

Issues in the NAFTA Renegotiation

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Outline

- NAFTA
 - What it is
 - What have been its effects
- Renegotiation
 - Timeline
 - Issues
 - Autos
 - Prospects

NAFTA Renegotiation

- Donald Trump
 - Trump opposed NAFTA as early as 1993
 - “The Mexicans want it, and that doesn't sound good to me.”
 - As candidate in 2016
 - “The single worst trade deal ever approved in this country”
 - As President
 - April 26: Threatened to pull out of NAFTA completely
 - April 27: Decided not to, and to renegotiate instead
 - May 18: Formally launched renegotiation

NAFTA Renegotiation

- August 16: Negotiations began
 - Round 1: Aug 16-20, Washington, D.C.
 - Round 2: Sep 1-5, Mexico City
 - Round 3: Sep 23-27, Ottawa
 - Round 4: Oct 11-15, Washington, D.C.
 - Round 5: Nov 17-21, Mexico City
 - Round 6: Dec ?-?, Washington, D.C.
 - (Meeting without the principals, who will meet next in late January in Montreal)

Renegotiation Issues

- Issues (US)
 - Trade imbalances
 - Reciprocal duty-free market access
 - Rules of origin
 - Regulations
 - Services
 - Digital trade
 - ISDS
 - State-owned enterprises
 - Labor standards
 - Chapter 19
 - Procurement
 - Currency manipulation

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Renegotiation Issues

- Other Issues (Canada)
 - Gender rights
 - Indigenous rights
 - Freer movement of professionals
 - Dairy & poultry
 - Cultural exemptions

Renegotiation Issues

- Other Issues (Mexico)
 - Avoid increased US tariffs on Mexico's exports (80% of Mexico's exports are to the US)
 - Anti-corruption
 - Energy, financial services and telecommunications
 - Guest worker program in US

Renegotiation Issues

- US New Demands
 - Sunset clause
 - NAFTA should expire after 5 years if not renewed
 - Seasonal restrictions on imports

Issues in More Detail

- Trade imbalances
 - The US top priority is to “Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries.”
 - Possibility: “trigger mechanism” that raises tariffs if goal of reducing deficit is not met
 - Most economists agree that trade deficits
 - Are not the result of trade policies
 - Don’t mean deficit country is losing
 - Result from spending more than income

