Managing Relations Under Trump Will be About More than Just NAFTA

Meredith Lilly

Canada's trade relationship and economic integration with the United States are such that a new occupant in the White House can only bring so much change so fast. Based on what we've heard so far, Trump will be focused on other files, and to the extent that he does have an agenda with Canada, it can be managed, writes former Foreign Affairs and International Trade Adviser to the Prime Minister Meredith Lilly.

Since his election as U.S. president, Donald Trump the Candidate—full of firebrand opposition to the North American Free Trade Agreement (NAFTA)—has adopted a more restrained approach, referring to NAFTA with less frequency and passion each passing day.

It would be naive to think that Trump will shift his focus away from NAFTA entirely upon assuming office, but imagining nihilistic scenarios for the Canada-U.S. trade relationship would be equally foolish. Wilbur Ross, Trump's pick for Commerce Secretary, co-authored a paper in September on Trump's economic plan: it referenced China 33 times, Mexico 10, NAFTA four, and Canada exactly once. Imagining that trade with Canada is in Trump's crosshairs would then suggest an unhealthy Canadian egotism about our relative importance to the American consciousness. Rather, the next U.S. president's export plan will rely on effective trade relationships with countries such as Canada, and we would do well to focus on realistic issues that Trump could pursue with Canada's leadership to further those goals.

It's entirely plausible that Canada will maintain its ongoing and positive trade relationship with the U.S. with little interruption. In such a scenario, the incoming U.S. administration will heed the advice of business leaders and the many experienced Republicans in Congress who know that nine million American jobs depend on trade and investment with Canada. Trump and his team will also listen to the 35 state governors (including his vice-president Mike Pence of Indiana) who list Canada as their number one export destination. Besides, given Canada's very high labour and energy costs, Trump already knows that Canada is not an offshoring destination for U.S. jobs.

In overall trade figures, the incoming administration may be concerned that the U.S. has at times run a small trade deficit with Canada (this was the subject of Ross's single reference to Canada in the above-mentioned document). But closer scrutiny of our bilateral trade flows would reveal that any U.S. trade deficit with Canada has been attributable to Canadian oil and gas exports to the U.S. In fact, many Canadian exports to the U.S. are raw materials which are then turned into value-added products on American soil using American labour and innovation. In short, the Canada-U.S. trade relationship is a positive one, and the few irritants that exist are small potatoes compared to Trump's grievances with America's other major trade partners.

But even in a business-as-usual scenario for Canada-U.S. trade, our two countries will experience occasional bumps and irritants that require attention. This is normal and has happened under every American administration since NAFTA was signed. To this end, unless a miracle brings a last-ditch deal from Obama on softwood lumber, that file will continue to be difficult for Canada under Trump's administration. Without a united Canadian position for our negotiators to defend, the risks are very high that the U.S. will introduce countervailing duties in the spring.

Should Trump reveal a more proactive stance toward North American trade partners once in power, he could take some moderate action to address American trade irritants—primarily with Mexico and to a lesser extent with Canada. But without a named U.S. Trade Representative, it is difficult to anticipate what the new administration will target and whether NAFTA would even be the avenue chosen to confront those irritants. The problem with Canada offering its pre-emptive willingness to improve NAFTA in such a context revolves around this uncertainty about possible U.S. demands and the low likelihood that they will also reflect Canada's interests.

For example, while Canada would like to modernize the list of professions that qualify for temporary entry to the U.S. to reflect today's labour market, the U.S. didn't deliver this under Barack Obama in the Trans-Pacific Partnership (TPP). To think that Trump would be more motivated than his predecessor to improve labour mobility for foreign workers coming to the U.S. seems unrealistic. In other areas where Canada would like to see gains such as government procurement, the new U.S. administration can instead be expected to insert Buy America provisions into its new infrastructure spending plans that would exclude Canadian businesses entirely.

Contrary to some speculation, it is doubtful that Trump will seek to liberalize Canada's dairy market, even though it would please northern U.S. dairy farmers who contributed to Trump's electoral success. This is because the American dairy industry benefits from its own protectionist policies, which would be vulnerable if this area of NAFTA were opened up. In addition, the U.S. sugar industry is heavily protected and excluded from NAFTA, something Canada's sugar industry would like to reverse. Canada would have its own cards to play in any negotiation on agricultural access, so unless Trump is looking to loosen protectionism in U.S. agriculture as well, he would be wise to look for easier gains elsewhere.

To demonstrate early success on NAFTA, Trump should instead focus on areas where all three countries could agree. One such area may be e-commerce, which was never negotiated in NAFTA's original pre-digital universe. If the TPP is shelved as promised, it would be sensible for Canada, the U.S., and Mexico to adapt TPP's e-commerce chapter to the NAFTA context. If that occurred, it would also be unsurprising if the U.S. goes after Canada's very low *de minimis* level, something that falls outside of NAFTA but is closely linked to trade in e-commerce.

Canada's *de minimis*, the threshold for applying duties and taxes on imports, has been set at $20 since the 1980s and long before the days of online shopping. Canada's level is among the lowest in the world, well behind Mexico ($50) and the U.S. ($800). The U.S. has long encouraged Canada to increase our threshold, due to the disincentives created for American exporters of online goods to Canada.

Canadian consumers and many Canadian businesses want a higher *de minimis* level to reduce costs and shipping hassles, notwithstanding objections by Canadian retail stores who could be disadvantaged by such a change. On top of that, according to a recent industry-sponsored study (externally reviewed by the CD Howe Institute), raising Canada's *de minimis* level to $200 would be *cost-saving* for the Canadian government, as the tax revenues collected on these small online purchases are insufficient to cover the associated border shipping inspection costs.

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This small example highlights just one way in which constructive progress can be made on North American trade issues to benefit all three countries. While not the stuff of attention-grabbing headlines that a wholesale renegotiation of NAFTA might offer, simple policy solutions such as this one could give Trump a quick, clean victory as he seeks to reduce barriers to American exports.

Finally, it needs to be pointed out that the largest economic risks to Canada arising from Trump's election victory don't fall under NAFTA at all. Instead, Trump's corporate tax reform plans represent a serious risk to Canada because—unlike a wholesale renegotiation of NAFTA—they are achievable in the short-term and have the broad support of Republicans in Congress. When combined with one-off deals to attract and retain business in the U.S. such as the one Trump negotiated with Carrier, the Republican tax reform plan could render Canada a very uncompetitive destination for investment.

The other area where Canadian exporters could experience a serious side-swipe is over border security. While Canada has no reason to believe the U.S. will deliberately target its northern border, there is a real danger that we could be accidentally caught up in a broader U.S. border security agenda. Just as Canada's leaders had to do post-9/11, it will again be vital to demonstrate to the new American president that Canada is not an entry point for illegal travellers, drugs, or weapons into the U.S. and that Canada is a steadfast partner in U.S. efforts to ensure the safety and security of all North Americans. Failure to be both proactive and vigilant about this will result in border thickening, which will in turn jeopardize some portion of the $700 billion in annual bilateral trade between our two countries.

Canadians have every reason to believe that we will continue to have a positive economic relationship with the U.S. under Donald Trump. But our bilateral trading success has always required care and diligence, and 2017 will be no exception. By promoting our common security and economic goals, Prime Minister Trudeau can play a big part in setting the relationship with President Trump on a positive path forward. P

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