

Peso Surges After Ross Says Nafta Deal Could Fuel Recovery (2)

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By Sarah McGregor

(Bloomberg) -- U.S. Commerce Secretary Wilbur Ross triggered a rally in the peso when he said the currency could recover “quite a lot” if his country can reach a sensible agreement with Mexico on the North American Free Trade Agreement.

“The peso has fallen a lot, mainly because of the fear of what will happen with Nafta,” Ross, 79, said in an interview on CNBC on Friday. “I believe that if we and the Mexicans make a very sensible trade agreement, the Mexican peso will recover quite a lot.”

The peso surged 1.9 percent on Friday morning New York time in the wake of Ross’s comments, paring its depreciation over the past year. The 8.7 percent decline in the currency’s value since March 2016 has boosted the cost of imports into Mexico, while making its exports more competitive.

The Commerce secretary said the first trade priority of Donald Trump’s administration is to re-negotiate Nafta, which Trump described on the campaign trail as the “worst” trade deal of all time. The administration has indicated that the target of the reforms will be Mexico while only tweaking ties with Canada, though specifics are still scant.

The American priorities in negotiating Nafta will be tightening “quite a bit” the rules of origin, dictating how many goods can come from nations outside Nafta while still receiving the agreement’s tariff perks, said Ross. Talks to modernize the trade deal will also address mechanisms to ensure the peso-dollar exchange rate becomes more stable and explore ways for Mexican workers to get better wages and living standards, he said.

‘Facilitating’ Exports

“The first emphasis will be on facilitating U.S. exports to other countries, getting rid of both tariff and non-tariff barriers to trade,” said Ross. “The other side of that will be preventing illegally subsidized goods from coming in, and really enforcing it.”

The U.S. isn’t talking with China yet about trade, said Ross. “The first on our agenda is Nafta because we think it makes sense to solidify your own neighborhood first,” he said.

China’s trade surplus has largely driven the country’s “economic miracle,” while Germany has been an “enormous beneficiary” of the weak euro, though it can’t be considered manipulation because of the currency union, he said.

You can assume whatever “overt actions” the U.S. takes on trade will receive a “counter-punch” from the affected party, said Ross.

The World Trade Organization “in some ways” is necessary as an arbitrator of global trade, though it needs some fine-tuning, particularly on dispute settlement, said Ross. This week, the U.S. Trade Representative, in the annual 2017 Trade Policy Agenda, said Trump’s administration intends to defend its national sovereignty over trade policy and that the U.S. isn’t bound by decisions at the WTO.

Ross said no decision has been reached on a border- adjustment tax, a proposal that would place a levy on U.S.

companies’ imports while excluding their exports from taxable income. “We need to do something to balance the budget,” he said. “Given the very partisan atmosphere in Washington now, reconciliation is probably the only way we can get things through, things like tax relief,” he said, referring to a special fast-track budget vehicle.

“Border adjustable is certainly one powerful mechanism for doing that,” Ross said. “But let’s see what else evolves. Let’s see what the alternatives are.”

To contact the reporter on this story:

Sarah McGregor in Washington at smcgregor5@bloomberg.net To contact the editors responsible for this story:

Brendan Murray at brmurray@bloomberg.net Randall Woods, Vivianne Rodrigues