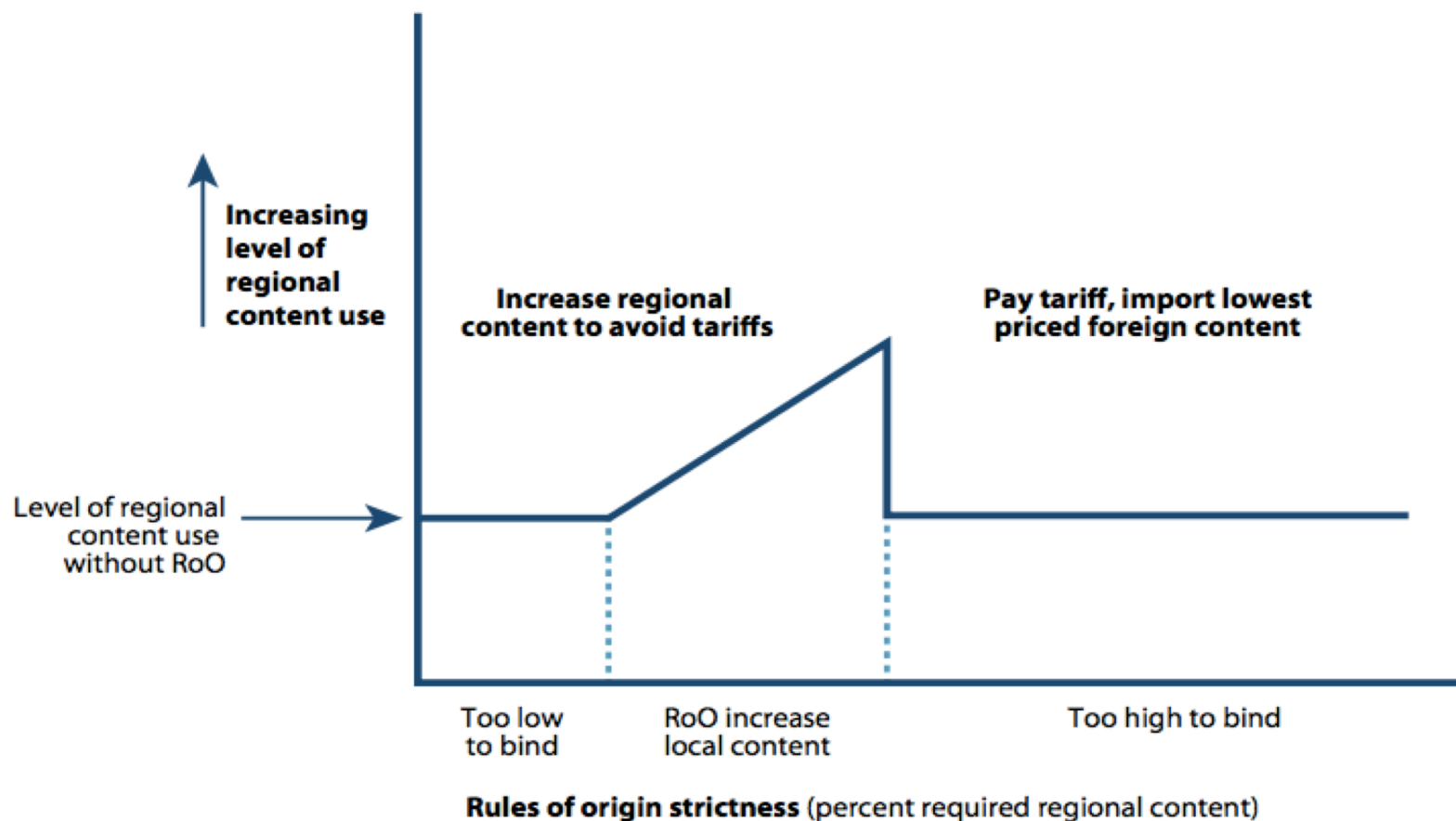
Issues in More Detail

- Rules of origin
 - USTR Lighthizer wants “higher NAFTA content and substantial American content”. That would be unprecedented in an FTA
 - Raise auto ROO from 62.5% to 85%
 - Also require 50% US content
 - Higher ROO will disrupt supply chains that have grown across NAFTA countries, especially autos
 - If too high, some producers will revert to sourcing from outside NAFTA

How Tighter Rules of Origin Can Increase Imports

For
School

Figure 2 Regional content and rules of origin at the firm level



RoO = rules of origin

From: Freund, Caroline, "Streamlining Rules of Origin," Policy Brief 17-25, Peterson Institute for International Economics, June 2017.

