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FEATURED Q&A

What Are the Best Options for Modernizing NAFTA?

Q U.S. Secretary of State John Kerry said recently that he is exploring the possibility of deepening the North American Free Trade Agreement, which celebrated its 20th anniversary on Jan. 1, to strengthen trade ties with Canada and Mexico with an eye toward expanding the agreement to include other countries in the hemisphere. How significant of a priority should strengthening NAFTA be as compared to other trade agreements, and would other countries be interested in participating? How would or should a re-launched NAFTA differ from the agreement reached two decades ago?

A Carl Meacham, director of the Americas Program at the Center for Strategic and International Studies: "The leading economies in the Western Hemisphere are undergoing a series of fundamental changes that include sustained commercial success. This has led some governments to focus increasingly on enhancing commercial frameworks to maintain their international appeal. It comes as no surprise that U.S. policymakers would also consider this approach. NAFTA was a pioneer in this regard. For 20 years, NAFTA has contributed significantly to the economic development of North America. Since its inception in 1994, U.S. trade with Canada and Mexico has nearly quadrupled. The agreement was the first of its kind in the Western Hemisphere, and its scope has enabled a ballooning of trade in agricultural products, services, and manufactured goods—not to mention millions of jobs in the United States alone. It seems high time to consider how NAFTA might adjust to shifts within the region to best serve the United States and North America, within a competitive commercial global environment. With issues of wage disparity and labor standards continuing to drive illegal immigration to the United States from Mexico and a changing environment for free trade in the hemisphere, NAFTA must

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Nicaragua Delays Canal Construction Until 2015

The head of Nicaragua's canal authority, Manuel Coronel Kautz, has said that the planned construction of a waterway through the Central American country will not start until next year because more time is needed to study proposed routes. See story on page 2.

File Photo: Organization of American States.

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NEWS BRIEFS

Honduran President-Elect to Announce Cabinet Picks

Honduran President-elect Juan Orlando Hernández will announce his remaining cabinet picks this week, local daily *La Prensa* reported Sunday. Hernández, who is slated to be inaugurated on Jan. 27, has already said Roberto Ordóñez, his campaign manager, would be named the new minister of infrastructure and energy. Marlon Tábora, currently Honduras' representative to the Inter-American Development Bank, will be named head of the central bank, *El Heraldo* reported last month.

Economists Cut Brazil Growth Forecast to Below 2 Percent

Economists covering Brazil lowered their forecast for growth in Latin America's largest economy to less than 2 percent for this year, according to the latest central bank survey, Bloomberg News reported. In Friday's survey of about 100 analysts, which the central bank published today, economists expected 1.95 percent growth for 2014. That is down from 2 percent the previous week and 3.8 percent growth forecasted last February.

Jamaica's NCB to Offer Insurance on Credit-Card Balances

Jamaica-based **National Commercial Bank** has begun offering insurance coverage to consumers on outstanding credit card balances, the *Jamaica Observer* reported last week. The product, which will pay off up to a maximum of 2.5 million Jamaican dollars ($25,484) in outstanding balances on personal credit cards in case of heart attack, stroke or cancer, does not require underwriting, but acceptance is subject to some restrictions such as age.

Economic News

Nicaragua Delays Construction of Canal Until 2015

A Nicaraguan official has said that the planned construction of a canal across the Central American country will be delayed until next year, BBC News reported Saturday. Manuel Coronel Kautz, the head of Nicaragua's canal authority, said more time is needed to choose a route for the waterway and conduct feasibility studies. Work would "probably" begin in 2015, he said. President Daniel Ortega previously said that the country would begin construction this May. The project, which is expected to cost $40 billion, would give the impoverished country its "economic independence," Ortega has said. Several routes have been proposed for the canal, all of which would be about three times as long as the Panama Canal, which was finished in 1914. Last June, Nicaragua's government granted Hong Kong-based **HKND Group** a 50-year concession for work on the proposed canal. Under its agreement with the company, Nicaragua would receive a minority share of the profits from the canal. Critics of the project have questioned HKND's credentials and have said it is not qualified to take on the project. However, the company's owner, Wang Jing, has said the project has attracted investors abroad and has added that the canal could be built in six years. The project has also drawn criticism from environmentalists who argue the project would damage Lake Nicaragua, through which it may pass. Nicaragua's announcement that it is delaying the project came several days after a consortium leading the Panama Canal's expansion has threatened to halt the project unless the Panama Canal Authority pays for more than $1.6 billion in overruns. [Editor's note: See video of a June 19 Inter-American Dialogue event on this topic.]

