

Nafta talks progress but sticking points remain

A 'handshake' deal between the US and Mexico is reportedly within touching distance, raising the possibility that Canada could rejoin talks. But several key sticking points remain and it's unlikely we'll see a full de-escalation in trade tensions before the US mid-term elections



Source: Shutterstock

A handshake is all it takes

With the [possibility that a 'handshake' deal](#) between the US and Mexico could come as soon as today, the likelihood that Canada will rejoin the negotiations soon is rising.

After five weeks of discussions, the US and Mexico have reportedly come close to an informal deal on some of their main issues - namely automotive rules, and in particular how much of a car must be sourced in North America to qualify for reduced Nafta tariffs. Industry expectations are that North American car content may rise to 70%, up from 62.5% to make the tariff cut, and reports suggest that somewhere around 40% of this value must come from a source paying at least \$16 per hour - which isn't bad news for Canada.

[Read the Politico article here in full](#)

A deal is far from complete, but small steps take us closer

The idea of reshaping Nafta is far from complete, as certain [US demands](#) remain unresolved - in particular, the 'sunset clause', that could see the Nafta agreement expire every five years. This will have to include discussions from all three parties and has proven to be a particularly tricky issue to resolve, as Canada and Mexico both see this preventing long-term investment.

The progress made in bilateral discussions between the US and Mexico is positive news for Nafta prospects

Talks have been on hold for some time following the recent elections in Mexico, but progress in bilateral discussions between the US and Mexico is positive news for Nafta's prospects and is an important step towards securing a trilateral agreement.

Mexico is keen to wrap up a deal which allows President Enrique Pena Nieto enough time to sign it off before he leaves office in December. Although nothing has yet been confirmed on Canada's return to discussions, the door appears to be open for them to get back involved.

Trump talk is still a threat

But President Trump is adamant that if he can't have what he wants (i.e. a deal which will contribute to shrinking the US trade deficit), the threat of scrapping Nafta altogether still exists.

The President's approval ratings have also been improving in recent months, and this appears to have encouraged him to push forward with his trade policies. With polls suggesting Democrats could regain control of Congress, it's unlikely we'll see a full de-escalation in trade tensions before the US mid-term elections in November.

Trump will sense he needs to get the core Republican vote out, and tough talk on trade can help him do that.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.