



Mexican President Carlos Salinas, U.S. President George Bush and Prime Minister Brian Mulroney watch as trade ministers Jaime Serra Puche, Carla Hills, and Michael Wilson signing the NAFTA for their three countries in San Antonio, Texas in October 1992. *Courtesy of the George Bush Presidential Library*

Canada: A Trading Nation in the World of Trump

Derek H. Burney and Fen Hampson

With global trade as with so many other elements of the existing world order, the Trump administration seems determined to overturn precedent, disrupt existing alliances and reverse trends. Approaching a crucial set of negotiations under such circumstances on the massive North American Free Trade Agreement will require even more skill and patience than the landmark deal itself did after successful talks a quarter century ago.

“Let chaos storm! Let cloud shapes swarm, I wait for form,” the American poet Robert Frost once wrote. The ongoing saga engulfing America’s 45th president is even more turbulent and unpredictable than Frost’s storm clouds and Canadians, like Frost, are going to have to wait for some semblance of order to emerge.

As a trading nation that exports nearly 32 per cent in goods and services of its GDP, about 75 per cent of it to the US, Canada counts on America as a reliable and stable trading partner. But Donald

Trump thrives in an atmosphere of chaos, one in which he dominates the media spotlight, often with indulgences via Twitter that do not always serve his own best interests.

Trump clearly believes that the world (including Canada) is taking advantage of the U.S. on trade, on security and on the environment. He declared that the Paris Accord is a “massive redistribution of U.S. wealth to other countries”, adding bluntly that he was elected to serve the citizens of Pittsburgh, not Paris. While his criticism of NATO allies’ spending has merit, his avoidance of the customary reassuring statement about Article 5—mutual defence—at the May 2017 NATO summit was troubling. His rants about trade deficits may be good politics but they are bad economics. His manner and rhetoric indicate ominously that self-interest, not leadership of the western alliance, is the prime motivator for this president, which is jangling nerves in many Western capitals.

“Stop the World I want to Get Off” is not a clarion call worthy of the world’s greatest superpower, nor is it an attitude shared by all Americans, but it is one Canada will have to adapt to or indulge nimbly while minimizing direct repercussions.

One potential positive is that, since Trump’s twin priorities are economic growth and national security, there is no country better positioned to bolster both than Canada. There is genuine scope for mutually beneficial cooperation on infrastructure, like the outdated electricity grids that straddle our shared border, on cybersecurity and defense—after all, NORAD is older than NAFTA—and on energy development for an “energy independent North America”.

For much of Canada’s 150 years as a confederation, and even before 1867, trade relations with the U.S. have been a recurring, often riveting issue—a rollercoaster of sorts, with highs and lows of optimism and concern. The successful negotiation of the Canada-U.S. Free Trade Agreement in 1987, and subsequently the NAF-

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TA, including Mexico, in 1992, were landmark accomplishments of the Mulroney government.

Concern is uppermost today and the main question is whether Canada can weather the assaults triggered by the election of Donald Trump and keep the rollercoaster on its rails.

Trump’s erratic attitude on trade with Canada is troubling. When he first met our prime minister last February, the tone was positive. Trump said then that he only wanted to “tweak” NAFTA, prompting sighs of relief in Ottawa. Soon after, however, he described NAFTA as the “worst trade deal ever” and threatened to scrap it altogether. His Commerce Secretary, Wilbur Ross, added to the drama by talking about using “bazookas” to extract trade concessions from Canada.

Trump may see himself as a patriotic populist but his “Buy American; Hire American” proclamations are just unadulterated protectionism wrapped in the stars and stripes. His “America First” rhetoric is destabilizing and generating caution, if not unease, for Canadian producers and investors.

The reality of what will happen on trade is an open question.

The optimistic scenario is that Canada, the U.S., and Mexico quickly conclude a relatively painless agreement that would modernize NAFTA, adding elements on e-commerce, on standards and regulations and on 21st century issues negotiated under the Trans Pacific Partnership (TPP). This would be subject to ratification by Congress—by no means certain—and the Parliament of Canada and Mexico’s Congress.

The advantage of this approach is that it would serve President Trump’s penchant for an “early win”—something he desperately needs. The downside is that a modest upgrade will not resolve the negative perceptions nor the expectations of wholesale reform he promised Americans. It certainly would not return jobs to America’s industrial heartland though it is not clear anything will.

