

Trade Agreements and Negotiating Leverage

■ What are trade agreements for?

- Are they supposed to reach mutually beneficial outcomes for consumers, with specific carve outs for certain products or sectors that are uniquely sensitive?
- Or is the outcome of a trade agreement supposed to reflect the bargaining leverage of the parties, with the party with more leverage getting more concessions in return?

Leverage, Leverage, Leverage

- Promise to Renegotiate NAFTA “to get a much better deal for America—and we’ll walk away if we don’t get the deal that we want.”
- --2016



Should the United States Come out Ahead?

- Many U.S. citizens may not mind if other countries also gain from trade agreements, but they strongly prefer that U.S. citizens gain more.
- “Now they say India and China are overtaking us. Don't you believe it. We may hit a few bumps - but America always moves ahead. That's what Americans do.”
 - ◆ Governor Arnold Schwarzenegger, (Aug. 31, 2004)

The Ghost of Marjorie Bowker



- Judge Bowker (a Canadian family court jurist) opposed the Canadian-US Free Trade Agreement (CUFTA) in 1988.
- Why?? She claimed that under CATFA, Canada would be more dependent on the United States than the United States would be on Canada (Asymmetric Vulnerability).
- Therefore, a President in the United States could use this vulnerability as bargaining leverage in future trade negotiations, and the Canadians would have no choice but to concede.
 - ◆ “The U.S. could, for example, use it as a threat [of withdrawal] against Canada in order to force agreement to certain concessions, in other words, the U.S. could enforce its future demands by threatening to pull out-at a time unsuitable to Canada.”

Judge Bowker's Insight

- No matter which country were to terminate the Agreement, it could place Canada in a serious predicament for this reason:
- Once the Agreement takes effect in January 1989, **Canadian industries would begin "gearing up" and restructuring in anticipation of greater exports to the U.S. This could include costly capital expenditures for upgrading factories, modernizing equipment, retraining workers . . .**
- Once Canada had embarked on an industrial conversions process, cancellation would simply create another disruption to our national economy. For these reasons, termination cannot be looked upon as a "way out."

But what does the extra leverage get you?

- First, there is the Most Favored Nation (MFN) clause, which is standard in most trade agreements.
- Under an MFN, a concession offered to one country must also be extended to other countries covered by the clause.
- Thus, it reduces the returns to superior bargaining power. A strong country may still negotiate an advantageous concession from another state, but MFN can require that state to extend the concession to weaker countries as well. The strong country's negotiating success no longer necessarily produces a privileged position for itself

Also, with tariffs so low, is there any thing really left to exploit because of superior leverage?

- If under the USMCA agreement, most goods traded among the United States, Canada, and Mexico already qualify for zero tariffs, where is the leverage?
- What is there to give up and gain when most of the trade among the three countries is already at zero tariffs?
- Yes, it may be subject to rules of origin and sector-specific exceptions.
- But in the overall scheme of things, these exceptions may not be that significant.

What of outside of the USMCA, is there still lots of room to squeeze out concessions?
(Source: World Bank).

Importing economy		World Tariff Profiles 2025: simple-average applied MFN tariff	Tariff-data year
China		7.5%	2024
European Union		5.0%	2024
India		16.2%	2024
United States		3.3%	2024

United States MFN Tariffs are Low, but not the Lowest....

Singapore	0.0%	2025
Hong Kong, China	0%	2024
Macao, China	0%	2024
New Zealand	1.9%	2024
Australia	2.4%	2024
Iceland	2.8%	2024

How the United States Could Use its Leverage

- The United States hopes to gain leverage primarily by threatening to **withdraw** existing access to its market
- It is not by offering to reduce its already-low ordinary tariffs.
- That is the central logic of the Trump administration's tariff bargaining: impose or threaten substantially higher tariffs, then offer relief in exchange for foreign concessions.
- But how can you withdraw existing access to the markets if that access has been guaranteed by legal commitments?
 - ◆ This is where national security exceptions come into play
 - ◆ The principal alternative to national security exceptions is Section 301: Trump can restrict access to the U.S. market in response to allegedly unfair foreign trade practices, rather than a threat to national security.

So, what else could the leverage be used for?

Objective	What the administration seeks
Lower the remaining foreign tariffs	Removal of remaining duties on U.S. exports, including in protected sectors.
Fewer non-tariff barriers	Changes to import licensing, product standards, agricultural restrictions, and other market-access rules.
Purchases and investment	Commitments or stated intentions to purchase U.S. energy, aircraft, and other products, or invest in U.S. production.

Getting back to Canada and the USMCA

- There are certain sectors, where Canada might have sought some protected sectors:
 - ◆ Preservation of dairy supply management
 - ◆ Cultural Industries; books, movies, television, etc.
 - ◆ The United States claims it wants to break down those barriers as well

How much would be gained if we removed all Canadian barriers on dairy products?

- Under the ITC's own estimates, the additional accesson dairy negotiated under the USMCA would be \$227 million annual export gain
- About 0.1 Percent of US Dairy Output
- These are sale revenues, and not profits
- Maybe dismantling all the barriers would open-up even more, but the benefits are not likely to be significant

Foreign Countries May Also Have Leverage: Trade Partners Can tailor Retaliation Against Products from Swing States in Presidential Elections



2020 Swing States (Biden/Trump)

States won by a margin of three points or less, view other presidential elections by selecting year:

1988

1992

1996

2000

2004

2008

2012

2016

2020

