New NAFTA's auto rules are a toxic elixir

By Jerry Haar

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In "The Art of the Deal," Donald Trump declares: “Leverage — don’t make deals without it.” His trade negotiators clearly followed this advice by successfully concluding the U.S.-Mexico-Canada Agreement (USMCA), a replacement of NAFTA that the president has railed against as “the worst trade agreement in history."

While such a claim is sheer nonsense, devoid of empirical facts, it nonetheless has served the president well in rallying his base.

As U.S. imports from Canada and Mexico comprise a far larger share of trade than exports to both countries, this gives the U.S. significant leverage in trade negotiations. Roughly 75 percent of Canada’s exports go to the U.S., and over 80 percent of Mexico’s do the same.

Meanwhile, Canada and Mexico combined account for more a little more than one-quarter of U.S. trade with the world.

NAFTA was created nearly 25 years ago. The world has changed a lot since then, both politically and economically; and the accord clearly needed to be tweaked, modified and, in some cases, revamped.

The new accord opens up the Canadian dairy market, contains a sunset clause and prominently addresses dispute resolution, investor protection, labor provisions, intellectual property rights and digital commerce — the last being absent altogether from NAFTA.

While there are many positive features contained in the USMCA, those chapters dealing with the auto sector are a toxic elixir.

In addition to raising the North American content requirement for duty-free treatment from 62.5 percent to 75 percent on autos and trucks, the U.S. ham-handedly mandated that 40-45 percent of the content of goods must be made by workers earning at least $16 per hour.

Imagine if the German and Swiss governments imposed the same mandates on the U.S. operations of Mercedes-Benz and Schindler Elevators, respectively, where manufacturing worker wage rates in the home country are double.

Such policy stupidity is more akin to socialism than the free-market policies that formed the cornerstone of the GOP's economic philosophy prior to Trumpism.

Recognizably, during the last 15 years, the U.S. share of the global car and truck market has declined by 50 percent. But the new mandate will increase the cost of cars and trucks.

Mexico will find it harder to sell cars in the U.S, and the pact could result in U.S. carmakers shifting production to Japan, Korea or elsewhere outside North America. They may find it cheaper to pay a 2.5-percent tariff than adhering to USMCA rules.

Two other anti-free market features of the USMCA deal include emergency tariffs and negotiations with third parties.

In the first instance, the accords give the U.S. the right to impose emergency tariffs of up to 25 percent on cars and car parts on grounds of “national security." Presumably, a shortage of U.S.-made spark plugs, rearview mirrors and cup holders are as great a threat to the nation as Russian hackers and terrorist cells.

In the second case, the USMCA requires signatories to give partners three months’ notice if they launch negotiations with a non-market economy. This means that if Canada or Mexico enters talks with China, they can be excluded from the USMCA by the U.S. This absurdity is nothing less than an extraterritorial violation of national sovereignty.

Bullying our allies and trading partners yet thinking they will eagerly cooperate and support us in other arenas of foreign policy such as security, anti-terrorism, immigration and anti-drug trafficking is the height of arrogance and delusion.

The USMCA recasts the $1.2 trillion North American trade relationship as a mélange of the old and the new (yet to be proven). As Jeff Schott of the Peterson Institute for International Economics has astutely observed, the USMCA is the first free trade agreement that raises barriers to trade and investment.

As to the accord’s impact on the nation’s trade deficit that the president continually harangues about, the effect will be minimal. On the positive side of the ledger, the core of NAFTA is left intact and Congress will not consider the agreement until 2019, with provisions not going into effect until 2020.

What has emerged now is a new template for trade deals, one in which the U.S. plays hardball; employs unconventional tactics; takes inconsistent positions; and pushes negotiating partners to the extreme before backing off to allow all parties to claim victory.

At the end of the day, signing an agreement is one thing; implementing it and gauging its impact are quite another. Stay tuned.

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