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THEDIALOGUE

FEATURED Q&A

How Could North American Trade Ties Be Improved?

The logo of the NAFTA Secretariat, comprised of the flags of the three signatory countries: the United States, Mexico and Canada (L-R). // Image: Wikimedia Commons.

Q U.S. President Donald Trump told members of Congress during a White House meeting this month that he wanted to "kick-start" the process of renegotiating the North American Free Trade Agreement, or NAFTA. The meeting happened a day after Mexico's government said it was beginning a 90-day process of consultation with the country's private sector to prepare for negotiations, and less than two weeks before Trump met with Canadian Prime Minister Justin Trudeau in Washington. What points of NAFTA are most likely to be changed in a renegotiation? In which ways might Mexico and Canada strike a better deal for themselves? How likely is NAFTA to be scrapped altogether, with the United States then making bilateral deals with its two neighbors?

A Andrés Rozental, president of Rozental & Asociados in Mexico City and senior policy advisor at Chatham House: "Mexico and Canada have both signaled to the Trump administration that they are ready to sit down and review which aspects of NAFTA could be improved after almost 25 years since it was put into force. Certain topics weren't included when the trilateral agreement was originally negotiated, either because they were not germane or, as in the case of energy, could not be addressed, given Mexico's constitutional impediment at the time. Mexico has announced a 90-day consultation period with the private sector in order to ascertain the business community's priorities and proposals for upgrading NAFTA. However, Mexico has also made it very clear that it is not willing to change the fundamental principles upon which the treaty was based and upon which the bilateral

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TODAY'S NEWS

POLITICAL

Ecuador Race Appears Headed for April Runoff

Tensions eased on the streets of Quito Tuesday, as protests that threatened to boil over became more celebratory upon news the two front-runners most likely would be going to a runoff April 2.

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ECONOMIC

Argentina Rolls Back Taxes on Electronics

Argentina's government will eliminate a 35 percent tariff on imports of computers, laptops and tablets this April. The protectionist measures helped create some domestic jobs but led to sharply higher prices for consumers.

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POLITICAL

Trump Cabinet Officials to Meet Mexico's President

U.S. Secretary of State Rex Tillerson and Homeland Security chief John Kelly depart today for Mexico, where they will meet with President Enrique Peña Nieto amid high bilateral tensions.

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Kelly // File Photo: U.S. Government.

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POLITICAL NEWS

Ecuador Presidential Race Appears Headed for April Runoff

Tensions eased on the streets of Quito on Tuesday, as protests that grew angry Monday became more celebratory upon news from the head of Ecuador's National Electoral Council suggesting the two front-runners likely would be going to a runoff as opposed to an outright victory for ruling party candidate Lenín Moreno, El Comercio reported. "No, it's not possible," Electoral Council President Juan Pablo Pozo

The CNE's President, Juan Pablo Pozo. // File Photo: juanpablopozo.com.

told reporters, when asked if a runoff could be avoided, Reuters reported. "But we have to wait for official results to be 100 percent." With 98.5 percent of the votes counted this morning, Moreno had 39.33 percent support, while businessman Guillermo Lasso stood with 28.19 percent of votes. In order to avoid a second round, Moreno would need to win 40 percent of the vote and be 10 percentage points ahead of Lasso. Looking ahead to the April 2 runoff, analysts suggest the outcome will depend on the ability of conservative voters, split in the first round between Lasso and third-place candidate Cynthia Viteri, to rally behind the former banker. Since Sunday's vote, Viteri has called on her voters to support Lasso. But others warn that Moreno and his party, the Alianza PAIS, which under President Rafael Correa has held power for a decade, should not be underestimated. Moreno won the most votes in 15 of Ecuador's provincial capitals on Sunday, while Lasso dominated in just nine. [Editor's note: See related **Q&A** in Friday's edition of the Advisor.]

ECONOMIC NEWS

Argentina Rolls Back Taxes on Consumer Electronics

Argentina's government will eliminate a 35 percent tariff on imports of computers, laptops and tablets this April, the Production Ministry has announced, Reuters reported Tuesday. Computers are three times more expensive in Argentina than in the United States, according to the report, and 50 percent more expensive than in neighboring Chile. The taxes had been put in place a decade ago in order to promote manufacturing jobs domestically, a policy that created specialized industrial zones in under-developed provinces but caused distortions in prices that led Argentines to shop abroad for consumer goods. At times it has been cheaper for consumers to fly from Argentina to Miami and buy an iPhone in the United States, than to just buy the same product in Argentina, CNN Money reported. Opposition politicians have criticized the move to eliminate the tariff, however, citing layoffs and looming plant closures. Under the previous administration of President Cristina Fernández de Kirchner, the government passed laws to promote local industry and prevent the flow of dollars out of Argentina. Electronics companies had to manufacture in Argentina's Tierra del Fuego region in order to be able to sell their products in the country.

