

NAFTA Plus? TPP Minus?

Blog post by Senior Associate Guillaume Ferlet, 27 July 2017

In publishing its NAFTA objectives last week, the Trump administration finally set the stage for a renegotiation after months of delay in Washington. The text of the announcement, which provides some sense of what a Trump-style NAFTA might look like, invites several observations.

The first, is that the list of objectives looks fairly modest for a President who described NAFTA as '*perhaps the greatest disaster trade deal in the history of the world*'. The Trump administration does not seek to roll back existing market access – no new tariffs or quotas are proposed. Instead, the administration wants to reduce the US's trade deficit with its two NAFTA partners through various low-profile measures, such as tightening rules of origin (the local value content a Canadian or Mexican good must meet to be imported tariff-free into the US), forcing higher and more enforceable labour standards onto Mexico, and strengthening subsidy disciplines.

The second, is that while Canada and Mexico probably felt a degree of relief at this list, there are still some sensitive points for them. Suppressing the Chapter 19 dispute settlement process (which provides Canada with a privileged forum to challenge US antidumping and anti-subsidy duties imposed on Canadian goods), or forcing stricter rules upon the (extremely politically sensitive) Canadian dairy sector are unlikely to go down well in Ottawa. Mexico will be uneasy about the US demands on labour and environmental standards. It agreed to similar commitments in the Trans-Pacific Partnership agreement (TPP), but only with the incentive of the wider market access the agreement promised in Asia. The same commitments in NAFTA 2.0 come with no new increment in US market access (to the exception that a few remaining agricultural import quotas might be removed).

The third, is that in spite of Trump lambasting the deal on the campaign trail and abandoning it upon taking office, there is a lot of TPP in these proposals. After regrouping, trade policy in Washington has quietly struck back. In many areas, from intellectual property to digital trade or energy, the NAFTA objectives announced by the Trump administration are salvaged Obama administration TPP aims. However, most of these additions would be sought by any US administration offered the chance to update NAFTA after 25 years – there is nothing especially Trumpian about this approach. Pro-trade Republican legislators may be wondering why, if Trump is willing to pursue these TPP aims in NAFTA, he is so resistant to the original.

It is early days for this process, but this is among the less confrontational paths the administration could have taken, which reflects six months of concerted lobbying. Nevertheless, there is still plenty to be contested here, both domestically (US auto firms are worried about the rules of origin changes) and in Mexico City and Ottawa (who are being asked to give the US some of what it wanted in TPP – and more – with no significant US concessions and no Asian sweetener). Trade-sceptical US Democrats will also be considering their own position – after condemning NAFTA for years, is this their idea of a better deal? Or an opportunity to outflank Trump on his anti-trade left? The great dealmaker still has some dealmaking to do.