

New free trade agreements in the age of Trump¹

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The role played by global trade in international relations has received a lot of attention over the last couple of years. Uncertainty has increased dramatically as a result of events such as the United States' withdrawal from the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP), as well as repeated US threats to increase tariffs on imports from China, the European Union and Mexico. Also, events such as 'Brexit' have helped fuel the rise of protectionism in many nations, increasing uncertainty about the future of global trade.

This article provides an overview of some of the changes in two major trade agreements since the election of US President Donald Trump: the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP).

TPP was set to become the world's largest free trade deal

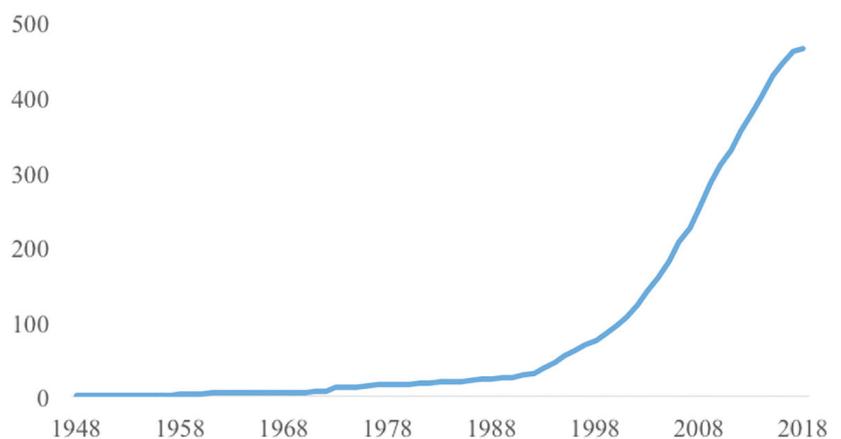


Source: www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp

TRADE AGREEMENTS

The number of regional trade agreements (RTAs) – defined as reciprocal trade agreements between two or more countries – has grown exponentially over the past three decades. Global trade in the 21st century has been characterised by the proliferation of RTAs. Figure 1 shows the number of RTAs notified to the General Agreement on Tariffs and Trade (GATT)/ World Trade Organization (WTO) between 1948 and 2018.² From fewer than 100 in the 1990s, there are now more than 450 active RTAs.³

Figure 1: Cumulative notifications of RTAs, 1948-2018



Source: <https://rtais.wto.org/UI/Charts.aspx#>

¹ The views expressed in this article are those of the authors. They do not necessarily reflect the views of the New Zealand Treasury.

² Partly in response to trade disruptions during the Great Depression, the US and some of its allies sought to impose order on trade flows after World War II. These countries met together to develop international agreements, such as the GATT, which was signed in 1947. From 1948 to 1994, the GATT provided the rules for much of world trade. In 1995, GATT was transformed into the WTO, which marked the biggest reform of international trade since World War II (www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm). The WTO is the only global international organisation dealing with the rules of trade between nations.

³ Detailed information on RTAs is available at www.wto.org/english/tratop_e/region_e/region_e.htm.

NORTH AMERICAN FREE TRADE AGREEMENT

On 1 January 1994, the North American Free Trade Agreement (NAFTA) was ratified between the US, Canada and Mexico. Under NAFTA, the parties progressively eliminated tariffs on imports of each other's goods. NAFTA created the world's largest free trade area, linking around 500 million people producing roughly US\$ 22.2 trillion worth of goods and services.⁴

Both before⁵ and after the 2016 US presidential election, Donald Trump dismissed NAFTA as "the worst trade deal ever made by any country in the world."⁶ He repeated the claim that thousands of US manufacturing firms were put out of business because of NAFTA.⁷

FROM NAFTA TO USMCA

In August 2017, the US began negotiations with Canada and Mexico for the first time since NAFTA's inception in 1994. Months of feverish negotiations and ongoing uncertainty yielded a new trade deal, known as the US-Mexico-Canada Agreement, or USMCA. These three countries agreed to replace NAFTA with USMCA at the G20 summit in Argentina on November 30, 2018.⁸

On that day, President Trump tweeted:

"Just signed one of the most important, and largest, Trade Deals in U.S. and World History. The United States, Mexico and Canada worked so well together in crafting this great document. The terrible NAFTA will soon be gone. The USMCA will be fantastic for all!"

Trump signs a new trade agreement with Mexico and Canada to replace NAFTA



Source: www.vox.com/2018/10/3/17930092/usmca-nafta-trump-trade-deal-explained

WHAT DID THE US GAIN FROM USMCA?

Although the new US-Mexico-Canada Agreement preserves many elements of its NAFTA predecessor, some changes were made, especially affecting the automobile sector (Hufbauer and Gliberman 2018). For example, North American rules of origin for autos and parts are now tightened.⁹

The US initially made a series of harsh demands, including raising the total North American content requirements from 62.5% to 85%, of which 50% had to be US content. Compromises were ultimately reached and the North American "regional value content" was raised from 62.5% to 75%.

In addition, 40% of the value of cars and 45% of the value of trucks must be contributed by assembly plants that pay wages of \$16 an hour or more. For Mexico, this is a serious challenge as typical auto industry wages in Mexico are around \$4 per hour (Gantz 2018). Higher domestic content requirements and an implicit minimum wage will likely increase the costs of producing autos in Mexico (Hufbauer and Gliberman 2018).

