



Canada and Mexico are waging a pressure campaign to save NAFTA

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For anyone concerned about the future of NAFTA, the massive free trade agreement that President Trump has long railed against, last week was a roller coaster.

Last Wednesday, Reuters reported that Canadian government officials were “convinced” that the Trump administration would soon announce its withdrawal from NAFTA.

That same day, Canada also filed an official complaint against the US with the World Trade Organization over the way it handles border taxes — a move that analysts say is bound to inflame existing tensions over NAFTA renegotiations, which are set to begin again on January 23.

Mexico also turned up the pressure last Wednesday, with government officials warning that the country would leave the NAFTA negotiating table altogether if the US tries to withdraw from the agreement.

Just a day later, during an interview with the Wall Street Journal last Thursday, Trump made some surprising comments that indicated the US might not be on the verge of pulling out of the agreement after all.

The president said he thought an improved version of NAFTA could serve as a way to force Mexico to pay for a US-Mexico border wall. Trump also said “there’s no rush” to agree to a new version of NAFTA because Mexico has presidential elections coming up in 2018, which could complicate the negotiation process.

“I feel that we have a chance of making a reasonable deal,” he said.

It appears Canada and Mexico are doing what they can to make sure Trump sticks with the negotiation process, even if he changes his mind.

Canada and Mexico may be trying to pressure the US to stick with NAFTA

Next week, the United States, Canada, and Mexico will enter their sixth round of talks to renegotiate NAFTA. The past few rounds have been grueling, as the US has **rolled out radically US-centric proposals** like systematically giving US car manufacturing a leg up over Canadian and Mexican car manufacturing. Canada and Mexico consider a lot of the proposals to be unacceptable, and no country has shown signs of budging yet.

That stalemate has prompted concerns among trade watchers that the US could be setting the stage for pulling out of NAFTA, especially because Trump **has said** that if the three countries don't settle on a deal to his liking, he's pulling out.

Last Wednesday, two Canadian government officials speaking on the condition of anonymity told Reuters that they were concerned about that actually happening — and soon. Shortly after the news broke, big companies whose profits are heavily tied to NAFTA staying intact **saw their stocks plunge**. General Motors lost more than **\$2 billion in value in less than 90 minutes**. And Wall Street's major stock indexes **ended lower on Wednesday** in part due to concerns about how NAFTA falling apart could rock the regional economy.

Experts say that those Canadian government sources might have actually been trying to provoke a reaction from investors to demonstrate to the Trump administration the perils of leaving the free trade agreement.

“I think it was a trial balloon intended to get a market reaction, which it did,” Edward Alden, a trade expert at the Council on Foreign Relations, told me. “The goal was to reinforce the argument that ... pulling out of NAFTA will be bad for the markets and for the US economy.”

That same day, Canada also launched a case against the US at the World Trade Organization over American use of border taxes to protect its domestic industries. And although the case has to do with longstanding grievances between Canada and the US, Alden said the *timing* of it — right as the US is about to kick off a very intense round of NAFTA negotiations — was “highly provocative.”

Indeed, Canadian officials seem to think the WTO complaint sends a message of strength: “When people see that you're firm, you get respect,” International Trade Minister François-Philippe Champagne **said** Thursday.

Mexico's announcement last Wednesday also seemed like an attempt to ratchet up the pressure on the US. “If Trump announces a US withdrawal from NAFTA, well, at that moment the negotiations stop,” Raul Urteaga, head of international trade for Mexico's agriculture ministry, **told Reuters**.

Urteaga was referring to a very specific technical move the US could make — using **NAFTA Article 2205** to set off a six-month countdown. After giving the other partners six months' notice through that provision, a country is free to leave NAFTA (but not necessarily obligated to leave it). NAFTA advocates are worried that the US could potentially trigger this six-month

countdown as an especially aggressive bargaining tactic to get the other countries to agree to the changes it wants.

Mexico has made clear that it will not take kindly to such maneuvers, especially during a presidential election year.

“If Trump invokes Article 2205, even though that does not necessarily mean an end to NAFTA, the optics for the Peña Nieto government will be terrible if he does nothing,” Monica de Bolle, a senior fellow at the pro-free trade Peterson Institute for International Economics, told me. “It’s a credible threat, especially because of the upcoming elections.”

Trump seems to be scaling back his rhetoric about NAFTA — for now

During his recent interview with Wall Street Journal, Trump did not sound as if he were planning to withdraw from the agreement soon. “I’m leaving [the timetable] a little flexible because they have an election coming up,” Trump said, referring to Mexico. “I understand a lot of things are hard to negotiate prior to an election.”

Experts interpreted Trump’s comments as a sign that he isn’t quite as close to withdrawing from negotiations as it had seemed.

“I think his optimism and recognition of the importance of the Mexican elections is a good sign,” Simon Lester, a trade analyst at the Cato Institute, a libertarian think tank, told me. “Maybe some of his more informed advisers have been laying out a reasonable time frame and approach, and he has accepted it.”

Trump also mentioned using NAFTA to make Mexico pay “indirectly” for the wall he has planned for the US-Mexico border. While he doesn’t explain the exact mechanics, he argues that a portion of the economic boost from a “good deal” for the US on NAFTA could be used to fund the border wall. As my colleague Dylan Matthews points out, it’s a bit of a strange argument, because even if a new NAFTA boosted US economic growth, funds for the wall would still come from US taxpayers.

However, Trump linking NAFTA to one of his most prized political objectives is yet another sign that he sees value in keeping the deal alive.

For now.