



3 Winners and 3 Losers From Today's North America Trade Deal Announcement

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Less than an hour after announcing two articles of impeachment aimed at ending President Donald Trump's tenure, Speaker of the House Nancy Pelosi (D-Calif.) announced a handshake deal with the Trump administration to pass a new North American free trade deal.

There is still no clear timetable for a congressional vote on the new United States-Mexico-Canada Agreement (USMCA), and details regarding specific changes to the deal made to appease House Democrats remain sketchy for now, but Monday's announcement is a big turning point after a monthslong standoff. U.S. Trade Representative Robert Lighthizer is heading to Mexico City to meet with top trade officials from Canada and Mexico to sign (rather, re-sign) the amended agreement, which will then be presented to Congress.

Even if some specifics remain unknown—new environmental and labor standards put into the USMCA at Pelosi's insistence are likely the most important pieces yet to be detailed in full—there's enough information about the USMCA to draw some sweeping conclusions, in true Trumpian fashion, about the winners and losers.

Winner: A lot of the politicians involved

Tuesday's announcement was mostly about politics, not policy.

This is an obvious win for Trump, of course, who entered office with a promise to renegotiate the North American Free Trade Agreement (NAFTA)—the 1994 deal that Trump routinely castigates as the worst deal in U.S. history. In the end, the USMCA looks a lot like NAFTA, but Trump will get to take victory laps at his 2020 campaign rallies for delivering on his promise to rename kill NAFTA.

It's a win for Democrats too. Though some might be surprised that Pelosi announced this deal with the White House on the same day that the House of Representatives outlined plans to officially charge Trump with abuse of power and obstruction of Congress, it actually makes a lot of sense. She's sending the message that Democrats aren't obsessed with impeachment—as some on the right have claimed—and that Congress will continue to do other important legislative work even as the impeachment process continues.

Loser: Free trade

On the whole, the USMCA is an agreement that will increase barriers to trade across North American borders and will impose more managed trade. All trade deals are a form of managed trade, of course, but relative to the standards set by NAFTA, the USMCA seems like a step backward.

The main way the USMCA reduces free trade is in the so-called "rules of origin" that will apply to cars built in North America. In order to cross borders tariff-free, 75 percent of the value of materials within a car or truck will have to be produced in North America. Additionally, 40 percent of the steel used in auto production will have to come from U.S. steel plants. The deal also gives the U.S. government the ability to impose quotas on imported cars from Canada and Mexico. That combination of protectionism and increased federal power over the decisions of private businesses is a major black mark against the deal.

Winner: The AFL-CIO

Take a step back and appreciate how deeply weird it is that the AFL-CIO has endorsed the rewritten USMCA. Labor unions *never* support trade deals. Ever. The AFL-CIO opposed both NAFTA and the Trans-Pacific Partnership (TPP), the ill-fated 12-nation deal the Obama administration tried to strike—and both of those agreements were the product of Democratic administrations.

The AFL-CIO appears to have had a significant hand in making last-minute changes to the bill, as Pelosi on Tuesday specifically (and repeatedly) thanked Richard Trumka, the union federation's president, or his input. The final version of the deal will allow stricter enforcement of labor standards in Mexico, "including a process that allows for the inspections of factories and facilities that are not living up to their obligations," the AFL-CIO said in a statement.

Loser: Manufacturers operating in Mexico (and maybe here, too)

The intended consequence of several components of the USMCA is to encourage businesses to shift production from Mexico into the United States. That's why the Trump administration has pushed for the heightened rules of origin requirements and new rules that effectively hike the minimum wage to \$16 per hour in Mexican auto plants. More accurately, they are intended to make Mexico a less attractive option for manufacturing by imposing higher costs on businesses that manufacture goods in Mexico and setting up additional barriers to bringing those goods into the United States.

But the *unintended* consequence of those new rules might be a reduction in manufacturing across all of North America. When it comes to cars, for example, companies might find it cheaper to simply pay the 2.5 percent import tax rather than comply with the new standards to be able to trade duty-free. "You start thinking very carefully about whether it makes sense to do all your production in Asia, or in Latin America, or outside the region," says Dan Ikenson, director of trade policy studies at the Cato Institute, a libertarian think tank.

Winner: America's reputation

A breakthrough in securing passage of the USMCA through Congress means stability in North America, where Trump's election threw open the possibility of tearing up NAFTA. That would have been a disaster, since the mere existence of NAFTA boosts the U.S. economy by about 0.5 percent per year.

It also makes the next trade deal easier. "The best argument for the agreement remains that its failure will further erode U.S. credibility as a trading partner," says Clark Packard, trade counsel for the R Street Institute, a free market think tank. "If USMCA fails, that would make two agreements in a row that failed to be passed by Congress [after the TPP]. Why would other countries want to engage in trade talks with a party who has proven itself incapable of passing agreements that are negotiated?"

Loser: Congress's anti-tech crusaders

A bipartisan group of lawmakers had pushed Pelosi to revoke a part of the USMCA meant to protect online free speech across national borders. As *Reason* has previously reported, those members of Congress were worried that enshrining liability protections for online platforms into trade deals would make it more difficult to strip away those same protections domestically.

Thankfully, that didn't happen. Asked about it at Tuesday's press conference, Pelosi said she did not want to add more issues to the negotiations, which were already bogged down by debates over labor standards, environmental rules, and enforcement mechanisms. That's certainly not going to put an end to Congress' misguided effort to strip away online free speech protections, but it's a small victory for liberalism in the midst of a larger fight.