Footwear & Politics in Focus 2017: NAFTA Renegotiations Impact on Footwear

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Key elements of the North American Free Trade Agreement

NAFTA is a free trade treaty between the United States, Canada and Mexico that went into effect on January 1994 and made the three countries the largest free market in the world

NAFTA was created to eliminate tariff barriers to agricultural goods, manufacturing, and services; to remove investment restrictions; and to protect intellectual property rights

Around 50% of tariffs were abolished immediately when the agreement took effect, and the remaining tariffs were gradually eliminated

The agreement also opened the border and interior of Mexico to US truckers and streamlined border processing and licensing requirements for commercial ground transportation

The three NAFTA countries agreed to strengthen and standardize health, safety, and industrial standards

NAFTA also created commissions with the power to impose fines against the signatory governments if they failed to implement the agreement's labor and environmental standards

NAFTA timeline

1979	1991	1992	1994	2008
President Reagan proposes a North American agreement for free trade	The US, Canada and Mexico begin trade regulation talks	NAFTA is officially signed	Initial NAFTA regulations go into effect	NAFTA free trade policies go into full effect

Sources: Global Training Center, Inc., "North American Free Trade Agreement (NAFTA)," 2014.

The president can renegotiate or withdraw from NAFTA and similar FTAs without Congressional approval

NAFTA exit provisions

NAFTA Chapter 22

•Chapter 22 of NAFTA allows its parties to withdraw from the agreement after giving six months' notice to the other member countries

•Trump, exercising the presidency's authority over foreign affairs, could unilaterally withdraw the United States from the agreement

NAFTA Implementation Act, Section 201

•Additionally, Section 201 of the NAFTA Implementation Act of 1993 allows the president to proclaim "additional duties" if they are found necessary or appropriate to maintain the balance of reciprocal concessions between the US, Canada and Mexico

•The president would have to consult with Congress before invoking Section 201 to create new tariffs, but would not require Congressional approval

Presidential trade proclamations

•US withdrawal from NAFTA would not automatically raise US tariffs on imports from Canada and Mexico. Trump would have to issue an additional presidential proclamation in order to bring back the pre-NAFTA 'Most Favored Nation' rates on Mexican and Canadian imports – averaging around 3.5%, but with higher rates for specific items like clothing and footwear

Analysis

President Trump could also use withdrawal clauses similar to NAFTA's to withdraw the United States from other free trade agreements (FTAs) and the World Trade Organization (WTO)

Sources: Justin Wolfers, "Why a President Trump could start a trade war with ease," The New York Times, September 19, 2016; Marcus Noland, Clyde Hufbauer, Sherman Robinson and Tyler Moran, "Assessing trade agendas in the US presidential campaign," Peterson Institute for International Economics, September 19, 2016.

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Trump has called for a withdrawal from NAFTA if a better deal cannot be negotiated

Key Trump statements on NAFTA and trade policies

Trump on NAFTA

- The President has called NAFTA "the worst trade deal maybe ever signed anywhere, but certainly ever signed in this country"
- He stated during his campaign that he would seek to negotiate better terms with Mexico and Canada, with the option to withdraw from the pact if concessions aren't satisfactory
- The NAFTA renegotiation is among the issues Trump pledged to address in the first 100 days of his administration
- Trump has proposed a 35% tariff on Mexican-assembled autos and other goods if the US withdraws from NAFTA

Administration priorities

•The NAFTA repeal is one element of a larger Trump administration trade agenda

•Among other priorities are: ending TPP negotiations, stopping "unfair imports," ending "unfair trade practices" and pursuing bilateral – rather than multilateral – trade deals

•Additionally, Trump has threatened to impose a "border tax" on companies that move factories to other countries and send products back to the US

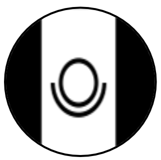
"NAFTA is logically is the first thing for us to deal with. That should be, and hopefully will be if I'm confirmed, a very early topic in the administration."

– Wilbur Ross,

Commerce Secretary Nominee

Sources: Reuters, "Trump's NAFTA revamp would require concessions, may borrow form TPP," November 22, 2016; Tal Kopan, "Trump transition memo: trade reform begins day 1," CNN, November 16, 2016.; Reuters, "Wilbur Ross: NAFTA is Trump's first trade priority," January 18, 2017.

Takeaways from Canada’s and Mexico’s statements on NAFTA



Mexico

- Mexican President Enrique Peña Nieto has expressed his willingness to discuss NAFTA with Trump and "modernize" the treaty, though he is opposed to renegotiating existing provisions
- Peña Nieto pointed to new additional environmental and labor provisions as examples of potential additions to the deal
- Additionally, any demands for concessions that would favor US industrial goods could be met with Mexican demands to increase US import quotas for Mexican sugar and protections for Mexico's potato crop
- Peña Nieto was scheduled to meet with Trump on January 31

Canada

- Canadian Prime Minister Justin Trudeau has signaled that he is willing to engage in NAFTA discussions with a Trump administration
- Canada will likely insist that any renegotiation bring an end to the US dispute against Canadian exports of softwood lumber

Joint disputes

- Mexico and Canada would likely demand greater access to compete for US public sector procurements, which are currently protected by "Buy America" laws
- They could also challenge the current framework for investor-state disputes under NAFTA, since both countries have lost cases against companies and had to pay millions of dollars in fines

Both Mexico and Canada have signaled a willingness to reopen NAFTA talks

Sources: Reuters, “Trump’s NAFTA revamp would require concessions, may borrow form TPP,” November 22, 2016.

