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Trump Struck a Deal With Mexico That Could Reshape or Possibly Replace NAFTA

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The US and Mexico have reached an agreement on elements of the North American Free Trade Agreement, marking a significant step toward reshaping the landmark trade deal better known as NAFTA.

President Donald Trump praised the deal at the White House on Monday, saying the new agreement would be "tremendous" for US farmers and workers. Trump has longed pushed for the renegotiation of NAFTA, saying the current deal is the "worst trade deal in the history of our country."

Speaking in the Oval Office with Mexican President Enrique Peña Nieto on a conference call, Trump said that Canada might be cut out of the deal and that the NAFTA name would be scrapped because of its "bad connotations." The president told reporters he would call Canadian Prime Minister Justin Trudeau shortly.

Trump said that if Canada does not agree to the new terms, the US could pull out of NAFTA and enter into the new agreement with just Mexico. Trump also threatened to place tariffs on cars coming into the US from Canada to squeeze Trudeau and the Canadian negotiators.

Some of the issues that were negotiated, according to the US:

- A US push to increase the percentage of a car that must be sourced from a NAFTA nation to move freely across the borders of the three NAFTA nations. That percentage under the deal would increase to 75% from 62.5%.
- A threshold for the amount of manufacturing that must be performed by auto workers making \$16 an hour or more. Under the new agreement, 40% to 45% of the car must be made by these higher-wage workers to move between the NAFTA countries without facing a duty.
- The deal would also updated rules on intellectual property rights and labor negotiations.

Peña Nieto said that the deal was a good sign for the US and Mexico but that he hoped Canada would join the deal. He repeatedly referred to NAFTA by its current name.

"It is our wish Mr. President that Canada will be able to be incorporated in all of this," Peña Nieto said.

Before the White House appearance, Peña Nieto tweeted that he spoke with Trudeau to give an update on the Mexico-US talks and urge for Canada to reengage. Peña Nieto also set an aggressive timeline to complete the trilateral talks, calling for a final deal to be struck "this week."

A representative for Canadian Foreign Minister Chrystia Freeland said that the country's "signature is required" on any new deal and that Canada was not guaranteed to sign off.

"We will only sign a new NAFTA that is good for Canada and good for the middle class," the representative said.

According to a senior administration official, Canada could enter back into the agreement in the coming days or the deal could stay between the US and Mexico. Any new deal would need to be approved by Congress.

Given the exclusion of Canada in the talks thus far, experts said a full reworking of NAFTA was far from certain, particularly given the US's lingering demands.

Gregory Valliere, the chief global strategist at Horizon Investments, cautioned that there was a ways to go yet.

"It's a good thing to see progress -- and Donald Trump undoubtedly will brag about it -- but it's not really a done deal yet," Valliere told Business Insider.

The biggest issue appears to be the US demand for a sunset clause, which would require reevaluating the deal every five years with the option to get out, as part of the talks. Both Mexico and Canada strongly oppose the idea because it would create economic uncertainty and allow the US to unilaterally wreck NAFTA.

According to a senior administration official, the US softened the sunset clause demands in the Mexico deal going with a 16-year horizon with a review every six years instead.

Jesus Seade, the trade representative for Mexican President-elect Andrés Manuel López Obrador, told reporters Saturday that the three sides could come together on some sort of agreement on a sunset clause in the form of regular evaluations of the agreement without the threat of combustion.

Isaac Boltansky, the director of policy research at the research and trading firm Compass Point, also urged caution.

"I think any forward progress is positive," he told Business Insider. "With that being said, this is like celebrating after converting a long third down. There is still considerable work left to be done."

US stocks rose following the news of the deal, with the Dow Jones industrial average up just over 200 points as of 10:35 a.m. ET. Additionally, the Mexican peso gained as much as 1% against the US dollar before settling around 18.67 per dollar, a gain of just over 0.7%.

Regardless of Canada's involvement, the handshake deal is a landmark in the yearlong NAFTA negotiations. Some experts, however, said the agreement was not a good sign for the US. Daniel Griswold, a senior research fellow at the the free-market Mercatus Center, said tighter rules around automobiles were unnecessary and could backfire on the Trump administration.

"Any repackaging of the deal should move in the direction of expanding trade liberalization to digital trade, the energy sector, dairy, etc., without rolling back any of the current liberalization," Griswold said in an email. "Unfortunately, many of the Trump administration's priorities, such as tightening rules of origin and the sunset clause, take us in the wrong direction."

Simon Lester, the director for trade policy studies at the Cato Institute, praised the progress towards perserving NAFTA but warned the new auto rules would be a negative for the industry.

"Some of the reported changes agreed to by the US and Mexico on auto trade made the deal worse, by taking some of the free trade out of NAFTA," Lester said. "But hopefully this is a sign that the broader deal can be preserved."

The NAFTA talks are part of Trump's larger attempt to reshape the US trade policy landscape. The president has imposed a series of tariffs on steel, aluminum, washing machines, and Chinese goods this year, igniting trade disputes with allies and adversaries alike.

Trump also repeatedly said the steel and aluminum tariffs were partly designed to pressure Mexico and Canada into renegotiating the NAFTA deal.