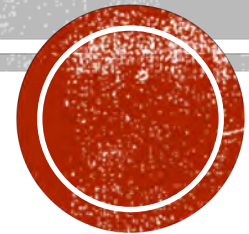


NAFTA AFTERMATH: CANADA, TRADE AND THE USMCA

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TRADE VITAL TO CANADA

- Exports Account for about one third of Canada's GDP
- Exports directly and indirectly generate nearly 3 million jobs in Canada – about 17 percent of employment
- Exports help economic growth by giving us a larger market and boosting the productivity of our firms
- Imports boost our standard of living via consumption of more and varied goods.
- Imports of intermediate inputs are a factor in half of our productivity growth.
- Trade does create winners and losers but on balance our economy has grown because of trade and the elimination of trade would be the equivalent of a 30 percent national pay cut.



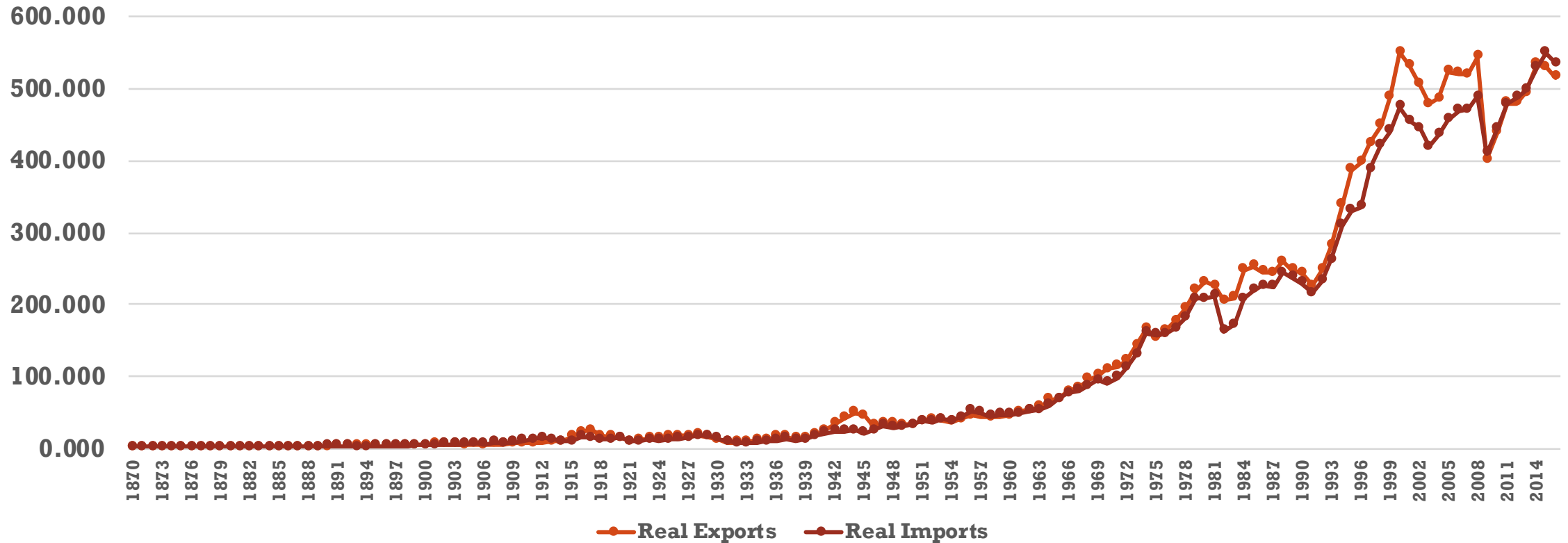
MAJOR TRADE MILESTONES

- Reciprocity Treaty 1854-1866
- Washington Treaty 1874
- National Policy Tariffs 1879
- 1911 Reciprocity Election
- GATT
- Auto Pact 1966
- FTA 1988
- NAFTA 1994
- USMCA 2018



