Peterson Institute for International Economics

The USMCA review: Where is it going?

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[00:00:18.14] - Cecilia Malmström

Good morning. Good afternoon. Good evening. Welcome to this episode of Trade Winds. My name is Cecilia Malmström. I'm a nonresident senior fellow at the Peterson Institute of International Economics, PIA. Today we're going to talk about the USMCA, or the CUSMA as the Canadian says, or even T-MEC as it's called in Mexico, the review of this agreement. We could call it USMCA for simplicity. This is the trade agreement, as you know, between the US, Mexico, and Canada that entered into force in July 2020. That was an update of the old NAFTA agreement in force since 1996. This deal has, of course, been immensely important to integrate the three countries when it comes to trade and investment, and it has benefited millions. It's a market of more than 500 million people, and the countries co-produce autos, textiles, and share a large agricultural market. Now, the agreement is up for revision. By the 1st of July this year, the three countries must unanimously decide whether to extend the agreement for another 16 years Otherwise, it becomes subject of annual revision. It could expire, or they could buy specific provisions. There's a lot of uncertainty, but we have a stellar panel who will help us to clarify all this.

[00:01:43.05]

The review happens, of course, in times of trade turbulence, and we will discuss the main benefits of the agreement so far, what are the main hurdles, what are the possible outcomes, and what consequences will these outcomes have. So to discuss this, I have a very, very well-informed panel. There will be no questions left when you end this episode. We have Kelly Mayman-Hawke, who is the senior counselor at McLarty Associates, a former director for Brazil and the Southern Cone. She has a lot of experience from South America working in the US Foreign Office, and she has also been in the US Trade Representative Office. We also have Juan Carlos Baker Pineda, who is former State Secretary for Trade in the Government of Mexico. He was in government during the NAFTA and the TPP negotiations as well, and he's now a fellow at Georgetown America Institute. We have Jeffrey D. Schott, my colleague at Peterson, who has done research for 40 years about trade, sanctions, economic cooperation, and he has written numerous books about and papers about NAFTA, trade cooperation, And last but not least, we have Ambassador John M. Weeks, who is the former NAFTA chief negotiator for Canada, former WTO ambassador for Canada as well, and now a fellow at the Canadian Global Affairs Institute.

[00:03:11.19]

A very warm welcome to you all. Thank you for joining. So if we start a little bit about the background so that we all have the same basic knowledge, how did this agreement originally come about and what was the reason behind the negotiations. Why don't you start with that, Kelly?

[00:03:32.08] - Kellie Meiman Hock

Thanks a lot, Cecilia. Thanks for the opportunity to be here. And I love that you're starting with that question because I think as we are at this inflection point that the USMCA review represents, it is super important to remember why did we do this in the first place? And I think it's also important to remember that the idea of NAFTA was first floated by Ambassador Ronald— or excuse me, President Ronald Reagan in his 1980 campaign. So it goes way back. And, you know, if you look at what the justification for it was, mainly it was to compete. And, you know, I dug out of the Wayback Machine a report that the Heritage Foundation did back in 1993 talking about why we needed to do this agreement and why it was so important. And, you know, I just have to quote from it. It said, North America will produce 25% more goods and services than the European community, giving North America enough economic muscle to challenge to challenge both Europe and Japan. So that's what it was about. And so I would say if it's about competitiveness at its core and at its origin, it's still what it's about today, which is why this review is so critically important.

[00:04:44.02] - Cecilia Malmström

Hmm. Interesting. How was the mood in Canada at that time, John?

[00:04:49.28] - John M. Weekes

Well, I, one of the things I like to tell people about how we got started on the NAFTA is and what's different between then and now. At the time we were negotiating the NAFTA, just before the formal negotiations began, the three heads of government issued a joint statement. And I won't read it, but basically what it said is they intended to try to remove all barriers to trade in goods and services and liberalize investment to the maximum extent possible, and to do so in as short a time frame as possible. So this was the direction from the top, a common goal to create an agreement that was very significant. And I think that gave marching orders to the ministers and the chief negotiators and all the negotiating teams that we were really able to try to surmount the problems rather than identify them as obstacles.

[00:05:49.10] - Cecilia Malmström

Hmm. Interesting. And in Mexico, Juan Carlos?

[00:05:53.11] - Juan Carlos Baker Pineda

Well, I think that at the time, the early 1990s, well, Mexico was already going through a very profound transformation. Mexico had, at that time, Mexico had just joined GATT in 1986. So it was—

[00:06:11.13] - Cecilia Malmström

The predecessor to WTO.

[00:06:13.05] - Juan Carlos Baker Pineda

Yeah, just before the WTO. Some people in the audience may not know that the GATT existed before the WTO. But yeah, so At the time, the economic rationale in Mexico demanded that the push for liberalization, privatization in Mexico's case in particular, just be enhanced. And it was a natural step forward to join the US. At the beginning, the idea was the US, and then Canada came along as well to form what Ambassador Weeks already mentioned, this, this Houston spirit. But then at the same time, there was a lot of sort of ideological questions in Mexico. You have to remember that Mexico and the US had had moments in its relationship before. So it was really beyond the figures, beyond trade, beyond everything that we can quote right now. I think that the most important challenge that Mexico overcame back in those days to join the NAFTA, to participate in the NAFTA, was one of realizing that its economic, its future really lied in North America. And that's a key topic that I know we will be coming back to afterwards. But yeah, in Mexico there was an economic rationale that then was wrapped up also in a practical need beyond ideological questions, I would say.

