LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Thursday, April 25, 2024

FEATURED Q&A

Will the USMCA Accord Survive an Upcoming Review?

Upcoming elections this year could affect the USMCA trade deal. Then-Presidents Enrique Peña Nieto of Mexico and Donald Trump of the United States, as well as Canadian Prime Minister Justin Trudeau are pictured signing the accord in 2018. // File Photo: U.S. State Dept.

Q The United States-Mexico-Canada Agreement (USMCA) is up for review in July 2026, at which time any of the three countries can opt not to renew the trade accord, an action that would put its future into question. The upcoming review makes 2024 a critical year for the future of the USMCA, as both Mexico and the United States will have presidential elections, and the priorities of the countries' leaders will determine the future of the trade deal. What are the most important parts of the USMCA review process? How do the Mexican and U.S. presidential candidates view the agreement, and what actions are likely given who is elected in the two countries? What's at stake in the elections for businesses that are affected by the USMCA?

A Lucinda Vargas, associate director of the Center for Border Economic Development at New Mexico State University: "The USMCA is unique among trade agreements in having established a review process. While trade agreements stipulate a time horizon within which their implementation is to take place (15 years in NAFTA's case), they are intended to last indefinitely. This ensures that an agreement's new 'rules of the game' will remain, thus providing certainty for investors. Indeed, provisions for amending trade agreements and even for withdrawing from them are standard in such treaties, preempting the need for any required review process. The USMCA's review clause, embedded in the agreement at the behest of the United States, therefore serves more the purpose of bringing the players to the table in a political test of wills on how, and even whether, to continue the agreement per any

Continued on page 3

TODAY'S NEWS

POLITICAL

Haiti Transitional Council to Be Installed Today

The transitional council that is tasked with selecting Haiti's next government and helping to prepare the country for elections is scheduled to be sworn in today at the prime minister's office.

Page 2

ECONOMIC

Brazilian Gov't Submits Rules for Tax Overhaul

Brazil's government on Wednesday submitted to Congress proposed rules to implement the country's landmark overhaul of consumption taxes, which legislators approved last year.

Page 2

BUSINESS

Valero Expects Growing Demand for Fuel in Mexico

Even with added capacity at Mexico's new Dos Bocas refinery, the country will still not be able to produce enough fuel to meet demand, said Valero Energy executive Carlos García.

Page 3

García // File Photo: Valero.

POLITICAL NEWS

Haiti's Transitional Council to Be Sworn in Today

The transitional council that will be tasked with selecting Haiti's next government is scheduled to be formally installed today, Prime Minister Ariel Henry's office said Wednesday, Agence France-Presse reported. The ceremony to swear in the new council is to be held at the prime minister's office, known as Villa d'Accueil, in Port-au-Prince's Musseau neighborhood, the wire service reported, citing a press invitation from Henry's office. Henry last month said he would resign when the council, which is comprised of seven voting members and two non-voting observers selected from across the country's political spectrum, is installed. The council is also tasked with helping to get the country ready for a presidential election by February 2026; the country has not held national elections since 2016. Helping to organize an election is among the council's most important tasks, Jacky Lumarque, rector at Quisqueya University in Haiti, told the Advisor in a Q&A published April 1. "Elections are not just technical, they are also a political process. Leadership is needed to create trust and prepare the participants and the population to accept the results in order to avoid greater instability afterward," said Lumarque. The council's formation follows an explosion in gang violence that started in Haiti in late February when gangs attacked the country's main airport, broke into two prisons releasing thousands of prisoners and demanded that Henry resign. More than 2,500 people were killed or wounded in Haiti between January and March, an increase of more than 50 percent as compared to the same period last year, the United Nations said recently, the Associated Press reported. It is unclear how the gangs will respond to the formation of the council; powerful gang leader Jimmy "Barbecue" Cherizier, whose G9 gang alliance controls parts of the capital, was excluded from the body, AFP reported. On Monday, the United Nations special envoy for Haiti, María Isabel Salvador said the council must prioritize security. "Gang leaders and other spoilers have stated their intention to violently disrupt the current political process," said Salvador, the AP reported. "I cannot stress enough the need to assist Haiti with its efforts to reestablish security," she added.