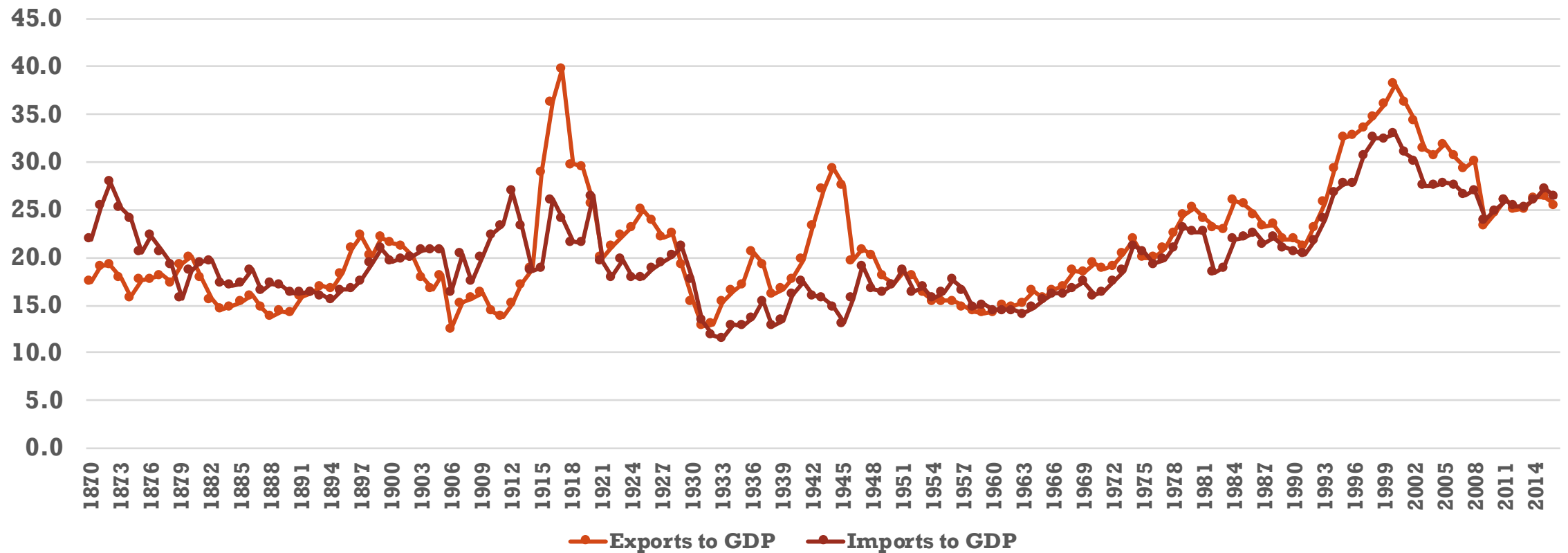
CANADA HAS ALWAYS BEEN A TRADING NATION: TRADE HAS GROWN