[00:07:44.25] - Cecilia Malmström

And that agreement was then up and running for 14 years. And then there were renegotiations that resulted in the USMCA. Jeff, what would you say are the main differences? So is it just an update between NAFTA and the USMCA?

[00:08:00.24] - Jeffrey J. Schott

Well, you have to look at the rules of origin and some of the drawing back on the integration. Commitments. There was a concern that there be substantial investment to improve competitiveness. And the points that Kelly made are absolutely critical to emphasize. But of course, each country wanted more investment. And the US officials, particularly in the Trump administration, said, no, we want the investment in the United States at the expense of Canada and Mexico. They didn't say it that way, but maybe privately they did. And they wanted to change the rules of origin to sort of shift the level playing field to be sloped a bit more in the favor of investing in the United States. But sometimes those types of calculations can run afoul, as every professor knows in going into the classroom. And if you raise the cost of production too much in the country, then you actually can deter investments or shift them to more favorable markets, either within North America or outside of North America.

[00:09:21.29] - Cecilia Malmström

And did that— has that happened? I mean, now we have— we're starting to look at the evaluation and the new— what has been the main effects of it when it comes to investment, jobs, —growth?

[00:09:38.12] - Jeffrey J. Schott

Well, it's a mixed bag, and I think you get an important perspective from each country. So it's great that we have this very distinguished panel. But the US depends quite substantially on the North American market, substantial exports, and we import a lot, not only to feed our consumers, but to feed our industries. Important components that, uh, allow us to remain competitive in global markets. And again, that point that Kelly made is absolutely crucial.

[00:10:16.13] - Kellie Meiman Hock

And about 53%, Cecilia, of our imports from Canada and Mexico are intermediate goods that are going into U.S. production. So I think that that is why you've seen, as the Trump administration has engaged in a tariff-increasing policy across the board— if we're talking about the original IEPA tariffs, the Liberation Day tariffs, if we're talking about the 232 tariffs, the 301s, not on the 232s importantly, but on the original IEPA tariffs, on the replacement 122 balance of payment tariffs, and then even on the newly announced 301 on labor. We're finding that USMCA is getting a carve-out for compliant goods only, but precisely because of that dynamic, precisely because of that 53% and other factors, it's because we're so integrated.

[00:11:09.11] - Cecilia Malmström

And dependent on it, interdependent on it.

[00:11:11.15] - Kellie Meiman Hock

You're hurting US production, you're hurting US factories, you're hurting, you know, US production across the board, frankly, when you're damaging our ability to import from Canada and Mexico.

[00:11:23.27] - Cecilia Malmström

But it's also been important for Canada, John, this agreement, both the NAFTA and the USMCA so far. Yes, indeed.

[00:11:32.09] - John M. Weekes

And And I think you can already see the effect on the Canadian economy of the uncertainty that's been created by Donald Trump's trade policy and not knowing what is actually going to happen with the USMCA. By the way, there's another abbreviation for it too. It's the ACUM, which is the French one. Accord Canada-États-Unis-Mexique. So just to further confuse the situation. But so, so we're flirting on the edge of recession now in Canada. And, and it's had a real chilling effect on investment. I mean, who, who can invest at this point in any, any factory or upgrading a factory that is basically dependent on shipping an important percentage of the goods they make to the United States? When Donald Trump has said he doesn't want to import manufactured goods. They should all be made in the United States. And the biggest impact so far, I would say, is in those sectors where we have the 232 tariffs, you know, for a trumped-up— pardon the pun— national security reasons in the auto sector, steel, aluminum, copper, some on softwood lumber as well, although there are other tariffs in place there as well. So this This creates a situation that's very difficult for Canada.

[00:13:03.16]

On the other hand, I think, well, I won't get ahead of myself. I'll stop there.

[00:13:09.17] - Cecilia Malmström

Okay, we'll come back to that. Juan Carlos, in Mexico, this has been, you know, subject to protests and an intense public debate, but it has been important for Mexico as well in the economy and investment.

[00:13:24.08] - Juan Carlos Baker Pineda

Sure. I think that there's no doubt here in the public discussion, in the public debate in Mexico, that the USMCA, T-MEC in Spanish, it's absolutely crucial for the ongoing march of the economy. I mean, absent the USMCA, I think that the perspective of the Mexican economy will be significantly different from what we have right now. And just let me grab a couple of points, if I may, from previous comments. I think that, yes, it is true that if we go into the technical weeds, some rules of origin are different. Canada opted out for certain provisions, such as investment protection that exists and applies only between Mexico and the US, and we can quote a few of those. But I think that perhaps in my experience, having served in the Mexican government at the time, the most important difference that I see between the old NAFTA that John and others helped negotiate And what we have right now is the driver. Whereas the original marching orders were to just remove everything and let's do something together, the USMCA exercise was to save as much as possible of the agreement as it was, maybe add a couple of improving and newer points.

