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From issue: **Higher Education and Competitiveness** (Summer 2014)

Policy Updates

A snapshot of policy trends and successes in the region.

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Binational Cooperation: Marcos Godoy of Mexico City manufactures car dash mats at a maquiladora. Photo: Ivan Pierre Aguirre/AP.

Peace: Elections and Peace in Colombia

BY

Cynthia J. Arnson

Colombia's 2014 presidential elections marked a watershed in the country's politics. This was not because incumbent President Juan Manuel Santos won by nearly six percentage points, after having narrowly lost the first round to Óscar Iván Zuluaga, a hardliner backed by Santos's political nemesis, former president Álvaro Uribe.

Rather, the campaign offered—as never before—starkly opposing visions of how to end Colombia's 50-year conflict with the *Fuerzas Armadas Revolucionarias de Colombia* (Revolutionary Armed Forces of Colombia—FARC): through direct peace negotiations on a tightly constructed agenda, or through military action aimed at the FARC's defeat or surrender.

Understanding how the elections became a referendum on the peace process—and on *uribismo* itself—requires looking less at the candidates themselves than at the alliance, and then bitter parting, of Santos and Uribe.

Santos and Zuluaga served together in Uribe's cabinet, Santos as defense minister and Zuluaga as

finance minister. Both had similar attitudes toward Colombia's economic opening and management, which led to record levels of foreign direct investment and growth rates well above the Latin American average.

As Uribe's defense minister, Santos had presided over the most important military blows against the FARC in Colombia's history. He ran for president in 2010 with Uribe's blessing, winning by a landslide and expected to continue on the path laid out in the Uribe administration's *Política de seguridad democrática* (democratic security policy)—a long-term strategy to regain control of the country through an increase in the number of troops and police units fighting the guerrilla insurgency. His change of course—dispatching his brother secretly to meet with the FARC to assess their interest in peace talks—and the subsequent launch of talks in August 2012 ignited a verbal and political war between Santos and Uribe that continues to this day.

Zuluaga garnered international accolades during his years as finance minister, but was largely unknown in Colombia when he became the candidate of Uribe's *Centro Democrático* (Democratic Center) party following a raucous and divisive party convention last year. In January 2014, scarcely four months before his first-round victory, Zuluaga was favored by a scant 8 percent of the country's voters.

The split over security strategy is so deep that Uribe, Zuluaga and their supporters do not recognize the existence of an internal armed conflict in Colombia. They define the threat to Colombia as originating in the actions of terrorists and drug traffickers, abetted by radical leftist regimes in neighboring Venezuela and Ecuador. The distinction has led to opposing remedies. Uribe insisted, as did Zuluaga during most of the campaign, that the only appropriate subject for peace talks should be the FARC's unconditional surrender, and an end to attacks on Colombia's civilian population.

Uribe's opposition to the negotiations was so implacable that he leaked the military coordinates of FARC commanders to be airlifted out of Colombia to join the talks in Havana in May 2013, possibly endangering the lives of those involved in the operation and the peace process itself. His access to this information was presumed to reflect the deep unpopularity of the peace negotiations in parts of the armed forces.

Santos, meanwhile, believed the increased military weakness of the FARC created the kind of ripe conditions for talks that had been absent in the past. Moreover, when he took office, the FARC was still estimated to have upwards of 7,000 fighters—down from approximately 20,000 only a decade earlier. Although they had been driven out of all major urban areas into remote border zones, they were still able to attack infrastructure and bleed lightly defended police and army outposts in a classic war of attrition. With hundreds of millions of dollars in annual income from the drug trade as well as illegal mining (by conservative estimates), the FARC retained a significant capacity to wreak havoc on the country far into the future.

Colombia's resurgence—economically and socially—depended on ending the insurgency, one of the longest-running in the world.

Whatever the validity of these competing narratives, they remained peripheral to the central concerns of Colombian citizens. A poll taken by the Colombian research and consulting company *Cifras y Conceptos* in January 2014, two months after the campaign officially began, showed that 60 percent

of respondents ranked unemployment, access to quality health care and education, and corruption as the principal problems facing Colombia's next president.

