POLITICOPRO

# Free traders, libertarians find a lot to dislike in Trump’s new North American trade deal

Doug Palmer

October 2, 2019

Free market policy groups, which normally are out front in support of trade agreements, have offered only tepid support for President Donald Trump's deal to replace NAFTA.

Libertarian organizations like the Cato Institute have also been muted in supporting the deal, while some influential international policy groups such as the Peterson Institute for International Economics have panned it and called for major changes.

The conservative Heritage Foundation, which recently hosted Vice President Mike Pence to give a speech in favor of the pact, has endorsed the U.S.-Mexico-Canada Agreement, but not without criticizing many features of the deal.

"While the agreement is a positive step forward from NAFTA, there are still issues that must be addressed, including minimum wage requirements and provisions primarily focused on pushing unrelated environmental policy that has little to do with allowing free trade," Heritage President Kay Coles James said in a recent op-ed. "These policies create barriers to trade rather than free it up, making goods and services more expensive or stifling trade altogether."

Such opinions contrast with many Republicans and business groups, which are stepping up pressure in Washington to get the new deal passed in Congress as soon as possible with few if any changes.

Perhaps deliberately, the name of Trump’s signature deal, USMCA, omits the words “free“ and “trade.“ That’s unlike many previous deals pushed through by both Democratic and Republican administrations.

Hovering in the background of the USMCA debate is the possibility that Trump will withdraw from NAFTA if his new deal is not approved.

"The way I would articulate it is: USMCA is better than no free trade agreement with Canada and Mexico," Scott Parkinson, vice president of government affairs at Club for Growth, which advocates for low taxes and deregulation. However, he emphasized that the Club for Growth believes USMCA is worth approving to boost the U.S. economy.

A Heritage analysis earlier this year identified "several critical weaknesses" that the conservative group said should be changed before Congress votes on the USMCA.

Heritage analysts Tori Whiting and Gabriella Beaumont-Smith proposed dropping the environmental chapter completely, removing language prohibiting LGBTQ discrimination and loosening the pact's restrictive auto "rule of origin" provisions. The Trump administration increased the so-called content requirement in the deal, stating that 75 percent of cars, light trucks and parts must be made within North America to qualify for tariff cuts under the pact. That's an increase from 62.5 percent under NAFTA.

Provisions like those rattle free-market theorists. Whiting and Beaumont-Smith attacked as "incredibly destructive" new requirements that 70 percent of steel and aluminum used in auto production be sourced from North America. The agreement also specifies 40 percent of the production process must be done by workers earning at least $16 an hour, while the pact's government procurement chapter excludes Canada.

"A true free trade agreement would not contain rules of origin provisions at all, allowing the free flow of goods within the territory," the Heritage analysts wrote.

House Democrats are now engaged in talks with the White House to correct problems they see in the agreement. But they are pushing for changes that tend to have a more liberal bent: more stringent labor and environmental protections, as well as stronger enforcement provisions to make it easier to bring cases against Mexico in those areas.

If Democrats are successful on those fronts, it could jeopardize Heritage's support for the agreement. Congress should consider the USMCA "without any changes that threaten its merits," Whiting said in an email.

The Peterson Institute for International Economics for nearly four decade since its founding in 1981 has been the darling of Republican and Democratic administrations seeking support for their trade agendas.

But the think tank's relationship with the populist-leaning Trump administration is chilly at best; the group's recent analysis, "Five Flaws in the USMCA and How to Fix Them," made its objections clear.

Peterson senior fellow Jeffrey Schott said the Trump administration is "misreading" the conclusion of a congressionally mandated study by the U.S. International Trade Commission on the impact of the USMCA.

That study found the USMCA would boost U.S. economic growth by 0.35 percent. But the small gain would come from the agreement's digital trade provisions, which mirror those that were included in the Trans-Pacific Partnership that Trump pulled out of early in his term. Because Canada and Mexico remain in the TPP, the United States effectively gets those benefits for free without needing to pass USMCA, Schott argued.

Without the digital trade measures, the ITC estimated the USMCA's would actually reduce U.S. economic growth by 0.12 percent because of its more restrictive trade provisions in areas like autos, government procurement and textiles, Schott said.

That point has also been made by Sen. Pat Toomey (R-Pa.), who has broken from the rest of his party to oppose the USMCA. At a Senate Finance Committee hearing in July, Toomey took aim at that pact's weaker investment protection rules and a clause that could terminate the agreement in 16 years.

"I just want to say that if we adopt this agreement, it will be the first time that I know of in the history of the republic that we will agree to a new trade agreement that is designed to diminish trade," Toomey said.

Schott underscored that charge in his analysis. The deal cannot be called “a 'free trade' agreement: It is the first U.S. accord in recent memory to build up, rather than break down, trade barriers," he wrote.

Americans for Prosperity, a free-market group partly funded by energy industry billionaire Charles Koch, is remaining silent on the pact, although it has spoken out against Trump’s China tariffs and has opposed the renewal of the U.S. Export-Import Bank.

“Clearly we’re not engaged in public on the issue,” Dan Pearson, a trade policy fellow with the group, said. “We’re just not ready to make any comment.”

The libertarian Cato Institute has also long supported free trade agreements, but in April, the group gave the USMCA only a so-so review.

"The USMCA is a marginal improvement over NAFTA — better in some areas, worse in others, about the same in most," wrote Dan Ikenson, director of Cato's Center for Trade Policy Studies. "Taking into consideration the negative changes, especially to the rules of origin, it’s not obvious that USMCA is much of an upgrade from NAFTA."

In an interview this week, Ikenson said it also is clear the USMCA is not nearly as good as the Trans-Pacific Partnership, which was only reached after more than five years of U.S. negotiations with Asia-Pacific countries. But he argued it still should be approved as a stepping stone back to a more market-oriented trade policy.

"I say pass the USMCA and then, when a more enlightened administration takes the reins, let's join the TPP," Ikenson said.