[00:14:46.09]

But it was very clear back in 2017 when we did first the USMCA negotiation And it is very clear now that the political winds in Washington are really blowing in a different direction. And that is why I think that this exercise, this review that we will get into the details in a few minutes, it's going to be about, again, how do we preserve what we have against a political backdrop that, in my mind at least, has become much more protectionist and much more hostile, to be honest, from the one that we had back in 2017, even if the character, some of them might be might be the same. Now, what to do from the Mexican perspective is really the question that everybody here in Mexico is debating. Do we accept or do we somehow understand that tariffs will be placed because the US has expressed as much, or do we go back and fight and state again that an agreement such as the USMCA should grant zero tariffs to Mexican and Canadian goods? How to go about that? Well, that's a big question.

[00:15:56.27] - Cecilia Malmström

That's a big question. Jeff, what do you think is the main US objective with the revision, apart from this sort of legal obligation to do it? What's the main political thing that the US administration wants to achieve? Is that clear at all?

[00:16:12.29] - Jeffrey J. Schott

Well, I can't speak for the current administration. Of course not. I wish I could. I wish my views had some resonance there. But the president and the administration want more investment in the United States, and there are a number of ways to do it. But the most beneficial and the most constructive way of doing it is, again, to go back to what Kelly said, ensure that there's a more competitive environment for investment. So that investors will come in and decide that it is cost-effective to produce in the United States. Now, over the past 3 decades, investors have come into North America and divided their investments among the 3 countries in a way that produces a more competitive product, whether it is produced in Mexico, Canada, or the United States. But the production is both of intermediate goods and final goods. And some of the And a good chunk of that trade is among each other within North America. And that's critical to keep those lanes open and as much as possible unimpeded. And so the risk we face today is more impediments, both of a tariff nature and a non-tariff nature. And that, I think rightly, has led investors to sit on their hands right now.

[00:17:46.20] - Kellie Meiman Hock

Cecilia, if I may, I think I hear—

[00:17:48.12] - Cecilia Malmström

Yes, no, I was going to ask you, you talked about predictability. And of course, that's the number one thing for investors, which is not really the case today.

[00:17:59.12] - Kellie Meiman Hock

Stability is the number one goal for investors in North America. There's no question. That is not the objective of the administration, in my view. The objective of the administration, in my view, and echoing what Juan Carlos said, is to increase employment. Employment investment and just American, US content in supply chains within North America. So that's a piece of it is not just nearshoring, but home shoring where possible. And I think we've seen that with the reported USTR request to increase US content in automobiles to 50%. The other piece is China. And I think if you look at the data, we have seen a huge increase. I'd love when Carlos sees on this, a huge increase in Chinese investment and also imports into Mexico, intermediate goods into Mexico for, for Mexican manufacturing and production. You know, that is something that I would posit has less to do with USMCA and more to do with US approaches on trade towards China and China trying to find other ways into our very robust consumer market. Um, but it's something that not just the administration, but I think many stakeholders are concerned about. The question of do we want to not just talk about rules of origin and but origin of capital?

[00:19:22.19]

When we look at RVC in the context of the USMCA, how do we want to address those questions is going to be something that's really tricky. But again, it's something that I do think is critically important and something that Mexico frankly has led on It's important to remember that Mexico was the last country to support China's entry into the WTO because they've always had their eyes wide open with respect to the China threat. That discussion between the United States and Mexico on China, I think, is a critically important space to watch.

[00:19:58.17] - Juan Carlos Baker Pineda

Can I just jump in? The Chinese remember that Mexico was the last country to sign on their accession to the WTO. But the China question in Mexico is very open-ended as well. I mean, on the one hand, I think that— and I wrote a piece recently on that, a paper that I wrote on Mexico, China, and the US, I call it the triangular balance. What I argue there is that China was an important partner in the early 2000s of both Mexico and the US, because we liked it that way. You see, now that we don't like it, And then is the moment that we need to start thinking on the sort of policy that we can apply to China. I personally believe that you are not going to stop, quote unquote, China just by raising tariffs. I mean, it's much more complicated than that, we all know. And at the same time, I think that Chinese inputs in some industries are critical for North American competitiveness as well. I mean, after 10 years of US tariffs on China, well, the reality, and you can look at the numbers, is not that Chinese exports to the US have all but disappeared.

[00:21:11.01]

Maybe they have found other ways to be present in the supply chain. Now, having said all of that, right, and recognizing and realizing that we need to do something about that, I am personally skeptical about using all of the USMCA tools for that. Because if we start using the USMCA platform to specifically underlining or even, pointing at specific countries. Well, today is China, but we don't know what other political realities or problems or geopolitical situations may arise in the future. So if today is China, what stopped it from being tomorrow Korea, the day after that Japan, and the day after that Europe, you see? So I believe that it really has a limit to what we can do about China and about any other country in particular. The best thing that we can do is just be competitive ourselves. And then I'm sure that everything will derive from that.

[00:22:08.14] - John M. Weekes

But could I just—

[00:22:10.10] - Cecilia Malmström

Yes, of course. Yes, please, John. Thank you.

[00:22:12.17] - John M. Weekes

I'd just like to say I basically agree with what Juan Carlos has just said. And I think indeed, and this is beyond the scope of this panel today, but maybe another time, I think we need to think how this links in with the World Trade Organization. Because I think in the long run, uh, we're going to have an unstable situation as long as the, the disciplines of international trade rules don't really get at the role of the Chinese state in the economy. And I think this is something that goes well beyond the scope of what can be negotiated among the three North American countries. And I think for the long term, I'm still a believer in the multilateral system of the WTO despite its current difficulties. I think we need to be preparing for how we address some of those very big issues in that forum.

