USMCA (formerly NAFTA):
UNITED STATES MEXICO CANADA AGREEMENT

What is USMCA?

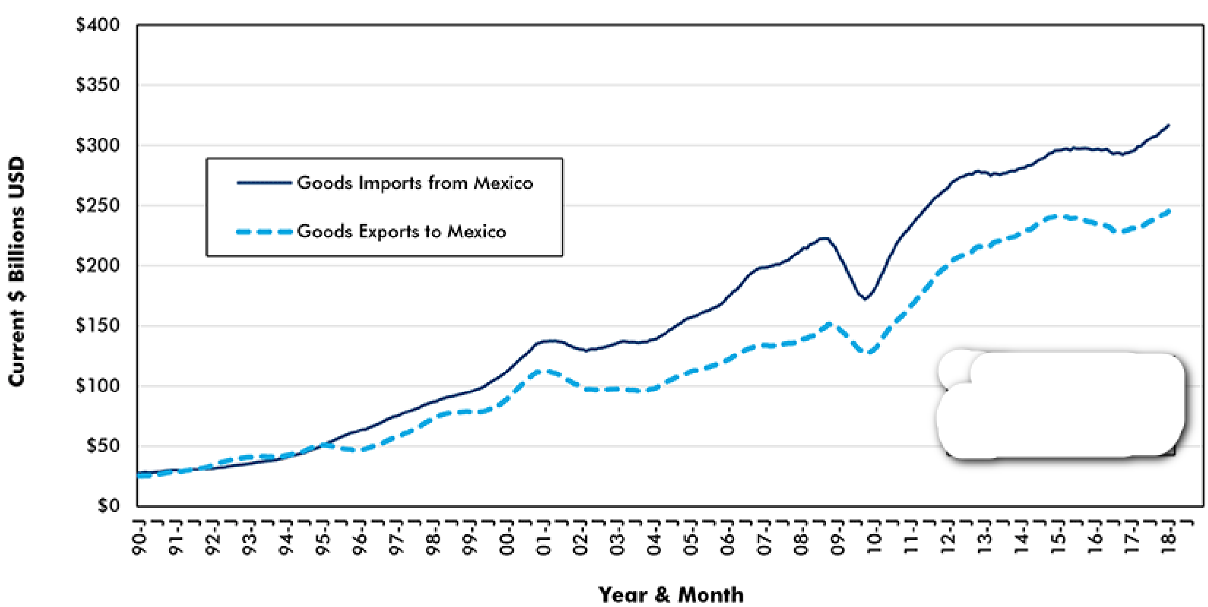
The USMCA is a renamed free trade agreement among the US, Mexico, and Canada that was originally termed NAFTA. NAFTA was put into effect January 1994, signed by U.S. president Bill Clinton, Mexican president Carlos Salinas, and Canadian prime minister Jean Chrétien. The main idea of the agreement was to eliminate most tariffs on products traded among the United States, Mexico, and Canada.

There was much opposition to NAFTA in the US. Ross Perot, who ran for President of the US in the 1992 election (and got 19% of the popular vote), complained of a "giant sucking sound" of jobs flowing from the US to Mexico as a result of NAFTA. But in the years before NAFTA, US unemployment averaged 7%; by 1996, it had fallen to 5%. US unemployment continued to fall to just under 4% by 2000. So much for that giant sucking sound.

NAFTA was supposed to be the demise of the US automobile industry in particular. Representative David Bonior from Michigan complained that NAFTA "will destroy the auto industry." But even though US 1994 vehicle production peaked at 12.2 million, production still remained high until 1999, when US vehicle production attained a new high of 13 million. And the 2000 and 2002 production numbers were also higher than 1994 levels. And after dropping below 10 million during the Great Recession (from 2008 through 2011), 2016 levels were a healthy 12.2 million. Clearly the US auto industry didn't die from NAFTA.

The Broad Impact of NAFTA

You can see in the chart below, that US trade with Mexico has skyrocketed—from the $80 billion a year range in the early 1990s, to the $600 billion a year range in recent years.



After NAFTA was implemented in 1994, trade among the three partners more than quadrupled, from roughly $290 billion in 1993 to more than $1.3 trillion in 2017. In fact, in 2017, the $1.3 trillion in foreign trade (this counts imports and exports, goods and services) that the United States shares with Mexico and Canada, was more than US trade with the entire European Union ($1.16 trillion), and almost twice that of US trade with China ($711 billion).

One of the benefits of increased trade among the US, Canada, and Mexico, is the ability of all three nations to emphasize production on what each does best, and take advantage of what the other two nations do best. One illustration of this, is how each country often uses imports from the other two countries, when making their own products. Economists estimate that 40 percent of the content of U.S. imports from Mexico and 25 percent of the content of U.S. imports from Canada are actually of U.S. origin. In other words, imports from Mexico and Canada (that come into the United States) have a fair amount of "Made in the USA" material in them. The high amount of shared content in imports is very rare with US imports from other nations, as the shipping distances from the US to other nations are just too great to take advantage of this.

