

The ‘other NAFTA’

Blog post by Adviser Daniel Capparelli, 13 June 2016

Mexican trade negotiators are in Brussels today for the first round of negotiations to upgrade the fifteen-year-old EU-Mexico FTA. The 2000 EU-Mexico agreement was one of the first ‘modern’ (translation: “we agreed to talk about services and investment”) FTAs the EU ever signed, and one of the very few FTAs it has ever managed to sign with one of the larger emerging economies (the other is the EU-South Korea FTA).

At one level this is just an update of that deal. That in itself may actually prove complicated because the politically and technically ‘easy’ steps to remove trade barriers in goods have already been taken, providing little for the EU to trade for further Mexican commitments in sensitive sectors such as services and non-tariff barriers. As in its negotiations with the US on the TTIP, the Commission will face resistance on public procurement, geographical indicators, and regulatory convergence. For its part, Mexico will want further movement on EU politically sensitive areas such as agriculture market access, rules of origin and movement of salaried workers. All highly sensitive areas.

But ‘optimists’ in the Berlaymont also see the EU-Mexico talks as part of a bigger picture in which the EU requires a more comprehensive response to the TPP, which integrated all three NAFTA states into the wider Pacific deal framework. The logic in Brussels is that it should in time be possible to do something similar across the North Atlantic, given the Canadian deal (awaiting EU ratification) and the TTIP (awaiting political interest in a deal). In other words, just sign TTIP, merge CETA and the EU-Mexico FTA into a set of NAFTA commitments, and...voilà: the North Atlantic Free Trade Agreement.

As befits people whose key policy tool is the 1947 GATT, trade policymakers tend to take a long view. And the idea does have merit. It would allow for cross border cumulation on the NAFTA side for onward exports to the EU. It would allow EU manufacturers to reach the wider NAFTA market from a single point of entry. However, from a practical perspective, the optimism couldn’t look less attuned to the political reality. The last substantive agreement ratified by Brussels is the EU-Korea FTA in 2011. The EU-Singapore FTA (concluded in 2012), CETA (in 2015) and the EU-Vietnam FTA (in February) all still await ratification. The US is about to elect either a President who wants to renegotiate NAFTA (and not in the sense above) or one who appears not to be entirely sure what it is. At this rate, a North Atlantic Free Trade Agreement would be unlikely to see the light of day before 2025 - if we are optimistic!