[00:23:07.08] - Cecilia Malmström

Yeah, but considering the state of play in the WTO and of course the China-US tensions, it will inevitably enter into the discussion. And this administration likes to mix a whole lot of tools.

[00:23:21.05] - John M. Weekes

Well, this is not my decision. I would say, you know, it took us from 1982, really, until 1994 to do the Uruguay Round. So, you know, these things don't happen quickly. And I think as they get more complicated, they may move even more slowly. But I think now is the time to be doing some real thinking in that, in that way. You know, what kind of disciplines would we like to see in the WTO to bring China into a better place in terms of respecting the rules? And I would argue it's probably more likely that that could happen in the WTO, the Chinese making those kind of concessions, than in a bilateral context with the United States, where clearly one side will be seen to have blinked and given up. And in the WTO, it could be looked upon as improving the overall structure for world trade.

[00:24:21.02] - Cecilia Malmström

Absolutely. And that's certainly a topic we could discuss at another occasion. But China will enter into USMCA negotiations, especially in the case of Mexico. I mean, we've already seen that from the statements from the, from the USTR, etc. But this is to be expected. You have spoken about this before, Jeff. How important do you think it will be? Well, I think— Because it also, it's, as I said in the beginning, the rules of origins are very much linked to this.

[00:24:54.13] - Jeffrey J. Schott

Well, the rule of origin solution or remedy for concerns about Chinese participation in the North American market is a rather blunt and possibly costly instrument. One has to look at how do you avoid the sort of backdoor entry, either through Chinese investment in Mexico and Canada or Chinese trade into the three countries that are produced in third countries where you'd have to dig deep to find the ownership structure of the firms that are exporting to North America. So it gets a bit complicated in that respect. And you don't want to cut out some, some critical components that give you an edge in competitiveness and allow North American firms, whether producing in Mexico, Canada, or the United States, to up their game, improve their technology, improve their price competitiveness, and export not only within North America, but to around the world. And that's of critical importance for all three countries. And I think a reason why— and John and Juan Carlos can explain, can explain better why there's renewed focus in Mexico and Canada on deepening various types of integration arrangements with non-North American countries.

[00:26:35.10] - Cecilia Malmström

Yeah, we'll come to that in a little moment. But how this is— of course, everything gets mixed here, but tariffs, rules of origin, and China is very much high on the US agenda as well, and it will trickle down. How do you see that playing into the actual negotiations, Kelly?

[00:26:57.29] - Kellie Meiman Hock

I mean, to date, it's been the main focus. My understanding is— Juan Carlos might have— I know you've been participating in the rounds— other information. But, but truly, you know, if you looked at the discussions thus far, it can kind of feel like USMCA is a steel, aluminum, autos, you know, agreement because a lot of the other issues like agriculture, which I understand in next week's round, which will be in Washington, June 16th and 17th, will open up the conversation more broadly on agriculture, which I think will be very welcome. And actually today the House Ag Committee is doing a hearing specifically on USMCA, which as a Nebraskan, I will be attentively watching because, you know, particularly as we have, you know, really shut off China as a key export market for a number of American farmers and ranchers, Canada and Mexico have become— they were always important, but they've become even more critically important to rural America, which you might have noticed is politically just a little bit important. So, so I think broadening the conversation from these areas of, you know, rules of origin, China, national security, etc., to a broader set of issues.

[00:28:30.24]

Obviously, digital issues have come up as well in a more complicated context with respect to Canada. Compliance with USMCA, if we're talking about energy in Mexico. There's a number of other issues that have come into play. But I'm personally looking forward to seeing how the discussions progress in agriculture to be sure that we can protect and preserve those gains for American farmers.

[00:28:59.12] - Cecilia Malmström

Yes, Juan Carlos, you have been following negotiations. There was a round 2 weeks ago in Mexico. And then as Kelly said, agriculture is up next. How is it going? What can you reveal?

[00:29:11.25] - Juan Carlos Baker Pineda

Well, I'm hesitant to call that, I mean, those meetings, the USMCA review, because there are, let me backtrack that. There are two ways of looking at this. There are plenty of reasons, positive, constructive reasons that should drive Mexico, the US, and Canada to review the agreement. And two tokens as an example. Back in 2017, all the AI provisions discussion was just not important at all. So it should be a good idea to take a look at what North America wants to do in that regard and then frame it in a USMCA context. All right. And then several other topics: critical minerals, certain technologies, what have you, right? So if we were to do a serious, constructive, strategic, forward-looking review of the USMCA, right, There are several topics that we can start from, right? It's going to take some time. It may probably imply going to Congress, something that each country wants to avoid at all costs, right? But that should be like the right way to do it, okay? What we're seeing instead, it's a very smaller approach, which is basically looked at the sectors that the countries have identify as a priority for whatever reason.

