

Trump steps up trade war over NAFTA

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Various twists and turns notwithstanding, the Trump administration has signalled that it will pursue an aggressive economic nationalist stance in discussions with Canada and Mexico over a recasting of the near quarter century old North American Free Trade Agreement (NAFTA).

Late Wednesday evening, the White House issued a statement saying that the US would “renegotiate” the trade deal following media reports that an executive order had been drawn up initiating a six-month countdown to a US withdrawal from NAFTA.

The statement said the administration had decided not to “terminate NAFTA at this time” after Trump had held “productive” phone conversations with Mexican President Enrique Peña Nieto and Canadian Prime Minister Justin Trudeau.

Yesterday Trump elaborated further saying the US could still end the agreement if it did not get a “fair deal.”

The notification for withdrawal had been prepared by Peter Navarro, the head of Trump’s National Trade Council and his chief strategist, Stephen Bannon, the two leading economic nationalist figures within the administration. Trump said he had been within “two or three days” of going ahead with it, but decided not to proceed after speaking with his Canadian and Mexican counterparts.

Trump said they had pleaded with him to renegotiate the deal. “I think we will be successful,” he said, but added: “If I’m unable to make a fair deal for the United States ... I will terminate this.”

The decision not to immediately pull out, which Trump is reported to have been set to make on his 100th day in office, came after the Congressional Republican Party leadership and business circles expressed strong opposition to any NAFTA withdrawal.

Trump began his administration with a repudiation of the Trans Pacific Partnership (TPP), covering 12 nations in the Asia Pacific region, and then directed his fire against NAFTA saying. As recently as last week, he declared the trade deal had been “very, very bad for our

country” and that “we’re going to make some very big changes or we are going to get rid of NAFTA once and for all.”

But withdrawal from NAFTA would be a very different proposition to the scrapping of the TPP, which had not yet come into effect. Trump himself alluded to this yesterday. “Terminating NAFTA ... would be a pretty big shock to the system,” he said.

Many US corporations, including the Detroit Three automakers, have developed their business operations in accordance with NAFTA provisions.

Leading Republican John McCain said he would welcome some renegotiation of NAFTA’s terms but that withdrawal would be “disgraceful and a disaster.”

Senate Majority whip John Cornyn said the administration had to be careful about “unintended consequences.”

Republican Senator Lindsey Graham said that trying to renegotiate made sense but withdrawing did not.

The head of the US Chamber of Commerce Tom Donohue said that NAFTA should be amended, not ended, and that the \$1.3 trillion in annual trade crossing the US, Mexican and Canadian borders should not be disrupted. According to reports, Donohue began a campaign lobbying “anyone who would take a phone call” to oppose any decision to pull out.

US Commerce Secretary Wilbur Ross, who Trump had previously put in charge of the NAFTA file, and Agriculture Secretary Sonny Perdue, are also reported to have pressed Trump to enter negotiations. They pointed to potential losses for agricultural interests in states where Trump drew support in the presidential election.

The twists and turns of the Trump administration have produced consternation in Mexico and Canada. A former deputy Mexican foreign minister, Juan Rebolledo, said the events of Wednesday, when the proposed executive order to withdraw from NAFTA surfaced, had been “completely mad.” Part of the problem, he commented, was that the Trump administration did not know what it wanted.

Trudeau's former chief foreign policy adviser, Roland Paris, said events had been "disquieting." The Canadian government had taken solace from the fact that when Trudeau visited Washington in February, Trump said that when it came to Canada, NAFTA need only be "tweaked." But since then, Trump and his officials have repeatedly indicated they want major changes and have denounced Canadian trade practices in strident terms. "It all seems pretty chaotic from the perspective here in Ottawa," said Paris.

But amid the immediate turbulence there is a clear line. The US is stepping up a trade war offensive in accordance with the view held by sections of the administration that present trading arrangements and agreements are inimical to the interests of American capitalism and have played a key role in undermining its global economic dominance.

The turmoil over NAFTA followed the decision last week to order an investigation into steel imports into the US under the national security provisions of a piece of 1962 legislation. This could lead to the imposition of tariffs and other barriers on all steel products, with major consequences for the entire global steel market.

There is an emerging global glut of steel with slowing growth in the major economies and the winding back of infrastructure and property developments in China, leading to more steel coming onto international markets.

China last year exported 14 percent of its output, more than the total output of ArcelorMittal, the world's largest steelmaker. This percentage could rise, with every 1 percent increase in Chinese exports nearly equivalent to the entire export market of American steel. While European steel output has fallen, the region has become a net exporter because of lower domestic demand.

Yesterday, Trump signed a memorandum initiating an investigation into whether aluminium imports were endangering the country's "economic and national security," under the very same 1962 law that is being used to pave the way for steel tariffs.

The aggressive approach the US will take in the NAFTA negotiations was exemplified by this week's decision by the Trump administration to impose tariffs on imports of softwood lumber from Canada, accompanied by threats to take action against Canadian dairy imports.

Claiming that Canadian governments subsidies were detrimental to the US, Commerce Secretary Wilbur Ross announced that the Trump administration will place "countervailing duties" on all Canadian softwood lumber exports. The average duty is set at just under 20 percent, with further charges under US "anti-dumping" provisions

slated to be announced in June.

The US action has rattled and angered the Canadian elite. British Columbia Premier Christy Clark, who is facing a difficult re-election battle, has called on Ottawa to retaliate by banning US coal exports from the Port of Vancouver.

For his part, Trudeau said the US duties were "punitive" and founded on "baseless allegations." He pledged to "vigorously defend" the Canadian industry, which depends on the US market for 75 percent of its \$C8 billion in annual exports.

In a further twist of the knife, Ross said the duties would be applied retroactively, with a starting point 90 days ago, "because they were on notice that this was forthcoming and they didn't change the practice of dumping subsidised lumber."

Trump has also attacked Canada over the trade in dairy products, saying that Canadian barriers to dairy imports had made "business for our dairy farmers in Wisconsin and other border states very difficult" and that Canada had been "very rough on the United States."

Asked in a television interview whether the moves by the Trump administration were the start of a trade war, Canadian Foreign Minister Chrystia Freeland, replied: "No, absolutely not."

But despite her attempts to put the best face on an ever-worsening situation, that is exactly what is taking place.



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