Canada, Value of Imports and Exports (billions of 2016 dollars), 1870 to 2016

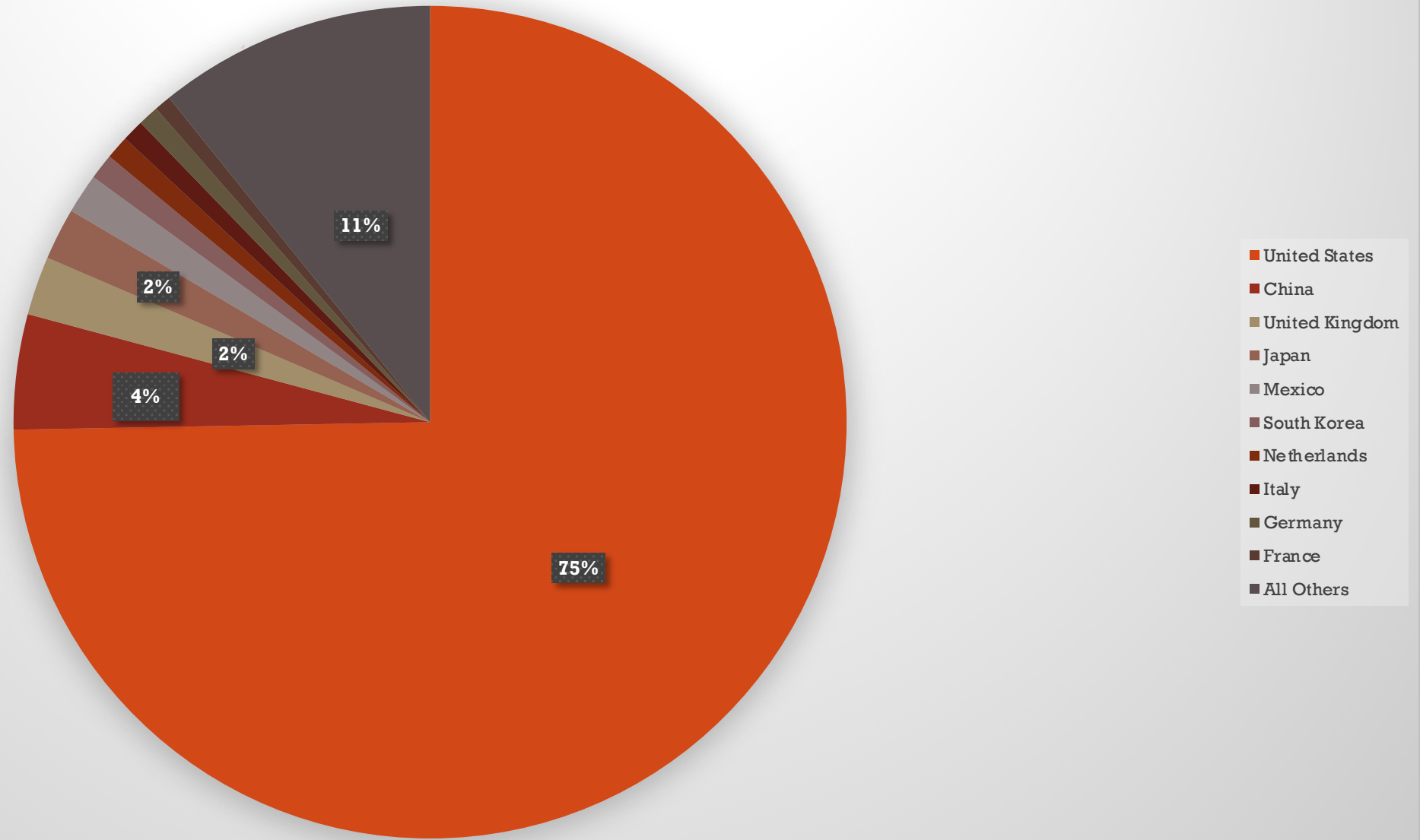


TRADE AS A SHARE OF GDP

