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## Trump and NAFTA

A Summary of NAFTA's History,  
Development and Current Status

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# What Is NAFTA?

## Key Elements of the North American Free Trade Agreement



NAFTA is a **free trade treaty** between the United States, Canada and Mexico that went into effect in January 1994



It also opened the **border and interior of Mexico** to U.S. truckers and streamlined border processing and licensing requirements for commercial ground transportation



NAFTA was created to **eliminate tariff barriers**, remove investment restrictions and protect intellectual property rights



The three NAFTA countries agreed to **strengthen and standardize** health, safety and industrial standards



Around **50% of tariffs** were abolished immediately and the remaining tariffs were gradually eliminated



NAFTA also created commissions with the power to **impose fines against signatories** if they failed to implement the agreement's labor and environmental standards

Sources: Global Training Center, Inc., "North American Free Trade Agreement (NAFTA)," 2014.



# NAFTA Accounts for 16% of Global Trade and Supports 14 Million American Jobs

## Key Numbers for the North American Free Trade Agreement



**370%**

Percentage by which total trilateral trade between Canada, Mexico and the United States grew between 1994 and 2016



**16%**

Percentage of global trade generated by NAFTA countries



**\$12.5 billion**

U.S. trade surplus with Canada in 2016



**\$55.6 billion**

U.S. trade deficit with Mexico in 2016



**14 million**

U.S. jobs that depend on trade with Canada and Mexico



**58%**

Percentage of international tourists to the United States who come from Canada or Mexico; 56% of all trips U.S. tourists take abroad are to those two countries

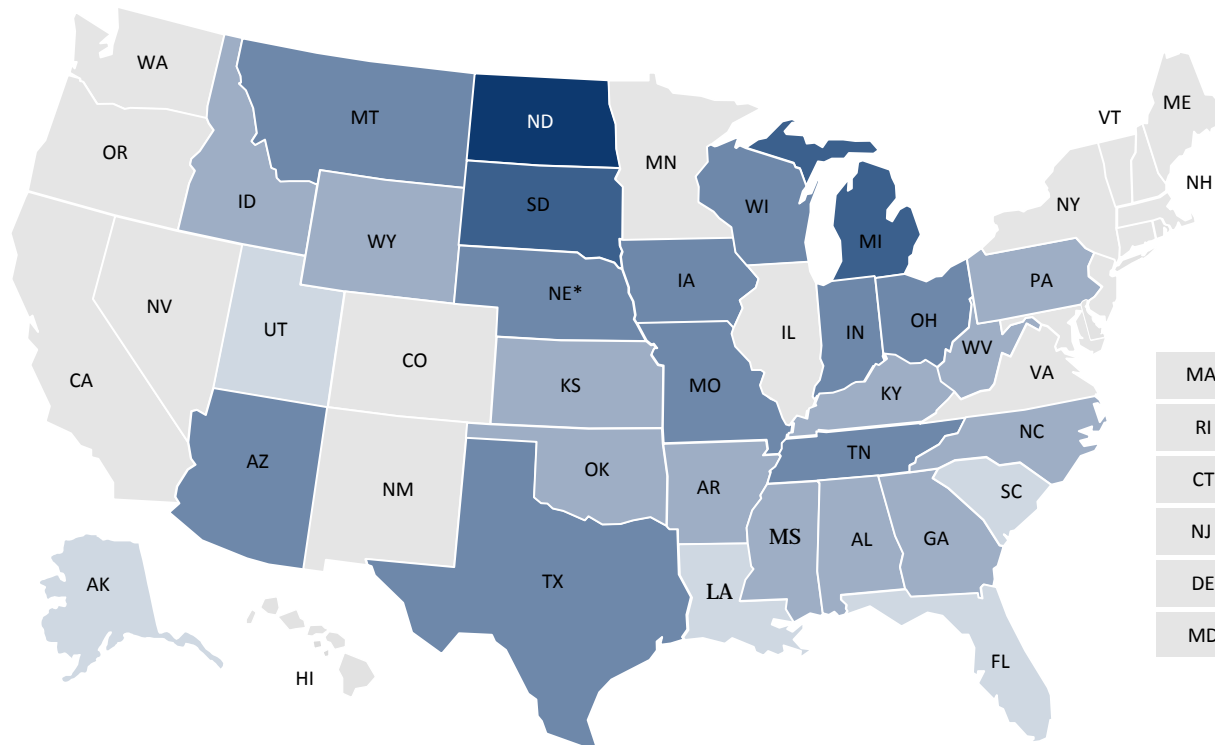
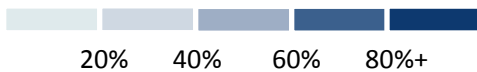
Sources: Global Training Center, Inc., "North American Free Trade Agreement (NAFTA)," 2014; USTR, "Mexico," Office of the President, September 2017.