Issues in More Detail

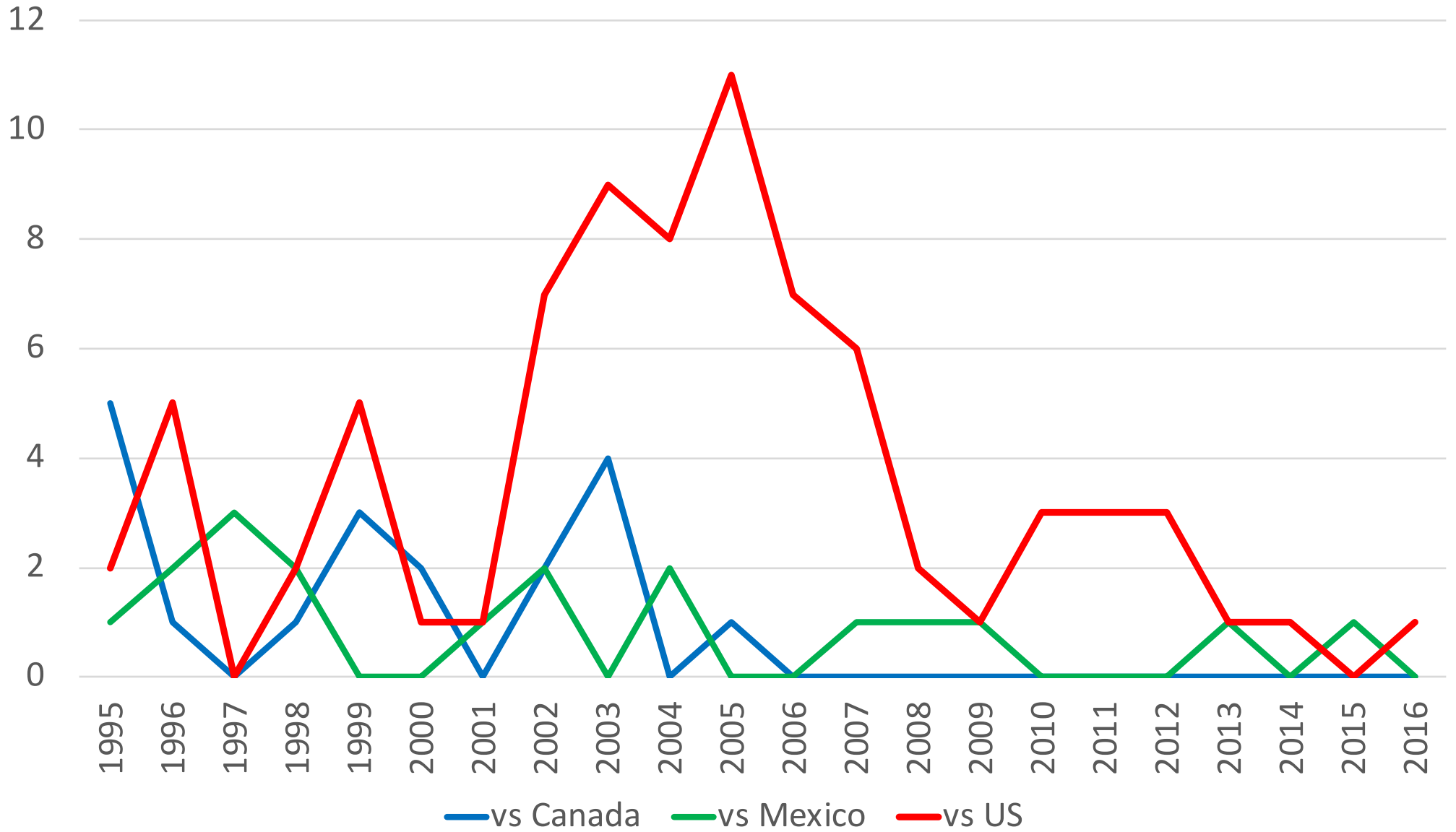
- ISDS = Investor-State Dispute Settlement (Chapter 11 of NAFTA)
 - U.S. has so far never lost an ISDS case
 - Trump seems to want it retained (as do US large corporations)
 - USTR wants to eliminate it (as does the AFL/CIO)

Issues in More Detail

- Chapter 19
 - This now allows NAFTA countries an appeal against AD & CVD actions
 - Canada insists on keeping it
 - US wants it removed
 - You can see why from the data below