Export and Import to GDP Ratio (%), Canada 1870 to 2016



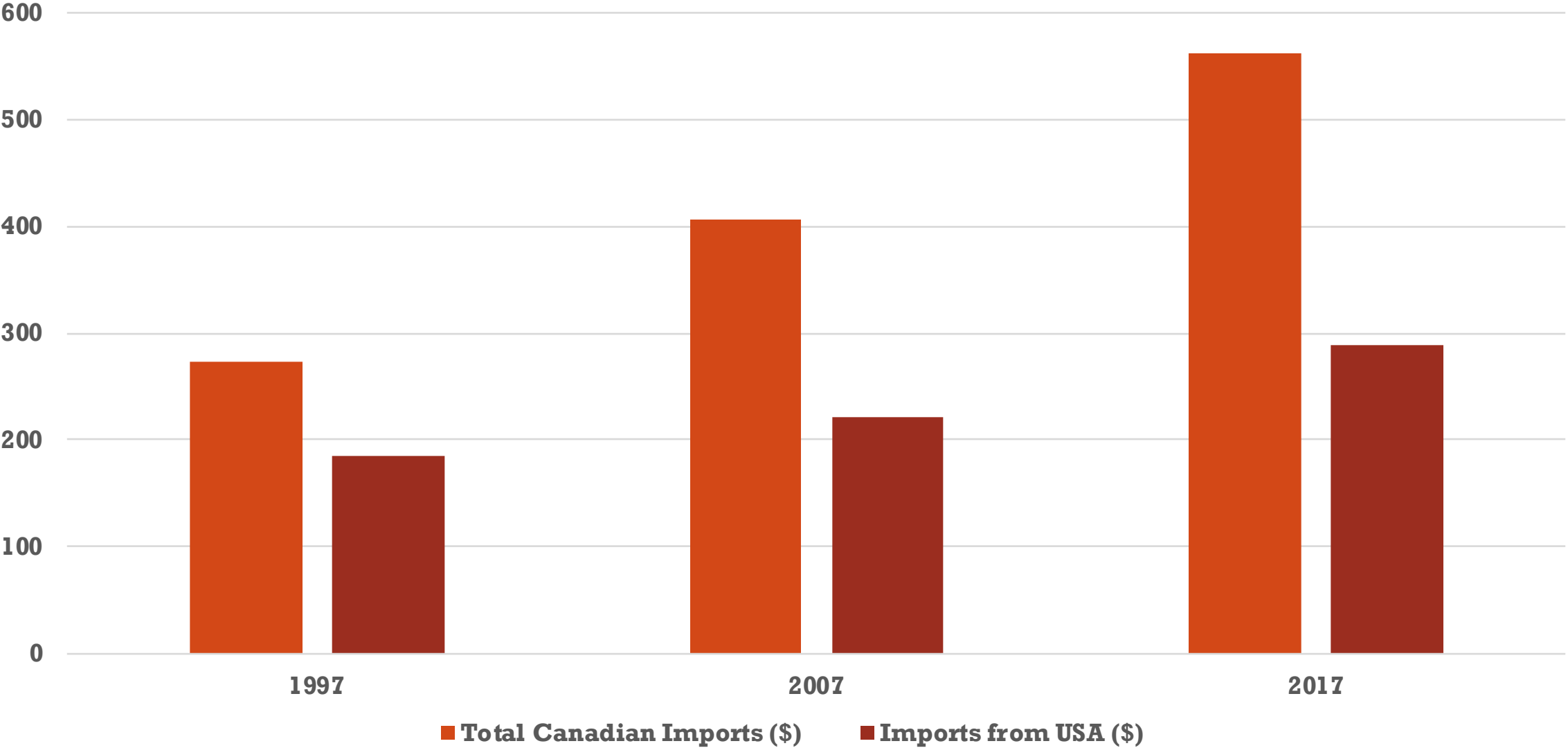
Percent Distribution of Canadian Exports Across Trade Partners, 2018



