



The New TPP May Sink Trump's Other Trade Dreams

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One of President Donald Trump's first steps in office was to pull the United States out of the Trans-Pacific Partnership, a 12-nation trade deal that was the centerpiece of his predecessor's Asia policy. Over the weekend, the other 11 countries agreed to go ahead — without the United States.

That doesn't just have implications for U.S. trade with fast-growing economies around the Pacific Rim. It also threatens Trump's plans to renegotiate the existing North American Free Trade Agreement with Canada and Mexico, with talks set to resume later this week.

The Trump administration has laid down harsh demands for Canada and Mexico, including rewriting the rules governing auto manufacturing and requiring renegotiation every five years. Both of those countries have called the demands red lines — and now that a revived TPP is back on track, both have more leverage to push back against the United States.

History shows that "having another deal already in place or almost in place certainly strengthens your hand" in trade negotiations, said Duncan Wood, director of the Mexico Institute at the Wilson Center.

In particular, Canada and Mexico now have a new way to push back against U.S. demands that more auto components be built in the United States. Under current NAFTA rules, 62.5 percent of vehicle parts for cars sold under the pact have to come from one of the three countries in the trade pact. The Trump administration, which blames NAFTA for U.S. job losses, wants to rewrite the deal so that fully half of all automotive components come from the United States alone, to the disadvantage of Canada and Mexico. (Even the U.S. auto industry opposes Trump's plan because it would upend existing supply chains.)

The revived TPP includes less restrictive — not more restrictive — rules on where automotive components can be made. Since both Canada and Mexico are in that pact, they'd be hard-pressed to adopt different rules just to deal with the United States.

"The Trump administration has badly miscalculated the leverage it has in terms of rules of origin," said Phil Levy, a senior fellow at the Chicago Council on Global Affairs.

Joining the revived TPP means Mexico, heavily dependent on trade with the United States, now has other options, said Antonio Ortiz-Mena, the former head of economic affairs at the Mexican Embassy in Washington and now a senior vice president at Albright Stonebridge Group.

“NAFTA is the biggest game in town for Mexico, but it’s not the only game in town,” he said.

For Canada, long reliant on trade with the United States, the new American-free TPP is a lot more appealing than the old one. For the first time ever, according to Canada’s Angus Reid Institute, a majority of Canadians support the new pact, and twice as many want expanded trade with Asia versus more trade with the United States.

And if progress on the TPP threatens the Trump administration’s approach to NAFTA, the bare-knuckle negotiating stance with Canada and Mexico may have made it harder to sign the kind of bilateral trade deals that Trump eyes as an alternative to a big pact. In Vietnam over the weekend, Trump railed against multilateral trade pacts and perceived economic bullying, while vowing to put American interests first.

“We have not been treated fairly by the World Trade Organization,” he said. “The United States will no longer turn a blind eye to violations, cheating, or economic aggression.” He vowed instead to pursue one-on-one trade deals.

But by laying out hard-to-meet demands and threatening to let even a renegotiated NAFTA lapse after just a few years, the Trump administration is making potential trade partners in Asia wary. The White House has assumed that America’s economic heft means it can browbeat trade partners into acceding to its demands, said Claude Barfield of the American Enterprise Institute.

“One of the things that will really undercut the Trump administration is the demands that they have made in NAFTA, beyond the normal demands,” he said. “If you’re Vietnam, you’d think twice” before entering talks with the United States, he said.

Neither Japan nor Vietnam, both TPP members, has expressed any interest in sitting down with the United States to hammer out bilateral frameworks. Last week, Japan’s finance minister explicitly rejected the idea of a bilateral agreement. The Trump administration is expected to make an announcement on Wednesday regarding outcomes of the president’s recent trip.

But if the Trump administration is losing trade leverage, it doesn’t seem bothered.

“If you look at the way the Trump administration is currently engaging in trade, they seem determined to just push forward and they don’t seem very worried about what the rest of the world is doing,” said Simon Lester, a trade policy analyst at the Cato Institute. “It seems like they don’t care.”