



NAFTA without Canada? President Trump's threat seen as negotiating tactic more than reality

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WASHINGTON – President Donald Trump’s threat to terminate a quarter-century-old, three-country trade agreement and replace it with a deal involving only Mexico sounds to analysts like nothing more than a hard-nosed negotiating ploy to extract trade concessions from Canada.

But could he actually do it?

Legally, yes. But, politically, it would be difficult.

“There will be no deal without Canada, period,” said Dan Ikenson, director of the Center for Trade Policy Studies at the Cato Institute, a think tank based in Washington.

In a celebratory Oval Office news conference, Trump announced Monday that the U.S. and Mexico struck a new trade deal that could eventually pave the way for the revision of the North American Free Trade Agreement, or NAFTA.

In the same breath, Trump said he intended to terminate NAFTA, the trade pact created by the U.S., Mexico and Canada that eliminated most tariffs among those three nations and made it easier for corporations in those three countries to move goods across the border.

Trump suggested that a separate trade deal could be reached with Canada “if they’d like to negotiate fairly” or that the Canadians could be brought into the new agreement with Mexico. But in what some viewed as a warning shot in advance of a new round of talks, Trump threatened to slap tariffs on Canadian automobiles, which he described as “the easiest thing we can do.”

On Tuesday, Canadian Foreign Minister Chrystia Freeland cut short a week-long trip to Europe and flew to Washington to restart the negotiations. Canada had been involved in the initial rounds of talks to overhaul NAFTA but has been on the sidelines since July, when the U.S. and Mexico began negotiating with each other.

She told reporters that she and United States Trade Representative Robert Lighthizer had “a very good, constructive conversation” on rewriting NAFTA and will plunge “full-steam” into specific issues on Wednesday.

Trade analysts in the U.S. and Canada said Trump’s threats to terminate NAFTA seemed more like bluster intended to give the U.S. an advantage heading into those negotiations than something he might actually do. They stressed that Canada should be included in any new trade deal with Mexico – a view that also is popular in Congress.

Scott Paul, president of the Alliance for American Manufacturing, called Canada “an important trade partner” and urged the administration “to continue working to get a deal that American workers can be confident in.”

Ever since Trump announced last year that he intended to renegotiate NAFTA, “American industry has pressed for a continued three-way deal that would expand, not shrink, economic opportunities for the North American region,” said Rufus Yerxa, president of the National Foreign Trade Council.

It’s critical that any modernized version of NAFTA “include all three North American partners,” Yerxa said, because the only way to compete for global markets with Asian and European producers is “to maintain and strengthen the entire North American production base.”

In Canada, Trump’s threat to terminate NAFTA was seen as “certainly unconventional,” said Dennis Darby, chief executive officer of Canadian Manufacturers and Exporters, the country’s largest trade and industry association.

“But a lot of what Mr. Trump says is unconventional to Canadian ears,” he said.

Changing NAFTA without Canada would be a mistake, Darby said, because “for Canada, NAFTA represents 75 percent of everything we trade.”

“So to suggest that Canada is sort of on the outside is odd when you think about how our economies are so integrated,” he said. “Over the last 25 years of NAFTA, Canada, like the U.S., completely reoriented its manufacturing sector. We went through the same issues the U.S. did. Some factories disappeared. New industries emerged. But our manufacturing sector has been integrated more than any probably any two countries in the world.”

If Trump were to follow through on his threat to terminate NAFTA, there is a legal mechanism that would allow him to do it. But it would not be easy, given the support that the trilateral trade pact has in Congress.

“Hopefully we can have a tripartite or a three-country deal as opposed to just a bilateral deal with Mexico,” Senate Majority Whip John Cornyn, R-Texas, told reporters Tuesday.

Under the agreement, any party to NAFTA could withdraw from the pact six months after providing written notice. But if Trump were to decide to withdraw from NAFTA, it is not entirely clear what that would mean in practice because experts disagree on what would happen next.

Trade procedures regarding tariffs, customs and other services put in place under NAFTA were enacted under legislation passed by Congress.

“In other words, Trump can withdraw us from NAFTA on paper, but changing tariffs and other laws affected or necessitated by NAFTA would require acts of Congress,” Ikenson said.

Other experts argue Congress would not need to act because the NAFTA legislation includes a provision that says the tariff and other procedures will automatically terminate if a country pulls out of the pact.

Trump could probably replace NAFTA with a new agreement with Mexico that excludes Canada, but only if Congress is on board with making such changes, Ikenson said.

Even so, it would be impossible to do it in the targeted 90-day timetable the Trump administration is pushing, Ikenson said, because when U.S. officials notified Congress of their plans to renegotiate NAFTA, they specified that any new agreement would be a trilateral deal.

To present a signed deal to lawmakers three months from now – and apply the president’s fast-track leverage to push the pact through Congress – that agreement must include Canada, he said.

If Trump decides to replace NAFTA with a trade deal involving only the U.S. and Mexico, that will be a hard sell given the bipartisan support the original, trilateral agreement has in Congress, said Lori Wallach, director of Public Citizen's Global Trade Watch.

“That does not seem to be where the process currently stands politically,” she said.