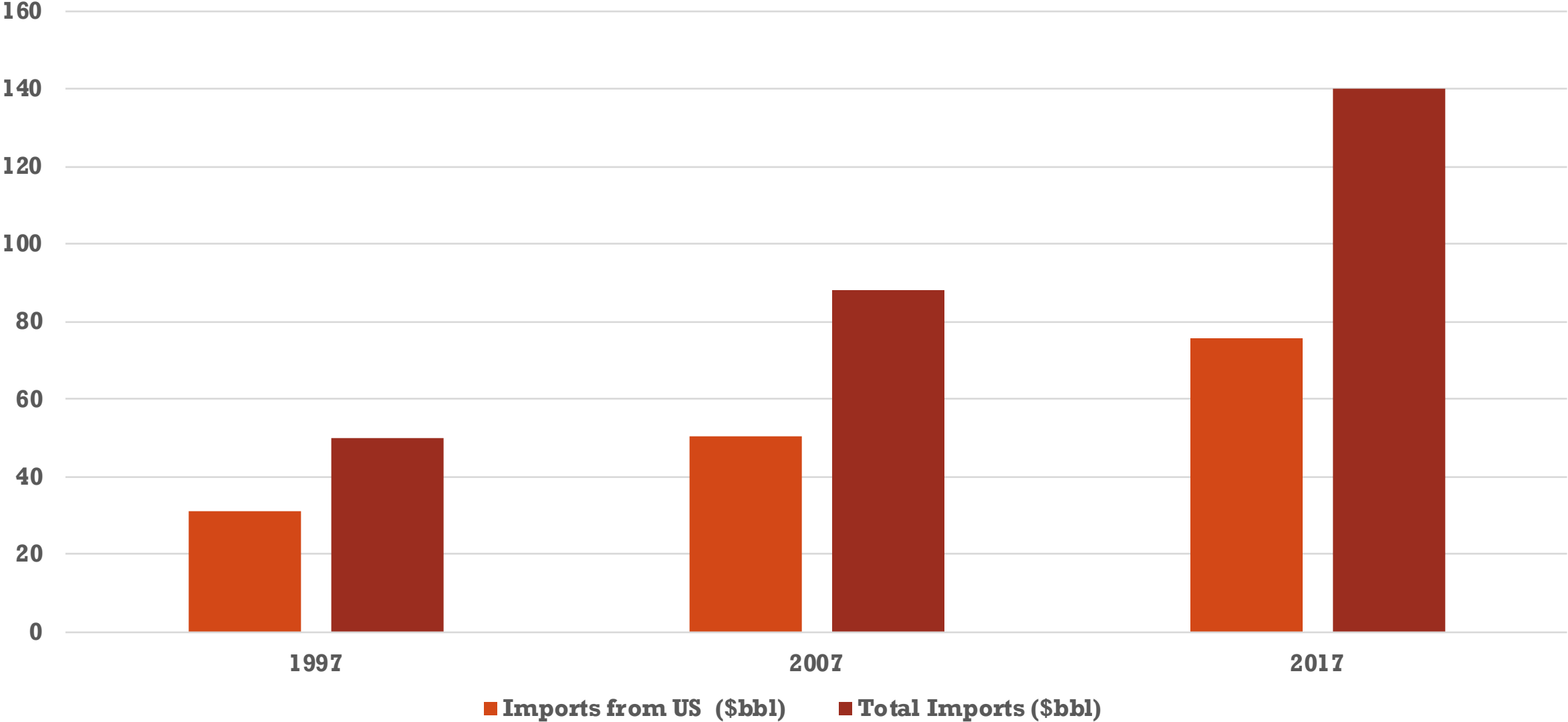


DESPITE CLAIMS OF PRESIDENT TRUMP THAT NAFTA THE “WORST DEAL EVER” OR THAT SLY CANADIANS HAVE TAKEN ADVANTAGE OF THE UNITED STATES, THE US HAS ALSO DONE WELL. HOWEVER, THEIR SHARE OF OUR MARKET HAS DECLINED.

Canadian Merchandise Imports (\$bbl)



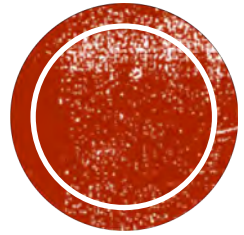
Canadian Service Imports (\$billions)



CANADA-US TRADE THE LARGEST BI-LATERAL RELATIONSHIP IN THE WORLD

- Approximately \$750 billion in merchandise trade and \$120 billion in services
- Canada is largest export market for the USA – 19 percent of American exports (about two thirds of Canadian imports from USA)
- USA is our largest export market – about 75 percent of our exports
- China has displaced Canada as largest exporter to USA and Mexico has become more competitive.
- Generally:
 - Canada has a merchandise trade surplus with the USA with resource exports offsetting manufactured imports
 - Canada has a service and investment flow deficit with the USA





THE USMCA

DOES NOT ACTUALLY CREATE THAT MUCH IMMEDIATE CHANGE

- Main changes affects auto sector
 - Higher domestic content requirements (75% up from 62.5% and 40% must be produced by workers making \$16/hr or more) and an implicit minimum wage will likely increase the costs of producing autos in North America.
 - Canadian consumers will be worse off, but Canadian auto companies might benefit if some production activity moves from Mexico to Canada
- US Dairy exports will increase modestly (up to 3.6% of market from 1%) – but Canadian supply management intact.
- Intellectual property protection for drugs strengthened in Canada – could mean higher prices in Canada but also greater access to drugs.
- Cultural industries remain untouched (Canadian media and bilingual content)
- Dispute mechanism (now Chapter 31) remains in place but its value is dubious in light of current US trade actions.
- Review Clause – 16 year expiration with review every 6 years.
- Existing US steel and aluminum tariffs remain in place



