INTRODUCTION

RTAs activity has diminished considerably in the last period, and researchers and policy makers are wondering whether some fundamental changes are taking place that would reshape completely the world of regional trade agreements. It is rather ironic that this report on developments in the areas of RTA focuses on two processes that could hardly be considered as leading to a strengthening of RTAs. They tend indeed to disintegrate rather than integrating trading partners, and reflect the “new” politics on trade and trade integration that is being implemented in some key regional entities, i.e. the European Union and NAFTA.

Other than developments in Brexit and NAFTA, another initiative on regional agreements worth mentioning is the decision by the 11 remaining members of the Trans-Pacific Partnership (TPP) to bring the pact into force without the United States, according to a joint statement issued by the Chilean government. "Ministers are pleased to announce that they have agreed on the core elements of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)," the statement said, and agreed to work towards solving some pending issues for the CPTT to be fully implemented. The countries agreeing to the new CPTPP pact are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. We’ll have the opportunity to evaluate the effectiveness of this initiative in the next RTA News Digest.

(I) MOVING ON BREXIT

Negotiating under tight deadlines is never a good idea, particularly for the demandeurs. This seems to be very much so the case in the Brexit negotiations, by which the United Kingdom and the European Union seek to define both the terms of their separation – the “divorce” of the UK from the EU, any financial settlements that be agreed upon and their future engagement, including any trade arrangement that should be put in place to replace UK’s current membership to the EU with minimal disruptions.

In fact, the Brexit process has been a confusing one right from the beginning, when the results of the June 2016 referendum called for by PM David Cameron led to the fall of his government and the appointment of a new prime minister which, as it happens was not part of the “leave” campaign – a Brexiteer - but whose primary task is to negotiate the UK’s exit from the EU.

Since then, the negotiations have moved from words to words: “Brexit means Brexit” used to say Prime Minister Theresa May when asked about her views on the terms of the separation of her country from the EU; she then moved to the “No deal is better than a bad deal” when faced by critics of her negotiating strategy; and all along the internal debates and differences within her own government evolved around the “hard” and “soft” Brexit outcomes, with her finance and foreign ministers leading each of the policy options.
As the Brexit negotiations approach their second, final year the situation is as confusing as it was at the beginning, and people are starting to wonder whether there would ever be an outcome to negotiations and - more worrisome - whether completing the Brexit process makes any sense at all. Thus, the assertiveness of the “leave” campaign is being replaced by a more nuanced approach to the whole idea of leaving the EU.

To put it simply, Brexit means a lot of different things to too many different people. It is not just a negotiating process between the UK and the EU. It also involves several simultaneous negotiations among different partners and is conducted at several different levels at the same time. It is, first and foremost, an internal political divide within the Conservative government of Mrs May, and also between the major British political parties, with the Labour party representing the most pro-EU views.

As the new leader of the Liberal Democratic Party said, there is more than a possibility that Brexit may never happen due to tensions among the Labour and the Conservative parties, and there is probably a need for a second referendum to let the people decide on the facts whether this is something they want to go ahead with. This is perhaps an extreme view, expressed by Vince Cable, who was elected to lead the pro-EU Lib Dems promising voters an “exit from Brexit”, but he is not alone in his concerns.

Within the British government, the differences between the PM Theresa May and members of her cabinet are notorious. The Foreign Secretary, Boris Johnson, is known for his strong views about the need for a “hard” Brexit and he is opposing openly the views and strategies of Mrs May, going as far as airing his controversial views in an article in The Daily Telegraph a few days before a major speech on Brexit scheduled by Mrs May in Florence in late September, as if trying to undermine her expected impact on the subject.
In his article at The Daily Telegraph, Mr Johnson argued that by quitting the EU, the UK would save nearly 400 million euros a week that could be used for the National Health Service (NHS) – something he is being saying without supporting evidence since the referendum campaign in June last year. He also insisted that the UK should not be bound by any financial settlement with the EU, and should leave both the EU common market and customs union, issues on which the Brexit negotiations are still very far apart.

