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FEATURED Q&A

How Are Trade Tensions Affecting Supply Chains?

Mexico and Costa Rica stand to benefit from trade tensions between the United States and China, Fernando de Mateo says on page 4. The Chinese container ship CSCL Venus is pictured above. // File Photo: Buonasera via Creative Commons.

Q China announced May 13 that it would increase tariffs on nearly $60 billion worth of U.S. products, in retaliation for the United States' move to boost tariffs on $200 billion of Chinese goods to as much as 25 percent. To what extent are escalating tensions between the United States and China affecting global supply chains and the role of Latin American and Caribbean nations in them? Which countries in the region stand to gain or lose the most from disruptions caused by the trade conflict, and what should they do to prepare? As goods coming out of China become more expensive and companies consider sourcing their products elsewhere, will Latin America be able to compete, or will it lose out to regions that offer cheaper manufacturing, such as Southeast Asia?

A Guillermo Malpica, head of the Mexican Ministry of Economy's trade and NAFTA office in Washington: "The escalation of tariffs and retaliation between the United States and China could represent some short-term gains for Mexico and other Latin American countries by allowing them to sell products to one or both of them more competitively, due to an increase in the prices of some imports for Chinese or American consumers. But this depends on the specific product, the channels of distribution, the ability to supply the amounts needed and on how much the cost increase for Chinese and U.S. products transfers to the end consumer. Any gains could be temporary, depending on how long the conflict lasts and how well Latin American products fare in those new destinations. Additionally, it is important to mention that this escalation of measures also affects other products

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TODAY'S NEWS

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General Strike Partially Observed in Nicaragua

Several businesses and private schools were shuttered, while pharmacies, banks and gas stations remained open. The opposition had called for the general strike to demand the release of people it considers political prisoners.

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Agencies Change Colombia Outlook in Opposite Ways

Moody's boosted its outlook for the country's credit rating, while Fitch lowered its outlook.

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ECONOMIC

Mexico Calls on U.S. to Fund Central America Projects

Mexico wants the United States to fund development projects with the aim of reducing outmigration. Mexican Foreign Minister Marcelo Ebrard said he would soon make the same proposal to Germany.

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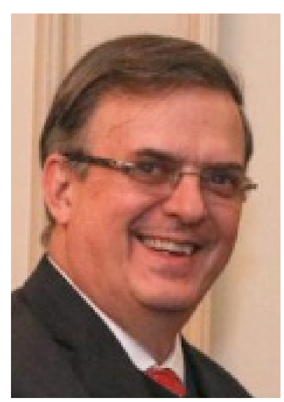

Ebrard // File Photo: Mexican Government.

POLITICAL NEWS

General Strike Closes Businesses, Schools in Nicaragua

Several businesses and schools were closed Thursday across Nicaragua amid a general strike that the opposition called to demand the release of people arrested in connection with anti-government protests over the past year, the Associated Press reported. In Managua, small businesses, some supermarkets and private schools were shuttered, but pharmacies and gas stations remained open. Banks also remained open following a warning from President Daniel Ortega's government that they would be sanctioned if they closed their doors, Agence France-Presse reported. Pedestrian and vehicular traffic was much less than normal in the capital, though taxis and buses were on the roads as usual, the AP reported. The strike was called as talks between Ortega's government and the opposition, which began in February, have stalled. The government has agreed to release by June 18 all opposition supporters who have been arrested in connection with the protests, which began in April of last year, but Ortega's critics say the government appears to have little willingness to comply, AFP reported. On Monday, the government released 100 prisoners to a form of house arrest, including three human rights activists, the AP reported. Opposition leaders have not confirmed that all those released were protesters. The opposition Civic Alliance for Justice and Democracy has demanded that the government release all of the people whom the opposition considers political prisoners as a condition for restarting talks. Thursday's strike could cost the country between $15 million and $20 million and could also affect tax collections, economist Juan Sebastián Chamorro told AFP. Nicaragua's Labor Ministry said businesses that closed during the strike should still pay employees their salaries and benefits. When the country's violent anti-government protests erupted more than a year ago, demonstrators had originally taken to the streets to protest a pension reform, which the government later scrapped. However, the demonstrations transitioned into a wider protest against Ortega's government. Clashes between protesters and security forces over the following months left at least 325 people dead and hundreds jailed. [Editor's note: See related **Q&A** in the March 19 issue of the Advisor.]