POTENTIAL NEGATIVE FEATURES OF USMCA FOR CANADA

- Mexico and Canada both agreed to cap assembled autos exported to the United States at 2.6 million units each. In 2017, Canada exported 1.6 million autos and Mexico 2.4 million units. Does not affect Canada in short term but could limit growth of industry in long run.
- Ineffectiveness of dispute resolution mechanism in face of unilateral actions by the US.
- Formal requirement that Canada and Mexico notify the United States of any intent to negotiate with non-market economies and it remains to be seen if this will be a diplomatic courtesy or evolve into a right of veto by the Americans. 32.10
- Macroeconomic and exchange rate section matters that establishes a committee to monitor the macroeconomic and exchange rate policies of the three countries ostensibly to maintain market-oriented exchange rates and refrain from competitive devaluation. 33.4



INTERPRETING EFFECTS OF 32.10 AND 33.4

- Could be meaningless but then why put them in the agreement?
- Are both firsts in terms of their insertions into a trade agreement – outline who you can trade with and a method to deal with “artificial” currency devaluation.
- Are perhaps not directed at Canada or Mexico but at China - are both “China clauses”
- Minister Freeland quoted as saying such clauses do not impact our trade sovereignty but evidence to contrary in our shift to sectoral rather than broad based trade negotiations with China.



USMCA ALSO SIGNALS A RELATIONSHIP SHIFT

- The name switch to the USMCA is quite significant first because it eliminates the term free trade and second because it emphasizes specific national interests by listing the three countries - with the United States being first in the order. This is clearly an America First agreement.
- Even with an agreement, the Americans have already sent the signal that they may still impose tariffs on us when it suits their purposes and the maintenance for now of the tariffs on steel and aluminum is the clearest indication of this.
- Agreement is definitely a major development that despite preserving much of what was in the original NAFTA also creates several new dimensions to the playing field. There has been a major shift in the American view of what a trade agreement means as well as the extent to which they are willing to play hard ball to get what they want as recent negotiations so clearly illustrated.



EFFECTS OF USMCA

- Any businesses that have benefitted from imports of low cost goods from China can be expected to see costs rise as trade relationship between Canada, US and Mexico solidified – prospects of complete Canada/China free trade unlikely.
- Vehicle industry may be about to slow as production costs rise as a result of USMCA
- Canadian consumer dairy prices may see some moderation
- Bit easier for Canadian consumers to buy goods online in the USA as *De Minimis* threshold raised from \$20 to \$40 for taxes. The customs *De Minimis* raised from \$20 to \$150. Benefits consumers but may hurt retailers.





**IT IS NOT OVER UNTIL
ITS OVER AND ITS NOT
OVER YET...**

DESPITE AN AGREEMENT IT STILL HAS TO BE RATIFIED

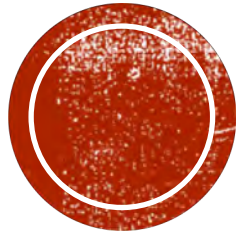
- Democrats now control House and in addition to their general opposition to Trump, Democrats have already signaled disapproval of the new labor provisions in the USMCA as not doing enough to protect American workers. Will make ratification a difficult battle.
- Trump can in response to Democrat opposition generally be disruptive:
 - Threaten to withdraw from NAFTA/USMCA entirely
 - Leave the 1988 Canada US Free Trade Agreement entirely
 - Impose more tariffs
- However, in the end there will probably be ratification because the overall economic damage to the US economy (not to mention ours) of trade chaos would be significant.



OPTIONS FOR CANADA

- Canada needs a deal much more than the Americans given our US trade dependency. In the end, a revamped NAFTA was defense rather than offense – we needed to keep most of what we had.
- Grow other markets – easier said than done given proximity of US markets
- Trade with China
- Trade with Europe
- Trade with everyone else
- It is going to be a slog





THANK YOU