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NAFTA: The Challenges of an Uncertain Negotiation

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Abstract

The importance of NAFTA for Canada and Mexico makes it difficult to minimize the risks created by the threat of scrapping the deal altogether. No new partnership has enough weight so as to compensate the consequences of losing NAFTA. This account examines two issues with the potential to destabilize the negotiations. The first is the focus of the Trump administration on trade deficits. Since no trade deal has been negotiated before with such a goal in mind, the possibilities for an unexpected outcome are considerable. The second potential problem is the upcoming Mexican presidential election where López Obrador is leading the polls. Since his political style tends to polarize, trade negotiations with a difficult partner can help him win the contest. Canada is working hard building a coalition within the US to defend the Agreement. The outcome will depend on the possibilities of presenting them as a victory for the US administration.

Keywords: Uncertainty; NAFTA; negotiation; deficits; López Obrador; Trump

Résumé

L'importance de l'ALÉNA pour le Canada et le Mexique rend difficile la minimisation des risques créés par la possibilité de son élimination totale. Aucun nouveau partenariat aurait suffisamment d'importance pour qu'il compense les effets négatifs que la fin de l'ALÉNA impliquerait. Ce texte explore deux volets qui peuvent potentiellement déstabiliser les négociations en cours. Le premier s'agit de l'emphase mis par l'administration Trump sur les déficits commerciaux. Puisqu'aucun accord de commerce a été négocié avec un tel objectif, les possibilités des résultats inattendus sont non négligeables. Le deuxième s'agit de la campagne présidentielle mexicaine où López Obrador a un avantage dans l'intention de vote. Car son style politique est polarisateur, les négociations commerciales avec un partenaire difficile peuvent lui aider à gagner l'élection. Le Canada essaie de créer une coalition à l'intérieur des États-Unis pour défendre l'Accord. Le résultat final va dépendre de la possibilité de le montrer comme étant une victoire politique de l'administration étatsunienne.

Mots clés : Incertitude; ALÉNA; négociation; déficits; López Obrador; Trump

Introduction

Being side by side with the hegemon can represent both a blessing and a curse. Both Canada and Mexico feel the effects, both good and bad, of such condition. Leaders of both countries have made historical remarks concerning the ambiguity of such relation[1], acknowledging the consequences bore by them of what apparently is mere domestic US politics. The current polarization in the US only adds to the challenges of dealing with such a neighbour for both countries. Among the topics on which these countries are focusing their attention is the renegotiation of the North American Free Trade Agreement – NAFTA. The sense of urgency is fuelled by the heated rhetoric of President Trump who in the campaign trail denounced the agreement as “the worst trade deal maybe ever signed anywhere but certainly ever signed in this country”. Once in office, however, the rhetoric has not been as harsh as many expected.

The ambiguity of President Trump and his administration concerning the merits of the Agreement is only the first of many challenges of this atypical negotiation. The first issue is perhaps that there is a negotiation at all. In the case of the Trans-Pacific Partnership - TPP, the administration simply withdrew from it. In the NAFTA case, the US forced a negotiation precisely with the threat of scrapping it altogether. The negotiations are taking place with such a threat in the background pending on as a Damocles sword. This forced negotiation implies that it has to take into account the political realities of each partner. The US administration has two priorities: first, reducing deficits, as has been emphasized repeatedly by President Trump; second, claiming a political victory, which has remained elusive after several months in office. Given this complicated scenario, both Canada and Mexico must try to minimize their own risks.

By far, the latter faces the biggest threat given its own electoral calendar. Because the next year there are presidential elections, a difficult negotiation could be used strategically by some candidates to punish the party in government and increase their chances of winning the contest. This possibility will lead the current Mexican government to push for an acceptable deal before any campaign activity takes place. While in such a rarefied environment no one is really without risks, the Canadian position is somehow more comfortable; without NAFTA the Free Trade Agreement - FTA - signed in 1987 between Canada and the US would resurrect (Campbell 2016). This does not imply that Canada can just wait and see because even that seamless change between NAFTA and FTA would imply significant disruption for the Canadian economy.