Mrs May intended, in her Florence speech, to put an end to the current stalemate in the negotiations and to open the way to a broader and more productive discussion about Britain’s future relationship with the EU, a question that divides both, her cabinet and the Conservative Party. But she was rather vague on her proposals, which prompted the EU chief negotiator, Michel Barnier, to say that the EU looks forward to the UK negotiators explaining the concrete implications of Prime Minister May’s speech, and expected to find a rapid agreement on the conditions of the United Kingdom’s orderly withdrawal from the EU, as well as on a possible transition period.

Summing up, there are three main issues on which the Brexit negotiators need to make “sufficient” progress, before they move to start clarifying the type of trade arrangement that would be put in place to safeguard and/or expand their significant bilateral trade flows, including any transition period to ensure a “safe” conversion to UK’s exit from the EU. These are i) the rights of Europeans living in the UK, and Britons leaving anywhere in Europe; ii) the financial settlement; ii) and the future relationship between Northern Ireland and the UK.

It’s difficult to imagine that citizen’s rights and/or the borders between the UK and Norther Ireland, would become major stumbling blocks in the negotiations, which is way at the end this is all about money, as transpired from recent encounters Mrs May had with Jean Claude Junker, European Commission president.
And on this issue, as expected, major disagreements remain. At the beginning of the Brexit process, the EU indicated that the financial liabilities it expected London to honour to reach a settlement amounted to around 60 billion euros, which the UK rejected right away. Mrs May think she made a constructive offer in her intervention in Florence, indicating that Britain would pay two years (2019 and 2020) of net contributions to the EU’s budget, which would amount to around 20 billion euros. The EU has already indicated that that figure is insufficient and expect Mrs May to at least double that amount. But on the British side the Prime Minister is under pressure from hard-line Brexeters (in her government and the Conservative party) not to make more concessions to the EU – and even to walk away from the Brexit talks without a deal. Thus, no wonder that for the EU, internal UK political disputes make it unclear what sort of long-term relationship the British actually want.
The fact is that the Brexit process continues to be a confusing one for everybody, the negotiators, the public, the institutions, etc. and is becoming intertwined with electoral politics inside the UK, with the Labour Party and its leader, Jeremy Corbyn cashing on the confusion. Mr Corbyn seems to be, in fact, emerging as a winner from the Brexit un-defined debates, as witnessed by the standing ovation was given recently by his Socialist allies at the Europe Together conference in Brussels when warning that leaving the EU without a Brexit deal would be “catastrophic” for the UK economy.

Mr Corbyn’s enthusiastic reception was in stark contrast to Mrs May’s reception at the European Council summit, when she asked the European leaders to move to the next phase of negotiations. Mrs May warned fellow leaders not to push her too far, saying that both sides had to work towards a deal “that we can stand behind and defend to our people”. Her comments came as former Conservative party cabinet ministers warned that Britain would leave the EU without a deal and should prepare to trade with the bloc on World Trade Organisation (WTO) terms.

As the UK prime minister arrived in Brussels for the start of the summit, she was reminded of the high stakes for the UK economy by Lloyd Blankfein, chief executive of Goldman Sachs. Mr Blankfein tweeted: “Just left Frankfurt. Great meetings, great weather, really enjoyed it. Good, because I’ll be spending a lot more time there. #Brexit”. Among the international business community, he is not alone in his concerns. Michael Bloomberg, the billionaire media mogul and former mayor of New York, has said Brexit is the single stupidest thing any country has ever done…arguing that “it is really hard to understand why a country that was doing so well wanted to ruin it” with the Brexit vote.

In contrast to these rather negative views, David Davis, UK’s top Brexit negotiator told MPs that he expects Britain and the EU to agree early next year on terms of the transition period that will follow Britain’s formal separation from the bloc. He said that the transition that begins in March 2019 - when the negotiating phase should end- will be “simple” and “very close to existing circumstances.”

