

Mexican election scrambles NAFTA talks

Keith Laing

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Newly elected Mexico's President Andres Manuel Lopez Obrador, running for "Juntos haremos historia" party, cheers his supporters at the Zocalo Square after winning general elections, in Mexico City, on July 1, 2018.

PEDRO PARDO, AFP/Getty Images

Washington — The election of a new leftist president in Mexico has scrambled already-fraught negotiations with the United States about potential changes to the North American Free Trade Agreement.

After a campaign in which he frequently used President Donald Trump as a foil, Andrés Manuel López Obrador was elected president of Mexico on Sunday by a 52.9 percent to 22.5 percent margin. He will take office Dec. 1.

The election of a populist who has been critical of Trump's NAFTA demands has added another complication to talks that have already taken longer than expected and been roiled by tariff threats from the Trump administration. Auto industry observers and trade experts say it will be difficult for Mexico's new president to strike a quick deal with Trump after waging a heated campaign.

Trump and López Obrador spoke by telephone for a half-hour following the election in a call that the U.S. president said was "a great conversation."

“We talked about border security,” Trump told reporters in Washington on Monday. “We talked about trade. We talked about NAFTA. We talked about a separate deal, just Mexico and the United States. We had a lot of good conversation. I think the relationship will be a very good one. We’ll see what happens, but I really do believe it’s going to be a very good one.”

López Obrador has also tried to strike a more conciliatory tone toward Trump regarding NAFTA following his election. He said in a Mexican TV interview on Monday that he wants a trade deal that is good for Mexico.

“We’re going to accompany the current government in this negotiation, we’re going to be very respectful, and we’re going to support the signing of the agreement,” he told Milenio TV.

López Obrador met Tuesday with outgoing Mexican President Enrique Peña Nieto, according to the Mexican Consulate in Detroit.

Bruce Andrews, former U.S. deputy secretary of commerce in the Obama administration, said the lengthy transition that is awaiting López Obrador will be another complication in NAFTA talks that already stretched well beyond their initial one-year time frame.

“It’s going to be difficult for the outgoing Mexican administration to make commitments when the new administration is going to be the ones that have to implement them,” said Andrews, who served under former Commerce Secretary Penny Pritzker.

Andrews said the politics in Mexico that swept López Obrador into office after two previous unsuccessful attempts will also make it difficult for a quick NAFTA deal.

“The U.S. has shown an interest in wanting to get a deal done, but without the U.S. being more flexible, some of the U.S. requests are for things that are politically impossible in Mexico,” he said.

Andrews noted that López Obrador “ran with a lot of anti-Trump rhetoric” that could box him into hardline positions in upcoming NAFTA talks. “As a new president, he is going to feel a lot of pressure to be tough with Trump and show that he won’t be pushed around.”

In talks that were triggered shortly after the Trump took office in 2017, the U.S. is pushing for wholesale changes to NAFTA, which was enacted in 1994 to create a free-trade zone between the U.S., Mexico and Canada. Administration officials say terms of the deal have allowed trade deficits with neighboring countries, especially Mexico, to balloon.

On the campaign trail, Trump said he would end the trade pact with Canada and Mexico and slap a 10 percent to 35 percent tariff on vehicles and parts made in Mexico that are imported into the U.S. if NAFTA renegotiation is not a success. Critics have said that could add \$5,000 to \$15,000 to the price of a car.

In talks with Canada and Mexico over NAFTA that began after Trump took office, U.S. negotiators initially proposed increasing the minimum percentage of a car's parts that must be made in one of the three countries — to 85 percent from 62.5 percent — in order to escape tariffs when it is imported to America. And they wanted to require that 50 percent of parts must come from the U.S. Automakers lobbied against the proposed changes, arguing they would make it tougher for domestic manufacturers to compete with their international counterparts.

In the meantime, the Trump administration put tariffs on foreign steel and aluminum and they have moved to do the same for imported cars and a host of other goods. The tariffs have riled leaders in Canada and Mexico, as well as China and Europe, and they have prompted retaliatory tariffs.

Complicating matters further, the entire U.S. House and one-third of the U.S. Senate face elections of their own in November.

The uncertainty has left the auto industry in a lurch. The number of vehicles facing potential tariffs is huge:

GM imported 1,077,865 vehicles built outside the U.S. in 2017, including 322,144 from Canada and 577,630 from Mexico, according to LMC Automotive, which forecasts automotive sales, production and powertrain trends.

Fiat Chrysler imported 1,024,734 vehicles, including 448,172 from Canada and 417,660 from Mexico.

Ford imported 521,226 vehicles, including 199,117 from Canada and 283,259 from Mexico.

The Trump administration has dismissed concerns about the potential impact of NAFTA falling apart.

“Well, clearly the reality is that Mexico needs some sort of an arrangement with the U.S.,” U.S. Commerce Secretary Wilbur Ross said in an interview with CNBC on Monday. “We’re the vast bulk of their exports and they have a huge trade surplus with us, some 70-odd million dollars. But overall they have a trade deficit. So they need very much their involvement with the U.S.”

Ross continued: “We think (López Obrador) understands that and it’s really a question of when will the talks resume? Will he use the former negotiators? Will he

pick his own people? How will the agenda work out? Those are a little bit unknown as of the moment but as I say, the reality is they need an arrangement with the U.S.”

Charlie Chesbrough, senior economist and senior director of industry insights for Cox Automotive, said it is unlikely that there is any NAFTA deal before the U.S. elections in November.

He said “there’s clarity on what Mexico’s position is” after the election of López Obrador, who noted won a landslide victory. But Chesbrough said, “Mexico desperately needs NAFTA to survive in some form,” a fact he predicted will not be lost on López Obrador.

He said Mexico has already previously proposed increasing the percentage of North American content that is required to qualify for duty-free treatment under NAFTA from 62.5 percent to 70 percent in a bid to assuage Trump’s concerns without ripping up the trade pact completely.

“Everybody is posturing and not wanting to sound weak,” Chesbrough said. “I think ultimately a deal gets done.”

klaing@detroitnews.com

(202) 662-8735

Twitter: @Keith_Laing

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