Therefore, this paper will analyze the main risks outlined above; first, the political commitment made by the Trump administration in relation to trade deficits in general and NAFTA in particular; second, explaining the reasons behind the sense of urgency of the Mexican government in closing the negotiations before the beginning of the presidential campaign. In the background of this argument is the fact that the Canadian position is the less problematic in the face of negotiations since there are no significant risks such as coming elections or previous political commitments in the realms of international trade. This position has been understood by the Canadian government as an opportunity to play a conciliatory role in the negotiations, with a clear preference for saving the deal. Signs of this are the recent rapprochement with the Mexican government as well as the successive trips to US states' capitals in the attempt to create a broad consensus to keep the deal.

The Negotiation Context

Ever since it was clear that Donald Trump was elected as US president, uncertainty has been the word of the day. Even before that moment, assessing the campaign rhetoric concerning NAFTA was hard in part because of its inflamed nature. Both Mexican and Canadian governments made efforts to minimize the risks they faced. When then-candidate Trump had assured the Republican nomination, Enrique Peña Nieto, Mexico's president, tried to approach the candidate so they could minimize the loaded comments made against Mexico and its people. On the other hand, after the election had already ended, the Liberal cabinet retired in Alberta to analyze the available options to the Canadian government[2].

[1] Porfirio Díaz, the Mexican XIXth century caudillo, once said “Pobre México, tan lejos de Dios y tan cerca de los Estados Unidos”. In turn, Prime Minister Pierre Trudeau said once in a speech at the Washington Press club on March 25, 1969 “Living next to you is in some ways like sleeping with an elephant. No matter how friendly and even-tempered is the beast, if I can call it that, one is affected by every twitch and grunt”.

[2] Canada recently tried to relaunch trade negotiations with Mercosur, the largest trading bloc in South America (McGregor 2017). However, given the lack of articulation the bloc has had in recent years is very unlikely that these negotiations actually serve the purpose of hedging the risks created by a difficult negotiation of NAFTA. Mercosur itself is

While at first the Mexican strategy seemed to backfire, forcing the resignation of Foreign Secretary Videgaray, soon after the election it was clear that the first approach served Mexico's interests better. On the Canadian side, the wait-and-see approach has also served Canadian interests well since, apparently, the main preoccupation of the Trump administration is the US trade deficit with countries like Mexico and China (Krugel 2017).

These small victories probably do not bring solace to Canadian and Mexican officials that must deal with the Trump administration. Even if the objectives for the NAFTA renegotiation that US Trade Representative submitted to Congress (USTR 2017) are fairly orthodox in terms of its general terms and objectives (Kwong 2017), the gap between these and the president's rhetoric only makes the negotiation harder. Perhaps the more consistent message coming from Washington is the place of deficit reduction among the priorities for negotiation. In this sense, it is remarkable that such goal is explicitly stated in the objectives for negotiation (USTR 2017, 4). Although this objective may provide a bargaining chip or a pivot for negotiating, it might come as a contentious point because trade negotiations rarely have a given current account level as a goal, which in turn can open opportunities for frustration.

Both Canada and Mexico have pursued new partnerships with the potential to fit their interests. Canada on its part has recently signed a trade deal with Europe and is currently seeking negotiations with China. Mexico on its part has been also trying to expand its commercial relations with partnerships along the Pacific coast of South America within the framework of the Pacific Alliance[3] (Clarkson 2016) as well as a trade agreement with the European Union (Jornada 2017). These strategies however, cannot outweigh the importance that US markets bear for both countries. The United States continues to be the biggest economy in the world and, most importantly, it shares thousands of kilometers of borders with both countries, making it easier to trade among them[4]. Partially, the relative orthodoxy of the negotiation objectives referred to above reflects the recognition that many economic sectors within the United States benefit from NAFTA as it currently is (Economist 2017b).