[00:30:32.03]

In the case of the US, if you looked at those sectors, those sectors— automotive, steel, aluminum, derivatives, copper, semiconductors, pharmaceuticals, and the like, agriculture too— if you looked at those sectors, they make up most of the trade deficit that the US has with Mexico. But I'm sure that's a coincidence, right? So all of that is driving the exercise to a very narrow scope. These sectors, and basically talk about measures that in the US's mind, I am suspecting, will diminish that trade surplus, which is a priority, not to say an obsession, for President Trump. Other items, other discussions may come, but that those discussions are not necessarily on the first tier of talks. Okay, so yes, rules of origin, tariffs, even though the tariffs are streaming from Section 232 and not the USMCA itself, but that seems to be the sort of horse trading exercise that will be played out. Mexico agrees, and John can speak about what Canada is intending or not to do publicly with public information, of course, And in exchange of agreeing to those stricter market access conditions into the US, which will be sort of grandfathered into the USMCA at some point, then Section 232 tariffs and potentially 301 will be diminished.

[00:32:00.01]

Okay, I'm just guessing from what I look from the outside. All right. Now, that either way, the serious long-term exercise or the smaller, narrow market access-driven exercise, Either of those two, I don't believe we're going to conclude this year, let alone July 1st. I believe that we are going to see that those sort of— I'm calling those things in Mexico in some interventions, transitional agreements. It's not going to be the USMCA review, because the US for political reasons, I argue, is not going to come publicly and say, I give the okay to the USMCA to continue. But rather will try to continue extracting concessions by prolonging these negotiations as much as possible. So these transitional agreements, quote unquote, for the lack of a better term, are just going to have the conditions for market access conditions for certain sectors that the two parties have deemed as important. But it will fall below an actual big review of the USMCA, which will come. I am absolutely convinced of that. We will have a USMCA. There's no scenario in my mind on which the USMCA disappears, but that might take longer to shape and perhaps even some new political leadership to be driven to the end zone.

[00:33:21.09]

What we will be seeing next week is the same exercise that I described that happened in Mexico City for aluminum, steel, and auto parts— I'm sorry, automotive auto parts too. But in other sectors, agriculture, which is very important. I've been in the Clayton-Youther Center in Nebraska, so I know how that goes. And this is where things are starting to become interesting.

[00:33:47.22] - Cecilia Malmström

Okay. And how are the talks, if not negotiations, going with Canada, John?

[00:33:56.04] - John M. Weekes

Well, first of all, maybe I should say that, because I haven't said this yet, but Canada attaches major importance to the NAFTA. Or the USMCA or whatever it might be called, and would like to see it continue. The, you know, we, we clearly are going to have forever our largest trading partner is going to be the United States. Now we export about 75% of our exports go to the United States. And, and, and so we want, we want more certainty to be returned to that trade than we've seen in the past. We haven't gotten yet into the same detailed discussions that the Mexicans are having on certain particular issues, but I think some of the, some of the points that

Juan Carlos just made raise another issue that I'd like to touch on, and that is, what— where is U.S. trade policy headed? Because it's, it's difficult to, to negotiate, uh, with a partner, uh, when it's not at all apparent that the policies of Donald Trump are going to remain American policies even after the midterm elections, and certainly not after— in 2.5 years from now. So I— however, this is not to say that Canada doesn't want to get started and work hard on this.

[00:35:20.24]

I think you'll find the Canadians are very interested in trying to make as much progress as possible and will have a lot of creative ideas to put forward. But I would ask this question also of— but you can see some reasons why we mightn't want to conclude too quickly when we don't know what the American position will be 2 years from now, or even 8 months from now. And I'd like to ask my American colleagues, would there be some Americans who actually would be upset if Canada and Mexico were to agree to what many Americans might consider to be a bad deal and not the sort of deal that they would like to see governing trade relations in North America. So could we even wind up having some blowback on Canada 2 years from now from other forces in the United States that might think we've given up too much?

[00:36:24.21] - Kellie Meiman Hock

Personally, I wouldn't be worried about that, John. I mean, from my perspective, I think that the U.S. private sector and multinationals invested in the United States certainly share your frustration at the lack of certainty and the fact that unpredictability is being used as a strategic advantage, a perceived strategic advantage, or a real one in the context of these negotiations, given that the ability of the rules has really been what's allowed North America to flourish and to compete. Right. So, you know, but that is the political reality that we are living in right now as I sit here in Washington. And that is not going to change. So I think that, you know, for now, I would tend to align with Juan Carlos's evaluation that we are going to see sectoral approaches on priority issues. A number of the sectors that Juan Carlos ticked through are not just issues where we have a trade deficit with Mexico, but they are sectors where the US has initiated Section 232 national security investigations that either have tariffs that are in application, which both Mexico and Canada are seeking carve-outs of some measure, I understand, with very limited success.

[00:37:47.02]

But even if the tariffs aren't in application now, investigations are ongoing or tariffing authority has been received but not implemented at this point. So that's kind of like hanging over everybody's shoulders, right? So, you know, I think that, you know, the best in my view, the best that we can hope for from the review, which again will not be a July 1 thing. I would note that's Canada Day, so not a great day to have to do a meeting if you're Canadian. It's like, let's make the review on the 4th of July. So anyway, just to put that out there. But the fact that we also have the third round with Mexico that's been set for the week of July 20 says to me that even the administration is saying, look, this is going to be a rolling conversation. And I think that the best we can hope for is to have some sort of limited certainty on priority sectors. But even at that, there's been so much volatility in the way that trade policy is being approached. I think that companies are having to make very difficult decisions right now, either delaying decisions because they would like to see some more certainty.