# Many States that Voted for Trump Send a Large Share of Their Total Exports to Mexico and Canada

## Number of States with NAFTA Countries as Top Export Destinations

IN STATES WON BY TRUMP



**Analysis**  
 The five states with the largest percentage of exports to Canada and Mexico went for Trump; Trump also won the 10 states with the largest trade surpluses with Canada and Mexico

- MA
- RI
- CT
- NJ
- DE
- MD

Sources: Randy Woods, "A map like this persuaded Trump to save NAFTA, for now," Bloomberg, May 9, 2017.

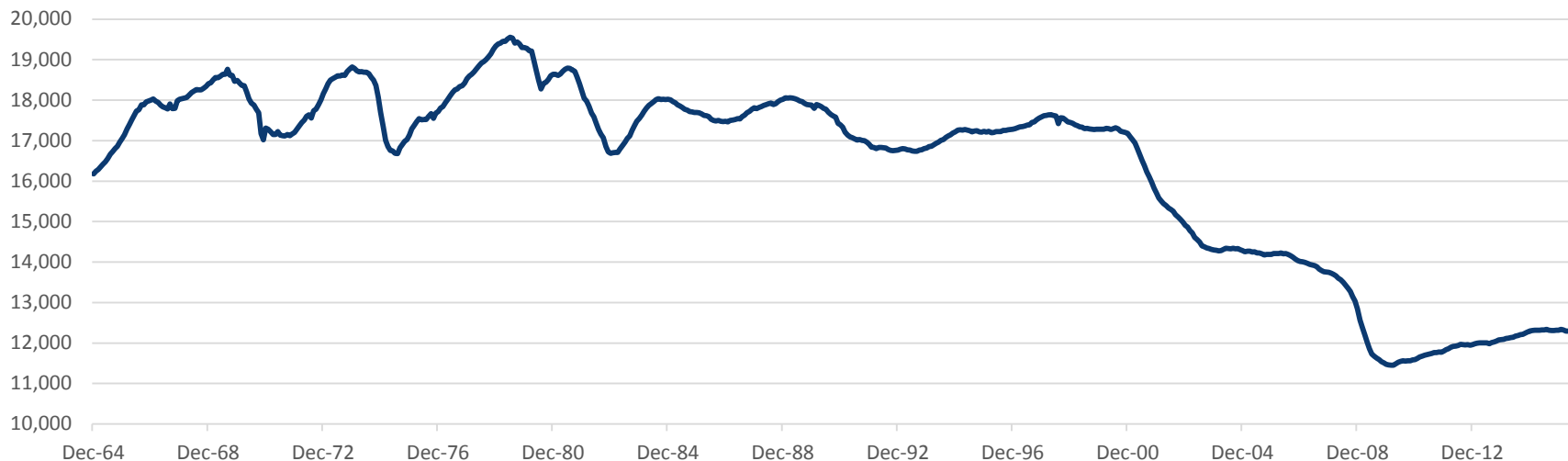


# NAFTA Increased Trade and Productivity for the U.S., Though it May Have Contributed to a Loss of Manufacturing Jobs

## Key Effects of NAFTA on Manufacturing

### Total manufacturing employment

THOUSANDS OF PERSONS, SEASONALLY ADJUSTED



### Takeaways

- The U.S. has lost a third of its manufacturing jobs since 1994, though the decline began before NAFTA and may have been influenced by China's entry into the WTO
- Studies suggest that while about 15,000 net jobs are lost due to NAFTA each year, the U.S. benefits from higher productivity and lower consumer prices
- Many American companies rely heavily on materials and resources imported from NAFTA partners for manufacturing; firms with supply chains that stretch to Canada and Mexico depend heavily on NAFTA