Then, despite their efforts to create new economic partnerships, both Canada and Mexico, still have big stakes in the negotiations with their common NAFTA partner. Besides the difficulties in assessing the current US administration, they will have to deal with their own domestic political constraints. Even if Mexican presidential elections, which will take place in 2018, are much more pressing, soon thereafter there is the 2019 Canada's general election. In addition, also in 2018, there are mid-term elections in the US that will be a litmus test for the prospects of advancing the administration's already beleaguered legislative agenda. Even if in the face of such complex scenario all parties have the incentive to make a swift deal so they can minimize their electoral risks, the numerous issues at hand and their importance for each country will make that less likely.

With the threat of retreating the US from the NAFTA the Trump administration has significantly altered the agenda of its partners.

This also puts pressure on the US negotiators since they must show that this negotiation was worth for the US economy. In addition, the harsh rhetoric of the administration increases the need for a result that allows it to save face, preferably in a short time. Also, given the need to renegotiate, the Mexican government has a short time schedule because of the upcoming presidential campaign. The Canadian position is more flexible because the Liberal government does not face domestic constraints as big as the other partners do[5]. This set of political constraints frame the negotiations among the three North American partners. The next two sections will deal with the US and Mexican constraints; the last section provides some prospects and issues that might become important in further rounds of negotiation.

Deficits First

President Trump's campaign rhetoric emphasized the way in which others supposedly had taken advantage of the United States. This message

going through a big redefinition since achieving the goals of democratic and economic reforms outweighed the attractiveness of the integration effort as a mean to implement such reforms (Malamud 2013).

[3] Its members are Chile, Colombia, Mexico, and Peru.

[4] Empirical research on trade, which is usually based on a gravity equation, suggest that geographic proximity increases the trade between two countries. For examples of analyses that take this relation as granted and examine other trade related issues, see McCallum (1995) and Groot et al. (2004).

[5] The ruling of the US Department of Commerce over Bombardier and its CSeries planes on September 26, 2017, may yet become the big domestic constraint for the Liberal government. Quebec's Prime Minister Philippe Couillard has condemned the ruling by asking to stop any business relation with Boeing, which brought the trade complaint (CBC-News 2017).

reverberated with a population that feels the system is rigged against them. Free trade becomes an easy target of both messages since it provides a narrative that fits with anxieties such as a sense of decline of the country reflected in the changes that have affected most blue-collar workers, especially those who used to depend on manufactures. They could even be summarized in a single number, the big deficit of the United States with the world, mainly with China and Mexico. While the former represents a geostrategic concern in many dimensions, not the least its military heft, the latter was dealt with threats and derogatory language indicating the different perception of Mexico, when compared with China, in the eyes of the US officials.

This single representation of what NAFTA stands for in the minds of US officials, i.e. deficits imply loses, may prove a big challenge to deal with during the current negotiations[6]. In a sense is not surprising that President Trump emphasizes deficits as a signal of loses for the US economy; after all his businesses are on non-tradeable sectors, mainly property development. Concerning the relation of tradeable and non-tradeable goods, the Stolper-Samuelson theorem states that a rise in the relative price of a good will lead to a rise in the return to the factor that is used more intensively in the production of the good, and conversely, to a fall in the return to the other factor[7] (Stolper and Samuelson 1941). Free trade tends to favour tradeable sectors relative to non-tradeable sectors. These relative loses of non-tradeable sectors are in line with the animosity against free trade of a substantial portion of the electorate that make their living on those sectors, including real estate.

As mentioned above, the sense of priority of deficit reduction given by the Trump administration to the ongoing negotiations may prove to be a big challenge. If there are other issues that might get significant attention, such as the dispute resolution chapter and rules of origin, ultimately the indicator the US administration will take into account will be how much deficits can be reduced, preferably in the short-run, so as to maximize the political gain of Trump with his supporters. However, if deficits and their reduction will be paramount in the negotiations, that does not mean that other issues will be less contentious, especially if we take into account the zero-sum view about trade deals espoused by the Trump administration. A view with which the other parties are at odds.

