

Liberty Nation

Born On The First Of July – The USMCA Comes To Life

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The United States Mexico Canada Agreement ([USMCA](#)) was three years in the making, and now the trilateral trade deal comes into effect. In one of President Donald Trump's most significant victories of his tumultuous tenure, the USMCA will officially replace the North American Free Trade Agreement (NAFTA), which he repeatedly described as "the worst trade deal ever made." Now that USMCA becomes the law of the economic land and a framework for companies to comply with, it would be an opportune time to assess the three-nation pact. Will North America look back in 16 years and declare that this was the gold standard of trade deals? Or will we gripe about the 1,800-page agreement?

Significant Differences

The critical question on everyone's mind is: What are the significant differences between the USMCA and NAFTA? The thing to remember is that the Trump administration's efforts did not result in entirely scrapping NAFTA. Indeed, much of NAFTA remains intact. You could say that USMCA operates as more of an update by bringing it into the 21st century. A lot has changed since former President Bill Clinton first signed the landmark deal in December 1993. That said, what can you anticipate moving forward?

Made In North America

In a move that was more of a swipe against China and other Asian economic powerhouses, USMCA mandates that automobiles must have 75% of their components manufactured on the continent. This is up from 62.5% under NAFTA. By doing this, manufacturers will qualify for zero tariffs when crossing borders. The other important factor is that negotiators agreed to require at least 40% of a car or truck's components be produced by workers earning \$16 per hour, which is three times more than the average earning of Mexican auto workers.

Have A Cow, Man

Surprisingly, dairy was one of the more contentious issues during negotiations. Because the U.S. and Canada have maintained protectionist policies for their dairy industry for many years, both countries had to engage in a bit of give-and-take. Under the USMCA's provisions, Canada relaxes many of its restrictions on imported dairy, such as allowing more American milk and butter to enter Canada duty-free. The U.S. would reciprocate.

Intellectual Property

The global economy has transformed over the last quarter-century, causing many rules and regulations to become outdated. The USMCA aimed to rectify this by adopting stronger

protections for patents and trademarks, expanding digital trade and investment in goods and services, and extending copyright terms from 50 to 70 years following an author's death.

Save The Planet

Then-Foreign Affairs Minister Chrystia Freeland was an integral force in making the environment and social justice crucial functions of the USMCA. Officials agreed to impose stricter environmental standards for automobile manufacturing, fishing, forestry, and plastics.

After The Sunset

Although Prime Minister Justin Trudeau was initially opposed to the idea of a sunset clause, leaders eventually agreed to add it into the USMCA. The deal will remain in effect for 16 years. After that period is over, the nations can revisit, renegotiate, or withdraw from the USMCA. However, after six years, the USMCA'S terms can be revisited or even extended.

De Minimis

The USMCA raises the threshold that low-value products can enter each country:

- **United States:** Up to \$800 duty-free (the U.S. could reduce its de minimis threshold if another party lowers its).
- **Canada:** \$150 for customs duties and \$40 for taxes.
- **Mexico:** \$117 for customs duties and \$50 for taxes.

A Loonie, A Buck, A Peso

The USMCA prohibits the Federal Reserve, the Bank of Canada, and the Bank of Mexico from using currency devaluation as a strategy to attain a competitive advantage in international trade. But would any of these three central banks ever concede to currency debasement?

The Birth Of NAFTA 2.0

That “giant sucking sound” south of the border led to the birth of the USMCA. President Trump left off where Ross Perot began, making it a chief tenet of his 2016 campaign. None of his predecessors had even entertained the idea of taking another look at NAFTA, preferring the status quo and not poking the bear. But while the president failed to overhaul trilateral trade, the USMCA might be viewed as an upgrade from NAFTA. It had bipartisan support in Congress, the labor unions seem to be happy, and free-market advocates are content that at least it does not abolish or restrict cross-border commerce

So, after tense discussions and a couple of revisions, the USMCA was born. Will we witness a new era of prosperity or a continuation of central planning?

What Do The Experts Say?

The Cato Institute, a libertarian-leaning public policy research organization, provided some incredible insight into the USMCA. A white paper listed a few elements that had its academics concerned.

The first is that the deal discourages USMCA parties from negotiating trade agreements with non-market economies. This was supposed to be another swipe at China. While Cato does not think it will lead to much, it could establish a worrying precedent.

Cato was not pleased with the North American origin provision. It argued that the USMCA removes a lot of the free trade aspects that could have unintended consequences.

“This is the part of the USMCA that takes a lot of the free trade out of the North American Free Trade Agreement. The specific impact will depend on how the provisions are implemented, which is likely to involve a big fight among various interest groups. It could also lead to the auto supply chain being significantly scaled back, with companies retaining the option of simply paying the 2.5% most-favored-nation tariff for cars instead of complying with the more stringent USMCA rules. At any rate, we can expect auto production costs to increase.”

Although it ultimately views the sunset clause as harmless, Cato warns that it politicizes the negotiating process by transferring trade agreements from Congress to the White House.

“This unnecessarily politicizes the process as well, and leaves the future of the agreement to the whims of whoever is in the White House. Some of the negative impacts of this clause could be alleviated by giving Congress a role in the process,” Cato wrote.

In the end, the think tank avers that the USMCA is “a mixed bag.”

The Peterson Institute for International Economics (PIIE) took it one step further: The non-partisan think tank contends that the USMCA introduces new trade protections that could constrain economic growth. It identified the new rules of origin and changes to pharmaceutical patent rules as some of the threats to the U.S. economy. PIIE also sounded the alarm that the labor improvements lack proper enforcement, and the environmental standards fail to address climate change.

Ron Paul, a former congressman and three-time presidential candidate, opined at the Mises Institute that the USMCA has more to do with central planning than free trade. But he argued that the agreement is more a symptom of the greater problem: “We must work to stop the government from trying to control our economic activities through regulations, taxes, and (most importantly) control of the currency through central banking and legal tender laws.”

Free Trade Or Central Planning?

For free-market fetishists, the USMCA is yet another treaty that centrally plans the economy, extends the cronyism, and results in additional bureaucratic interventions to justify the trade representatives’ work in the last couple of years. The best thing you can say about the USMCA is at least there will be trilateral trade, and none of the participants will be shutting their borders. Is that the objective of trade agreements these days? If so, that is a low bar to possess, and even The Squad could not mess up negotiations and implementation. Who knows what we will say in 16 years? Perhaps in four election cycles, a presidential candidate will declare to the world that the USMCA is the worst trade deal ever signed, resulting in the same back-and-forth discussions between the three amigos. Will Rep. Alexandria Ocasio-Cortez (D-NY) be the 2036 presidential hopeful?