Econ 340

Lecture 18
Preferential Trading Arrangements and the NAFTA

News: Nov 11-17

- Currency news -- FT: 11/12 | Canvas | WSJ: 11/13 | Canvas | WSJ: 11/14 | Canvas
  - Chile's peso fell nearly 5% to its lowest level in history on Nov 12, responding to widespread protests against the government. Protests were initially prompted by a 3% increase in metro fares that has since been suspended.
  - Sweden's krona continues to perform worse than most other major currencies. In response, Sweden's central bank will soon cease using negative interest rates.
  - Currencies of Latin America are continuing to depreciate. Chile's peso continued to slide, along with Colombia's peso, and Brazil's real. There are also concerns about the currencies of Argentina, Bolivia, and Mexico.
- China removes ban on US chicken -- WSJ: 11/14 | Canvas | AP: 11/14 | Reuters: 11/14
  - China banned imports of American poultry in 2015, following an outbreak of avian influenza. The US has now been free of avian influenza for over 2 years.
  - As part of the current China-US trade talks, China is now lifting the ban, effective immediately.
  - The US is now expected to export $1-2 billion of chicken, including $1 billion of chicken feet.
- Trade war effects -- FT: 11/10 | Canvas | FT: 11/12 | Canvas | WSJ: 11/13 | Canvas
  - Stock market prices world-wide have done worse for sectors most exposed to the trade war: cars, metals, technology, and telecoms.
  - US manufacturing has been hurt more than China's manufacturing. This is seen in the decline in the last year of the PMI (Purchasing Managers Index) in the US, while China's PMI has remained steady.
  - Particular markets have been disrupted. Most recently reported were: lobsters and bourbon. US lobster exports to China have been "hammered" by China's 25% tariff (but many lobsters now reach China through Canada). Kentucky bourbon has been hit by the EU's 25% tariff in retaliation for US tariffs on steel and aluminum.

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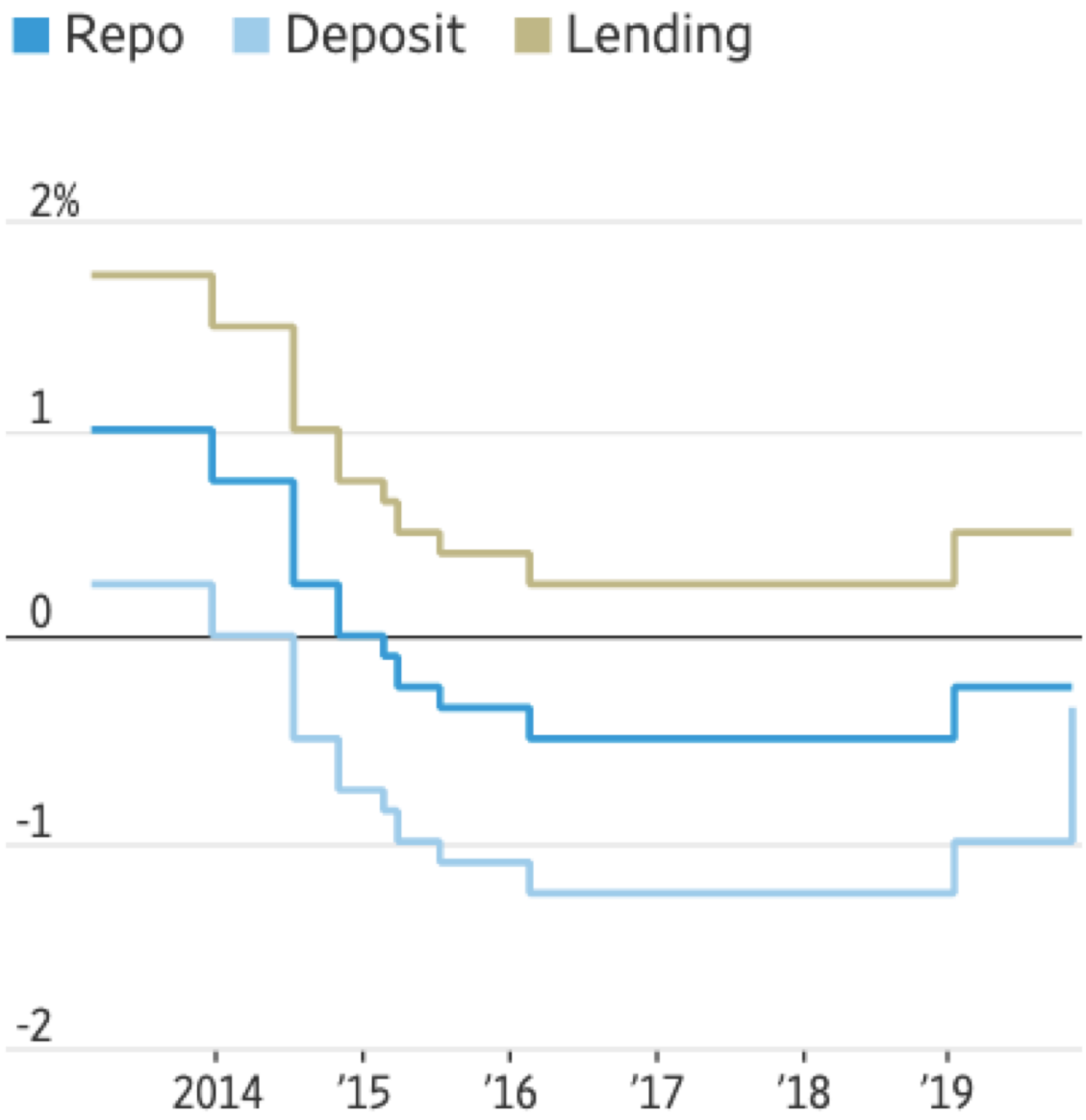
Chilean peso plummets to a record low
Pesos per $
660
680
700
720
740
760
780
800
May 19
Jun 19
Jul 19
Aug 19
Oct 19
Nov 19
Screenshot