ECONOMIC NEWS

Mexico Calls on U.S. to Fund Central America Projects

Mexico on Thursday proposed that the United States fund seven projects that are part of a plan to boost the economies of Honduras, El Salvador and Guatemala, with the aim of reducing outmigration from the Central American countries, the Associated Press reported. Following a meeting with U.S. Deputy Secretary of State John Sullivan, Mexican Foreign Minister Marcelo Ebrard told reporters he would make the same proposal to Germany next week. Ebrard is scheduled to meet today with Jared Kushner, advisor and son-in-law to U.S. President Donald Trump, and acting Homeland Security Secretary Kevin McAleenan at the White House to discuss the United States committing approximately $10 billion in development funds for Mexico and Central America. "I cannot tell you now whether the United States will take all the projects we bring, but certainly Mexico's perspective needs to be taken into account," Ebrard said. "I hope President Trump, once he has the information we are providing, he can reassess what Mexico is proposing," he added. On Monday, the U.N. Economic Commission for Latin America and the Caribbean, or ECLAC, released the plan designed, at Mexico's request, to boost development in the region, which includes building an electric grid, a network to distribute natural gas and schools in the so-called Northern Triangle nations, El Universal reported. Mexico and the three Central American countries have already budgeted at least $30 billion over the

NEWS BRIEFS

Maduro Accuses U.S. of Trying to Destroy Food-Aid Program

Venezuelan President Nicolás Maduro on Thursday said the United States is seeking to destroy a state-backed food-aid program that he says feeds some six million families, Reuters reported. The administration of U.S. President Donald Trump is reportedly preparing criminal charges and sanctions against people in connection with an alleged scheme to launder public funds intended for the emergency food program, according to sources familiar with the matter. The measures are expected to be enacted within 90 days.

Ratings Agencies Change Outlook for Colombia in Opposite Directions

Moody's Investors Service and Fitch Ratings changed their outlooks for Colombia's credit ratings in opposite directions on Thursday, Bloomberg News reported. Moody's boosted its outlook to stable from negative, citing government measures to stabilize the country's debt. Less than an hour later, Fitch took the opposite action, lowering its outlook to negative from stable, saying that the government's actions are inadequate. Both agencies have Colombia at their second-lowest investment rating.

Chile's SQM to Delay Atacama Expansion Project

Chile's SQM, the second-largest lithium producer in the world, will delay the expansion of production capacity from the Atacama salt flat until the end of 2021 amid falling prices for the metal, the company said Thursday, Reuters reported. The mining company had previously expected installed capacity in Chile to be 120,000 metric tons by the end of next year, or 50,000 metric tons more than its current capacity.

next five years for development projects, the AP reported. [Editor's note: See related **Q&A** in the Dec. 11 issue of the Advisor.]

BUSINESS NEWS

Brazil Sues Tobacco Companies to Recover Health Costs

Tobacco company Philip Morris International said on Thursday that Brazil has repeatedly ruled that cigarette manufacturers are not liable for smoking-related health damages, the Associated Press reported. The statement followed an announcement on Tuesday that Brazil's attorney general has filed a lawsuit against tobacco companies in an effort to recover costs to the public health system in the last five years related to treatment of 26 diseases that have been scientifically proven to have links to tobacco usage, G1 reported. It is the first of its kind in Latin America. The Brazilian Health Ministry estimates the losses amount to some $3.5 billion per year, given medical expenses and lost productivity due to nicotine addiction, the AP reported. Approximately 428 people die per day in Brazil in connection with nicotine dependency, and 90 percent of lung cancer cases are linked to smoking, according to Health Ministry estimates. "It is worth noting that for the past 20 years, courts in Brazil have consistently found that tobacco manufacturers are not liable for smoking-related damages given that the sale of cigarettes is a legal, heavily regulated activity and that the health risks of smoking have been well-known for decades," Philip Morris said in a statement. The attorney general's office in the lawsuit said Philip Morris, British American Tobacco and their subsidiaries are responsible for 90 percent of Brazil's cigarette sales and manufacturing. "Since the profit of this business is sent abroad, it's more than fair that these multinationals pay the burden they are leaving with Brazilian society," David Bressler, a coordinator from a regional prosecutor's office, told the AP.