Only 12 percent identified the guerrillas or the peace accord as the most critical issue. A Gallup poll taken two months later showed an even wider gap, with common crime displacing the guerrillas as the fifth-ranked concern.

Moreover, a nationwide poll on the peace process conducted last year by Bogotá's *Universidad de los Andes* and Vanderbilt University's Latin American Public Opinion Project (LAPOP) showed majority support for the peace process but also a majority skeptical that it would be successful. Notably, the poll showed widespread opposition to the FARC's participation in politics at any level, and huge majorities against allowing FARC members to avoid prison terms even if they confessed their crimes.

One of the most poignant conclusions of the study was that people actually living in conflict zones were more supportive of the peace process, and had a greater openness to pardon and reconcile with demobilized FARC fighters.

As the presidential campaign came to a heated close, Santos stepped up his defense of the peace process, casting the June 15 vote as a referendum on "an end to the war or war without end." The week of the second round, he announced that "exploratory conversations" had begun in January with the smaller *Ejército de Liberación Nacional* (National Liberation Army—ELN), driving home the message that important momentum in the peace talks could be lost were he not re-elected. Zuluaga also sharpened his attack on a "peace with impunity." But to pick up the endorsement of the first-round's third-place winner, former defense minister Marta Lucía Ramírez, he was forced to back away from a vow to end the peace talks if elected.

Santos won by convincing Colombians to vote their hopes and not their fears. With the endorsement of the leftist *Polo Democrático Alternativo*'s (Alternative Democratic Pole—PDA) candidate, Clara López, his campaign racked up votes in the capital, emerging victorious in Bogotá and dramatically increasing voter turnout in Santos' strongholds on the Caribbean coast. But if the campaign is any guide, the next president will have to acknowledge the deep skepticism of the peace process, the visceral rejection of impunity for the FARC, especially in the country's urban core, and the fact that governing means doing what the majority of Colombians want: expanding employment, improving public services, and making the country safer, not just from guerrilla threats.

Click here to read an article on elections in Colombia by Francisco Miranda Hamburger.

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Brazil and Trade: Brazil's Ambivalent Welcome to the World

BY

Jaana Remes and Patricia Ellen

Just a few years ago, Brazil was brimming with optimism. Rising global demand for resources led to an export and consumption boom. The official poverty rate was declining sharply, thanks to an expansion of the social safety net and falling unemployment. When GDP growth hit 7.5 percent in 2010, it seemed that the “sleeping giant” was finally wide awake.

Today economic growth has ground to a halt. The aspiring middle class is frustrated by modest income growth, exorbitant prices for consumer goods and sky-high interest rates on household debt. Brazil’s current rate of productivity growth is likely to produce weak 1.2 percent annual gains in per capita income through 2030, which will do little to boost living standards.

The recent slowdown has been exacerbated by Brazil’s long history of insulating itself from the rest of the global economy through a complex system of trade barriers, industry subsidies and high taxes. These measures, along with the country’s chronic infrastructure deficiencies, have not only worsened high prices, they have also sealed off Brazil from the dynamic effects of global competition and prevented it from playing a greater role in the production networks of multinational companies. Brazil’s exports are equivalent to only 13 percent of GDP, far below the level in India (24 percent) or Mexico (33 percent).

As part of the Mercosur trade bloc, Brazil has focused on cultivating South-South trade with other emerging economies, including Israel, India, Cuba, the South African Customs Union, and Egypt. But Brazil exported just over $3.1 billion worth of products to India, the largest of these markets, in 2013. By contrast, a recent study from Brazil’s *Instituto de Estudos Para o Desenvovimento Industrial* (Institute of Industrial Development Studies—IEDI) estimated that free trade agreements with the EU and the U.S. would boost the country’s foreign trade by 18 percent, or some $86 billion annually.

