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5 Minutes for Business

How to Persuade on Trade—Putting an extra “F” in NAFTA

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At a press conference on February 2, [President Trump said](#) “we want to put an extra ‘F’ in NAFTA. Do you know what that ‘F’ stands for?” It’s not what you’re thinking.

President Trump wants to add the word “fair” to NAFTA. Though apparently Canada only requires a “[tweak](#)” because the situation is “[much less severe](#)”. Why is the new administration so focused on fairness? It’s been pointing to trade deficits (where, for example, America buys more goods from China and Mexico than those countries buy from the U.S.) as evidence that trade agreements are unfair.

We disagree because a trade agreement just eliminates tariffs, it doesn’t control how a country’s businesses and consumers buy from each other. More importantly, a trade deficit has to be offset by a surplus in the capital account. If foreigners want to invest in U.S. stocks and bonds, then billions of euros and pesos will flow in, raising the value of the U.S. dollar. That makes imports cheaper and exports more expensive, a sure-fire recipe for trade deficits. There is a lot of evidence that trade deficits can have [beneficial impacts](#) if a country is pulling in lots of investment.

Canada has a well-balanced trade relationship with the U.S. According to the [Office of the U.S. Trade Representative](#), Canada’s imports from the U.S. were \$337 billion and its exports were \$325 billion. This means the U.S. had a trade surplus with Canada of \$11.9 billion. Good for them! So much winning!

Not just another friendly trading partner, Canada is America’s number one export market. We buy US\$48 billion of cars and trucks as well as US\$68 billion of machinery and equipment from the U.S. Huuuge!

Over nine million American jobs depend on exports to Canada, and there are 600,000 Americans working for Canadian-owned businesses in the U.S. Amazing!

Businesses in the U.S. and Canada don’t just export to each other, they build products together to sell them here and around the world. In fact, 75% of Canada’s exports go to the U.S., but just 57% of them stay there. When a GM car is exported from Canada, 60% of its parts come from America. Many auto parts cross the border seven times before final assembly in a vehicle.

Canada is also driving American business growth as the [number one source of new foreign direct investment, pouring \\$31 billion of FDI into the USA](#) annually. Finally, American energy security depends on Canada as the number one supplier of crude oil, gasoline, natural gas, electricity and uranium to the U.S.

The point is that we are not just a good trading partner. We are the greatest, most tremendous trading partner that the world has ever seen. We’ve been reaching out to allies in the U.S. business community to tell them so. We hosted a meeting with the President of the U.S. Chamber of Commerce, Tom Donohue, who warned that, “*withdrawing from NAFTA would be devastating for the workers, businesses and economies of our countries.*”

We obviously want NAFTA negotiations concluded as soon as possible to take away the uncertainty that is dampening business investment. But Canadian negotiators should remember that we are in a position of strength. We will work with the government to provide it with ammunition on what business wants in the negotiation and to reach out to our allies south of the border. It’s time for Team Canada to come together and get the things that we want out of NAFTA 2.0 with a big “F” for fair, and even better, free.

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