Jean-Claude Juncker, the president of the European Commission, has insisted that Brussels wants to reach a “fair deal” with Britain, in a bid to dampen down the furore over media reports allegedly containing details of his dinner last week with Theresa May. “The commission is not negotiating in a hostile mood,” Mr Juncker said. Those who don’t want a deal – the no deals – they have no friends in the commission. Mr Juncker and his team have come under pressure after a German newspaper ran a story supposedly recounting details of his dinner on Monday last week with Mrs May.

As if to settle these controversies, on October 31 the UK government and the European Commission confirmed that the next round of Brexit negotiations will be held on mid-November, ending a period of uncertainty over when talks will resume.

(II) Renegotiating NAFTA

In the United States, until now the strongest supporter of mega-regional agreements and/or free trade negotiations, a new approach to trade agreements and trade policy in general is taking root. As reported in these pages before, in one of his first official acts President Trump signed an “executive order” removing the US from the Trans-Pacific Partnership (TPP), a 12-nation trade deal whose negotiations commenced under President George W. Bush and were concluded under President Obama; and in another executive order President Trump signalled his intention to re-negotiate the North American Free Trade Agreement (NAFTA).
Together with his approach to immigration — including the building of a “wall” along the US and the Mexican border — these decisions made clear that the Trump administration would move away from regional and multilateral initiatives towards bilateral ones. In fact, abandoning regional and multilateral deals for a bilateral worldview could institutionalize President Trump’s mercantilist approach to the international trade system, in which countries are locked in zero-sum competition to win market shares, rather than cooperating to improve economic efficiency.

Currently, the Trump administration is focusing on the NAFTA (re) negotiations. President Trump has consistently called NAFTA the “worst trade deal” the United States had ever signed, and indicated as its major objective for the NAFTA renegotiation to reduce the U.S. trade deficit, which president Trump has blamed for shuttering factories and contributing to significant job losses in the U.S. manufacturing sector.

**NAFTA fundamentally reshaped North American economic relations.** It entered into force in January 1994, and has led to an unprecedented integration between Canada, Mexico and the United States. It also ushered in a new era of regional and bilateral free trade agreements (FTAs), which have proliferated as the World Trade Organization’s (WTO) global trade talks have stagnated.

Indeed, NAFTA was the beginning of a new set of regional trade agreements, the first great experiment in freeing trade between developed and developing countries. It set the basic template for many deals that followed, including the CAFTA with Central America and the Dominican Republic, and China’s entry into the World Trade Organization.

The outcome of the NAFTA re-negotiations would be determined as much on the negotiating table as outside of it, with President Trump constantly renewing calls for the US to pull out of the agreement—a drastic course U.S. officials said he has come close to pursuing. As reported by The Wall Street
Journal, on at least four separate occasions since mid-2017—in speeches, on Twitter, and a press conference—Mr. Trump has raised the prospect of getting the US to withdraw from NAFTA.

“We’re working right now on Nafta, the horrible, terrible Nafta deal that took so much business out of your state and out of your cities and towns,” he told a cheering crowd in Missouri. “Hopefully we can renegotiate it, but if we can’t, we’ll terminate it and we’ll start all over again with a real deal.”

The NAFTA re-negotiations, originally intended to be completed by the end of 2017, have recently been extended until next year due to “significant conceptual gaps” on how to rewrite the 1994 trade pact. The United States, Mexico and Canada are still far apart on a series of issues, some of which have only recently been brought into the negotiations. Those “dividing” issues include a five-year “sunset clause” that would cause NAFTA to automatically expire unless the three countries voted to continue it — a proposal that businesses say would inject so much uncertainty into the deal as to effectively nullify it.

The NAFTA negotiators. Source - Manuel Balce Ceneta/Associated Press

The Trump administration is also pushing for drastic revisions to the mechanisms that help to resolve disputes under NAFTA. Its proposals would allow countries to reject the ruling of independent panels on state-to-state disputes, as well as change the investor-state dispute settlement provision to an opt-in basis, and substantially curtail the ability of investors to bring such cases.