ECONOMIC NEWS

Brazilian Gov't Submits Rules for Tax Overhaul

Brazil's government on Wednesday submitted to Congress proposed rules needed implement a historic overhaul of the country's consumption taxes, which legislators approved last year, Reuters reported. In a statement, the country's finance ministry said the legislation contains the majority of the regulations needed to implement the overhaul and that it would send Congress a second proposal within days. The second measure would address oversight and management of the new taxes. The objective of the reforms was to boost Brazil's productivity by cutting red tape in the tax code, which is infamous for saddling businesses with huge compliance costs. The overhaul consolidates five current taxes into a value-added tax, Reuters reported. The tax overhaul is not likely to be fully in place until 2033. The reform also includes a selective tax that targets products that are deemed harmful to health and the environment. Finance Minister Fernando Haddad told reporters that the country's consumption tax rate currently stands at about 34 percent. The finance ministry's tax reform secretary said that the average rate under the reform would be 26.5 percent, Reuters reported. The reform also will likely increase digitalization in tax collection, which officials say will lessen instances of fraud and tax evasion. Official data published on Tuesday showed that the country's tax collection has declined, Bloomberg News reported. In March, the country's tax collection slowed 12.3 percent as compared to February, according to a report by the fiance ministry.

NEWS BRIEFS

Iran Warns Argentina After it Demands Interior Minister's Arrest

Iran's Foreign Ministry on Wednesday warned Argentina against "making baseless accusations against citizens of other countries" after the South American country on Tuesday demanded that Pakistan arrest Iran's interior minister, Ahmad Vahidi, over his alleged involvement in the 1994 bombing of a Jewish community center in Buenos Aires, the Associated Press reported. Interpol has a red notice to arrest Vahidi. Argentine President Javier Milei has increasingly aligned himself with Israel, increasing tensions with Iran.

Brazilian Indigenous Group Detains 12 Illegal Gold Miners

The Urihi Associação Yanomami, a Brazilian Indigenous group, said in a statement Wednesday that its members had apprehended 12 illegal miners in the Amazon near the border with Venezuela, the Associated Press reported. The organization said it handed the miners over to police and that their actions were driven by concern over illegal mining resulting in mercury polluting the water.

El Salvador Receives $1.9 Billion in Remittances in Year's First Quarter

El Salvador received $1.9 billion in remittances in this year's first quarter, a 1 percent decline as compared to the same period last year, EFE reported, citing the country's central bank. For all of 2023, El Salvador received $8.18 billion in remittances, a 4.6 percent increase as compared to 2022, according to the central bank. In a report released in 2020, El Salvador's finance ministry said 471,633 households in the country receive remittances and that more than 13,000 of them are in extreme poverty.

BUSINESS NEWS

Valero Expects Growing Demand for Fuel in Mexico

U.S.-based oil firm Valero believes demand for fuel in Mexico will continue to grow even as the nation's new Dos Bocas refinery is expected to increase production, the company's general director for Mexico, Carlos García, said Tuesday, Bloomberg News reported. "Even with added capacity from the new Dos Bocas refinery, Mexico cannot generate enough diesel, jet fuel and gasoline to meet demand," García said in an interview in Mexico City on the sidelines of a Council of the Americas event. "There's always going to be a need to import fuel into Mexico," he added. Mexican state-owned oil firm Pemex estimates that by September, when Dos Bocas will begin operating at full capacity, the new refinery will produce roughly 340,000 barrels per day. While the new Mexican refinery will ramp up production, García said Valero still believes it can profitably export more fuel into the Mexican market due to rising domestic market demand reaching 1.3 million barrels per day, leaving a 500,000 barrel per day deficit even after Dos Bocas reaches its full output capacity, Bloomberg News reported. García added that Valero expects demand in Mexico to continue growing by 2 to 3 percent a year, in part because more U.S. companies are growing their operations in Mexico. Pemex meanwhile continues to struggle against growing financial debts that are threatening production and impeding the firm's ability to pay suppliers, with whom the firm's debt rose 17.3 percent in March, Reuters reported, citing a report that the company released Monday.

Pemex expects the Dos Bocas refinery to begin operating at full capacity in September.

FEATURED Q&A / Continued from page 1

unfavorable assessment of the treaty, and even of the players, up to that point. Donald Trump is very good at this game. If he's the next U.S. president, China's connection with Mexico will certainly be on his mind, as it will be on Biden's if elected. While Mexico in 2023 supplanted China as the top exporter to the United States, China itself has deepened its investment presence in Mexico as a gateway to export to the United States under the auspices of the USMCA. This back-door Chinese access to the U.S. market is already causing a stir in Washington, but can the United States impose on Mexico which countries can and cannot invest in its export sector for USMCA privileges to apply? Mexico's answer would be a resounding no, regardless of who is its next president."

