Managed Trade: USMCA Comes into Effect Today

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July 1, 2020

The United States-Mexico-Canada Agreement (USMCA) comes into effect today. It replaces the North American Free Trade Agreement (NAFTA) of 1994. USMCA's policy changes are modest, and its economic impact will be small. But it sets a negative precedent for future trade agreements that could have far larger long-term impacts than USMCA itself. Most of its changes also attempt to manage trade, rather than free it. These factors led CEI to oppose USMCA in December 2019.

Some USMCA policy changes are positive, such as a partial liberalization of Canada's dairy markets. More than half of USMCA's text is drawn verbatim from the Trans-Pacific Partnership (TPP) that the Trump administration unwisely withdrew from early in its term. My colleague Patrick Hedger wrote about Section 230-style language that will benefit free speech while making all three member countries' tech industries more competitive.

Other changes are negative. The U.S. essentially dictated to Mexico what some of its labor policies shall be. Not only is this disrespectful to Mexico's sovereignty, but it is essentially a gift to U.S. labor union interests, and will make autos more expensive for consumers. Auto parts makers' supply networks, which have built up over decades, will have to be reconfigured to meet USMCA's requirements for what percentage of parts must come from which countries. But those are smaller potatoes. There are larger ones.

USMCA's name does not contain the words "free" or "trade." This is symbolism, but also important. President Trump is a longstanding critic of free trade, and hired his policy advisers accordingly. Their removal of the F from NAFTA accurately reflects their policy goals. They would rather manage trade than free it.

Nor is their planners' ethos confined to USMCA. The China Phase One deal goes so far as to outline minimum dollar amounts for how much agricultural exports U.S. farmers are to send to China, for example. Of course, the administration's economic planners could not foresee the COVID crisis. Their quotas are now unlikely to be met even in a best-case scenario, which is causing avoidable diplomatic tensions; the best-laid plans and all that. Some USMCA plans have similarly been thrown off by the pandemic. Supply networks were already rushing to meet USMCA's country-of-origin requirements. The last few months of lockdown have made the adjustments even more difficult.

USMCA's missing T, which in NAFTA stood for Trade, is also significant. It belies mission creep. Trade agreements should stick to trade. USMCA emphatically does not. USMCA's trade-unrelated provisions include environmental policies, labor policies, intellectual property rules, currency policy, pharmaceutical regulations, and more. Trade-unrelated provisions inflate page counts, create unnecessary areas of contention, prolong negotiations, distract from the matter at hand, and create new rent-seeking opportunities.

The original NAFTA was the first major trade agreement to contain significant trade-unrelated provisions, and deserves criticism on that front. But at least they were shunted off into a side agreement. USMCA bakes its trade-unrelated provisions into the main agreement. The U.S., Canada, and Mexico already enjoy a near-zero tariff relationship, and relatively low non-tariff barriers. Without much left for USMCA to accomplish on trade, non-trade issues are no longer a sideshow. They *are* the show.

While USMCA is comparatively low stakes and will have minimum economic impact, it sets a negative precedent for upcoming agreements with the, European Union, and China. Relations with the EU have been tense for some time, especially over Boeing and Airbus subsidies. Any further China agreements will be delicate, both because of the COVID lockdown affecting Phase One compliance and President Trump's reelection concerns apparently influencing his negotiations.

Haggling over non-core trade issues could potentially torpedo those agreements, or dilute liberalization victories for tariffs and other trade barriers. USMCA itself is not particularly harmful. But the precedent it sets might be.

For a more constructive approach to trade policy, see Iain Murray's and my paper "Traders of the Lost Ark." For a better approach to trade agreements, see "The Ideal U.S.-U.K Free Trade Agreement," put together by consortium of groups in the U.S. and U.K., headed by the Cato Institute's Dan Ikenson and Simon Lester, and the Initiative for Free Trade's Daniel Hannan.