Although both Canada and Mexico have minimized their comments concerning the difficulties of dealing with a partner that fundamentally rejects the very idea of free trade, the challenge became evident with the initial statements at the beginning of formal talks in August 16, 2017. While Canada's Global Affairs Minister Chrystia Freeland underscored the importance of the pact both symbolically and in relation to other trade blocs and Mexican Economy Minister Ildefonso Guajardo highlighted that the pact, as it is, has worked for all the participants, US Trade Representative Robert Lighthizer said the pact "had fundamentally failed" (Harris 2017). It's a Babel-Tower-like scenario. If such statements are rhetoric-loaded and serve the purpose of establishing the willingness to fight for what is considered as a priority, as a battle cry, given the context, they shall be taken seriously.

During the campaign, the rhetoric against the agreement was dominant; however, once in office and following the required legal procedures, the Trump team produced an orthodox document of international trade. It is still possible that the rhetoric at the opening of negotiations will evolve into a more conventional international agreement. It will depend on the possibility of showing the negotiation outcomes as a victory for the Trump administration, and mainly for the manufacturing sector[8]. The fact that agricultural and livestock producers have been winners within the existing framework is something the administration will eventually have to deal with. Midwestern agricultural producers, and their representatives in Washington, might feel they are being sacrificed in the name of trade deficits and manufacturing jobs. Gathering enough support to approve the resulting deal without those crucial Republican Midwestern votes will be hard.

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[6] A sign of this is the position adopted by the US negotiators concerning the rules of North American origin, which in their opinion should be around 70% with a specific target of 35-50% of US content (The-Canadian-Press 2017).

[7] The Stolper-Samuelson theorem is not without criticism; for an example of such criticisms, see Davis and Mishra (2007). Nevertheless, the empirical record of the theorem varies widely and some scholars even use NAFTA's experiences to show the importance of the theorem and how it holds; for an example, see Robertson (2004).

[8] Naturally both Canada and Mexico have their own criteria to judge if the negotiation is a success or not. However, since the re-negotiation was triggered by the current US administration with arguments revolving around re-balancing their trade deficits, this particular goal is more salient than other goals that the Canadian or Mexican governments may have including progressive causes, such as gender (Smith 2017), or cultural goods protection (Simpson 2017a) in the case of Canada.

There has been a hint about how Ottawa intends to use those differences to its advantage. The tour made by Canadian ministers through many states' capitals indicates how the tension between manufactures and agricultural producers will weight in the negotiation. If swing states such as Ohio and Michigan were essential for Trump's victory last year, is no less true that other states can be equally important in holding up the Republican caucus together. After all, there is no shortage of issues in which Republican legislators are divided. International trade might yet be another one. Is difficult to grasp how the administration could play its strategy of blame-avoidance in the subject of NAFTA renegotiation. After many of the initiatives concerning the issues constituting the core of Trump's electoral discourse, i.e. the repeal of Obamacare and tax reform, had failed, the administration might be compelled to compromise on trade so it can be presented as a victory. However, Canada and Mexico may well be signaled by the US administration as the culprits of any shortcoming in the negotiations.

Complex multidimensional agreements can hardly be summed up into a single issue, such as trade deficits. However, this might open a possibility for both Canada and Mexico when dealing with US officials. While the latter might see negotiations as a win-lose affair, focused on a single figure, is also possible to compromise on other issues that are also a priority for the other parties such as supply management for dairy products in Canada and some small manufactures for Mexico. Perhaps the key issue in the negotiations is allowing the US administration to claim a political victory in the possibility of reducing deficits mainly in manufactures while bargaining over other areas. Mexican negotiators are actually aware of that fact (EIU 2017), but they are eager to signal that the final text must assure that all the parties are winners (González 2017a). Whether or not they will be able to materialize such intentions is another matter. Even more important is how both Canada and Mexico weight the different issues at hand. Having a one-dimensional negotiation does not mean complexity will disappear altogether.