BUSINESS NEWS

Pan-American Life Surpasses $1 Billion in Annual Revenue

New Orleans-based Pan-American Life Insurance Group said Tuesday its revenues last year topped $1 billion for the first time in its century-long history. Operating earnings and net income for the year ending Dec. 31, 2016 grew more than 30 percent as compared to the

NEWS BRIEFS

Top Trump Cabinet Officials to Meet Mexican President

U.S. Secretary of State Rex Tillerson and Homeland Security chief John Kelly will meet with Mexico's president on Thursday amid high bilateral tensions, Agence France-Presse reported today. President Enrique Peña Nieto canceled a meeting with his counterpart, Donald Trump, last month over plans to build a wall on the U.S.-Mexico border and Trump's insistence that Mexico will pay for it. The State Department said in a statement the officials will discuss "border security, law enforcement cooperation, and trade, among other issues."

Brazil Senate Committee Advances President's Supreme Court Nominee

A key committee in Brazil's Senate on Tuesday approved President Michel Temer's nominee for Brazil's Supreme Court, Agência Brasil reported. Alexandre de Moraes, 48, testified for 11 hours, at times defending himself against accusations of plagiarism in his academic work and suggestions he had counseled criminal organizations. The full Senate is expected to confirm him Wednesday. Moraes would replace Teori Zavaski, the justice killed in a plane crash in January who was in charge of investigating corruption at state oil giant Petrobras.

Panama Pegs Growth Rate at 5.8 Percent This Year

Panama's Ministry of Economy and Finance said Tuesday that it projects economic growth for 2017 at 5.8 percent, making it the highest growth forecast among all Latin American economies. The ministry also said it now estimates the country's growth last year to have been between 5 percent to 5.2 percent, primarily due to strong construction, mining, and financial sectors, as well as energy generation.

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prior year at the company, which acquired the majority of MetLife's assets in the Caribbean, Panama and Costa Rica in 2013. International business now accounts for 55 percent of the company's premiums, while business in the United States accounts for 45 percent. Net income for 2016 increased by 38 percent to $48.9 million, as compared to $35.3 million the year before. Total assets for the group grew to $5.6 billion, a 3.28 percent increase, while its total equity increased 10 percent to $933 million. Led by longtime CEO José Suquet, PALIG, as the company refers to itself, employs more than 1,700 people worldwide and offers individual and group life, accident and health insurance, employee benefits and financial services to markets across the Americas, with a strong presence in the United States, northern South America, as well as Central America and the Caribbean.

Norton Rose to Combine With Chadbourne & Parke

The law firms of Norton Rose Fulbright and Chadbourne & Parke said Tuesday they plan to combine next quarter. Both firms have a strong presence in Latin America and the Caribbean. Following the combination, the firm will have more than 4,000 lawyers in 58 offices spanning 32 countries, with offices in Mexico City, São Paulo and elsewhere in the region. The new entity will be known as Norton Rose Fulbright. The smaller Chadbourne, based in New York, has been a going concern for more than a century and is best known for its project finance practice, The Wall Street Journal reported. Global law firms have been combining in recent years, as pressure from clients over billing rates and practices has increased the imperative for scale and efficiency. Norton Rose has 160 attorneys in its Latin America practice, according to its Web site, while Chadbourne has 34 attorneys in its Latin America team, which has been focused in particular on Cuba, Brazil and Mexico. The firm opened its first Latin American office in Mexico City nearly ten years ago.

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relationship with the United States has been constructed during the last two-and-a-half decades: free trade in goods and services, respect for the rights of Mexicans in the United States, unimpeded flow of remittances by its nationals and protection of investments among the three nations. NAFTA has been good for all three parties in terms of economic growth, the creation of value chains and integration of their economies in order to make North America more competitive. President Trump has yet to admit the benefits that this brings to the U.S. economy: jobs and markets for U.S. products. Neither Mexico nor Canada have indicated that they want to reopen the NAFTA; it is the Americans that seem to find multiple, often fictitious, flaws with it, and they have yet to publicly indicate which aspects of the treaty they find unfair or in need of change. Once that happens, it will be up to the other two parties to decide whether these are acceptable or not. If no consensus can be reached, then it will be up to the United States to decide whether it withdraws with a six-month notice. Should the Trump administration decide to leave the agreement, Mexico and Canada would continue to be bound by the terms of the treaty until such time as either or both decide to pursue other strategies."