However, negotiations with the EU have dragged on for more than a decade, and no talks are under way with the United States. As global markets grow ever more connected, Brazil appears to be at increasing risk of being left behind.

Our research finds that Brazil could boost its average GDP growth by up to 1.25 percentage points annually by deepening its global connections. In addition to pursuing new overseas markets, it can accelerate productivity growth by opening up its economy to the pressures of international competition—forcing companies to become more efficient—and cheaper inputs from abroad. Global exposure also expands the supply chain options available to companies and positions them to absorb more of the world’s flows of technology, research and ideas.

This effect can be seen within Brazil’s own economy. In the heavily protected automotive industry, for example, high import tariffs encourage foreign automakers to build cars within Brazil. But the country exports only a small share of the vehicles it produces, and Mexican auto plants now turn out twice as many vehicles per worker as Brazilian plants. Due to high taxes, inefficiencies and import restrictions, the sticker price for a Toyota Corolla is 150 percent higher in Brazil than in the U.S., even though the car is assembled in Brazil.

In contrast, Brazil’s innovative aerospace and agriculture sectors are both thriving in the face of global competition. One critical difference in these cases was a strategy of developing R&D muscle before reducing the government’s direct role in these sectors.

Building deeper global connections is not only about the trade of goods. It is also about benefiting from global flows of finance, services, people, and data. Although Brazil attracts strong inflows of foreign direct investment from companies eager to sell to its large domestic market, it can do more to attract venture capital from overseas to support innovative start-ups. Brazil captures very little of the world's trade in services.

One of those areas is in tourism. Since 1999, the country has lost 30 percent of its share of world tourism. It can reverse that decline by building tourism infrastructure, improving security, and more effective marketing to global travelers. The increased attention and goodwill likely to come out of hosting the World Cup and the 2016 Summer Olympics provide a unique opportunity to recapture and expand that market.

The migration of workers and the exchange of international students directly translate into new ideas, innovation and business deals. Today only 0.5 percent of Brazil's workforce is foreign-born; making it easier to obtain work permits would allow companies to recruit skilled foreign talent.

To connect with the rest of the world, Brazil will have to dismantle some homemade barriers to growth, starting with its maze of bureaucracy and its byzantine tax code. It will also need to prioritize building a twenty-first century transportation network that can speed the movement of goods and people, as well as provide greater digital connectivity for the entire population.

The optimism that once surrounded Brazil was more than just hype. The country has diverse and abundant natural resource endowments. Its sophisticated business sector has a strong track record for innovation in fields ranging from clean energy to electronic payment systems, and its large and growing consumer market can fuel the growth of startups. Publicly supported startup hubs in Minas Gerais, Santa Catarina, Pernambuco, and Rio de Janeiro have sparked entrepreneurship in those states. Some of the newly formed companies are already exporters of both goods and contract services.

Brazil needs a new catalyst for growth that can build on these assets. That catalyst could be found beyond its own borders.

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Policy Advocacy: NAFTA and the New Regionalism

BY

Raúl Rodríguez-Barocio

The world has changed dramatically since the North American Free Trade Agreement (NAFTA) was signed. Today, 20 years later, we live in an era of mega-regionalism. This new reality calls for a new strategic vision for North America.

"Distant neighbors." That's how Alan Riding, then *The New York Times* bureau chief in Mexico, labeled the relationship between Mexico and the U.S. 30 years ago. We have come a long way since

then. While not yet strategic partners, the binational levels of interdependence and cooperation are unprecedented in the history of both countries.

Trade flows within the NAFTA region of Canada, Mexico and the U.S. have grown four times since it came into effect on January 1, 1994. In 2013, Mexico was the United States' second largest goods export market, totaling $226.2 billion—a 444 percent increase since the pre-NAFTA world of 1993—and accounted for 14.3 percent of overall U.S. exports in 2013. U.S. exports to Mexico are greater than exports to China, Japan and Taiwan combined; greater than exports to the U.K., Germany, the Netherlands, Belgium, and Italy combined; and to the rest of Latin America.