Sources: Elizabeth Malkin, "Mexico takes first step before talks with US on NAFTA," The New York Times, February 1, 2017; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017; Chris Matthews, "Where Would the US Economy Be if We Didn't Pass NAFTA?" Fortune, June 30, 2016; Joe Terino, "Is your Supply Chain Ready for a NAFTA Overhaul?" Harvard Business Review, June 30, 2017.



# Key U.S. Negotiators in NAFTA Negotiations

**For the United States, USTR and top Trump trade advisors lead negotiations**



**Robert Lighthizer**  
*U.S. Trade Representative*



**Wilbur Ross**  
*Secretary of Commerce*



**John Melle**  
*Chief negotiator*



**Peter Navarro**  
*Head of the National Trade Council*

Sources: William Mauldin and Paul Vieira, "Veteran U.S. Official to Lead Nafta Talks," WSJ, July 19, 2017; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017; Zeeshan Aleem, Robert Lighthizer may be the most powerful Trump official you've never heard of," Vox Media, December 12, 2017; Alexander Panetta, "NAFTA negotiations: Who is U.S. lead negotiator John Melle?" Global News, August 14, 2017; Sources: National Journal Research, 2017; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017; Alex Ballingall, "Meet NAFTA negotiator Steve Verheul — the most important Canadian you've (probably) never heard of," The Star, August 14, 2017; John Paul Tasker, "Canada 'prepared for the worst' amid squabbles over NAFTA, Freeland says," CBC News, November 21, 2017; Sources: Anthony Esposito, "Mexico names veteran trade negotiator to lead its NAFTA talks," CNBC, July 31, 2015; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017.



# Key Canada and Mexico Negotiators in NAFTA Negotiations

**For Canada, trade negotiation expert and trade & foreign policy ministers lead negotiations**



**Chrystia Freeland**  
*Minister of Foreign Affairs*



**Francois-Philippe Champagne**  
*Minister of International Trade*



**David MacNaughton**  
*Canadian ambassador to Washington*



**Steve Verheul**  
*Chief negotiator*

**For Mexico, NAFTA veteran negotiator and economy & foreign affairs secretaries lead negotiations**



**Ildefonso Guajardo**  
*Secretary of the Economy*



**Kenneth Smith**  
*Chief negotiator*



**Luis Videgaray**  
*Secretary of Foreign Affairs*

Sources: William Mauldin and Paul Vieira, "Veteran U.S. Official to Lead Nafta Talks," WSJ, July 19, 2017; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017; Zeeshan Aleem, Robert Lighthizer may be the most powerful Trump official you've never heard of," Vox Media, December 12, 2017; Alexander Panetta, "NAFTA negotiations: Who is U.S. lead negotiator John Melle?" Global News, August 14, 2017; Sources: National Journal Research, 2017; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017; Alex Ballingall, "Meet NAFTA negotiator Steve Verheul — the most important Canadian you've (probably) never heard of," The Star, August 14, 2017; John Paul Tasker, "Canada 'prepared for the worst' amid squabbles over NAFTA, Freeland says," CBC News, November 21, 2017; Sources: Anthony Esposito, "Mexico names veteran trade negotiator to lead its NAFTA talks," CNBC, July 31, 2015; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017.