Targets of Chapter 19

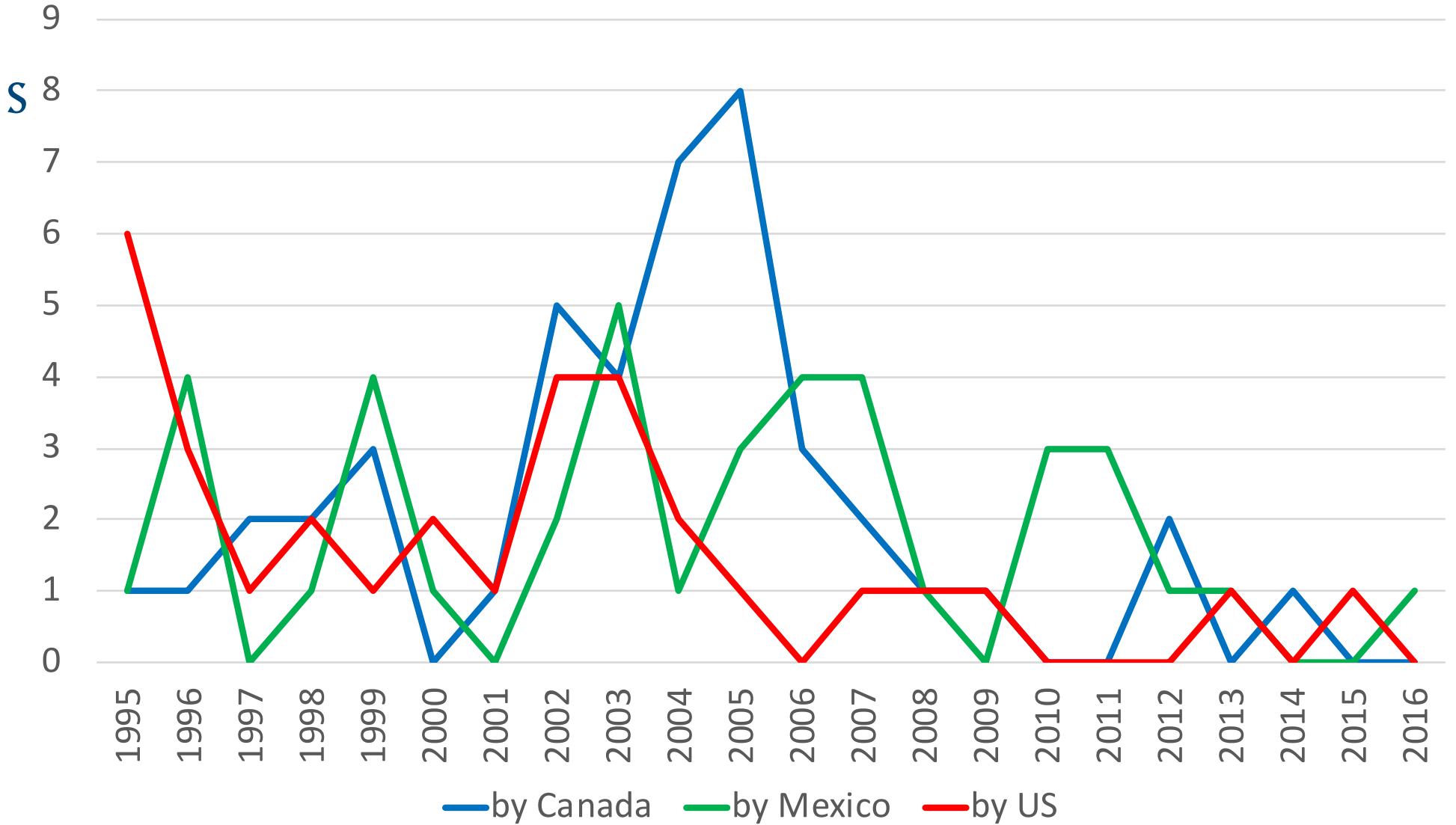


— vs Canada — vs Mexico — vs US





Users of Chapter 19



Issues in More Detail

- Dairy & poultry
 - Canada wants to keep its “supply management system for dairy and poultry”
 - Supply management allows farmers to act collectively to manage supply and price
 - Canada has a 270% tariff on dairy imports (with a small quota tariff-free)
 - This was exempted from liberalization in NAFTA

Renegotiation Prospects

- US has included demands that some say are “poison pills”
 - Demands that they know others cannot accept
 - Is the purpose to get a better outcome (as they view it) for US?
 - Or is the purpose to justify later pulling out of NAFTA?

Renegotiation Prospects

- One thing I will confidently predict:
 - The negotiations will be extended over time
 - That has already begun, with the delay of Round 5
 - It is what has happened repeatedly with other trade negotiations
 - Agreement will become harder, not easier as
 - US approaches mid-term elections
 - Mexico has presidential election