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in the eyes of Trump

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Abstract:

The recent approval by the U.S. Congress and the signing by President Trump of the new free trade agreement between the North American states, USMCA, which replaces NAFTA, means the entry into force of the agreement, which will be not only a powerful instrument for boosting the signatories' economies, but also an endorsement of the foreign policy of the current US administration and its rejection of multilateralism. This document reviews the novel elements of the agreement and reflects on its meaning in terms of foreign policy.

Keywords:

NAFTA, USCMA, Trump, free trade, bilateralism, multilateralism.

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Introduction

In October 2018, the IEEE published a document *entitled Trade Bilateralism in the Trump Era: TTP, NAFTA (USMCA)*¹. It was a study of the Trump administration's negotiating drift on international free trade agreements, taking as examples the decisions taken on the Trans-Pacific Partnership (TPP) or the renegotiation of the North American Free Trade Agreement (NAFTA) between the United States. The Trump administration's international free trade agreement policy is exemplified by the decisions made around the Trans-Pacific Partnership (TTP) or the renegotiation of the North American Free Trade Agreement (NAFTA) between the U.S., Mexico, and Canada, a pact signed in 1994 that regulated trade of more than \$1.2 billion between the three nations. Only a few weeks ago, the US Congress approved the final version of the so-called USMCA² (in the previous months, the Mexican legislative chamber had already done so and Canada's approval is expected in the coming weeks)³.

We will now briefly analyse the most relevant aspects of this agreement and its meaning on the international policy decisions of the United States.

An essential document to examine the treaty is the report published by the U.S. International Trade Commission⁴. According to the data handled by this Commission, it is estimated that the USMCA will increase the real GDP of the United States by 68.2 billion dollars (0.35 %), employment by 176,000 jobs (0.12 %). The model estimates that USMCA will have a positive impact on US trade both with USMCA signatories and with the rest of the world. US exports to Canada and Mexico will increase by \$19.1 billion (5.9 %) and \$14.2 billion (6.7 %), respectively. US imports from Canada and Mexico will increase by \$19.2 billion (4.8 %) and \$12.4 billion (3.8 %), respectively. The model estimates that the agreement is likely to have a positive impact on all sectors of the US economy. The industrial sector will experience the largest percentage gains in production, exports, wages and employment, while in absolute terms services will experience the largest gains in output and employment.

¹ Available at: http://www.ieee.es/Galerias/fichero/docs_analisis/2018/DIEEEA39-2018TRUMP_FMAR.pdf

² United States-Mexico-Canada Agreement

³ Available at: <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>

⁴ Available at: https://www.usitc.gov/press_room/news_release/2019/er0418II1087.htm

But what exactly does the U.S.-Mexico-Canada Agreement change?

- New name. Goodbye, NAFTA. The new agreement will be known as the USMCA. Trump wanted a new name, and he made it public in his hard-long way campaign to break the previous treaty. He suggested "USMC", honouring of the U.S. Marine Corps (United States Marine Corps), but in the end, the new name USMCA won the day⁵.
- Big changes in the automobile industry. The aim of the new agreement is that more vehicles and more spare parts will be manufactured in the signatory countries themselves. For a vehicle to enjoy zero tariffs, it must be able to prove that 75 % of its components are manufactured in Canada, Mexico or the United States. This is a considerable increase from the current requirement of 62.5 %. It also introduces a new important rule that a significant percentage (at least 30 %) of the work performed on each vehicle must be performed by workers who earn at least \$16 per hour, or about three times what a Mexican worker earns in the automotive sector. And this percentage will gradually rise to 40 % for all vehicles by 2023. This new rule, while helping to raise the wages of some U.S. workers, could also lead to an increase in the final price of some cars, especially the smaller ones, which could end up being produced in Asia, not North America, because they would be too expensive under the USMCA provisions.
- Important changes that directly affect Mexican workers: The USMCA requires that Mexico change its laws to facilitate the unionization of its workers. The Trump administration pushed hard for this because such a measure should cause wages to rise in Mexico, thus making it less attractive for companies to relocate production that was bleeding the North American industrial fabric. The USMCA also stipulates that Mexican trucks crossing the U.S. border must comply with stricter safety standards. A committee will be created to oversee the enforcement of these labour regulations in Mexico (including with the presence of Mexican-based 'labour attachés'). Tough penalties are established for non-compliance.

