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Canada should prepare for life without NAFTA

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“We live on a continent whose three countries possess the assets to make it the strongest, most prosperous and self-sufficient area on Earth ... It is no accident that this unmatched potential for progress and prosperity exists in three countries with such long-standing heritages of free government. A developing closeness among Canada, Mexico and the United States – a North American accord – would permit achievement of that potential in each country beyond that which I believe any of them – strong as they are – could accomplish in the absence of such co-operation.”

That was Ronald Reagan, calling for a North American free-trade agreement as he declared his candidacy for the U.S. presidency in November, 1979. When he became prime minister, Brian Mulroney took the next step, leading to the groundbreaking Canada-U.S. free-trade agreement of 1989, and NAFTA five years later when Mexico came on board.

Mr. Reagan’s vision stands in dramatic contrast to today’s toxic Trumpian view of the world, with the President stating on inauguration day that his administration’s leitmotif was “America first and only America first.” Damn the rest of the world, friend and foe alike.

Declaring that NAFTA was a “disaster” and the “worst trade deal in history,” Donald Trump denigrated the legacy not only of his Republican predecessor, but of successive U.S. presidents

and the hundreds, even thousands, of politicians of all stripes and devoted American officials and experts that have worked on making Mr. Reagan's vision a reality over close to 40 years.

It's as if two generations of American leaders were totally misdirected, selling the United States down the river and only Mr. Trump, arriving late on the scene, had the messianic brilliance to recognize this and rescue the country from its unrelenting downward spiral.

Now, we embark on the quest for NAFTA 2.0, a new agreement that, in the words of U.S. Trade Representative Robert Lighthizer, Mr. Trump's spear carrier, must be retooled to fit the Trumpian view of the world.

Mr. Lighthizer's opening statement last week in Washington was disappointingly negative, including incomplete factual statements, a bullying declaration that NAFTA has "fundamentally failed many, many Americans." Calling for "balance and reciprocity," higher U.S. [automotive content](#) and even provisions on currency manipulation, he made it clear that there was little common ground with Canada and Mexico.

Things may change and prospects may improve, as the professional negotiating teams get down to hard work in 26 or 27 separate groups and hard bargaining takes place. Some of the rhetoric will dissipate as drafts are reviewed and proposals are discussed in quieter chambers in Washington, Ottawa and Mexico City over the next few months.

There are indeed areas where all three countries share a fair degree of consensus, notably in the NAFTA 2.0 modernization agenda, bringing the agreement into the 21st century, the things Foreign Minister Chrystia Freeland and her Mexican colleague have spelled out.

However, considering the divergence with the Americans on the fundamentals and the absence of shared vision, combined with very real time constraints and a toxic and volatile political climate in Washington, the prospects for a successful outcome are not particularly favourable.

Hopefully, we won't reach the cliff edge. But given the possibility of such an outcome, no matter how regrettable, Canada should be considering a world without the NAFTA or, possibly, without even the Canada-U.S. free-trade agreement. Contingency planning is what trade-policy formulation is all about. Here are some factors to consider.

First, the NAFTA (like the FTA before it) is about preferential treatment. Ending those preferences doesn't mean Canadian companies would be excluded from the U.S. market. Not in the least. Vast trade relations exist between the United States, China, Japan, Russia and the entire European Union, none of which have a free-trade agreement with the United States.

Second, even without preferential tariff rates for Canada, most have been reduced to zero anyway as a result of the World Trade Organization Agreement, so their NAFTA value is worth much less today than in 1994. On the non-goods side, the WTO Agreement ensures Canadian services and intellectual property rights of non-discriminatory treatment in the U.S. market.

Third, while the binational panel system for reviewing trade cases would disappear, agreement on that system predated the advent of the WTO and its own effective multilateral dispute resolution system, Canada has used the WTO system effectively over the years in dealing with the U.S., including in the ongoing softwood lumber dispute.

None of this diminishes the benefits of a successful outcome in the NAFTA 2.0 exercise for all three countries. But given where we are today, judging from Mr. Trump's repeated public pronouncements, the vision of North America setting an example to the world has turned into a one-sided Trumpian quest for advantage.

Without the essential ingredient of common purpose, Canadian trade policy has to look beyond the precipice. No deal, as has been oft said, is better than a bad one.