[00:38:55.23]

But, you know, depending on how some of these, you know, tweaks or adjustments in the rules of origin, you know, come through in automobiles and other sectors, you know, I can imagine a situation where you would make the new rules of origin so stringent and so difficult to comply with that you would start to go tariff shopping. Right. And you would look at what the tariff rates are coming out of other deals with other countries and other regions, be it agreements on reciprocal trade or some of the other deals that have been negotiated with the Europeans, the Koreans, etc. And you would just see, you know, does it make more sense for me to import from somewhere else, which I would posit is not what the administration had in mind. In approaching trade policy in this fashion. So I think that there'll just be, you know, some adjustments as time goes on according to, you know, what works and what doesn't. Let me just add—

[00:39:55.09] - Cecilia Malmström

Jeff, yes, please.

[00:39:56.13] - Jeffrey J. Schott

Yeah, let me just add very briefly to what Kelly has just said, because it's very important. When in the old days when we negotiated trade agreements, the good value in those agreements were the lock-in effect, that basically the new commitments were locked in. They were ratified by Congress and other legislatures. And there was greater certainty about the application of those commitments and the enforcement. Of those commitments. Right now, given the vagaries of, of Trump trade policy, I think we've lost a lot of that lock-in effect on agreements. And so if agreements that are reached will sort of smooth over difficulties right now, but do they provide security of policy, of open trade and investment policies going forward over the next couple of years or a decade, the horizon that investors look at in making their investment decisions. I think that is more problematic and that's going to be an enduring and costly impact of the Trump administration policies.

[00:41:27.08] - Cecilia Malmström

The more this drags on, the greater the unknown, the unpredictability on the one hand. But on the other hand, you know, getting a good deal rather than a quick and bad deal is also something that all three partners would appreciate. So how do you find the balance? Do you—you said very clearly, Juan Carlos, you do not envisage a scenario where the US would just walk away. Do you share that? That is not going to happen. It's rather going to drag on over the midterm elections? Or can you divide it in just sectoral reviews? Or can you agree that you keep on talking and then sometimes next year or some other year you do the actual review?

[00:42:12.01] - Juan Carlos Baker Pineda

To answer that question, I need to do some archaeology back in what we were thinking when we did this original clause, because it's actually very funny. We speak about the review all now too often, but very few people have asked me why did we get that close in the first place. I mean, as Jeffrey says, you know, trade agreements used to be like marriages. You sign on believing that it's going to be forever, right?

[00:42:39.13] - Cecilia Malmström

But it's complicated.

[00:42:40.24] - Juan Carlos Baker Pineda

Yeah, I mean, back in the day when we were negotiating the USMCA, we knew that something had changed dramatically in US trade policy. If the US administration had come to try to devour its own son, what would it be really preventing them from doing that again? Now, the original idea by the US was to have the agreement elapsed and die basically after 5 years, to which Canada and Mexico really opposed. Vigorously. So the consensus or the sort of compromise was the agreement is not going to disappear, but we all understand that it's a good idea to periodically take a look at the agreement to see what's in there and what we can do better. All right. And that's when the idea of the 10 annual reviews was inserted. Right. So I'm not telling you that we had a crystal ball back in the day, but we certainly knew that this situation could have arisen again, which is really what is happening right now. So to your point, I think that the biggest risk that Mexico and Canada, and maybe the US too, but they don't realize it, is to rush into an agreement that just for the sake of having it is going to include decisions, disciplines, obligations that we will regret in a few years, right?

[00:44:05.29]

So if the price of avoiding that scenario is to have the 10-year annual review kicked in and then just do this over and over for a good number of years before the conditions are correct, I will argue that that is a preferable outcome, right? But having said that, it is clear that some industries, the ones that we have spoken about in this panel, cannot endure paying 25% or 50% tariffs for the next 2 or 3 years until these political conditions that I refer to change. That is why in my mind, at least, the transitional agreements that I already mentioned make sense. We are not going to rush into an agreement, but then again, we are not going to go into a full review, strategic review of the USMCA. What can we have in the meantime that helps those industries, sort of navigate this situation. Well, let's talk about how we reduce those tariffs, even though that it might be betraying our own liberal spirit. But we also have to realize, you know, the conditions that we have right now, because if we push too hard— and I've seen this happening before— if we push too hard and say no, we go zero tariff and we renew the USMCA this year or else, I think that we know what the White House is going to answer..

[00:45:28.13]

And we don't want that answer either. So don't you think that Juan Carlos is—

[00:45:33.23] - Kellie Meiman Hock

that the Mexicans and, and I believe the Canadians, although maybe more quietly, are not looking at this as an exercise where they can— we can get to a zero tariff environment again? I think we all understand that, you know, those days are past. And I mean, even if you look at, you know, some of the positions that, you know, Democrats have had on trade over the years, I mean, there was pushes to raise tariffs, you know, across the board on a number of different sectors for a variety of different reasons. Right. So if that's the reality, are we not in an environment where we are, you know, just needing to be sure that the relative tariff rates for Canada and Mexico accessing the US market is better with as much stability as possible? Because it's, you know, it's the whole thing. You don't have to run faster than the bear. You just have to run faster than the friend that you're hiking with. Right. And And so far, if that's the metric, and it kind of is, yeah, Mexico and Canada are winning the race.