⁵ 'USMCA like YMCA or United States Marine Corps with an A at the end', Mr. Trump said, 'I like the way it sounded'. Available at: <https://www.nytimes.com/2018/10/02/us/politics/usmca-nafta-name-acronym.html>

- Trump's 'big win': Canada opens its dairy market to the U.S. Trump had posed an almost personal battle over how unfair he felt Canada was applying very high tariffs to U.S. dairy products⁶. Canada has a complex regulatory system regarding production in this sector: to ensure that prices are maintained and that small businesses are sustainable, the Canadian government intervenes in the sector and restricts the amount of dairy products that can be produced in the country and the amount of foreign dairy products that can enter the country⁷. This scenario breaks apart with the new USMCA. Canada keeps most of its complex system in place, but US farmers will be able to sell more dairy products ("Class 7") from milk powder to ice cream. The USMCA also allows for increased sales of eggs, chickens and turkeys.
- Increased protection of intellectual property. This new chapter of the Treaty is more than 60 pages long and contains much stricter stipulations for patents and trademarks, especially in the biotechnology sector, financial services and the Internet. These updates seemed entirely necessary given that the original agreement was negotiated 25 years ago. The original USMCA text stated that so-called biological drugs would get 10 years of intellectual property protection. (Canada currently maintains that protection for 8 years.) Democrats in Congress have succeeded in removing that provision. Similarly, the USMCA grants any pharmaceutical company three additional years of intellectual property protection if a new use is found for an older drug.
- Increased environmental measures. The latest version of the chapter on the environment includes many new features, especially regarding the protection of whales and other marine species as well as measures against environmental pollution and overfishing. Mexico agrees to improve surveillance to stop illegal fishing, and the three countries agree to stop subsidizing fishing of overexploited species. Customer verification systems have also been improved to ensure that only legally caught products are exported from Mexico.

⁶ Available at: <https://www.npr.org/2018/07/10/627271410/why-president-trump-hates-canadian-dairy-and-canada-insists-on-protecting-it>

⁷ Available at: <https://www.theatlantic.com/international/archive/2018/06/trump-canada-dairy/562508/>

- Measures against currency manipulation. This was an important demand for the Trump administration, which often complains that other countries are devaluing their currencies in order to sell their products at low prices on the global market (and thus reduce competition from American products). The USMCA states that Canada and Mexico agree on 'market-determined exchange rates' and that the three countries will exchange regular (usually monthly) updates on any government intervention in the foreign exchange markets. Canada and Mexico had already improved their information systems in this regard, but this is seen as a clear signal (to China) of what Trump wants to achieve in other negotiating processes.
- Mexico and Canada get assurances that Trump will not impose tariffs on car imports. Trump had repeatedly threatened to apply high tariffs to cars and vehicle parts imported into the United States. Along with the new trade agreement, his administration has initialled so-called 'side letters' that allow the two nations to be assured of no new automotive tariffs in the future.
- The agreement is due to be reviewed in six years. If all parties agree at that time that it remains positive, then the agreement will continue for a total period of 16 years (with the possibility of renewing it later for another 16 years).

How can each country be considered to have achieved its objectives?