The more daunting prospect is that negotiations become embroiled over substantive differences on thorny issues and drag on inconclusively into the Mexican election and U.S. midterms next year, the results of which may simply complicate matters more. In this scenario, irreconcilable differences could prompt one of the parties to withdraw abruptly from the negotiating table, dashing the hopes for any kind of settlement. Regardless of what evolves, a prolonged period of uncertainty seems unavoidable.

The calendar is very tight. The Trump administration is roughly halfway through its 90-day consultation period seeking authority from Congress to re-negotiate NAFTA. However, Congress, not the administration, ultimately determines the outcome on any trade negotiation. In mid-July, the administration will signal a detailed list of its objectives enabling negotiations to begin in mid-August and hopefully conclude early in 2018, well ahead of the presidential elections in Mexico and the midterms in the U.S. Trump may want something fast on NAFTA—but he says that on most things. So far he has been unable to get much traction on any legislation in Congress, even though his party has a majority in both chambers.

Given the extent to which the heated rhetoric has polluted public attitudes on trade in America, there is no certainty that *any* trade agreement would pass muster with this Congress.

For Canada, overt, capricious actions against softwood lumber and steel along with concerns about Buy America tendencies are already front and centre. Trump has openly expressed unhappiness about supply-managed dairy products, among other Canadian sins. With Mexico, the problem is sugar. We, of course, have a list of our own about nefarious U.S. intentions, like a dismantling of the dispute settlement provisions. So any negotiation could quickly get testy.

So what should Canada do in the meantime?

Canada cannot negotiate with a chimerica, nor under demands for unilateral concessions. We need to stay calm and disciplined, consult broadly and define precisely and pragmatically what we want and do not want on a revised or refreshed NAFTA. We also need to clarify what the U.S. intends to negotiate and we need to define what would constitute success for Canada. The result must serve Canadian interests, preserving and strengthening access to our most vital market.

The current climate of uncertainty is definitely dampening business confidence and investment. It will definitely be better to move beyond bombastic bluster and start negotiating, recognizing above all that, to be successful, any trade negotiation must convey mutual benefit. Unilateral demands or unilateral concessions cannot be part of the bargain. And the sooner we can get to a negotiating table, the better.

We should also keep the following eight points in mind:

1. Trade agreements have become whipping boys for all that ails developed countries, but the employment dislocation in our economies stems more from dramatic techno-

logical changes—automation, robotics, artificial intelligence, etc.—and the shift from manufacturing to services like e-commerce than from the impact of tariff redirections introduced more than 20 years ago. The reality is that more people than ever enjoy new social and economic opportunities due to the combination of more liberalized trade and technological change. But few politicians are willing to state this simple truth to a cynical public.

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2. The most serious wounds are self-inflicted. The U.S. Council on Foreign Relations study “How America Stacks Up” concluded that “the slow economic growth in the U.S. over the past decade has resulted not from what the world has done to America but what America has done to itself”, especially in terms of tax rates and stifling anti-business regulations.
2. History demonstrates clearly that protectionism and closed markets offer no panacea for growth.
3. There is scope for improvements to NAFTA that would serve our collective interest as in the case of e-commerce, where there is already major growth, including Mexico where large numbers of Mexico’s rapidly growing middle class are now shopping online.
4. We must prepare strategically and tactically, working the U.S. political system as never before, mobilizing key constituencies in support of our objectives and explaining to Ameri-

cans precisely why a good trade relationship with Canada is very much in our mutual interest. Nine million American jobs depend on exports to Canada, still the U.S.’s largest export market, a fact known by too few Americans but one that should be our “trump card” or leverage in any negotiation.

5. Canada’s team must keep a close eye on Congress given its ultimate authority for trade agreements, especially those representatives whose districts and states rely heavily on trade with Canada. We are the number one export destination for 35 states.
6. For any negotiation to succeed, there has to be some political consensus and commitment at the top leadership level about what is achievable.
7. We need to prepare thoroughly for all contingencies and be explicit up front about what is *not* negotiable. The Americans will have a similar, no-go-zone list. When it comes to trade, there is no monopoly on virtue anywhere in the world.
8. Always keep in mind that “No deal is preferable to a bad deal.” That was the basic principle that guided us in the first free trade negotiation. We need to know when and how to say “No”.

So, fasten your seat belts. It will not be easy and it could get very bumpy but there is no reason to panic or pull the emergency switch. Mutual self-interest is the most sobering tonic of all in any trade negotiation. **P**

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