Performance against the U.S. dollar

Source: Tullett Prebon

Slow Climb

Rates set by Sweden's Riksbank



Source: Riksbank

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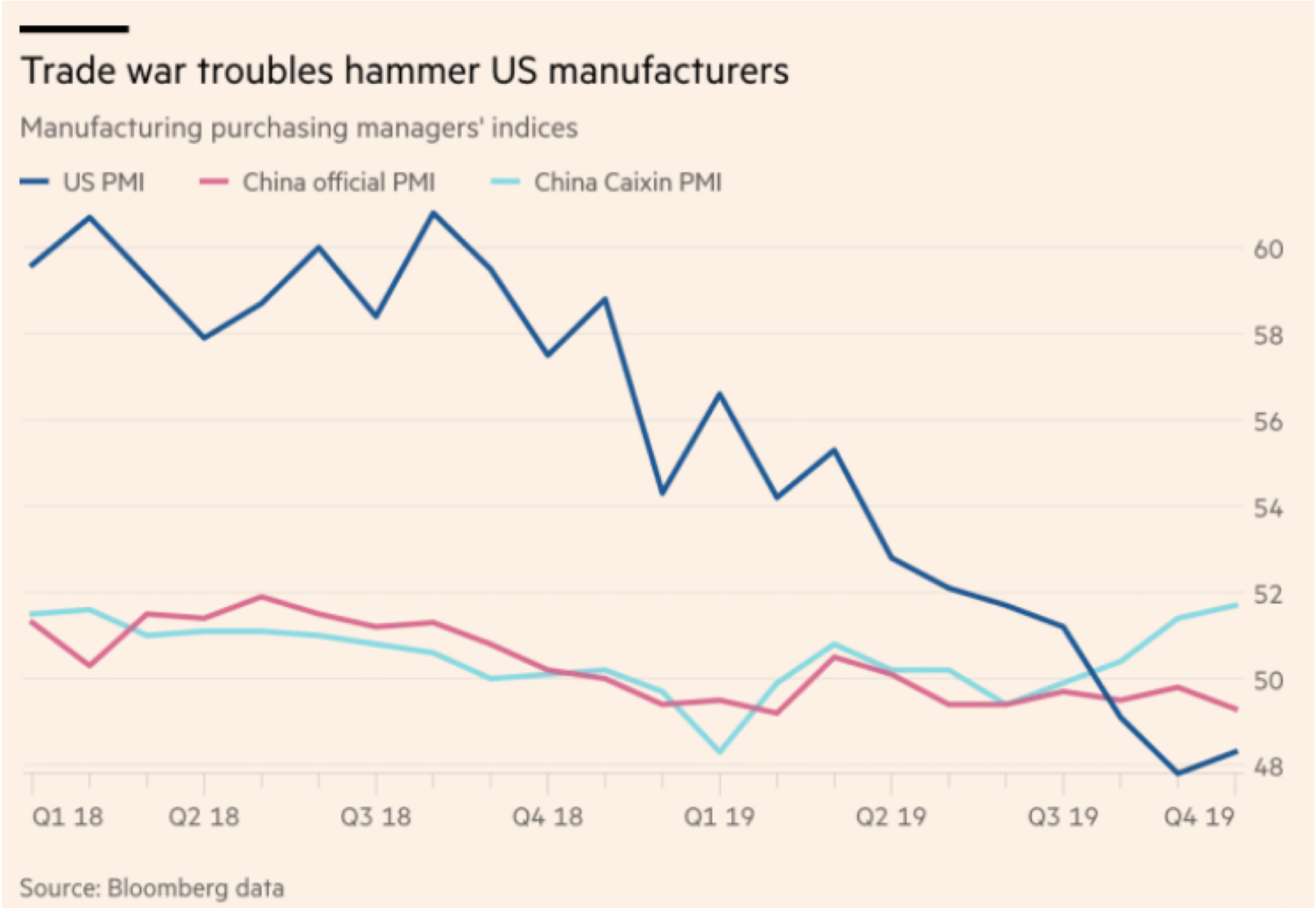
Global equities battered by four rounds of trade tariffs