A **Diego Marroquin, senior analyst at the Brookings Institution and Ally Shoring Fellow at the U.S. Mexico Foundation:** "With the approaching review of the USMCA, national elections in Canada, Mexico and the United States before 2026 add an element of uncertainty. Regardless of election outcomes, Mexico and Canada are likely to defend the status quo and advocate for adherence to a 493-day old panel decision that deemed the U.S. interpretation of Regional Value Content (RVC) in the auto sector inconsistent with the USMCA. In contrast, a Democratic or Republican administration will likely pursue an offensive strategy aimed at enforcing stricter trade rules and raising the barriers to direct and indirect Chinese exports and investment. The former approach would safeguard the USMCA's double-digit growth in cross-border trade since 2020 and bolster the 17 million North American jobs that rely on intra-regional exports. However, this approach risks missing the opportunity to align the agreement with a rapidly evolving global economy and losing more markets to China. The latter could help update the agreement but would jeopardize the region's competitiveness by potentially increasing costs to a level where companies downgrade integration efforts and preferential market access under the USMCA over World Trade Organization tariffs. The existing confusion regarding RVC in autos is only one of several areas to be addressed. Unless all countries confirm in writing that they want to continue the agreement, the USMCA is set to expire in 2036. An unsuccessful review in 2026 will not necessarily end North American trade as we know it, but it could trigger a painful series of yearly joint reviews capable of undermining long-term investments and stymying job growth. Thus, a competitive North America should be able to play both offense and defense."

A **Turenna Ramirez Ortiz, partner at Holland & Knight:** "In accordance with article 34.7 of the USMCA review, this is a 'joint revision of the parties,' so it's important to note that this is not a renegotiation. This review is intended to analyze its efficiency, consider recommendations, decide on appropriate adjustments and, most importantly, the continuance of the USMCA. Two scenarios could happen during the joint review. First, if each party confirms its desire to extend this agreement, it shall be automatically extended for 16 years. Or, second, if, as part of a six-year review, one or more parties doesn't confirm its desire to extend the term, the commission shall meet to conduct a joint review each year until 2036, and at any time between the conclusion of the review and the expiration of the agreement, the parties may automatically extend the term by heads of government confirming it in writing. Additionally, presidential candidates of both countries view the USMCA as a relevant instrument for trade and economic development. However, candidates may use this revision as a political instrument to protect each country's interests. Topics that may arise include the rules of origin for electric vehicles and batteries. Also, disputes over energy and labor will be decisive no

Continued on page 4

FEATURED Q&A / Continued from page 3

matter which candidate is elected. Investor confidence, respect for the rule of law and the continuation of investments in the region will be affected by the USMCA. The USMCA is considered a legal 'safety net' for current and new businesses managing cost-efficient operations, so not having the agreement may discourage new business development."

A Dan Ciuriak, senior fellow at the Centre for International Governance Innovation in Waterloo, Ontario: "The politics of trade has been almost poisonous for the past decade. The WTO is effectively sidelined and regional trade agreements have backpedaled, as highlighted by the negative quantitative assessments of the USMCA compared to NAFTA, and of course, Brexit. Also, the trade share of global GDP has stopped rising, seemingly ratifying the critique that globalization went too far. From a political perspective, the prospects for North American trade are certainly not rosy. Biden and Trump have been on the same page on trade, Canada renamed its trade minister the minister for trade diversification and Mexico will likely continue to 'look south' under López Obrador's successor, Claudia Sheinbaum. The era of 'three amigos' is long gone. Yet, neither Canada nor Mexico have diversified their exports away from North America, despite the USMCA headwinds. Additionally, the flattening out of global trade relative to GDP is more plausibly attributed to the technological advances in the 2010s—advanced manufacturing, 3D printing and data-driven automation in general—than to trade politics. Perhaps most importantly, the global and regional value chains forged over decades of adaptation to continental free trade and the 'made in the world' system under the WTO appear to reflect a deep-seated rationalization and optimization of production systems that is robust to the (relatively) shallow effect of supply chain politics and nationalist industrial policies. Ultimately, it is companies that trade, not countries, and perhaps that is the best basis for optimism about the future of North American trade under the coming political transition."

> **"The era of 'three amigos' is long gone."**
> **– Dan Ciuriak**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta.

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

Gene Kuleta
Editor

Carl David Goette-Luciak
Reporter

Nili Blanck
Reporter

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