Ortega

File Photo: Nicaraguan Government.

Argentine Government Sets New Price Controls

The government of Argentine President Cristina Fernández de Kirchner on Friday launched a new set of price controls, which take effect today, *The Wall Street Journal* reported. The controls, which are to be in place for one year, set prices on 194 grocery-store items including meat, milk, pasta, beer and ice cream. "It isn't a price freeze, [but] rather a policy to provide visibility, certainty and transparency in the formation of key prices in the economy," Domestic Commerce Secretary Augusto Costa said Friday in a televised address. After first taking effect in the city and province of Buenos Aires, the controls will be implemented in other provinces. The South American country is facing low economic growth, rising inflation and shortages of foreign currency. The economy is believed to have bounced back in 2013 with 3 percent growth after a weak 2012. Private economists estimate that inflation is above 25 percent, though the government's widely distrusted statistics put inflation at 10.5 percent. In March and April, Argentine unions are set to negotiate salaries. Those annual wage talks follow a police strike last month that led to looting in at least a dozen provincial capitals after police walked off the job. Argentina's debt payments, imports of fuel and capital flight took up $12.7 billion in hard currency in 2013. The government's reserves have since stabilized to a seven-year low of approximately $30.6 billion. Luciano Cohan, chief economist at the **Elypsis** research firm, told *The Wall Street Journal* that the new price controls are unlikely to curb inflation. "Price controls can be useful if they are part of a package of fiscal and monetary policies" aimed at lowering prices, said Cohan. The new president of Argentina's central bank, Juan Carlos

Private economists estimate that Argentina's inflation is above 25 percent.

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Fabrega, has pledged to slow the growth in the country's money supply. However, that could be a challenge if the government continues running deficits. Fernández and her cabinet ministers have ruled out cutting government spending, arguing that such measures would harm the economy.

Company News

Carlyle, KKR Among Companies in Talks to Acquire Brazil's Fleury

Carlyle Group and **KKR & Co.** are among the private-equity funds in discussions to acquire Brazil's **Fleury**, Bloomberg News reported Sunday, citing three people familiar with the talks. An acquisition of Fleury, which last year was the country's worst-performing medical-services provider, could amount to more than 2.9 billion reais ($1.2 billion), the sources told the news service. **Gavea Investimentos** and **Apax Partners** have also considered an acquisition of Fleury. Gavea, the Brazilian private-equity and hedge-fund unit of **JP Morgan Chase & Co.**, currently has a 30 percent stake in **Instituto Hermes Pardini**, which competes against Fleury in providing medical diagnostic services. Gavea, however, is not large enough to acquire a controlling stake in Fleury without partnering with another potential buyer, Bloomberg News reported. It is seeking to cut costs as it faces tougher competition from hospitals and laboratories. Companies providing medical diagnoses face risks due to their inability to pass higher costs along to customers, **Votorantim Corretora** said in a Dec. 15 report.

An acquisition of Fleury could amount to more than $1.2 billion.

Featured Q&A

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adapt should it hope to improve upon its success. The current climate in the hemisphere is more favorable for free trade than at any time in the recent past. The TTIP, TPP and Pacific Alliance are making headlines as innovative and forward-thinking trade agreements. In this context, reforms within NAFTA—especially regarding the development of a regional energy agreement—would be significant, but not enough to boost the agreement's commercial impact around the globe. What will serve NAFTA best is for its member nations to have the option to be treated collectively in their international commercial interactions, especially when such treatment is in their interests. This will ensure NAFTA's competitiveness in the context of our increasingly competitive and dynamic world."

Jeff Faux, distinguished fellow at the Economic Policy Institute in Washington: "NAFTA should not be extended; it should be re-negotiated. When urging the U.S. Congress to approve NAFTA, Bill Clinton promised that the deal would bring 'good-paying American jobs,' a rising trade surplus with Mexico and a dramatic reduction in illegal immigration. Instead, NAFTA has directly cost the United States a net loss of 700,000 jobs. The surplus with Mexico became a chronic deficit. And several million Mexican workers were driven out of agriculture and small business, increasing the flow of undocumented workers into the United States. The issue here is not whether or not nations should trade. It is an issue of who benefits from the rules. NAFTA was a deal among the financial elites of all three nations, leaving ordinary workers and citizens out. For example, the agreement grants extraordinary legal protections to corporations and guarantees capital mobility while denying workers and citizens the legal status and political power needed to defend themselves in these new cross-border jurisdictions. NAFTA's major effect was not so much to free trade as much as it was to free multinational investors from national labor, environmental and other regulatory constraints. The result has been a trade regime that makes suppressing wages the chief source of corporate profits. Thus, despite two decades of wage stagnation in the United States, the gap between U.S. and Mexican wages is about where it was when NAFTA began. We don't need 'more NAFTA.' We need a new agreement that re-establishes the balance between labor and capital in what is now a continental economy."

