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Details of U.S., Mexico, Canada Trade Agreement

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The United States, Mexico, and Canada have come to an agreement on NAFTA 2.0, now dubbed “USMCA,” relieving trade uncertainty of several months after President Trump threatened to pull out of the agreement last April. The President lauded the new deal, calling it a “great deal for all three countries” that solves the “deficiencies and mistakes in NAFTA” and will “bring all three great nations in competition with the rest of the world.”

Ildelfonso Guajardo, the Secretary of Economy for Mexico, called the agreement a great day for the North American Region and emphasized that President Trump achieved some of his goals but in the end, “we won it all” because the agreement was preserved. Prime Minister Justin Trudeau of Canada also emphasized the positives of the agreement saying, “[the agreement] we reached today is good for Canada, good for Canadian business, and most importantly, good for Canadian workers and their families.”

The agreement includes lengthening the patent life for US Drugs in Canada from eight to ten years, a win for US pharmaceutical companies. The US will also have greater access to the Canadian Dairy markets; AEI estimates that this provision will increase US dairy exports by a few hundred million in what is otherwise a \$700B trading partnership. The agreement will spare automakers from tariffs on cars imported from Mexico and Canada.

Shares of American automakers traded marginally higher following this announcement. USMCA also contains provisions replicating chapters that were once part of the Trans-Pacific Partnership with regard to rules on the new digital economy and goes even further by banning requirements of countries forcing global banks to keep servers in the countries in which they do business. The three countries also agreed to meet every six years to decide whether they agree to renew the pact.

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The Cato Institute’s Scott Lincicome posted a twitter thread highlighting his perceived positives and negatives of the agreement including the victory of pro-trade/globalization forces over populist forces as well as a much-needed modernization of the agreement to include “relatively uncontroversial modernization chapters on SME’s, e-Commerce, non-tariff barriers, etc.”

The negatives he points out include added regulation such as “Rules of Origin” that require a high level of steel/aluminum purchases and high wage labor as well as the maintaining of the President’s Steel/Aluminum “National Security Tariffs” and the tariffs placed by Mexico and Canada in retaliation.

A POLITICO article discusses a “sleeper clause” that implies the agreement is a western trade alliance against China. The clause requires that any country within the pact must give three-month notice to the other parties if they are to enter any trade negotiations with a non-market economy, such as China. If a country were to enter an agreement with China, the other parties have a right to terminate the deal and form a bilateral agreement.

POLITICO writes that this provision is expected to be a consistent part of future US Trade Deals, aimed at hemming the influence of China and to push China to the negotiating table. White House National Economic Director Larry Kudlow said the deal shows “the continent as a whole now stands united against what I’m going to call unfair trade practices by you know who – it starts with a C and ends with an A.”