World equity prices (rebased, Jan 1 2018=100)

Source: IMF

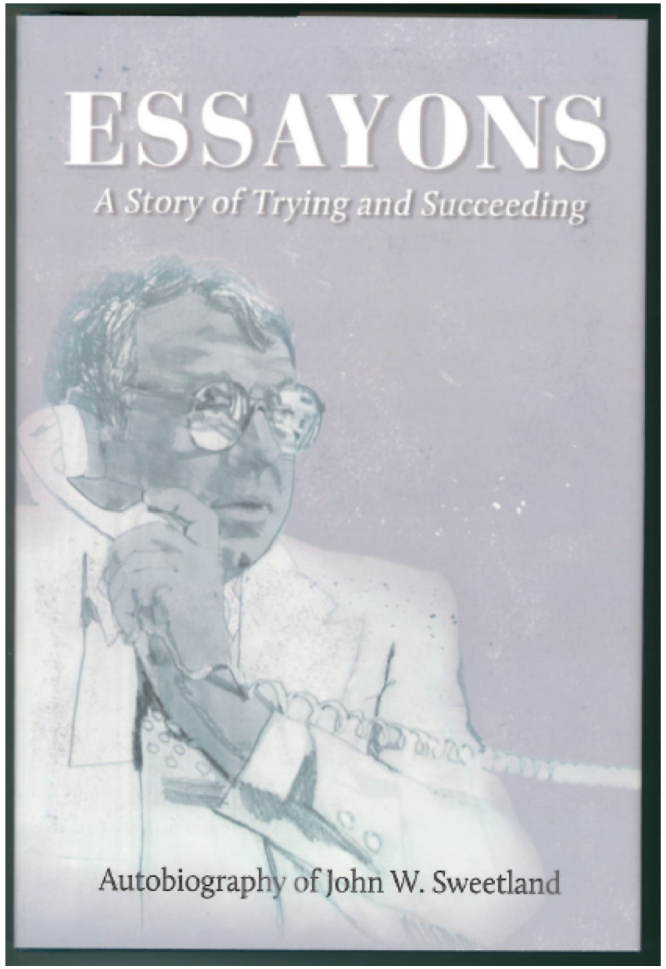
PTAS


Trade war troubles hammer US manufacturers
Manufacturing purchasing managers' indices
US PMI
China official PMI
China Caixin PMI
60
58
56
54
52
50
48
Q1 18
Q2 18
Q3 18
Q4 18
Q1 19
Q2 19
Q3 19
Q4 19
Source: Bloomberg data

PTAS

Announcement

- John Sweetland gave me several copies of his recent autobiography, to lend to any of you who would like to borrow it.
- If you are interested, email me or stop by my office.



