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The US, Canada, and Mexico are renegotiating NAFTA — here's what each country wants

And where they have the most leverage to get it.

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At a hotel in Mexico City, trade representatives from Canada, Mexico, and the United States are working on the arduous task of redefining their economic relationship.

The outcome could reshape the entire US economy, which has grown increasingly dependent on trade with Mexico and Canada since NAFTA went into effect in 1994.

On Friday, trade negotiators began the second round of efforts to rewrite the North American Free Trade Agreement. They will be wrapping up on Tuesday, and a third round is scheduled for late September in Canada. It's not an easy process. It could take months — even years — to come up with a deal that all sides agree upon (the original negotiations in the 1990s took more than two years). There's also the remote chance that one party will just walk away and NAFTA will fall apart.

After taking office, Trump threatened to pull out of the pact, which **he considers** the "worst trade deal" in history. Alarmed business leaders — who depend on free trade with both US neighbors — persuaded Trump to try to renegotiate the deal instead. So here we are.

The law essentially allows all three countries to sell goods to each other with no tariffs. An American car, for example, is now built with parts made in all three countries. While the deal allowed US manufacturers to lower costs and compete with Asian factories, it also led companies to move thousands of factory jobs to Mexico, where labor is cheaper.

On the campaign trail, Trump promised to scrap the deal or come up with a better one. With few legislative victories under his belt, the administration is under intense pressure to deliver a win on NAFTA.

But the schedule is tight. Not only do all countries need to agree on a deal, but the US trade representative, Robert Lighthizer, needs to give Congress 90 days' notice before the president signs it. After the negotiations end, the International Trade Commission will start analyzing the impact of the new deal on the US economy, which often takes about six months. Then Congress needs to approve it — another major hurdle. After all, the Republican party has many die-hard free-trade advocates who like NAFTA.

"This is a very challenging timeline," says Philip Levy, an international economist for the Chicago Council on Global Affairs and a former trade economist for the George H.W. Bush administration. "As you've seen, getting Congress to agree on a controversial issue has not been the forte of this administration."

But it's not just the US government. All three countries have a lot at stake in the negotiations. This is what trade experts believe is most important to each, and what their biggest bargaining chips are:

United States

Main goal: The Trump administration wants to reduce the trade deficit — making sure that the US isn't importing much more than it exports. Right now, the United States has a small trade surplus with Canada (**$12.5 billion**), so the administration isn't worried about that. Its beef is really with Mexico. The US had a **$59 billion** trade deficit with Mexico in 2016.

Some of Trump's economic advisers think that cheap imports — in this case, from Mexico — are responsible for hurting US manufacturers and therefore US factory workers. Mainstream economists don't think a trade deficit is bad for the US economy, and they doubt that slapping tariffs on imports will do much to reduce it.

Leverage: Trump has threatened to leave NAFTA altogether, and that possibility could make Mexico and Canada more willing to make concessions. And while **millions of jobs** in all three countries depend on NAFTA, Mexico stands to lose the most jobs if it becomes too expensive for US companies to operate there. **Hundreds of thousands** of manufacturing jobs in Mexico depend directly on the free-trade deal.

"Canada and Mexico are more dependent on the US than the US is on them, so that's the biggest thing the US has going right now," said Caroline Freund, a senior fellow at the Peterson Institute for International Economics.

Mexico

Main goal: Mexico wants to make sure the United States doesn't try to slap tariffs on its products, or make it easier to do so in the future. The whole point of NAFTA was to create a tariff-free zone where businesses in all three countries could import and export products without extra costs. The United States purchases about 80 percent of all Mexican exports, so the Mexican economy is highly dependent on trade with the United States.

Leverage: Mexico has more than a dozen bilateral free-trade deals, which would make it easier for the country to shift trade to Europe and Latin America. It would take time, but Mexico could strengthen those relationships if it decides trade with the United States becomes too costly. For example, Mexico's trade minister is trying to work out a trade deal with China.

Another thing Mexico has going for it: It's the second-largest international market for American goods, with **about 16 percent** of US exports headed south of the border. In particular, the US auto and agriculture industries have a major stake in free trade with Mexico. For instance, Mexico buys a lot of American corn products — about **three-quarters** of all high-fructose corn syrup exported from the United States is sold to Mexico. The US auto industry also relies heavily on car parts from Mexico for its factories in Detroit.

Both of these industries have powerful lobbyists in Washington, and they will put a lot of pressure on Republicans in Congress to reject any deal that would restrict their access to the Mexican market.

Canada

Main goal: Like Mexico, Canada's main goal is to stop the United States from slapping tariffs on the goods they've been trading freely for decades. The Canadian softwood lumber industry and Canadian energy companies depend a lot on free trade with the United States.

Canada is particularly concerned about the administration's goal to do away with what is known as **NAFTA's Chapter 19** provision. This section of the deal created a special settlement process that allows all three countries to challenge any duties one country might add on certain imports. Under international trade rules, a country can slap duties on imports that are intentionally sold at below-market prices or that are unfairly subsidized by the exporter's government.

The Trump administration has been using these laws to go after what it considers unfair trade practices, and doing away with Chapter 19 would make it a lot easier to do so.

Leverage: Canada is the **largest export market** for American-made goods, so the United States doesn't want to make its northern neighbor too mad. About **19 percent** of US exports end up there. Canada also imports more from the United States (mostly auto parts and heavy machinery) than it exports to the United States, which is exactly the kind of trade balance the Trump administration likes. If the US goes too far with its protectionist measures, Canada could retaliate by restricting US imports, which would seriously hurt US manufacturers.

This illustrates the biggest challenge for the Trump administration in rewriting the trade deal. Because all three economies have become so interdependent, any move to restrict imports could do serious damage to US manufacturers and businesses that depend on those two markets.

"This is not a one-way weapon," said Freund. "If the US blows up NAFTA, it will blow up the US economy."