NATIONAL REVIEW

NAFTA 2.0: The Best, the Good, the Ugly, and the Ugliest

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So here it is, we have a deal: a renegotiated NAFTA. It is now called "USMCA," but we will see if this new name will stick since the text of of the deal itself refers to NAFTA. Trade experts are still diving into the details of the deal, but here's a few things worth noting.

The Best: We have a deal. This fact alone removes the great uncertainty brought on by the trade war started by the president over NAFTA. That war created self-inflicted uncertainty chaos — which is much reduced by the new deal.

I get the argument that this was unnecessary — that we shot ourselves in the foot to produce a deal where the negatives outweigh the positives, a deal that's mostly cosmetic changes from the original NAFTA, and that these changes were already included in TPP (since it included some NAFTA updates) without the constraints on China and the benefit of a united front.

All that's true, of course. However, the correct comparison point for this deal in not NAFTA in a pre-Trump America. It is America with Trump in the White House having withdrawn from TPP, constantly threatened to withdraw from NAFTA, and imposing tariffs left and right on our trading partners. In short, we are better off with a deal than no deal.

The Good: Even though the deal leaves in place many of the existing protectionist policies that are part of the original NAFTA, there is in this new deal some trade liberalization. These concessions are small, but they are real. The Cato Institute's Scott Lincicome calculates that Canada agreed to open its dairy market by 0.34 percent. According to USTR, that's in exchange for the United States providing "new access to Canada for dairy, peanuts, processed peanut products, and a limited amount of sugar and sugar containing products."

This is the moment when I remind people that, on the tariff front, there wasn't much room for progress. According to World Trade Organization data, under NAFTA, all U.S. exports to Mexico faced tariffs of zero percent. In addition, all non-agricultural U.S. exports to Canada entered that country duty-free. And despite all the talk about that pesky 270 percent Canadian tariff on U.S. dairy products, 97 percent of U.S. agricultural exports to Canada were duty-free.

Another good change is the increase in the *de minimis* thresholds. For an explanation of what this is and why it matters see this and this by my colleague Christine McDaniel.

NAFTA was over 20 years old and needed a small face lift. This new deal provides some of it in the area of e-commerce and non-tariff barriers. So that's good too.

Finally, the Trump administration gave up on its worst demands, including one for a minimum of 50 percent mandatory U.S. content to benefit from the new NAFTA duty-free treatment, a ban on student visas for Chinese nationals and an every-five-year sunset clause. If the U.S. hadn't dropped these poison pills, I doubt we would have had this new deal. Let's all be grateful for the willingness to compromise on the part of the U.S. trade negotiators.

As I said, many of the good reforms were already in TPP.

The Ugly: The deal leaves in place the metal tariffs. As a result, retaliatory tariffs from Canada and Mexico are also staying up. Thus, in spite of the tiny trade-liberalization measures in the deal, tariffs overall remain significantly higher than they were before president Trump started "negotiating."

Canada and the U.S. are negotiating to lift these tariffs, but there's a reason that isn't going too well: Our alleged free-trader president is demanding that Canada agree to quotas or voluntary export restraints.

While, thankfully, the threat of bogus national-security auto tariffs has been seriously reduced in this deal, it is deeply unfortunate that automobiles were not completely exempted from tariffs, as some observer had hoped.

The Ugliest: The auto section of the deal is not as bad as what the Trump administration had hoped for, but it is still really ugly. For automobiles to enter the U.S. duty-free from North America, at least 75 percent of their content must originate in the U.S., Mexico, and Canada, up from the current 62.5 percent. It doesn't take a rocket scientist to understand that this requirement will increase the price that Americans pay for automobiles.

The president is overselling the impact that this new deal will have on jobs and supply chains. The decline of manufacturing jobs long predates NAFTA. This decline is mostly the result of labor-saving innovations, which make labor more productive and wages grow. A look at the decline in manufacturing employment shows no signs of having accelerated or slowed as a result of NAFTA. Therefore, this new deal will not change this trend.

In addition, raising the cost of producing cars in the U.S. is hardly a sure-fire recipe for more jobs: Some auto producers might change their supply chains to conform to the deal, but others might decide instead to pay the current 2.5 percent tariffs on imported parts. Either way, the resulting higher production costs — and higher prices in showrooms — will put downward pressure on auto production.

Finally, and more shocking to me, is the cheerleading about tying duty-free treatment of automobiles to the requirement that at least 40 percent of each vehicle be produced by workers paid at least $16 per hour. This requirement imposes yet another cost hike on car manufacturers. I get that the administration believes that this provision will benefit American workers by making foreign workers less attractive to producers.

But I ask: Isn't it suspicious that the left-winger Trudeau and the right-winger Trump both like this measure? The unions also dig it. Also, imagine the uproar among American conservatives if Democrats had proposed a federal increase of the minimum wage to $16. They would scream bloody murder and argue, correctly, that this mandated wage hike is a self-destructive distortion of the labor market, and one that unnecessarily raises American firms' production costs. And yet many Trump supporters applaud this imposition, presumably because it is inflicted only on Mexican workers. It worth noting that it will afflict automakers in American using Mexican parts or forced to switch to more costly American or Canadian parts. Trump supporters forget that American firm' production costs will still unnecessarily rise.

Mark my word: This provision will increase consumer costs of buying cars, reduce the U.S. automobile industry's competitiveness, and increase the off-shoring of some sectors of the auto industry.

There is much more to say on each section listed here. I commend following Scott Lincicome, Bryan Riley, Chad Bown, and Clark Packard for more details.

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