The U.S. imports more from Mexico than from similar groupings, excluding China, totaling $280.5 billion in 2013—a 603 percent increase since 1993—and Mexico accounted for 12.4 percent of overall U.S. imports in 2013. This level of economic activity is happening in a country 13 times smaller in nominal economic terms. Further, the trade deficit with Mexico and Canada has been low and stable for over 20 years, in sharp contrast to the exponential increase and towering levels of America's deficit with China.

For Mexico, NAFTA has represented much more than a significant change in the region's internal trade and investment flows. It got Mexico to think "forward and outward, instead of inward and backward," as Luis Rubio from *El Centro de Investigación para el Desarrollo* (Center of Research and Development—CIDAC) suggests. Economic interdependence in North America is now embodied by the emergence of shared production processes, clusters and corridors, particularly in sectors like the auto industry. In fact, U.S. imports from Mexico incorporate close to 40 percent U.S. content, with production zigzagging across the border. The equivalent for Canada is 25 percent and 4 percent for China, according to the Woodrow Wilson Center Mexico Institute's "Is Geography Destiny? A Primer on North American Relations" 2014 report.

A twenty-first century economic architecture for North America needs to be constructed on two levels. The first is within the region, requiring new formulas for market access, energy, logistics, border management, training, and labor mobility. The revolution in the energy sector in the U.S. is a cornerstone, enabling new economic trends and a resurgence of U.S. manufacturing.

The second level is extra-regional, anchored to the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), with the goal of linking the region to a considerable portion of the global economy and bolstering business by lowering transaction costs.

Mexico and Canada should insist on some level of joint negotiation in TPP (an agreement both countries are a part of) and participation in TTIP (a trade agreement that is being negotiated between the U.S. and the European Union), partly as a way to mitigate some of the effects of the unavoidable expansion of preferential access for other countries to the U.S. market. If a common initiative is out of the question, accommodation will be necessary. For example, the terms of each country's relationship with the EU should eventually match TTIP provisions.

Notwithstanding the difficulties of obtaining Trade Promotion Authority (TPA) in the U.S., as well as the intricacies of the electoral calendars in the U.S. and the EU, the process entailed by both TPP and TTIP represents an opportunity to work on a common agenda for North America's competitiveness. Luis de la Calle, one of Mexico's leading economic experts, has suggested that Mexico and Canada

unilaterally harmonize their existing internal and external rules and regulations with the EU to conform with TTIP as a last resort, if needed. In parallel, progress within NAFTA can be achieved in regulatory and standards harmonization, external tariff convergence, trade-in-services liberalization, and better standards to protect e-commerce and intellectual property, and improve dispute settlement mechanisms.

Mexico has sustained almost 20 years of superb macroeconomic management, but growth levels have been extremely low. With that in mind, the country is at a watershed moment, trying to complement achievements in stability and an open economy with the critical and long-overdue reforms the current administration is endorsing in the energy, fiscal, labor, education, telecommunications, and political sectors. The energy reform underway, for example, is a historic departure from the dominant nationalistic stance that has been present for many decades.

There is much at stake for the U.S. in Mexico's reform process. The U.S. can help by welcoming Mexico to a coordinated approach as the new trade and investment framework with other key regions is developed. In fact, it would be an opportunity to rekindle the trilateral nature of NAFTA, which has eroded over the years as dual bilateral and hub-and-spoke approaches have become the norm in regional free-trade relations.

Although border security and anti-narcotics issues have dominated the bilateral agenda since 2001, cooperation between Mexico and the U.S. has continued to mature. To address political opposition on both sides of the border to further economic integration, the exceptional business coalition that was vital during the NAFTA negotiation also needs to be strengthened.

Together, Mexico and the U.S. have preferential access to more than 50 countries around the world. A joint effort to move TPP and TTIP forward as a bloc would take full advantage of the synergies embedded in this relationship. And returning to regional competitiveness as the main focus of the bilateral agenda would be timely as we leave behind the "distant neighbor" mentality and deepen our strategic partnership in North America.

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