Outline: Preferential Trading Arrangements and the NAFTA

- What Are PTAs?
- Examples
  - European Union (EU)
  - North American Free Trade Agreement (NAFTA)
- Effects of PTAs
  - Not the Same as Free Trade
    - Trade Creation
    - Trade Diversion
  - Market Diagram Illustration
- NAFTA
  - History
  - Analysis
  - What Happened?
- NAFTA Renegotiation and USMCA

What Are PTAs?

- A Preferential Trading Arrangement (PTA) is a trade policy that favors one country over another
  - Most obvious cases: Charge a lower, or zero, tariff on imports from one country while charging a higher tariff on imports from another
  - Also called a Regional Trade Agreement (RTA – the term used by the Gerber textbook and by the WTO) when a group of countries in a region do this with each other
    - Term is used even when the countries are not near each other

What Are PTAs?

- In WTO (and GATT), the MFN principle would prohibit this
  - All members are supposed to be charged a country's MFN (Most Favored Nation) tariff
  - However, some exceptions are explicitly permitted in rules of GATT & WTO

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Examples of Legal PTAs

Permitted by WTO:

- Free Trade Areas (FTAs)
  - Members have zero tariffs against each other on essentially everything (also Customs Unions and Common Markets, which include FTAs)
- GSP = Generalized System of Preferences
  - Developed countries have lower (not usually zero) tariffs on some goods from developing countries

Examples of Legal PTAs

Permitted by WTO:

- Also
  - Anti Dumping Duties (higher tariff against some than against others)
  - Countervailing Duties (ditto)
  - Note: “safeguards” tariffs are also permitted,
    - But they are not normally PTAs; they are supposed to be nondiscriminatory

Examples of PTAs

- Variations on FTAs
  - FTA:
    - Two or more countries set zero tariffs on all (or almost all) imports from each other
    - Keeping their old (presumably different) tariffs against outside countries
    - Must include “rules of origin” (ROOs)
      - ROO = criteria that must be met, regarding location of production, for a good to cross a border tariff-free within the FTA
      - Otherwise, all trade would enter through lowest-tariff country

Examples of PTAs

- Variations on FTAs
  - Customs Union (CU)

    = FTA + Common External Tariffs (on each good)

    (no need for ROOs)
  - Common Market

    = CU + free movement of factors (capital and labor) among members

Examples of PTAs

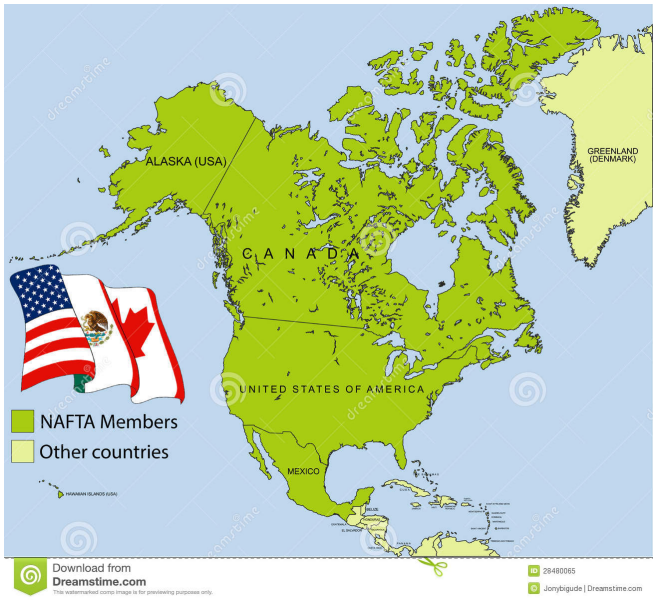
- European Union (EU)
  - A Customs Union
    - Originally among 6 countries (France, Germany, Italy, Belgium, Netherlands, Luxembourg)
    - Called, then, the “European Economic Community” (EEC)
  - Later
    - Became a Common Market
    - Grew intermittently to 15 countries
      - then, to 25 in 2004, to 27 in 2007
      - and, in 2013, to 28 (adding Croatia)
    - Changed name
      - First to “European Community” (EC)
      - Then later to “European Union”

EU Members

Austria	Italy
Belgium	Latvia
Bulgaria	Lithuania
Croatia	Luxembourg
Czech Repub.	Malta
Cyprus	Netherlands
Denmark	Poland
Estonia	Portugal
Finland	Romania
France	Slovakia
Germany	Slovenia
Greece	Spain
Hungary	Sweden
Ireland	U.K.