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in Mexico and Latin America because of the potential increase in costs for specific inputs from China and the United States that are affected by the tariffs. The net effect is uncertain. Moreover, the fact of having a set of unilateral trade policy decisions made by China and the United States, even if it is for the correct reasons, erodes the role of the multilateral trade system as a natural place to solve systemic disputes."

A **Riley Walters, policy analyst for Asia economy and technology at The Heritage Foundation's Asian Studies Center:** "The immediate cost for the global business community from ongoing U.S.-China tensions is the uncertainty it creates for making business decisions. Most businesses aren't sure how to make appropriate investment decisions because no one knows how the U.S.-China dispute will continue. The goods coming out of China will become more expensive whether trade tensions with the United States continue or not. Rising labor costs and an uncertain economic environment are driving up costs in China, meaning countries in Latin America will have to compete with Southeast Asia nonetheless. The costs of tariffs drive up prices even more for certain goods as it becomes expensive to do business between the United States and China. Over time, some companies will look at leaving the United States or China to find alternative sources for investment and avoid bilateral tariffs. Countries looking to capitalize on these movements should seek to improve their own domestic investment environment. Nothing brings in investment like a stable environment that's free from excessive government regulation."

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>
> **— Riley Walters**

A **Andrew Rudman, managing director at Monarch Global Strategies:** "The Trump administration's tariffs on steel and aluminum, washing machines, solar panels and $250 million in Chinese-made exports to the United States have already disrupted global supply chains and trade more generally. An escalation of Sino-U.S. trade tensions will exacerbate these disruptions with largely negative implications for U.S. consumers. Yet disruption creates opportunities. Latin American and Caribbean nations may see the competitiveness of their exports to China and Europe enhanced, while U.S. competitiveness is reduced due to retaliatory tariffs on agriculture and other sensitive products. Brazilian soy and Argentine wheat are but two commodities that may see increased sales in light of the breakdown in U.S.–China talks that reportedly included additional Chinese purchase commitments. The U.S. tariffs on China are intended to encourage the movement of manufacturing from China to the United States. In reality, the movement may be to other low-cost producers, including in Latin America. For instance, Politico recently cited Hasbro and GoPro as two firms that left China, not for the United States, but for Mexico. A survey conducted by the American Chamber of Commerce China and American Chamber of Commerce Shanghai found that 'just over 41 percent of companies said they are considering or had already relocated manufacturing outside of China, with Southeast Asia and Mexico as the top destinations.' Latin America's proximity to the United States already provides a competitive advantage over Asian manufacturers for industries heavily reliant on just-in-time production. These advantages could be amplified through adoption of business-friendly measures, such as the cus-

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toms single window and simplification of tax and regulatory structures. Efforts to enhance the rule of law and eliminate corruption as promised, for example, by Presidents López Obrador and Bolsonaro, could be bolstered by the potential to attract new investment in manufacturing."

A Fernando de Mateo, coordinator of the diploma on trade negotiations at El Colegio de México and former Mexican ambassador to the World Trade Organization: "The trade war between the United States and China is like a nutcracker, the nut being the multilateral trading system. On the one hand, the United States has repeatedly violated WTO rules by applying what most people believe are illegal trade measures, and the ones retaliating have also done so by applying measures without going first to the WTO. The effect has been that value chains have shortened, with China domestically adding more value to its products. U.S. multinational enterprises have also shortened global value chains, but not necessarily bringing them back home. A number of processes have been transferred to Latin America, particularly to those countries already integrated in the global value chains. According to the Peterson Institute, the country to be most favored in relative terms (seven percentage points above the current value of exports) is Mexico. The second most favored Latin American country is Costa Rica. The danger for Mexico is starting to increase

"Value chains have shortened, with China domestically adding more value to its products"

— Fernando de Mateo

protectionist measures, with a direct impact on trade costs. Then, U.S. companies will go somewhere else, particularly to Vietnam, Malaysia and Thailand, among others. As for the rest of Latin America, many countries have China as their main market. The more China becomes self-reliant, the more those countries will suffer in its exports. The reduction in the rate of growth of China's GDP has already taken its toll on Latin American exports."

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

Advisor Video

Mandates for Change: Anticorruption and Latin America's New Leaders

An Inter-American Dialogue discussion with
Lea Giménez, Inter-American Development Bank
Benigno López Benítez, Finance Minister of Paraguay
Félix Ulloa, Vice President-elect of El Salvador
Wagner de Campos Rosário, Transparency Minister of Brazil

View a webcast of the May 23 discussion.

PLAY

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