The US is pushing as well for higher thresholds for the amount of products that must be manufactured in North America to qualify for NAFTA’s zero tariffs — for instance, 85 percent for automobiles, up from 62.5 percent previously. The United States has also proposed that cars manufactured in Canada and Mexico be made with 50 percent American content, effective immediately.

Bitter differences over how to update NAFTA broke into the open when Donald Trump’s trade tsar accused Canada and Mexico of resisting the need for major change and warned US companies they
would need to make sacrifices. Chrystia Freeland, Canada’s foreign minister, responded by saying the US proposals were “unconventional” and warned they would “turn back the clock on 23 years of predictability, openness and collaboration under Nafta”. This is troubling, she said.

At the same time, Agriculture Secretary Sonny Perdue said he was working with Trump administration officials and Congress on a plan to protect farmers and ranchers from the potential market effects of the U.S. withdrawing from NAFTA. "We're talking with the administration and Congress about some mitigation efforts if that were to occur; about how we could protect our producers with that [farm] safety net based on prices that may respond negatively to any kind of NAFTA withdrawal," he said.

There is no guarantee that the extension of the negotiations to until early 2018 would help bridge the differences on these issues as negotiations would collide with political events in all three countries that would only complicate each nation’s negotiating positions. As reported by The New York Times, the extension of the negotiations signals the potential demise of a trade pact that, while critical to North American commerce, has come under withering criticism from the Trump administration as a bad deal for American workers.

NAFTA could be now heading for further difficulties. Negotiators, struggling to find agreement on some of the thorniest provisions of the trade deal, will take an extended break to consult with politicians and interest groups before convening again in Mexico City for the fifth round of talks. But the negotiations may become a sensitive topic in the 2018 Mexican presidential race and the regional elections both in Canada and the United States.

In the United States, legislation will expire in July that gives the Trump administration more extensive authority to negotiate trade deals and then submit them to Congress for a simple up or down vote, without amendments. Given its current gridlock, Congress is unlikely to renew the legislation, called
Trade Promotion Authority, Wilbur L. Ross Jr., the secretary of commerce, told a conference last Wednesday. “If we lose T.P.A., I don’t think you’ll ever see a deal done here,” Mr. Ross said.

The Trump administration came into office promising to scrap or overhaul trade deals like NAFTA and the Trans-Pacific Partnership and forge new bilateral deals in their stead. But the NAFTA talks illustrate that the Trump administration has found it easier to criticize trade deals than forge politically popular ways to amend them. The delay in the talks into next year will give the United States government time to try to resuscitate the 1994 trade pact. But it is still unclear how the United States will move forward with provisions that foreign partners and the business community in the United States consider to be non-starters.

The only clear outcome so far of the Nafta renegotiation is the mobilization of the business community in the United States. As reported by The New York Times, automakers, retailers and other business leaders have stormed into Capitol Hill in an extraordinary show of force against a Republican president they fear will cripple or kill NAFTA, an outcome business leaders said could devastate their profits and harm the United States’ ability to compete in a global market.

The future of Nafta has appeared increasingly at risk in recent weeks as the Trump administration presses for significant changes that businesses and Canadian and Mexican negotiators say are nonstarters. The United States’ position has pitted the Trump White House against the business community — an unusual position for a Republican president who cast himself as a friend of business, big and small.

The new fashion in trade policy is anti-globalisation. The “America First” doctrine of Donald Trump especially makes it so. President Trump is turning his back on what has been a central tenet of the Republican Party for decades: open engagement with other nations, including trading with them freely, makes the world a peaceful place. It is a prerequisite for global stability. Trump has a quite different approach: pick fights and relish conflict, even with your closest neighbours.
In the words of former President George W. Bush “We see a fading confidence in the value of free markets and international trade – forgetting that conflict, instability, and poverty follow in the wake of protectionism,” he warned. "We have seen the return of isolationist sentiments – forgetting that American security is directly threatened by the chaos and despair of distant places, where threats such as terrorism, infectious disease, criminal gangs and drug trafficking tend to emerge.”