First of all, the three nations (and especially Mexico) were interested in achieving an agreement in any form. The volume of intra-American trade demanded it. However, each nation had focused its objectives differently: Canada is pleased to have maintained the so-called special arbitration process, regulated in chapter 19, which remains almost intact. Canadian Prime Minister, Justin Trudeau, had repeatedly stated that he wanted to keep that chapter of NAFTA and he succeeded. The United States pushed hard to remove it, but in the end, it was kept. Chapter 19 allows Canada, the United States and Mexico to challenge each other's anti-dumping and countervailing duties before a special tribunal ("panels") composed of representatives from each country. This is a much more streamlined and simple process than trying to challenge a trade practice in a U.S. court⁸. Over the past few years, for example, Canada has successfully used Chapter 19 to

⁸ Available at: <https://scholar.smu.edu/cgi/viewcontent.cgi?article=2982&context=til>

challenge the United States on its timber import restrictions. However, it highlights the fact that Chapter 11, which offered investors a special procedure to challenge government decisions, has disappeared (for the most part) except for a few key industries, such as the oil industry, which lobbied hard for the possibility of filing a complaint with the Mexican government if the government changed the rules or attempted to renationalise its energy sector.

The US will hardly be able to compensate with the new USCMA for the jobs that have been lost in recent years: almost 6 million after the signing of NAFTA in 1994 and China's entry into the World Trade Organisation in 2001⁹. The new agreement promises to replace up to 170,000, according to the International Trade Commission study mentioned above, but this now seems less important when the US economy, expanding for the 11th consecutive year, has brought the unemployment rate to its lowest level in 50 years and the stock market to an all-time high. The limited impact on employment in the industrial sector of agreements such as the USCMA highlights the role that other key elements affecting trade, such as the value of the U.S. dollar and Trump's own spending policies, play in impacting employment data.

In fact, for all three countries, the main benefit of the new treaty is the elimination of uncertainty. Many of the provisions of the USMCA reflect a commitment to refrain from making current trade and investment practices more restrictive. These provisions are likely to benefit U.S. companies by reducing business uncertainty, potentially lowering their trading costs, and will do the same for companies and investors in Mexico and Canada.

President Trump wins a major victory in an election year in the eyes of the North American public. He fulfils his promise to 'improve' the so-called international treaties harmful to the US that the Democratic administrations (their much-maligned Clinton and Obama administrations) had encouraged and which were a hallmark of the last years of US foreign policy. Trump does not renounce important treaties for his economy such as NAFTA, but incorporates his understanding of international relations, making explicit the weight of the US in bilateral negotiations, and renegotiating them in this way.

⁹ During the 2016 campaign, Trump blamed the 'disastrous trade deals supported by Bill and Hillary Clinton' for the loss of a third of the jobs in US industry and promised to bring them back. Available at: <https://www.usitc.gov/publications/332/pub4889.pdf>

The current tariff negotiation with China has the same stamp and the message is identical: secure employment for Americans and avoid industrial relocation. Trump initially insisted that he wanted a comprehensive agreement that would address all those areas where unfair trade practices could be identified (according to the US) and which were against US interests. As the talks dragged on, however, the objectives became more limited and the more difficult issues were deferred to later stages.

But President Trump is credited (in addition to the new USMCA) with completing a beneficial agreement with South Korea that protected the automobile sector, and with concluding a new trade agreement with Japan. Bilateralism (as an alternative to Obama's multilateralism) works, that's the message.

The new USCMA is an updated version of NAFTA in which all parties get improvements that would have been necessary¹⁰ in a 26-year-old treaty anyway. Still, the U.S. could have avoided the period of uncertainty that renegotiation has brought under President Trump's threats of withdrawal.

In a campaign speech for the 2016 presidential election, in which he set out his trade agenda, Trump promised to get a better deal for American workers. 'I don't mean a little better', he said about renegotiating NAFTA, 'I mean much better'. It's not so clear that that goal has been achieved.

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¹⁰ Available at: https://www.realclearpolitics.com/video/2016/06/28/donald_trumps_seven-point_plan_to_reform_nafta_and_wto_cheaters.html