The Daily Dish

NAFTA Brinksmanship

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Eakinomics: NAFTA Brinksmanship

In a more thoughtful world, there is no re-negotiation of the North American Free Trade Agreement (NAFTA). To begin, it served its purposes: (a) it helped Mexico (a lot), Canada (some) and the United States (a bit) economically, and (b) it solidified on the southern border of the United States a democracy and ally. It is, of course, silly to think that opening trade with a country as small as Mexico would have a big impact (one way or the other) on the United States. Detractors, however, have asserted that the consequences were large and negative.

Of course, there was a way to fix any flaws in NAFTA — the Trans-Pacific Partnership (TPP) agreement, which included the United States, Canada, and Mexico as negotiators. President Trump withdrew the United States from TPP upon taking office — opportunity lost — and now the Administration is engaged in the 4th round of NAFTA talks with Canada and Mexico. Unfortunately, it looks like the Administration is more interested in ending the agreement than reaching a modernized pact. It has included in its negotiation demands a re-write of the "rules of origin" (ROO), elimination of the investor-state dispute settlement provisions, and (#chutzpah) the requirement that any new agreement sunset in 5 years. Chamber of Commerce president Tom Donohue has described these as "poison pills." He is being nice.

Taking them in reverse order, the idea of a temporary trade agreement is nonsense. Trade (and other policy) is effective when it changes the business plans of participant countries and no firm would change its supply chains, marketing strategies, pricing, R&D, and other crucial functions on the basis of a 5-year window. It is simply weak reasoning. The investor-state dispute settlement provisions give the U.S business community a route to redress grievances with signatory governments (and vice versa for their private sector). Only 16 NAFTA cases have been brought against the United States in over 20 years since NAFTA was signed; the United States never lost once.

But the most egregious are the ROO. Think of ROO as disguised tariffs: "unless 60 percent of that car is made in the United States, it faces discriminatory treatment."Companies that face a tariff wall will surely place production behind it (i.e., in the United States). The result is bad in three ways: (a) Canada and Mexico lose narrowly and this becomes a deal breaker, (b) U.S. firms have optimized their supply chains to the advantage of U.S. consumers who lose out; and (c) the pact fails.

There are beginning to be a number of industry studies of the harm of life without NAFTA. Expect to see more of the same as the possibility of actually terminating the agreement looms its ugly head.