[00:46:34.29] - Juan Carlos Baker Pineda

Yes. Where, you know, if I could just—

[00:46:39.09] - John M. Weekes

please, please pick up on what Kelly said. I think, you know, I can see there may be some necessity for some interim agreements, but whether or not it would be a good idea in the next few months for Canada and Mexico to agree that we cannot have zero duties in a North American Free Trade Agreement. We're not saying the United States should have zero duties with the world, but if we want a competitive North America, can't we look at having zero duties within North America? Kelly talked about the American business community, which isn't overly happy with with the approach of President Trump on trade policy. And I think I would foresee a situation— and of course, there's been— this has been quite an unusual time. I mean, basically Congress has been quite quiet. Congressional committees haven't been very busy as they usually are. I mean, there have been some hearings and so on. And Kelly, you mentioned the one on agriculture today. But I don't— but certainly the the congressional oversight of trade policy and assertion of its traditional role as trade policy has, has been missing. And, and that is something which I would suggest could change after the midterm election.

[00:48:00.04]

We may find Congress much more interested in holding hearings on trade policy, and this will provide a forum for the American business community to make its views known in a way that has been missing, I would suggest. I mean, we know what businesses' views are, and they've been very positive in terms of the importance of the USMCA for North America and their own business. But I think this is something we need to keep in mind.

[00:48:27.00] - Cecilia Malmström

But John, is Canada— you said Canada is not so into the details yet as Mexico, but obviously you're talking to each other. Is there a coordination between Canada and Mexico to try to to find common ground.

[00:48:41.14] - John M. Weekes

Well, let me, let me say, I'm like it was last time. You know, I was the chief negotiator at one point, but now I'm, now I'm very much on the sidelines. I follow it actively. I talk to a few people, but in no way am I privy to the internal thinking of the, of the, of the Canadian government. But yes, I, but, but we're in close touch with the Mexicans. I know there have been a lot of detailed discussions between Canadian and Mexican negotiators. There's a lot of contact between Canadians and Americans, including at very senior levels, at ministerial level. And I— so I, I, you know, this is— we're certainly envisaging the need to get into very detailed discussions. And personally, I think it's important that we do that as soon as possible because it's important to, to, to, to be present as ideas are being bounced around for how things might be revised or adjusted in this agreement. But I think it's— I come back to saying, I think it'll be interesting to see the dynamic. I don't disagree that maybe we're in a new world of trade policy, but I would suggest it's a little too early to decide on what those new rules might be that would govern trade in North America for the next 16 years.

[00:50:11.15] - Cecilia Malmström

At the same time— sorry, I'll stop. No, but at the same time, there's a world outside USMCA countries as well. And many other countries are actually, you know, even if it's the turbulence in the trade arena, are doing trade agreements the old-fashioned way. Canada is negotiating with India and many others. Mexico and the EU just signed an updated agreement just a couple of weeks ago. Both Canada and Mexico are very active in the, in the CPTPP that you have been studying a lot, Jeff, and trying to do bilateral but also regional trade agreements. The US must look at this and see that, okay, there are lots of other things happening as well. Is this affecting the internal debate in the US and among the American business? Because they are certainly sort of excluded from this kind of privileged agreement. How do you see that, Jeff?

[00:51:09.08] - Kellie Meiman Hock

They are and they aren't, Cecilia, because companies are global now. So, I mean, what's happening is that companies are looking at where trade preferences lie and they're making their investment decisions accordingly. And if that certainty and those benefits lie outside of US borders, then that might be where the investments go. And again, not exactly, I think, what the administration had in mind when designing this trade policy. But that is the reality. And I think that, you know, the fact that you've got, you know, Canada did public hearings or call for comment back in December for UAE, India, Thailand, and Mercosur agreements. And, you know, are saying, we'll see on India, saying they'll get those deals done with India and with Mercosur by the end of the year. Mercosur, they might, you know, on the heels, Cecilia, as you know well, of the EU-Mercosur deal finally getting done after over 20 25 years. So there's a lot of activity— long time. So there's a lot of activity out there. And I think that, you know, certainly companies are looking at that. I worry a bit, and I almost don't want to say this on this podcast to plant a seed, but I worry a bit because if you look at the Brazil 301 investigation, one of the items that the administration looked at was Brazil's trade agreements, which are not comprehensive, but trade agreements with Mexico and Brazil's trade agreement also with India and positing that those are prejudicial against the US in that they provide trade benefits to Mexico and India.

[00:52:41.24]

I haven't heard that discussed. You know, looking at preferential trade agreements with non-US actors as being a concern yet in an aggressive way, at least by the administration. But, you know, I think it's something certainly that I have on my radar.

[00:52:58.01] - Jeffrey J. Schott

Jeff, how do you see this? It's on my radar as well, Kelly. And I think there's just a concern. The erosion of the lock-in effect of trade agreements on U.S. trade policy not only adversely affects our trading partners, but adversely affects our own companies. Because they don't know if they're getting preferences or benefits under the current rules, whether something is going to change and suddenly there's going to be a new deal or new protection imposed on trade and investment that upsets their plans. So I think this level of uncertainty is increasing and it is a tax on doing business in the United States.

[00:53:54.23] - Cecilia Malmström

John, yes, please.

