioration in the country's credit profile. But Felipe Larraín, Chile's finance minister, has pointed out that a more competitive exchange rate of late has been good for most other areas of the economy, according to the Financial Times. Although the mining sector dominates exports, it accounts for just 10 percent of overall economic output.

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to China are expected to reach a record high of $30 billion this year. This represents a 34 percent increase when compared to the average for the past five years ($23 billion). This growth has been driven both by price and volume. In terms of volume, Brazilian exports have increased 8 percent this year and stocks have decrease from 5 to 3.9 million tons. In addition, prices in the northeast ports of Brazil have registered a premium that is 16 percent higher than the price of soybeans sold in the southern Gulf Coast of the United States. Nevertheless, no one wins all battles when at war. When it comes to exports of meat, there are a series of non-tariff barriers that curb Chinese imports from countries like Brazil. On another front, the recent deal between the United States and the European Union can divert European imports of soybean from Brazil to the United States. The short-run opportunities do not compensate for the deleterious long-term effects that a trade war has on the world trade architecture. Brazil and other Latin American countries have been firm supporters and beneficiaries of the trade system. With that in mind, countries should maintain their support of the rules-based WTO framework and not be lured into the short-term gains offered by trade diversion."

> **"It is likely that disruptions to global growth and rising uncertainties associated with trade problems will weigh on Brazil."**
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> **— Monica de Bolle**

A **Monica de Bolle, senior fellow at the Peterson Institute for International Economics:** "Although the global trade war has brought some benefits to Brazil's competitive agribusiness sector, the broader economic effects are likely to be very limited. Agribusiness is only a small share of the Brazilian economy, which continues to struggle with unresolved structural problems that severely constrain growth—notably, large fiscal imbalances. Looking ahead, it is likely that disruptions to global growth and

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rising uncertainties associated with trade problems will weigh on Brazil, with possible growth headwinds."

A **Welber Barral, senior partner at Barral M Jorge and former Brazilian foreign trade secretary:** "In the short term, there may be some trade diversion, benefiting particular companies. In the long term, however, everybody loses if the two major economies enter a trade war. Developing economies suffer more from increased risk, and global growth will be reduced. Besides, consumer markets look for new providers, decreasing any immediate advantage. There is no increased demand: there is a diversion provoked by temporary measures that may be revoked, which does not allow for a credible forecast. For example, exports of steel to the United States increased simply because exporters are running for the quotas, which is lower than the potential exports. Agricultural exports to China were diverted from other destinations, which will look for local or global supply. Higher international risk implies less investment, and higher costs for logistics and insurance, and that is not a good scenario for Brazil. Exports may certainly contribute to recovering economic growth, but Brazil is still highly dependent on its domestic market, and political stability will be the crucial factor for recovery."

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A **John E. Mein, executive coordinator at Instituto Aliança Procomex in Brazil:** "With the ninth largest economy in the world, representing 2.4 percent of the world's GNP, Brazil is only responsible for 1.2 percent of the international trade of goods. The $217.7 billion it exported last year placed it as the 25th exporter in the world, and the $150.7 billion it imported put it as the 28th importer, with 1.2 percent and 0.9 percent of world trade, respectively. Although Brazil ranks as 46th in the world in per capita income, in exports per capita it ranks as 110th and its imports per capita rank as 130th. The decrease in the overall volume of international trade brought about by a 'trade war' will not be favorable for a nation that has tremendous potential for growth in its trade. Trade disputes may provide Brazil with short-term gains in a few sectors, such as the result of increased demand for Brazilian soybeans by the Chinese. But the gains provided by these specific opportunities, besides being short-lived, will be substantially outweighed by the overall slowdown in the world economy brought about by the irrational increase in tariffs and the undermining of the well tested institutional support mechanisms which provide the framework for international trade. On July 22 and 23, the presidents from the Pacific Alliance countries (Chile, Colombia, Mexico and Peru) and from the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) met in Puerto Vallarta, Mexico, to discuss the possibility of a positive integration agenda for the two regions. The intensification of integration as a response to the international uncertainties may be one of the few long-term benefits of the prospects of a 'trade war.'"

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

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