Canada needs a 'Plan C' for NAFTA talks

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The NAFTA negotiations drag on, enlivened by periodic threats from the United States of new tariffs or termination, or demands for sunset provisions, and confronted by elections in Mexico and the United States. What appears to be gridlock, however, may actually be a deliberate strategy by the United States to make investor uncertainty a new weapon in the U.S. trade arsenal.

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Context and objectives matter in negotiations. The current American context is shaped by populism, and the populist tendency to identify enemies, including trade agreements, that are caricatured as bad deals by wily foreigners costing U.S. jobs. Populism also simplifies things into good and bad, us and them, and the U.S. fixation on trade deficits is symptomatic of this. Further, it tends to see the world as a transactional, zero-sum game, rejecting the notion of win-win alliances and rules-based multilateral arrangements in which others can gang up on you. In this context, if the U.S. objective is to repatriate business investment from Mexico and Canada, then creating enormous uncertainty for a sustained period is one means of achieving it, and perhaps more likely to succeed than convincing Canada and Mexico to sign on to an unbalanced NAFTA 2.0. Deliberate or not, it is already happening.

Much of the talk in Canada has been about the need for a "Plan B" in the event of termination of the North American free-trade agreement by the United States. What may be more urgent is a "Plan C" to offset this uncertainty and its negative consequences for business investment in Canada during an interminable NAFTA renegotiation. What we also have to recognize is that this uncertainty is amplified by homegrown actions and inaction, such as our seeming inability to build export pipelines, to free up interprovincial trade, to articulate a response to U.S. tax reform and to tackle widespread regulatory inefficiencies.

What could such a "Plan C" look like? It should have five essential features if we are to meaningfully rebalance the uncertainty overhang in business and investors' minds about making long term commitments in Canada.

First, launch a competitiveness strategy that encourages long-term investment in the Canadian economy by, for example, matching the U.S. tax-reform measure of immediate full expensing of long-lived business capital investments, reducing regulatory inefficiencies and red tape, doubling down on recent talent and technology initiatives, eliminating parochial interprovincial barriers to trade, and demonstrating that we can and will build pipelines and

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other export infrastructure. Reaffirming Canada's competitiveness to investors will go a meaningful way to offsetting the uncertainty created by U.S. trade tactics.

Second, build new alliances with like-minded countries such as France, Germany, Japan, Britain and Australia to react to U.S. tariff threats as a block, and to resist as a group U.S. pressures to negotiate bilateral trade agreements where might trumps right. The Group of Seven meeting demonstrated that allies have more to fear from U.S. trade policy than do rivals such as China and Russia, and collective size and market power matter.

Third, diversify Canadian trade on an urgent basis, both investing heavily in trade development and promotion capacity for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Comprehensive Economic and Trade Agreement (CETA), and beginning trade talks with new markets such as China. Having all our trade eggs in one basket is not prudent risk management and not good trade policy.

Fourth, continue to respond to U.S. tariffs with corresponding measures, as the government has appropriately done to date, and redirect any revenue from these tariffs to Canadian firms that are most affected by U.S. actions. Since the United States is imposing its tariffs under the totally inappropriate national security clause (Section 232), it provides greater leeway for precision responses by other countries as Canada had done in the past with softwood lumber.

Fifth, expand the government's outreach activities to global businesses to counter this uncertainty with a communications approach that emphasizes the longer term and our natural-resource potential and commitment to the environment, our social cohesion and values, our immigration approach to attracting global talent, our strong fiscal fundamentals and growth potential, and our support of a multilateral trading system and global institutions. Long-term investors want to invest in stable, competitive, sustainable growth markets.

There are many reasons to modernize NAFTA, but renegotiating it in a new era of unilateralist U.S. trade policy is a unique experience for the United States' neighbours. The Prime Minister has been absolutely correct in stating that a "bad NAFTA" is worse than "no NAFTA," in responding to spurious U.S. tariffs in kind, and in mobilizing opinion in the United States for a win-win reinvigorated NAFTA. But, given the apparent U.S. strategy of increasing uncertainty as a trade weapon to influence investment and supply chain decisions, it may be time to add "Plan C" to the Canadian negotiating strategy.