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Post-Brexit Trade in Light of the NAFTA Renegotiations

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Notes on Post-Brexit Trade in Light of the NAFTA Renegotiations

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1. Being a sabbatical visitor at Loughborough University in the UK this year has afforded me a chance to witness the fallout from Brexit at close hand. I have spoken to UK residents who feel that Brexit means the world is now the UK's oyster. Others voice concern about both the economic consequences of Brexit and the impact of the decision on the UK's stature in the world.
2. I have been watching this history unfold at the same time as Canada the US and Mexico have been renegotiating NAFTA. The juxtaposition makes the expectation that negotiating a US-UK trade deal would be smooth sailing seem rather optimistic.
3. The UK now needs to renegotiate trade arrangements with all of its trading partners, key among them the EU itself, which accounts for the majority of UK trade. The UK is scheduled to leave the EU by March 29th 2019. The Prime Minister, Theresa May has assured the UK that she expects all trading partners to consider the UK a very attractive partner for negotiating trade agreements.
4. The *Financial Times* counted 750 treaties to be renegotiated including 295 trade agreements that needed to be renegotiated (or in some cases abandoned). There is no historical precedent for renegotiating such a

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wide range of agreements on such a short timeline, and this ignores the fact that some of the agreements like those governing air travel need to be settled almost immediately.

5. Outside of renegotiating the EU–UK trade agreement the key trade agreement will be with the US, accounting for about 25% of UK exports and 20% of UK imports.
6. Given US President Trump’s very warm (pre-Brexit) reception of the idea of a possible US–UK free trade deal, it would seem that the UK could settle a trade agreement based more or less on the existing trading arrangements with the US quickly and easily.
7. The UK has a small trade deficit vis a vis the US, so the hot button of a large trade surplus does not exist. Further, President Trump appears to feel some kind of kindred spirit between the UK and the US as reflected by his pro-Brexit stance. So maybe it will turn out all right.
8. By contrast, as a presidential candidate, US President Trump attacked NAFTA as ‘the worst trade deal ever’ and vowed to renegotiate it or tear it up.
9. Upon Trump’s election as President one view was that ‘tweaking and updating’ NAFTA would be easily accomplished and fulfil the presidential promise without risking the sizeable trade and investment relationships covered by the agreement. There were obvious updates of particular benefit to the US including provisions on digital trade and IP protection.
10. The first Trump-proposed draft proposal went beyond tweaks and included reducing the rights of non-domestic firms to be treated the same as domestic firms for government procurement contracts and addressing the ‘unfairness on the Southern border.’ These were viewed as major challenges but not unresolvable demands.
11. Things started to turn nasty when the US asserted that renegotiation would have to help reduce the massive US trade deficit. Many if not most economists argue that this goal is unachievable through any trade agreement, since the US trade deficit is more closely related to US savings and the US government deficit than trade policy. Nonetheless,

it has been offered as a justification for the US making extreme demands at the bargaining table. It certainly made Trump's threat to 'tear up the agreement' seem more credible.

12. As well as the complete **elimination** of procurement protections, the most recent US proposal includes a number of other potential deal breakers, key among them being: (a) elimination of the existing trade disputes mechanism covering antidumping and countervailing duty cases (Chapter 19), and (b) a new provision requiring that all cars entering the US duty free have at least 50% US content.
13. Because of the immense economic interests for all parties it was felt that renegotiations could be completed in 2017. The most recent US proposal has put that deadline out of reach. It has even led Canada and Mexico to raise the (previously unthinkable) prospect of walking away from the deal.
14. A US proposal to remove Chapter 19 from the Canada–US Free Trade Agreement (precursor to NAFTA) caused the Canadian negotiating team to temporarily walk out on negotiations in 1987 and could have the same effect now.
15. So the two cases are dissimilar in key respects, but potential sources of US–UK friction do exist, such as differences in animal hygiene, geographical indications and government procurement. An added complication is the uncertainty about UK access to the EU single market.
16. Does recent Canadian experience with the NAFTA renegotiations suggest anything about the prospects of a quick and smooth conclusion of US–UK trade talks?
17. President Trump views himself as a deal maker so he may not let positive feelings toward the UK enter into the calculus of trade negotiations. US demands may be moderated due to the favourable trade balance or more extreme to the extent that the US views the UK as vulnerable.
18. How it will go is anyone's guess at this point, but at the every least, treating a US–UK trade deal as a 'slam dunk' seems optimistic.

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Notes

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Other Thoughts

- Since voting for Brexit it has become clear that a transition period from being a part of the single EU market to whatever follows will be necessary and will likely need to be long. In the meanwhile both the UK's trading arrangements with the EU and its other trading partners will need to be negotiated.
- Possible templates for some or perhaps all these negotiations exist: 1. CETA — the Comprehensive Economic and Trade Agreement recently signed by Canada and the EU, 2. TTP — the Trans-Pacific Partnership Agreement,, and 3. TAFTA — a mooted Transatlantic Free Trade Area including all of Europe and North America. The first could be a basis for a UK–Canada deal but the US recently withdrew from TTP and while TAFTA is attractive in the abstract, there is no draft TAFTA agreement.
- With any of these, however it is not clear that the UK would be treated as an equally attractive trading partner as before Brexit because of the uncertainty about its access to the EU single market.