



NAFTA Whiplash Could Hurt American Economic Interests

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Donald Trump might have reached the White House on his self-proclaimed status as a great negotiator, but trade policy experts say his recent about-face on NAFTA could leave the United States in a position of political and economic weakness.

Just hours after the administration floated a threat to pull out of NAFTA on Wednesday, it reversed course, with the White House saying Trump wants to “renegotiate” the trade agreement. Trump followed these pronouncements with a pair of tweets Thursday morning that included both a pledge to negotiate and a threat to “terminate.”

“I think Trump knows how to talk tough, and his supporters have come to expect him to be that way, but he’s also come to recognize... that protecting the U.S. market comes at a huge cost,” said Daniel Ikenson, director of trade policy studies at the Cato Institute.

“He’s transposing into government his bargaining strategies from his previous business life, which were kind of confrontational and threatening,” said Marcus Noland, executive vice president and director of studies at the Peterson Institute for International Economics.

Saber Rattling

Ratcheting everything up to crisis level is a tactic with diminishing returns, policy experts point out.

“One of the problems with President Trump is he’s developing a reputation of talking very loudly, making pretty strong statements and then backing down. I’m sure the Canadians are noticing that and expecting it,” said Michael O. Moore, a professor of economics and international affairs at George Washington University.

Some suggest that Trump’s saber-rattling is a gambit to appease his base and score political points on the eve of his 100th day in office.

“Politically, he’s somewhat beholden to the fact that that message was received well by a lot of his base,” said Joseph Parilla, a fellow in the Metropolitan Policy Program at the Brookings Institution.

Noland said the idea of renegotiating NAFTA is, in principle, a useful idea.

“The sensible way would be to... basically take the chapters of TPP that address issues like e-commerce, and say, ‘This is the modernization of NAFTA,’” he said. “That would make sense and it would be pretty straightforward.”

“It’s a little bit ironic that the administration pulled out of TPP immediately and now a renegotiation of NAFTA looks a lot like TPP,” Parilla said.

Quitting NAFTA outright, on the other hand, would have potentially dire economic consequences. The most visible impact would be on automotive manufacturing, hitting hard the parts of the country that were instrumental in delivering the presidency to Trump in the first place, but due to the global nature of trade, the availability and price of everything from salad greens to gasoline could be thrown into disarray.

“The reality is the global supply chain is very complex, as it should be — we want to have an efficient and productive global production system,” said James J. Angel, an associate professor at Georgetown University’s McDonough School of Business.

“Trying to undo the integration NAFTA has brought is going to create problems for a lot of manufacturers,” he said, since much of the goods we produce domestically include raw materials or components that come from our neighbors.

“We’re disproportionately reliant on Canada and Mexico to make the core products and services the U.S. economy relies on,” Parilla pointed out.

Although Trump campaigned on a pledge to restore American manufacturing and boost the export economy, if he were to carry through on his threat to “terminate” NAFTA, Trump ultimately would be ceding ground on global trade.

“If he impedes trade, there will be consequences for U.S. exporters,” Ikenson warned.

“A lot of our exports are regional and a lot of our export competitiveness relies on that regional base,” said Todd Tucker, a fellow at the Roosevelt Institute. “Regional economies of scale are necessary to compete with China’s very low cost.”