Three potential scenarios for NAFTA negotiations under Trump

Trade restrictions

Trump could repeal NAFTA and impose a tariff on Mexican goods. American companies with operations and supply chains in Mexico would suffer from greater costs of business, which would likely result in layoffs. The price of consumer goods such as electronics and cars would go up for American consumers, and Mexico could respond with its own tariffs on American goods. The US would also lose a trade advantage as Canada and Mexico continue to engage in bilateral free trade.

Strong renegotiation

The Trump administration could reopen negotiations on NAFTA, leveraging US market access for greater concessions from Mexico and Canada. However, it is not yet clear what concessions Trump may demand from the other NAFTA signatory countries.

Limited immediate impact

Even if the US withdraws from NAFTA, Mexico may chose to accommodate existing supply chains and foreign investment and avoid responding with high tariffs.

Trump's NAFTA renegotiations could spark a trade war, though embedded supply chains may lead to continuity

Sources: Tami Luhby, "Yes, President Trump really could kill NAFTA – but it wouldn't be pretty," CNN Money, July 6, 2016.

Key takeaways from President Trump's executive order on TPP

On January 23, President Trump signed an executive order formally ending the United States' participation in the Trans-Pacific Partnership

The decision came after Trump met with business leaders in the Roosevelt Room to discuss the future of American manufacturing

The Obama administration's TPP negotiations were a key element in the United States' economic and political "pivot" to Asia to counter growing Chinese influence

Analysis

- The executive order was largely symbolic since the TPP was unlikely to be ratified in the Republican-controlled Congress, but signaled that Trump's administration will continue the tough stance on trade he developed during the campaign

Sources: Ylan Q. Mui, "President Trump signs order to withdraw from Trans-Pacific Partnership," Washington Post, January 23, 2017.

President Trump’s expected actions on NAFTA

Trump is expected to sign an executive order announcing his intention to renegotiate NAFTA during the first days of his administration

Trump plans to bring up renegotiation in meetings with the leaders of Canada and Mexico, and was supposed to meet with Mexican President Enrique Peña Nieto on January 31

The President has the authority to unilaterally pull out of the trade deal, but a renegotiated NAFTA would have to be ratified by Congress

Analysis

- Critics of Trump’s decision to withdraw from the TPP point out that the multilateral trade deal was a de facto renegotiation of NAFTA, as both Mexico and Canada would have been parties to TPP and would have had to comply with stricter labor, intellectual property and environmental regulations

Sources: Reuters, :Trump to sign orders to renegotiate NAFTA, pull out of TPP,” January 23, 2016.

NAFTA Renegotiation Impact on Footwear

The NAFTA footwear Rule of Origin is highly restrictive in comparison to other US FTAs – 55% Regional Value Content (RVC) and originating upper requirement

FDRA and the Mexican Footwear Chamber are expected to meet February 6th and 7th in Washington to discuss potential outcomes of a renegotiated NAFTA

FDRA will fully consult with its members to ensure the best possible outcome of the updated agreement

Analysis

- With the reopening of the North America Free Trade Agreement (NAFTA), the footwear industry has the opportunity to construct a more flexible and reasonable Rule of Origin for footwear if the Mexican industry is willing to consider. In addition, US negotiators will have the opportunity to pursue a dismantling of the recently implemented reference pricing and import restriction schemes placed on imported footwear.

Updates on NAFTA renegotiation

Mexico

- On February 1, Mexican president Enrique Peña Nieto announced that his **government would consult with the private sector for a period of 90 days** before initiating NAFTA renegotiation talks in May
- **Mexican officials will meet with domestic industry leaders** in farming, manufacturing, textiles, petroleum and other sectors
- **Mexico will seek to retain free market access to the US**, its largest trade partner and the destination of 80% of its exports
- **Mexico will also work to expand trade ties with other countries**: it updated its trade agreement with the EU and initiated trade talks with Argentina and Brazil

United States

- President **Trump acknowledged that the 90-day preparation period was also in effect** in the US, implying that he will use fast-track authority to negotiate a new deal
- Fast-track authority allows the president to negotiate trade agreements that Congress can vote on but not amend or filibuster**. It also requires the president to notify Congress** 90 days before entering into negotiations for a new agreement
- While Trump's renegotiation plan is still ambiguous, his advisors have stated that they want to **reduce outsourcing of US manufacturing jobs and establish stricter rules of origin** – particularly for auto imports
- According to White House officials, **Trump will withdraw the US from NAFTA if his administration is not satisfied** with renegotiations

Sources: Elizabeth Malkin, "Mexico takes first step before talks with US on NAFTA," The New York Times, February 1, 2017; Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017.

Key players in US-Mexico trade negotiations

Ildefonso Guajardo
Secretary of the Economy
Leads negotiations with the US and consultations with Mexico's private sector

Luis Videgaray
Secretary of Foreign Affairs
Organized Trump's campaign visit to Mexico in August

Wilbur Ross
Secretary of Commerce nominee
Leads the Trump administration's trade negotiations with Mexico

Peter Navarro
Head of the National Trade Council
Has helped develop the US's NAFTA renegotiation proposals and held talks with key Mexican officials

Robert Lighthizer
US Trade Representative nominee
Responsible for conducting bilateral and multilateral trade negotiations

Source: Ana Swanson and Joshua Partlow, "US and Mexico appear to take first steps towards renegotiating NAFTA, document suggests," The Washington Post, February 2, 2017.