Even if the negotiation rounds take place every two weeks, progress has been slow during the first three rounds. There is the sense among both Canadian and Mexican officials that the possibility of a unilateral withdrawal by the US administration is increasingly possible with the slow pace of negotiations and the lack of clear results (Blanchfield 2017). The pace of negotiations is also a problem if the Mexican presidential campaign and the negotiations overlap since the latter would provide arguments for opposition candidates to attack the incumbents. This is specially the case with the backdrop of the Trump administration and the animosity that him and some of his aides have showed against Mexico. On top of that, the candidate that is currently leading in the polls has raised doubts in the past about his commitment to liberal principles (The Economist 2005), which in turn raises concerns about the future of the agreement would he become president of Mexico. Given those concerns and the possibility that NAFTA becomes a prominent campaign issue in Mexico's next year election, the next section will analyze the possibilities of that candidate in the current political environment with a special attention to the ramifications for the NAFTA.

López Obrador: Third time lucky?

Andrés Manuel López Obrador – AMLO[9] – is currently at the top of electoral polls at the same level of Margarita Zavala, the likely candidate for the conservative Partido Acción Nacional ¬- PAN (Redacción-AN 2017). While this is not the first time that AMLO is among the main presidential candidates, this time the odds might be on his side. One of the main reasons for his improved chances to win the presidential contest is precisely the kind of rhetoric that have been circulating ever since the US presidential election got momentum a year ago. This factor may prove to be the element that AMLO lacked in his two previous attempts to gather the majority of the vote. In both occasions, he was casted as a threat to Mexico's stability, although in a more serious way in 2006 (Hiller 2011) than in 2012, in part because of the electoral reform of 2007, which banned bad advertising (Magar 2015). Since this time instability is coming from the US, he is in a better position of avoiding such accusations and improving his electoral chances.

Even if AMLO might appear as not being enthusiastic about NAFTA, he is perfectly conscious

[9] AMLO is a left-leaning Mexican politician who acquired political prominence during his mandate as Mayor of Mexico City (2000-2005). He started his political career in the Partido Revolucionario Institucional - PRI - until he defected to the recently created Partido de la Revolución Democrática - PRD - in 1988; currently he is at the Movimiento Regeneración Nacional - Morena. He is frequently casted as a populist politician because many of his positions differ from the Mexican political mainstream, which has created difficulties for his acceptance outside his core supporters. However, if being outside the political mainstream is not enough for casting him as populist, his appeal to the masses as well as his pattern of being in a given party, only to defect to yet another one, would fit into the academic definition of populist leader. For a conceptual discussion of populism, see Weyland (2001).

that the livelihoods of many Mexicans depend on it. If his campaign is to run on the issue of restoring Mexican national pride against the attacks coming from the North, NAFTA alone would be a poor argument. This is because there have been Mexican winners with the agreement, a share of the electorate he should not alienate from the beginning of the campaign; whereas the comments of President Trump, since he was just another Republican candidate, with derogatory language against the country are felt across the political spectrum. In this sense, the pay-offs of a focus on NAFTA are not as big as a focus on the defense of the national pride against someone who has showed his disdain of the citizens of the country as a whole. However, even if is not necessarily part of his main electoral strategy, NAFTA negotiations could easily be framed as a series of concessions granted by a government that is not ready to defend Mexican interests.

By making unrealistic demands, the US administration seems to ignore that other countries also have domestic politics. In Mexico, this lack of touch can be exploited to the full by the candidates who may want to use nationalistic rhetoric as a campaign argument. National sentiments can arise easily when the sense of national pride has been attacked with unusual insistence. Then, politicians who cast themselves as the best opportunity to restore national pride have an important advantage over those who manage such issues through traditional political channels. Moreover, it does not help that the political style of AMLO is polarizing, which in turn might make negotiations harder in the event that they proceed until after July 2018 with AMLO as president-elect or after December 2018, living in Los Pinos. Whereas the current Mexican government has strong incentives to reach a quick deal that prevents any possibility for the next administration to re-open negotiated issues or even the overlapping of negotiations with the campaign itself (Pittis 2017), is not at all clear that Mexican and US priorities can be presented as an easy match. The potential for stalled NAFTA negotiations is non-negligible.