USMCA also brought changes to the dairy sector. For example, the Canadian market will be opened up for more American dairy products. Following the announcement, Canadian consumers expressed concerns over growth hormones used in US dairy production and responded by urging Canadians to buy local.¹⁰

According to University of Minnesota economist Tim Kehoe, the lower tariffs on US dairy imports "were meant to be a slap in the face of Mr Trudeau. To just embarrass him with the dairy lobby, which is pretty important in Canada, and to get nothing in return for Canada's concessions."¹¹

CONGRESSIONAL RATIFICATION OF USMCA

Although the US, Mexico and Canada have agreed to USMCA, NAFTA still remains in effect. USMCA won't take effect until it is approved by the legislatures of all three countries. Domestic processes towards USMCA's ratification and implementation will now take place.

Prospects for congressional ratification of USMCA dimmed after the Trump administration issued the latest threat by claiming that the president could invoke national security as the basis for imposing the tariffs.¹² It's unclear what the future holds for USMCA.

4 www.wto.org/english/tratop_e/tpr_e/g382_e.pdf

5 www.bloomberg.com/news/videos/2016-09-27/trump-nafta-is-worst-trade-deal-ever-signed

6 www.youtube.com/watch?v=s5h1BNw0qj0

7 Hufbauer and Gliberman (2018) list Trump's many anti-NAFTA statements and tweets, starting in 2015.

8 This link provides the full text of the agreement between the US, Mexico and Canada:

<https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement>

9 Rules of origin are the criteria needed to determine the national source of a product. Free-trade areas have complex rules of origin that specify what type of goods can be shipped duty-free within the free-trade area.

10 www.dairyglobal.net/Market-trends/Articles/2018/12/USMCA-and-its-effect-on-Canadas-dairy-industry-370079E

11 <https://cla.umn.edu/heller-hurwicz/news-events/news/economics-trade-agreements>

12 <https://piie.com/blogs/trade-investment-policy-watch/usmca-newly-jeopardized-was-never-free-trade-agreement>

TRANS-PACIFIC PARTNERSHIP

The Trans-Pacific Partnership (TPP) was a free trade agreement designed to liberalise trade and investment between 12 Pacific-rim countries: New Zealand, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, Singapore, the US and Vietnam.¹³

The finalised TPP Agreement was signed on 4 February 2016 following the conclusion of TPP negotiations in October 2015. After agreeing to TPP, which was not of itself legally binding, TPP signatories turned their focus to domestic processes necessary to ratify TPP. New Zealand ratified TPP in May 2017.

Even before formally announcing his candidacy, Trump was critical of TPP. On 22 April 2015, he tweeted: "The Trans-Pacific Partnership is an attack on America's business." During his 2016 presidential campaign, Trump told Americans he would end US participation in TPP.

After winning the election on 8 November 2016, President Trump shared an outline of some of his policy plans for the first 100 days¹⁴: "On trade, I'm going to issue a notification of intent to withdraw from the Trans-Pacific Partnership", and called the deal a "potential disaster for our country."

On just the third day of his presidency, President Trump signed an executive order withdrawing the US from TPP. "Great thing for the American worker, what we just did," President Trump said as he signed the order.¹⁵

FROM TPP TO CPTPP

When the US dropped out of TPP, it was widely viewed as the end of the partnership. However, the 11 remaining countries signed an amended agreement – now known as the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)¹⁶ – on 8 March 2018 in Chile.

Australia achieved domestic ratification of CPTPP on 30 December 2018. With Australia's ratification, CPTPP has met the threshold requirements to enter into force.



The changes to NAFTA and TPPA reflect a turbulent couple of years for global trade. Heightened trade policy uncertainty, and the rise of protectionist political parties in different areas of the world show that trade is at the forefront of many nations' agendas. The next couple of years are likely to bring many interesting developments to the global trade landscape.

QUESTIONS TO THINK ABOUT

1. Was NAFTA in need of renegotiation?
2. Can bilateral trade agreements help induce free trade?
3. What are the protectionist measures and can they have adverse consequences?
4. Is President Trump's protectionist mentality the right approach to boost growth in the US?

REFERENCES

Gantz, D. A. (2018), *The United States-Mexico-Canada Agreement: Overview and Analysis*, www.bakerinstitute.org/research/usmca-overview-and-analysis.

Hufbauer, G., Gliberman, S. (2018), *The United States-Mexico-Canada Agreement: Overview and Outlook*, <https://piie.com/system/files/documents/hufbauer201811-usmca.pdf>.

¹³ www.tpp.mfat.govt.nz

¹⁴ www.youtube.com/watch?v=7xX_KaStFT8

¹⁵ www.washingtonpost.com/business/economy/withdrawal-from-trans-pacific-partnership-shifts-us-role-in-world-economy/2017/01/23/05720df6-e1a6-11e6-a453-19ec4b3d09ba_story.html?utm_term=.30aad1e906d7

¹⁶ CPTPP is called *comprehensive* and *progressive* because it also includes commitments to safeguard and enforce high labour and environmental standards across the Asia-Pacific region.