**Is the USMCA an improvement of NAFTA? If so, how, if not, why?**

 Daniela Piperno

 2021 NCBFAA Annual Scholarship

February 26, 2021

An important characteristic of today’s world economy is the increasing regional economic integration. The North American Free Trade Agreement (NAFTA) was signed by leaders of Canada, the United States, and Mexico in 1993 and was ratified by Congress in early 1994. NAFTA states that the objectives of these three countries are based on the principles of an unimpeded flow of goods, most favored nation status, and a commitment to enhance the cross-border movement of goods and services. Most favored nation status provides the lowest duties or customs fees and simplifies the paperwork required to move goods between the partner countries. A major purpose of NAFTA was to create a better trading environment, including the redesign and improvement of information systems and documentation to expedite the border crossings and the flow of commerce.

On November 30, 2018, United States, Mexican, and Canadian leaders signed the United States–Mexico–Canada Agreement (USMCA), which was a renegotiation and replacement of NAFTA. The agreement has been characterized by some as "NAFTA 2.0," or "New NAFTA" since many provisions from NAFTA were incorporated and its changes were seen as largely incremental. Two notable incremental changes observed in the USMCA include content requirements as well as labor and environmental changes.

Renegotiations "focused largely on auto exports, [steel and aluminum tariffs](https://en.m.wikipedia.org/wiki/Trump_tariffs#Steel_and_aluminum), and the dairy, egg, and poultry markets." Compared to NAFTA, USMCA increases environmental and working regulations, and incentivizes more domestic production of cars and trucks. Of particular interest to the metal casting industry are the new rules under USMCA which require 75 percent of auto content for passenger vehicles and light trucks be made in North America, compared with NAFTA’s 62.5 percent. Furthermore, the USMCA also establishes content requirements for parts for vehicles. For example, the regional value content (RVC) for core parts for use in passenger vehicles and light trucks will rise to 75 percent and 85 percent by 2023. In contrast, the RVC requirements for principal parts for use in heavy trucks will increase to 70 percent and 80 percent by 2027.

In addition to the general content changes for vehicles and parts, the USMCA also imposes new content requirements relating to the steel and aluminum that is used in vehicles. Specifically, the USMCA requires that 70 percent of a vehicles steel and aluminum must originate in North America and that the steel must be melted and poured within North America to be deemed to be originating from there. As is the case for the general content requirements for motor vehicles, there is a phase-in approach for the content requirements relating to steel and aluminum. The goal of the new deal is to have more cars and truck parts made in North America. Starting in 2020, to qualify for zero tariffs, a car or truck must have 75 percent of its components manufactured in Canada, Mexico or the United States, a substantial boost from the current 62.5 percent requirement.

The USMCA implements several labor, environmental, and pricing changes. For example, there is now a new rule that a significant percentage of the work done on the car must be completed by workers earning at least $16 an hour, or about three times what the typical Mexican auto worker makes. Starting in 2020, cars and trucks should have at least 30 percent of the work on the vehicle done by workers earning $16 an hour. That gradually moves up to 40 percent for cars by 2023.While many economists think these new rules will help some North American workers, they also warn that car prices might rise and some small cars may no longer be made in North America because they would be too expensive under the new requirements. There are also concerns that auto makers might not make as many cars in North America to export to China and elsewhere overseas because costs would be higher to make the vehicles in the USMCA region. The USMCA makes a number of significant upgrades to environmental and labor regulations, especially regarding Mexico. For example, USMCA stipulates that Mexico trucks that cross the border in the United States must meet higher safety regulations and that Mexican workers must have more ability to organize and form unions.

Some of the pricing changes in the USMCA include giving the United States more access to Canada’s complex dairy market to ensure Canadian dairy farmers don’t go bankrupt, the Canadian government restricts how much dairy can be produced in the country and how much foreign dairy can enter in order to keep milk prices high. In the end, Canada is keeping most of its complex system in place, but it is giving greater market share to U.S. dairy farmers. U.S. negotiators say they got a major victory by forcing Canada to eliminate the pricing scheme for what are known as Class 7 dairy products. That means U.S. dairy farmers can probably send a lot more milk protein concentrate, skim milk powder and infant formula to Canada because those products are relatively easy to transport and store and will no longer be subject to the pricing scheme.

The negotiating tactics and several features of the USMCA raise uncertainty about the future durability of the trade and investment arrangements. In institutional terms, the USMCA can be characterized as a progress from three partners to two bilateral under one institutional setting. The absence of the term “North America” from the name of the agreement underscores the sense that emerged from the negotiations that there is no “North America” in the sense of an integrated trade and investment bloc. Mexico could benefit from a higher North American content requirement for auto production if some current Chinese production is shifted to Mexico. Still, if the major threat to the U.S. economy in the future is China, a robust North American economy, which will be preserved by the USMCA, becomes critical.

The NAFTA and the USMCA uncovers new perspectives on modern trade. It shows that leaders of international trade will not merely seek free trade in their international agreements but will instead aim for more balanced trade arrangements. The trade balance mindset allows for free trade to unfold through duty free treatment while incorporating non-tariff requirements. The takeaway is that when the developing economies trade with developed economies, the developed economies aim to benefit the most from the developing economies’ resources their resources as we can see from the example of trade between the United States and Mexico. Thus, protectionism shall be reviewed, and seen not as impeding the trade flow with other economies but, rather as setting priorities to protect one's own interests and balancing them against each other’s. USMCA’s innovative provisions disrupt the traditional model of NAFTA, by setting measures to keep the NAFTA model evolving and relevant over time.

USMCA can be considered as an improved version of NAFTA, adapted to modern day trade reality and the ever changing social and economic landscape. It provides more certainly and clarity in comparison to provisions in NAFTA, but to a large extent is substantially similar. The new agreement inserts a number of innovative trade issues and provisions, which were not addressed before. Tellingly, these provisions may be helpful to understand in which direction international trade might evolve, as led by the dominant trade partner, the United States.

**References**

Jr, L. C. J., Novack, R. A., Gibson, B. J., & Coyle, J. J. (2021). *Supply chain management: a logistics perspective*. Cengage.

Laca, A.-L. (2018). *Nafta becomes usmca*. Farm Journal, 142(12), 12–12.

Long, H. (2018). Usmca: *who are the winners and losers of the ‘new nafta’?* The Washington

Post (Online), N/a.

Flores-Macías, G. A., & Sánchez-Talanquer, M. (2019). The political economy of nafta/usmca. *Oxford Research Encyclopedia of Politics*. https://doi.org/10.1093/acrefore/9780190228637.013.1662

Ciuriak, Dan, and Robert Fay. “The USMCA and Mexico’s Prospects under the New North American Trade Regime.” *SSRN Electronic Journal*, 2021, doi:10.2139/ssrn.3771338.

Soluyanov, A.A. "USMCA New Nafta Substitute TRADE Agreement: Differences and SIGNING HISTORY." *SCIENTIFIC DEVELOPMENT TRENDS AND EDUCATION* 53.3 (2019). Print.