[00:53:56.09] - John M. Weekes

I would like to say that, of course, we already have in Canada, as you noted, a number of free trade agreements with other countries, with the European Union, in the CPTPP, with Korea, and so on. And we're negotiating others. But these agreements largely provide for free trade among the parties. And what is needed, in my view now, from a Canadian perspective, is not more trade agreements, although that could be useful, but what's needed is reform of the Canadian economy to make sure that investments can go forward that will allow Canada to be producing what the world wants. And I think fortunately or unfortunately, a lot of that will revolve around natural resource products and perhaps agriculture products.. And I would note that this approach already seems to be bearing some fruit because the federal government has taken quite a different view from the previous government to investment in the oil and gas sector. And we have now seen a major announcement just a couple of weeks ago, a 20-year contract for shipping massive amounts of liquid natural gas from British Columbia to Germany. And I think this is a sign of how the attitude in Canada is changing and of how we— you may see Canada going about diversifying its exports.

[00:55:30.16]

When I say that, of course, we're never going to stop trading with the United States. As I said earlier on, the United States will always be our largest trading partner. But, you know, we would be somewhat less vulnerable and perhaps have more negotiating leverage if we were able to strengthen our economic and trade relationships with other parts of the world.

[00:55:53.00] - Cecilia Malmström

I think that's a global strategy right now. Juan Carlos, this is also the strategy of Mexico. Of course, the main partner is still the US and will be, but you have also been working, I think, 12 or 13 trade agreements the last years with other partners.

[00:56:07.16] - Juan Carlos Baker Pineda

Much more discreetly. I think that the main emphasis is and will continue to be the USMCA. I would even argue that other companies based from in different regions have an interest in Mexico because of the USMCA, right? I mean, for other reasons too, but because the USMCA, it's there. Recently, as you and I witnessed, Cecilia, probably, Ursula von der Leyen came to Mexico and the agreement was signed between Mexico and the EU. That was a major milestone. But at the same time, perhaps more discreetly, Mexico's Congress approved the accession of the UK to the TPP. That happened earlier this year. At the same time, Mexico is engaged with the membership of the TPP to process the bids of other countries. Each one has its own pace. There are some talks for Argentina and Brazil. So yeah, I think that it's clear—

[00:57:11.20] - Cecilia Malmström

Costa Rica is joining next year, right?

[00:57:14.26] - Juan Carlos Baker Pineda

Their process was far advanced. Minister Tovar did a fantastic job in that sense. I don't really know where it is, but I know that Costa Rica is very close to joining TPP, which will be a major addition as well. The discussion in Mexico, as much as John is also describing for Canada, is how to make the domestic market also an important level of development. You may have heard about this initiative that the president launched, Plan México, which has specific metrics. It's the most codified thing that I've seen closer to an industrial policy in a good number of years. We hope that it goes well. I don't really know right now. It's too early to tell. But I'm telling you that Mexico's strategy seems to be, yes, trade policy with the US, but at the same time, try to level that with other markets, especially if the market access conditions in the US become stricter. You will have companies that will be unable to export to the US. So those companies need to find other markets for their products and try to sustain or help as much as possible. With the domestic market, right? So it's all in flux.

[00:58:26.02]

We'll see how it goes. But the key center of holding all that together is getting some USMCA understanding with Canada and the US.

[00:58:35.20] - Cecilia Malmström

A lot of complexity in this, both between the three countries and then domestically, of course, and then in the international context, which is really fluid right now. Some of you are and have been negotiators, others have been following this from outside, but for a very, very long time. If we are approaching the hour, if you would just give one advice to the negotiators, what would that be? Who wants to start? John?

[00:59:03.04] - Kellie Meiman Hock

Give us stability. Okay. As much stability as possible.

[00:59:07.21] - Cecilia Malmström

In the negotiations. Okay, John.

[00:59:10.12] - John M. Weekes

I would, I would make the same point. I think in trade, it's predictability that is so important because you don't get investment decisions taken that are going to be beneficial to the three countries unless people know what the— what kind of rules are going to pertain and what kind of openness will pertain over the life of that investment. A lot of these investments are, you know, perhaps take 10, 20 years to fully amortize the investment or even longer. So I think that's— I come back, I agree with Kelly. I think predictability is the most important thing.

[00:59:49.14] - Jeffrey J. Schott

Yes. In a word, trilateral. Sustain the trilateral relationship and avoid a devolution into separate bilateral deals. I think there is— we do better when we do— when we work together.

[01:00:07.27] - Cecilia Malmström

Yeah, that's very valid. Juan Carlos. Don't give up. Don't give up. Okay. It might take some time, but in the end we'll get there. We will get there.

[01:00:19.17] - Juan Carlos Baker Pineda

I'm absolutely convinced. But, you know, things are happening so fast, it's hard not to be brokenhearted at a time. So don't give up. Okay.

[01:00:30.01] - Cecilia Malmström

Stability, predictability, keep the trilateral approach and don't give up. I think that's very wise advice. We are at the hour. I have learned a lot, and thank you for helping us to sort of decompose this super complex issue. I'm sure we'll have plenty of occasions to come back to it because we're only in the beginning of a very long and complex process. But thank you very much, Kelly, Geoff, Juan Carlos, John. Thank you for joining. And to those of you who have joined us online, thank you so much for tuning in. Have a nice afternoon, day, evening, wherever you are.

[01:01:02.17] - Juan Carlos Baker Pineda

Watch the World Cup.