

# If NAFTA fails, Canada should reach across the Atlantic to the UK

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25/02/2017

*The future of the North American Free Trade Agreement is looking increasingly uncertain under Donald Trump as president of the United States. In case NAFTA implodes, [Armand de Mestral](#) proposes the creation of the Atlantic Free Trade Area between Canada and the United Kingdom, in a framework involving Europe and the US.*



NAFTA has been in force since 1994. It replaced the 1988 Canada – US FTA for Canada and the United States and brought Mexico into the fold – the first major FTA to link both developed and a developing country. In many respects it has been the model for other FTAs around the world as it covers goods, services and investments in depth as well as a range of non-tariff barriers.

It covers trade in energy goods as well as protecting intellectual property. Among other innovations it included investor-state arbitration in the investment chapter and experiments with dispute settlement arising out of trade remedy disputes. By any standard (except those of Donald Trump) NAFTA has been a remarkable success which has seen trade triple between the USA and Mexico and Canada and increase considerably even between Canada and Mexico. But NAFTA has not been changed in over 25 years; much has happened in that time, including 9/11, and the resulting adoption of no less than five border security agreements, all concluded outside NAFTA.



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Now President Donald Trump is calling for the repeal or the renegotiation of NAFTA. Is this the end of a beautiful “free ride” for Canada and Mexico? Should NAFTA be trashed along with globalisation and all its works? Will the wall put an end to close economic relations between the United States and Mexico?

There has been delocalisation as a result of NAFTA, it was after all designed to allow companies to rationalise production. Considerable delocalisation has been from Canada to plants in the United States. Even more has occurred as a result of low wages and subsidies in the Southern United States. Mexico has certainly seen an explosion of industrial investment in the automotive sector, some new by international producers, some resulting

from moves by American producers.

All three countries have been affected by automation, robotisation and laser printing production techniques. Currently Canada has kept 13 per cent of global North American automotive production, the United States has kept 57 per cent and Mexico has attracted almost 30 per cent. Overall trade in goods and services has increased three times since 1994. Mexico has become a global producer as well as a producer of goods for the United States. Many goods produced in Mexico, both industrial and agricultural have kept prices low and consumption high in the United States.

Canada and the United States have seen their economies deeply integrated with 75 per cent of Canadian exports going South (down from 85 per cent in 2000). Canada is the major trading partner of 36 American States. One truck moves each way across the Canada – US border every 30 seconds. Rail, truck and air transportation networks, particularly between Canada and the United States, are highly integrated. Canada – US trade alone amounts to \$2 billion each day.

### **What if NAFTA is cancelled?**

The fact of the matter is that should all this be restricted or be brought to a halt the economies of all three partners would suffer greatly – perhaps Mexico most but certainly the United States would feel the effects keenly. But President Trump views NAFTA as one more unfair trading agreement by which the United States has agreed to impoverish itself and give up good jobs, and he has called for the repeal or renegotiation of NAFTA. This may only be negotiating bluster but it cannot be ignored.

It is not yet clear how Mexico will respond and the construction of a wall along the border could poison relations with the United States. Canada on the other hand has stayed calm but has made its preparations. A hasty Cabinet shuffle in January 2017 brought in a new Foreign Minister with a strong trade background and the Canadian government has indicated its willingness to review those parts of NAFTA which appear outmoded after 25 years. Canadian ministers have been meeting their new American counterparts and Prime Minister Trudeau is scheduled to meet President Trump today to open discussions. The Canadian approach will be based on affirmation of the continued interest of the United States in maintaining NAFTA and a willingness to discuss problem areas or redundant chapters. Will this strategy succeed or will it be overwhelmed by ideology?

Outright scrapping of NAFTA by the United States would certainly have very serious repercussions for Canada and would interrupt trading relationships which have been carefully nurtured by both governments and by industry for many years. But at this point scrapping NAFTA with Canada is so much against the American interest that it is most unlikely and assurances to this effect have already been given to the Canadian Cabinet by Stephen Schwartzman, Chairman of the president's Business Council, in early February.

What is far more likely is that the Canada – United States relationship could be seriously disrupted by moves to alter the corporate tax rate, or more serious still to adopt one of many Republican proposals to tax all imported goods and imported inputs in industrial production while forgiving such taxes on all goods exported from the United States. Radical rewriting of the rules of origin for NAFTA goods by the United States would violate NAFTA and the WTO, but it could also have a serious impact, as would a tightening of the Buy American rules if applied to new infrastructure programmes. But at this point it seems that, with some luck and good management, the mutual interest of industry on both sides of the Canada – US border should restrain even the most doctrinaire President from any extreme steps.

### **The Atlantic Free Trade Area**

There is one suggestion, which if taken up by Canada and the United Kingdom, might see a return to constructive engagement on both sides of the Atlantic. This is the idea of an Atlantic Free Trade Area. In the current political climate there are no easy answers but Canada and the UK would be well served by proactively examining and

clarifying their future trading relationship not only with each other but also in a framework involving the EU and the United States. Canada and the UK could make use of the Brexit crisis, not only by planning a mutual FTA should the UK actually leave the EU, but by broadening the scope and ambition of the scheme and pursuing the creation of an agreement covering all of Europe and North America.

An AFTA would be in the interests of all countries concerned. It is well understood that the greatest benefits of free trade are felt by neighbours who share similar economic systems and traditions. AFTA would allow the UK to come in from the cold; it would allow pro-Brexiteers to prove that the UK really has the ambition to become “the great trading nation that it once was” and at the same time create a situation where the countries around the North Atlantic could continue to remain competitive in an increasingly competitive world. The seeds of an AFTA have already been sown by CETA and by the TTIP negotiations between the EU and the United States. The politics of establishing an AFTA at the present time would be daunting but this is the time for Canada and the UK to take up the challenge.

*Note: This article originally appeared at [LSE Business Review](#). It gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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