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North America's New Trade Deals: From NAFTA to TTP and TTIP

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As the leaders of the United States, Mexico and Canada gather in Toluca to mark the 20th anniversary of the North American Free Trade Agreement (NAFTA), new trade agreements currently being negotiated are likely to be high on the agenda. The Trans-Pacific Partnership (TPP), which includes all three states, has been billed as a way to reinvigorate NAFTA. Meanwhile, the separate trade deals being agreed across the Atlantic could strain the North American agreement. The European Union should pursue ambitious deals with the U.S., Canada and Mexico to avoid being left out in the cold as the three NAFTA members integrate deeper through TPP.

On 19 February the leaders of the U.S., Canada and Mexico will meet in Toluca, Mexico. As well as a chance to reflect on the achievements and failures of NAFTA, the summit will provide an opportunity to discuss how the Trans-Pacific Partnership (TPP) and the three NAFTA members' respective trade deals with the EU are likely to affect the future of the North American Free Trade Agreement.

20 Years On: A More Integrated North America. When the U.S., Mexico and Canada negotiated NAFTA two decades ago, the agreement was deeply controversial, and caused intense debate in all three countries. Nevertheless, the final deal was ambitious and helped further integrate the North American economies during a period when the global economy was undergoing intense transformation.

Although estimates of NAFTA's direct impact vary, the objectives set out in the deal have broadly been achieved. There is no doubt that tariff reductions and the lifting of non-tariff barriers (for example, uniform country of origin provisions) contributed to the increases in cross-border trade and investment between the U.S., Mexico and Canada. NAFTA was also instrumental in the emergence of pan-North American supply chains in sectors such as the auto industry. According to U.S. data, intra-NAFTA trade now exceeds $3.2 billion a day, compared to $1.2 billion when the deal was launched.

However, NAFTA has not been an unqualified success. It is arguably more a case of two bilateral deals in one for the U.S., rather than a regional agreement proper. U.S.–Canada trade amounts to €483 billion, and U.S.–Mexico trade to €386 billion, but Mexico–Canada trade amounts to only €26 billion. Moreover, the tightening of U.S. border security since 9/11, and the lack of proper cross-border infrastructure between the U.S. and Mexico have proved significant barriers to trade.

A Transpacific Deal to Reboot NAFTA? In 2008, the U.S. joined negotiations for the Trans-Pacific Partnership (TPP)—a trade deal that is now set to include 12 Asian and North and South American states. Mexico and Canada only joined the talks in 2012. For all three, NAFTA figures prominently in the reasoning and domestic debate surrounding TPP.

One reason for this is the perception of the Trans-Pacific Partnership as a tool for expanding the NAFTA model to Asian and Latin American countries. This argument is presented in all three states. It suggests that a widening of NAFTA to Asian countries in particular would help promote the bloc's common trade agenda worldwide, by creating a universal set of rules and market access commitments.

NAFTA is also associated with TPP due to the Trans-Pacific deal's potential to expand its trade-boosting provisions. This argument has been particularly persuasive in Mexico, where the decision to join Trans-Pacific negotiations was strongly supported by the private sector, including influential business councils. In fact, left-leaning opponents of TPP also see it as an extension of NAFTA. In the U.S. and Canada particularly, the Trans-Pacific Partnership has been described as "NAFTA on steroids" or "supersized NAFTA." However, such fears may be premature, as TPP may prove less ambitious than was initially hoped, particularly with the accession to the deal of states that are less keen on trade liberalisation, such as Japan.

Three Transatlantic Deals: NAFTA States Go It Alone. The EU is a vital trading partner for the U.S., Canada and Mexico, ranking as their first, second and third trading partner respectively. Nevertheless, there has been no attempt to agree a NAFTA–EU trade deal, with the three North American states instead opting to create or update their own trade arrangements with Europe. They variously seek to strike a balance between getting the best deal for their own trade with Europe, and staying integrated with their North American partners.

Of the three, the U.S. is apparently least concerned about maintaining integration with NAFTA. Washington has paid little heed to its North American neighbours while negotiating the Transatlantic Trade and Investment Partnership (TTIP) with the EU, talks for which began in July 2013. Some econometric studies have shown that trade diversion caused by a deep and comprehensive TTIP could have a strong negative impact on Canada and Mexico. Negative effects are also likely in sectors that are particularly deeply integrated with the U.S. For example, TTIP may influence the Canadian energy sector, as there are plans to refine Canadian oil sands in the U.S. before export to Europe. Nevertheless, the U.S. has been loath to grant Canada and Mexico observer status for TTIP, despite the deal's potentially far-reaching implications for both countries.

Negotiations for the Canada–EU Comprehensive Economic Trade Agreement (CETA), launched in 2008, are finally nearing their conclusion. Here there is more effort to keep the NAFTA economies integrated: the deal has been designed to include "hooks" that will allow it to be linked to TTIP provisions (for example, on standards). Although CETA talks are due to end soon, there are certain parts of the final text that may still be affected by TTIP. In particular, the current suspension of TTIP talks over investor-state arbitration could prompt the removal of similar provisions from CETA.

Mexico has been worried by forecasts that TTIP could make NAFTA redundant, by shrinking its exports to the U.S. by over 16%, as well as by fears of lost competitiveness and reduced access to the U.S. market for goods such as auto parts. In order to compensate for this and boost its own trade with the EU, in 2013 Mexico suggested to Brussels a review of their 2000 trade agreement, with a view to gaining increased access to the European market for its agricultural goods as well as services and investment. Meanwhile, Mexico is also seeking to secure its place in NAFTA and its regional supply chains to counter TTIP's diversionary effects. For example, there are attempts to improve cross-border infrastructure and rules (such as streamlining of customs and security measures).

Unlike TPP, which may boost the integration of the North American economies, separate entry by the U.S., Canada and Mexico into new transatlantic trade agreements that include more ambitious provisions has arguably eroded NAFTA's relevance. In particular, deals such as TTIP and CETA include commitments that go beyond NAFTA on issues including intellectual property, investment, services and procurement.

Recommendations for the EU. In order not to be left out in the cold as a result of deeper Pacific and North American integration through TPP, the EU should seek comprehensive trade agreements with the U.S., Canada and Mexico. To do so, Brussels should continue to pursue openness but also pragmatism with regard to its trade negotiations.

More specifically, the European Commission should continue to consult and inform the European public and business about its trade negotiations—particularly the increasingly controversial TTIP. But it should not allow negotiations to be hijacked by fearmongering on topics such as investor-state dispute resolution or intellectual property rights. To this end, Brussels should redouble its public information efforts on these and similar issues, with particular focus on civil society organisations and university students—groups that have led to the collapse of international agreements in the past (for example, ACTA). Brussels should be especially careful to avoid populism at a time of upcoming EU elections, when voices calling for protectionism—particularly in some sensitive areas such as agriculture – are likely to be heard during campaigns by candidates for the European Parliament.

Finally, Brussels should pursue the CETA strategy of including "hooks" in its other trade agreements with North America. This would allow the EU to efficiently boost trade and investment with the whole of NAFTA, by improving terms of trade and market access in sectors where such liberalisation would be beneficial.