# Key Areas of Contention

## Automobile Content Requirements & Dairy Regulation

### Current Automobile Regulations



**62.5%**

Requirement for North American automobile components for duty-free trade



**62.5%**

Auto components can be from any of the NAFTA countries

### U.S. Demands



**85%**

Requirement for select North American automobile components for duty-free trade\*



**50%**

Auto components must be from United States

### Current Dairy Supply System in Canada



Fixed prices

Production quotas

Tariffs

Up to 270%, and includes unfiltered milk products (milk, yogurt)

### U.S. Demands



**Over 10 years**, phase out all tariffs associated with dairy and poultry supply management

\*Originally the American delegation required 85% of all automobile components to be American made, but the administration lowered its demands in the latest proposal

Sources: The Globe and Mail, "NAFTA, Trump and Canada: A guide to the trade file and what it could mean for you," December 7, 2017; Eric Martin and Josh Wingrove, "Trump Softens Key Nafta Demand on Regional Car Content," Bloomberg, April 4, 2018;





# Key Areas of Contention

## U.S. and Canada Demands for Dispute Settlement Systems

### Key Differences Between Chapter 11 vs. Chapter 19 Disputes

#### CHAPTER 11



Corporations vs. government



Lawyers appointed by NAFTA countries



Canada wants to reform Chapter 11 so that there is a set roster of judges appointed by NAFTA countries

#### CHAPTER 19



Government vs. government



Independent bi-national panel



The U.S. wants to reform or eliminate these panels, which is a nonstarter for Canada

Sources: The Globe and Mail, "NAFTA, Trump and Canada: A guide to the trade file and what it could mean for you," December 7, 2017.

# Current Status



**After top negotiators met in D.C. early April, the outlook was mixed. Mexico appeared optimistic; President Trump indicated he was no longer in a rush to complete negotiations; and Canada noted significant movement forward.**

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**“There’s a very high probability of reaching an agreement in principle, an 80% chance.”**

**Mexican Economic Minister Ildefonso Guajardo**

**“We’re renegotiating NAFTA – I have no time line ... we’re getting pretty close to a deal ... We can negotiate forever ... as long as we have this negotiation going, nobody is going to build billion-dollar plants in Mexico.”**

**U.S. President Donald Trump**

**“I believe we’re in a moment where we’re moving forward in a significant way.”**

**Canadian Prime Minister Justin Trudeau**

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## **Outside pressure factors mean the deal must be closed quickly:**

- 1 U.S. midterm elections**
  - November 2018
- 2 Mexico presidential election**
  - July 2018
  - Inauguration December 1, 2018
- 3 Trade promotion authority**
  - Expires July 2018 (likely extended)
- 4 Vocal U.S. agriculture interests**
  - Farm Bill also expires Sept. 2018

### **NAFTA Negotiation Schedule**

1. August 2017	Washington, D.C.
2. Early Sept. 2017	Mexico City
3. Late Sept. 2017	Ottawa
4. October 2017	Arlington, VA
5. November 2017	Mexico City
6. January 2018	Montreal
7. February 2018	Mexico City
8. April 2018	Washington, D.C.

Sources: National Journal Research, 2018; David Ljuggren, “U.S. upbeat about fast NAFTA deal, Canada says much work is left,” Reuters, March 28, 2018; Santiago Perez, “Nafta Partners Seek Deal by Early May, Mexico Says,” WSJ, April 9, 2018.

# Completion in May 2018?



*“We’re going to meet again ... and we’ll see if we can get a good agreement. I’d like to get it done a week or two after that. If not, then you start having a problem.”*

**Robert Lighthizer, U.S. trade representative, speaking on May 1, 2018**

The parties plan to meet again on May 7, 2018. Ambassador Lighthizer has indicated that a renegotiated agreement must be reached shortly thereafter in order for it to be considered under Trade Promotion Authority (“TPA” or “fast-track”) in the current Congress.

## **Under TPA, there are certain timing requirements the Trump administration must meet:**

- Notify Congress 90 days prior to signing any agreement
- Provide the text of the renegotiated agreement 60 days prior to signing
- Within 60 days of signing the agreement, provide Congress with a list of any changes to laws that would be required
- Within 105 days of signing, the U.S. International Trade Commission must prepare a report on the economic impact of the agreement

**Thus, May 2018 is a critical month for completing negotiations in order for this session of Congress to consider the agreement by late November/early December 2018.**



# Our Trump and Trade Team



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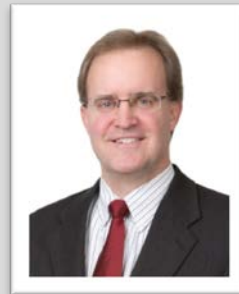
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