Arturo Sarukhán, chairman of global solutions at Podesta Group in Washington and former Mexican ambassador to the United States: "A decision by the Obama administration to fully and unreservedly embrace NAFTA and the trading success story it has fostered would certainly be welcome news. NAFTA can and should be deepened and upgraded. The way to do so, without opening Pandora's Box by seeking to renegotiate it, is via the Trans-Pacific Partnership. As free-trade agreements go, NAFTA was the keystone, a 1.0 version of how to facilitate trade. Subsequent trade deals were 2.0 agreements, and TPP now represents the 3.0 template for what free trade should aspire to achieve. Having Canada, the United States and Mexico adhere to the new, 21st century free and fair trading standards like those in TPP would not only modernize NAFTA's architecture by pulling it up by the bootstraps, it would help respond to a global economy very different from the one that existed in 1993, and also enhance North American integrated supply and production chains, one of the most salient success stories of our economic interaction. An expansion of NAFTA only makes sense if it's underpinned by acknowledging that regionalism is the name of the game in the hemisphere, and if it seeks to engage like-minded nations that believe in a rules-based international trading system.

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Featured Q&A

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The Pacific Alliance, which is all about the nations that want in, and not about those nations that do not, could well serve as the core group with which to build a framework that allows those nations willing to engage to do so without being held back by others. Given asymmetries in approaches to free trade and subregional blocs with differing geopolitical and geoeconomic outlooks, aspiring to revive a Pan-American vision for trade is Panglossian at best, and will only lead to more impasse and frustration, as was the case with the FTAA in the early 1990s."

Ben Beachy, research director at Public Citizen's Global Trade Watch: "Given NAFTA's two-decade legacy of net damage—mass agricultural displacement and job loss, falling real wages, growing income inequality and an undermining of environmental and health safeguards—NAFTA should be renegotiated, not deepened or expanded through the controversial Trans-Pacific Partnership (TPP). In Mexico, a NAFTA-enabled influx of subsidized U.S. corn contributed to the destruction of livelihoods for about 2.5 million Mexican campesinos and agriculture-dependent workers. The promised increase in maquila jobs evaporated as hundreds of factories were undercut by Chinese sweatshop exports after China joined the World Trade Organization. The ensuing migration of displaced Mexican farmers and workers pushed down Mexican wages and contributed to a post-NAFTA doubling of Mexican immigration to the United States. Real wages in Mexico have fallen significantly below pre-NAFTA levels as price increases for basic consumer goods have exceeded wage increases—a minimum wage earner in Mexico today can buy 38 percent fewer consumer goods as on the day that NAFTA took effect. In the United States, NAFTA contributed to the loss of millions of decently paid manufacturing jobs, exacerbating middle-class wage stagnation and record growth in income inequality. Meanwhile, foreign corporations have used NAFTA's controversial 'investor-state' privileges to challenge scores of environmental and health laws in all three NAFTA countries. Foreign corporations have extracted more than $360 million from NAFTA governments via tribunal rulings against toxics bans, land-use rules, and water and forestry policies, while more than $12.4 billion remains pending. NAFTA's two decades of tumult and hardship for millions of North Americans now offers one of the most compelling arguments against expanding the NAFTA model via the TPP."

James R. Jones, member of the *Advisor* board and co-chair of Manatt Jones Global Strategies: "The place to strengthen and modernize NAFTA is through the negotiations of the Trans-Pacific Partnership. The TPP, hopefully, is nearing the end of negotiations and may be presented to the Congress for approval in 2014. Clearly, NAFTA needs modernizing. Much has happened in commerce and technology in the 20 years since NAFTA went into effect. There was no public Internet then, and so many other innovations developed that have changed the process of global trade. So our first priority should be to make Canada, Mexico and the United States a seamless, efficient economy and marketplace. That can be done through TPP and through harmonizing regulations and procedures and modernizing port infrastructure. Then we can invite other countries in the hemisphere to join us under modern rules of competition and fair play."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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