The Daily Dish

USMCA

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Eakinomics: USMCA

To the surprise of many — myself included — the U.S. and Canada reached agreement Sunday to (choose your favorite) replace/modernize/rebrand/degrade the North American Free Trade Agreement (NAFTA) just in time to meet the self-imposed (and arbitrary) September 30 deadline. Although all the details will require further analysis, there are several interesting aspects of the agreement, named the U.S.-Mexico-Canada Agreement (USMCA).

The first is the timing. The September 30 deadline was dictated by the desire of the outgoing Mexican president, Enrique Nieto, to sign any agreement prior to president-elect Andres Manuel Lopez Obrador taking office. But Lopez Obrador's staff was involved in the negotiations and he has committed to supporting the agreement. It remains murky why the Trump Administration felt the need to put an arbitrary deadline on the table.

The second is the name. President Trump felt strongly that NAFTA had to go. USMCA raises the ugly specter of a Village People song that refuses to go away, but such is the price of progress.

The third is the good news on the content. The USMCA is broader than NAFTA, apparently providing better coverage of services and certainly adding protections for Intellectual Property (IP) in a new chapter. This chapter includes 10 years of data protection for biologic drugs and covers a wide range of products eligible for protection. Also, in modernizing the agreement the USMCA includes rules on digital trade — a necessary part of any future international trade agreement — that provides a foundation for trade in digital products and services, as well as rules regarding cross-border transfer of data.It also lowers tariffs on Canadian dairy, poultry, and eggs – something U.S. exporters have wanted for a long time.

The fourth is bad news due to the fundamentally anti-trade aspects of the goods rules, especially on autos. As was advertised by the Mexico agreement, the USMCA would raise the regional content requirement so that a car would need 75 percent of such content to merit no tariffs. It would require 70 percent of steel in autos to be regional and a rising fraction of each car to be manufactured by labor being paid $16 per hour or more. In addition, there would be quotas on imports of cars and parts into the United States, existing steel and aluminum tariffs remain in place, and future car tariffs are not taken entirely off the table. These provisions will make cars more expensive and may induce automakers to shift production to east Asia and other locales.

There will be much discussion to come, as Congress ultimately will have to vote to enshrine the agreement as U.S. law. But the bottom line at the moment is that the USMCA is certainly better than nothing; withdrawing from NAFTA would have been a costly misstep. It may be better than NAFTA itself, but probably not. And it is certainly not as beneficial as, say, passing the original Trans Pacific Partnership and avoiding the steel, aluminum, and auto tariffs.