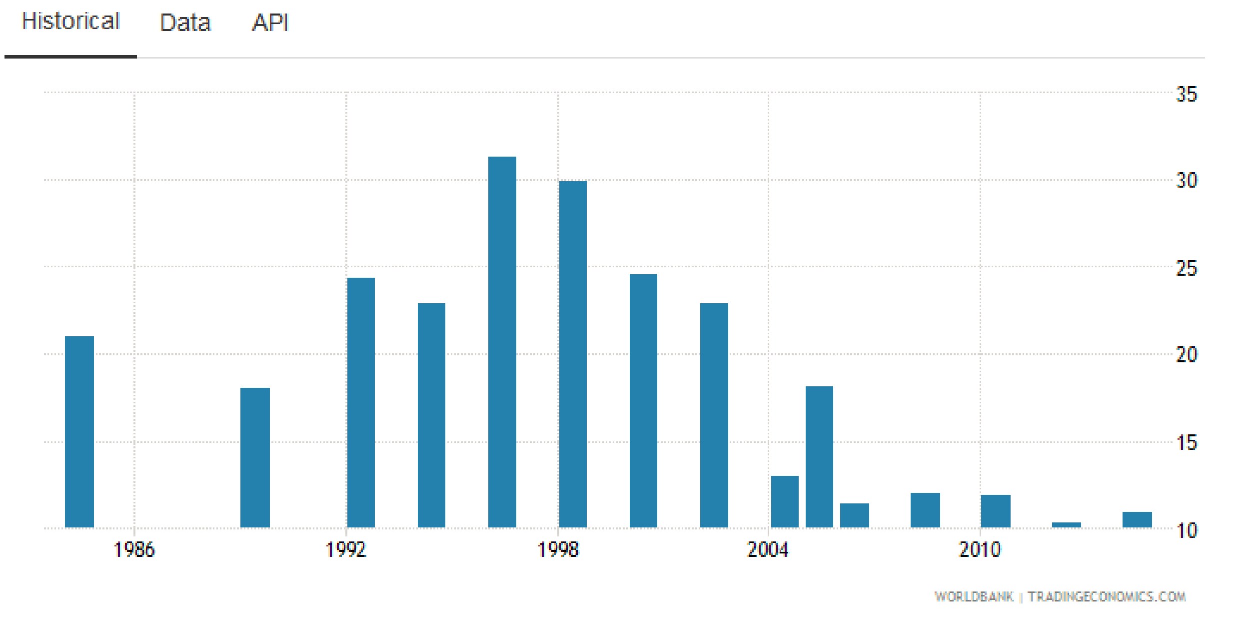
Supporters of NAFTA, and many economists, see a positive impact on U.S. employment and note that new export-related jobs in the United States pay 15 to 20 percent more on average than those focused on domestic production. For instance, for the years 2009-2011, US wages for workers in industries exporting to China paid an average of $873 per week, which was 10% higher than the average wage in a non-exporting industry, which averaged only $791 per week.[1]

Direct Impact on Mexico

The deal has led to a dramatic reduction in Mexican prices for clothes, televisions, and food, which helps offset slow income growth. GEA (*Grupo de Economistas y Asociados*), a Mexico City-based economic consulting firm, estimates that the cost of basic household goods in Mexico has been cut in half, since NAFTA's implementation. Mexican workers in the car manufacturing and aeronautics sectors of northern Mexico have benefited from the treaty and helped expand the country's manufacturing base.

The best way to gauge the impact of the increased trade between the United States and Mexico (the vast majority of USMCA trade is between the US and one of the two other nations—Mexico and Canada do very little direct trading with each other) is to look at World Bank poverty statistics. The World Bank poverty level concerns people whose standard of living is lower than $2 a day. This obviously deals with the poorest group in any society. The graph below shows the percentage of Mexicans living in extreme poverty. You can see that after the peso crisis of the mid 1990s, poverty in Mexico fell dramatically, and is now much lower than it was before NAFTA was signed in the early 1990s.

1 See https://www.epi.org/blog/less-than-half-the-truth-jobs-and-wages-in-export-industries/



Mexico has received much more foreign investment from the US than it was before NAFTA was signed. US direct investment in Mexico has increased from $17 billion in 1994, to $110 billion in 2017.[2] With increased foreign investment, exports, and imports, NAFTA helped economic growth in Mexico surge forward. From 1980 to 1993 (before NAFTA was implemented), Mexico's GDP rose an average of 2% a year. From 1996-2002, it rose 4% a year (before 1996, Mexico was suffering from an economic crisis).

USMCA continues NAFTA

Donald Trump pushed for a revision of NAFTA, which has been signed by all three countries in November 2018. In the main, it continues the free trade regime established by NAFTA, with some minor changes. The percentage of a car that had to be made in one of the three countries (to qualify for duty-free entry into the US) was increased from 62.5% to 75%. This provision will increase investment in factories in North America, because it will make it more difficult to make cars with a lot of foreign components. Also, by 2023, at least 40% of the car has to be made by laborers averaging $16 an hour (by way of comparison, the average US auto worker makes $22 an hour; the average auto worker in Mexico makes less than $3 an hour). These measures are also significant, because cars and car parts were a third of all Mexican imports into the United States in recent years. Mexico's President Andrés Manuel López Obrador said of the new deal: "A Mexican worker can make 10 times less than an auto worker in Canada or the United States…. This difference will be reduced bit by bit and this [agreement] is going to help Mexican workers." Other areas affected would be pharmaceutical companies, who will have longer to sell their drugs before facing competition from generics: Mexico extended this period of protection, from five to ten years (the US allows pharmaceuticals 12 years). Another new aspect of the USMCA is that Mexico has agreed to pass laws giving workers the right to real union representation.

2 Direct investment is the actual purchase or establishment of a business in another country. It is typically long term investment, and direct investment usually brings with it, technological progress and increased chances of exports.