While polarization might have affected AMLO in his previous attempts (Treviño 2009), this time such a strategy might be the most productive. In the current state of affairs polarization will be an imported commodity, a situation that might help him avoiding the blame of being the culprit of polarizing the Mexican electorate while providing him with an environment where would be legitimate to be polarizing. In addition, Mexican electoral coalitions are still in flux, in opposition to what happened in 2012 when the Partido Revolucionario Institucional - PRI - launched an organized campaign against a discredited incumbent (Bruhn 2015). Broadly speaking the Mexican electorate is equally divided in three different coalitions (Redacción-AN 2017), which reflects the country's political system since the transition to democracy. The PRI and its traditional supporters, the Partido Acción Nacional - PAN -, and the followers of AMLO. On its part, the PRI's popularity has decreased in part because of its last five years in office; the PAN is divided and its likely candidate - Margarita Zavala - has problems gathering the supporters her husband did in 2006.

Therefore, the possibilities of AMLO winning the election have increased, ceteris paribus, when compared with his previous attempts. Moreover, NAFTA negotiations may even improve his chances, since these will likely be loaded with anti-trade rhetoric as well as non-filtered social media messages coming from Washington. Is not hard to see him taking advantage of that situation to improve his share of votes. Nevertheless, it would be naïve to assume the Mexican government will stand without pressing their counterparts to close as fast as possible the negotiations, or even to carefully compromise on issues that would neutralize the contention that Mexico is only making concessions in order to keep the treaty alive, as has been clearly signaled by Mexican negotiators by stating that everybody must be a winner [10] (González 2017a). In this sense, any gesture that may hint that Mexico has simply to accommodate the needs of the United States, will only fuel AMLO's presidential chances. This, in turn, complicates even further the negotiating process since all the parties will have a strong incentive to close the deal before January 2018, as has already been signaled by the Mexican government (Pittis 2017).

Another issue in the context of the forthcoming presidential campaign is the way in which the Mexican government has managed so far the consultation process with civil society in the face of the negotiations. While it is nothing new that Mexican economic policy in general, as well as, trade policy in

[10] This, of course, is the balancing act that Mexican officials are forced to do. They must show results at home to avoid criticism over excessive concessions to convince the US administration, but within a short time frame so NAFTA negotiations do not overlap with the presidential campaign where the incumbents can be easy targets of AMLO.

particular, have been the realm of technocrats (Centeno 1994, Babb 1998), and therefore conducted without consulting with society at large, this time would be harder to keep such strategy. Even if economic policy continued to be in the hands of technocrats despite the transition to democracy (Hernández 2011, 91-93), the international context serves as an echo chamber to the calls of more democratic participation in the negotiations (González 2017b). The government face a difficult balancing act between domestic and foreign forces.

Prospects

As mentioned in the introduction of this text, the negotiations are uncertain mainly because of the hard stance of the current US administration over international trade. Given the circumstances both in Mexico City and Washington, Ottawa might be in the position to be a leader in them. Since the political constraints faced by the current Liberal government are significantly lower than those faced by both the US and Mexican administrations, the negotiating position of Canada is better than those of its counterparts. This, however, does not mean that Canada will have the upper hand throughout the negotiations. In this regard, is reassuring that Global Affairs Minister Freeland and her team are perfectly conscious about the difficult road ahead (Wherry 2017, Fitzpatrick 2017). Even if negotiations go smoothly, which is very unlikely, is impossible to say if they could simply flounder in the face of impossible demands coming from Washington.