Amy Glover, director at McLarty Associates: "The best-case scenario for a renegotiation of NAFTA would be a modernization of the agreement, including new disciplines, like the digital economy, that did not exist twenty-three years ago, and exploring ways to enhance North American competitiveness in order to benefit all three economies. It is hard to see this more positive scenario materializing, however, unless the administration of President Donald Trump starts to view Mexico as a strategic ally in both economic and security terms, and not as a problem to be dealt with. The U.S. private sector will play a critical role in defending Mexico's relevance as the second-largest market for U.S. exports, as well as a co-producer of goods that makes North America the most competitive manufacturing region in the world. In Washington, D.C. analysts tend to forget that the United States will not be negotiating alone, but that there will be two other countries at the table with their own demands. Canada has signaled it may be willing to discuss trade issues on a bilateral basis with the United States, which complicates the negotiating position for Mexico and makes it unclear how NAFTA discussions will proceed, given that it is in fact a trilateral agreement. Canada will hopefully remember that Mexico is also part of North America and that great strides have been made toward strengthening ties between the two. It is a relationship that should not be casually tossed in the dust heap. NAFTA is already part of the economic structure of the three economies, and companies have come to rely on the stability and rules of the game that the agreement establishes. Calling it a bad agreement, which the U.S. president has done on numerous occasions, has created a level of uncertainty that is certainly bad for business both in Mexico and in the United States. This uncertainty has increased risk, and until we know the fate of the NAFTA, investments that would generate growth and jobs on both sides of the border will likely remain stalled."

Pablo Heidrich, assistant professor at the Arthur Kroeger College of Public Affairs at Carleton University in Canada: "The United States is expected to request a higher percentage of local content in the rules of origin for products to circulate as domestically produced during the NAFTA negotiations. That will affect manufacturing most, especially for autos, electronics and construction materials. The United States might also demand changes to specific tariff lines in labor-intensive manufacturing goods, with Canada most likely not object-

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ing, while Mexico will disagree or demand compensation. Canada and Mexico will in all likelihood demand the end of Chapter 11, where foreign investors are given rights to sue host states for changes in regulatory rules. Trump will, in this case, break with U.S. tradition by likely accepting this, as it will further disincentivize U.S. companies that invest abroad instead of locally. Mexico has substantial leverage over the U.S. on non-economic issues, and also much of U.S. foreign direct investment (FDI) is in the Mexican service sector and is dependent on consumer demand there. A hurting Mexican economy will reduce U.S. profits and devalue their investments there. Finally, Mexico can sign free trade agreements (FTAs) with other countries to replace lost preferences in the U.S. market. Overall, it seems to be a very high-stakes negotiation for both parties. Canada's asymmetric dependence on the United States gives it much less margin of maneuver, but simultaneously, it doesn't feel as threatened by Trump's statements on trade because it actually runs a very significant trade deficit with the United States, excluding oil and gas exports. The United States already has an FTA with Canada, signed by President Reagan and Prime Minister Mulroney in 1989, which was suspended once NAFTA came into place. If the latter was scrapped, the former would replace it automatically. It would remain to be seen whether the United States and Mexico could agree on a bilateral deal, and the same for Canada and Mexico. It seems rather feasible to conclude a bilateral Canada-Mexico FTA that would protect Canadian mining and financial FDI, as well as maintain some degree of industrial integration in the auto industry. Agricultural protectionism on both sides would require tense bargaining, but an economically suboptimal outcome could be easy to obtain."

> **"Agricultural protectionism on both sides would require tense bargaining. …"**
>
> **— Pablo Heidrich**

Arturo Sarukhan, former ambassador of Mexico to the United States: "There's no doubt that the way Mexico and Canada can achieve the best deal with the United States is based on a three-pronged approach. First, they need to ensure, as has auspiciously been articulated now by both governments, that whatever negotiation takes place, it's a trilateral one. The siren song of going it alone and striking a bilateral deal with Washington needs a quick reality-check by reminding our Canadian partners that to do so, Canada would have to jettison NAFTA first, and that the end result—bilateral trade deals—would be a lose-lose-lose for North American wellbeing. Second, Canada and Mexico have an opportunity to jointly make a case in Washington that NAFTA can indeed be modernized and upgraded to ensure that it reflects the rules-based global economy of today and not of 20-plus years ago. Finding soft-landing spots for the incorporation of new disciplines, many of them agreed to—but now jettisoned—as part of the TPP, such as e-commerce, data flows, data protection, and cybersecurity, would ensure a successful win-win-win renegotiation of NAFTA. There's also room here to address one of the Trump Administration's main concerns with NAFTA regarding rules of origin, particularly in the automotive sector. And third, the three partners can commit to significantly investing in and improving border infrastructure so as to ensure the secure and efficient cross-border flows of goods. A good crisis should never go to waste. We need to ensure that at the end of the process, the three North American nations have a 21st Century regulatory framework with 21st Century infrastructure to further build upon our $1 trillion of 21st Century trade that benefits all."

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