After three rounds, the US administration has been short on specifics concerning many of the issues that are presumably a priority. Before the start of the third round there were expectation that US negotiators would unveil their demands (Simpson 2017c); at the end of that round, expectations were still there since they had not yet been specified, apparently because of consultations with stakeholders (Thomson Reuters 2017b). Posture and well publicized demands may provide cover for the necessary concessions of a difficult trade negotiation. Concerning the US administration, as long as the final outcome of the negotiations can be presented as a victory in the long struggle of reducing trade deficits and saving manufacturing jobs, is possible that it actually accepts to offer an acceptable deal for its partners. Then again, uncertainty continues to be the organizing principle of the policy initiatives coming from Washington[11].

Both Canadian and Mexican negotiators have a more multidimensional approach to the deal. If manufacturing jobs are the main goal of the US administration, other issues are on the Canadian and Mexican agendas. As mentioned above, the Canadian government is pushing some gender and cultural issues and Mexican are stressing that the deal must be good for everybody. In trying to bring their vision to the table, both governments may aim to rally US stakeholders in an attempt to create a coalition favourable to NAFTA; there are sign of these talks (Simpson 2017b, Economist 2017a). In this sense, a big victory for both Canadian and Mexican governments would be to block the most contentious US demands, while avoiding the materialization of the impending threat of retiring completely from NAFTA. In that endeavour, a US domestic coalition defending the benefits of NAFTA would help a great deal.

Besides trade deficits, other issues might get the attention within and outside the negotiation table. Top ranked after deficits is Chapter 19 of the current agreement which verses on dispute resolution and have previously been pointed at by the US as a contentious issue [12]. If this mechanism was a source of nuisance from its inception (The Canadian Press 2017a, Economist 2017a), it will likely continue to be[13]. Unlike deficits, this is a topic in which Canadian and Mexican negotiators will be uncompromising. Not only dispute resolution panels have been beneficial in fostering trust among partners, the current context show the necessity of keeping them as a reliable insurance[14] in the event of future governments with nationalist impulses, against which no country is perfectly immune. It will not be surprising to find out that the final terms of

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[11] This is compounded by the series of changes in key positions within the administration, which not only affect the stability of policy initiatives but also deprives the president of much needed counsel and isolates the administration.

[12] Chapter 11 on investments is also a contentious issue. However, at the end of the third round of negotiations the US administration was short on specifics about it (Thomson-Reuters 2017b), whereas concerning Chapter 19 there has always been a more unified position (The Canadian Press 2017a).

[13] Chapter 19 was born in the context of the FTA negotiated between Canada and the US in 1987 as a compromise between the refusal of the US to relinquish the unilateral imposition of retaliatory duties and the insistence of Canadian officials in having a mechanism to avoid these duties which were a big problem in the decade preceding the FTA (Economist 2017a).

[14] A reminder of that necessity are the duties imposed on Bombardier that were previously mentioned above in note 5.

the deal concerning dispute resolution will be figured out on the eleventh hour given the history of the mechanism (Economist 2017a).

In sum, is impossible to provide a reliable forecast of how the negotiations will end. If Minister Freeland is right the negotiating partners will have a happy ending. Unlike the Trans-Pacific Partnership, from which US withdrew in the early stages of the present administration, NAFTA is very important to many actors within the US; such importance may have prevented President Trump to withdraw from it as well. Mexico also has clarity on the fact that it can withdraw from the agreement if the outcome is considered as too damaging for its interests. In consequence, both Canadian and Mexican officials are trying hard to gather enough support among US stakeholders so as to avoid the most punitive measures the Trump administration may impose (Economist 2017a), not the least withdrawing from the Agreement. This round of talks to convince domestic stakeholders also has to take place in Mexico if the PRI government wants to avoid the most caustic attacks coming from AMLO, otherwise they would be an easy prey of them. However, since the main threat to the agreement comes from the current US administration, the happy ending will depend on the possibility of letting Trump claim a political victory regardless of whether that is a fact or fake news.

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