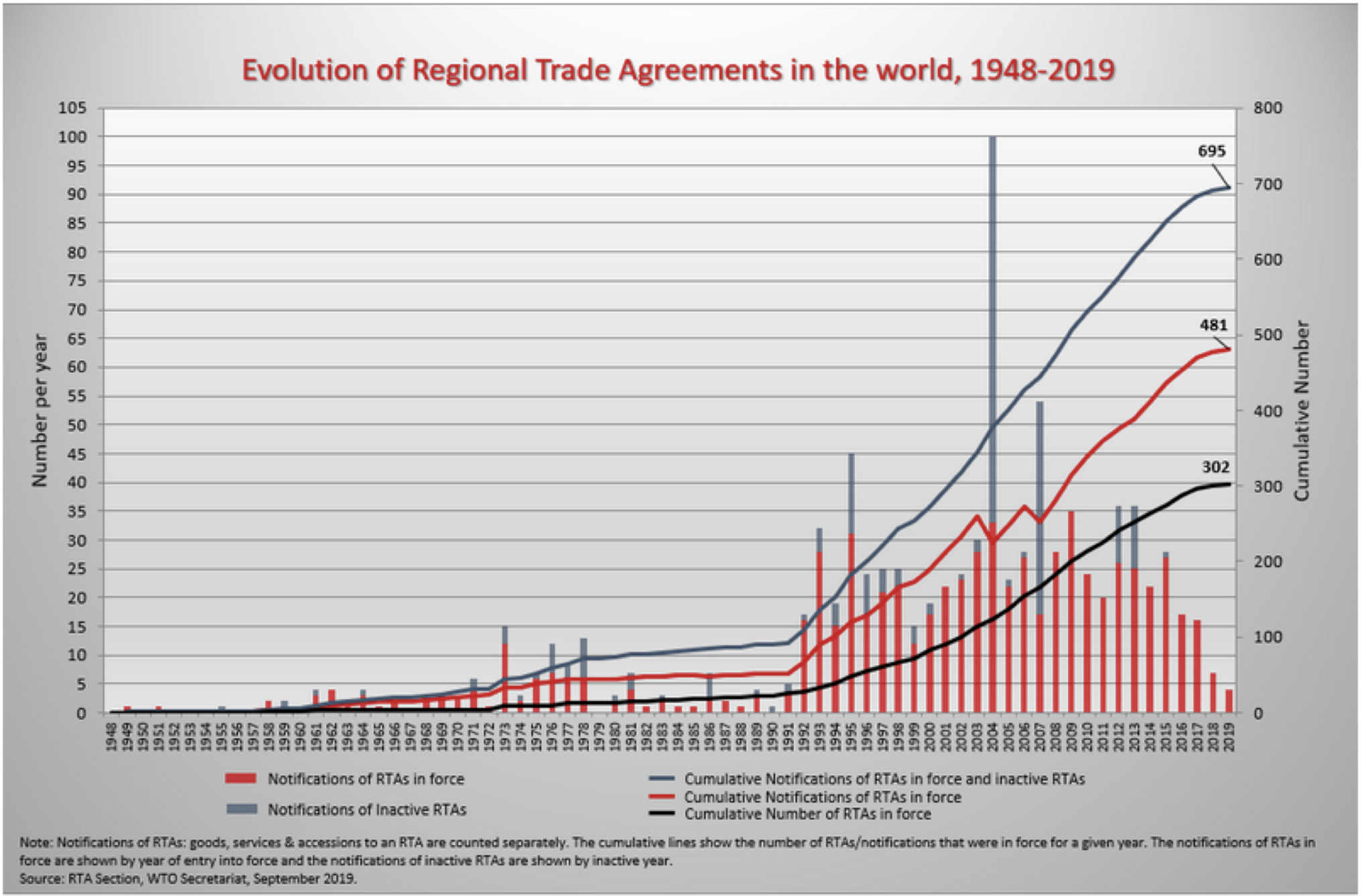
Examples of PTAs

- North American Free Trade Area (NAFTA)
  - US, Canada, Mexico
  - Started in 1994
  - More on this later
- Mercosur
  - Customs union in South America
  - Includes Brazil, Argentina, Paraguay, Uruguay, Venezuela



Examples of PTAs

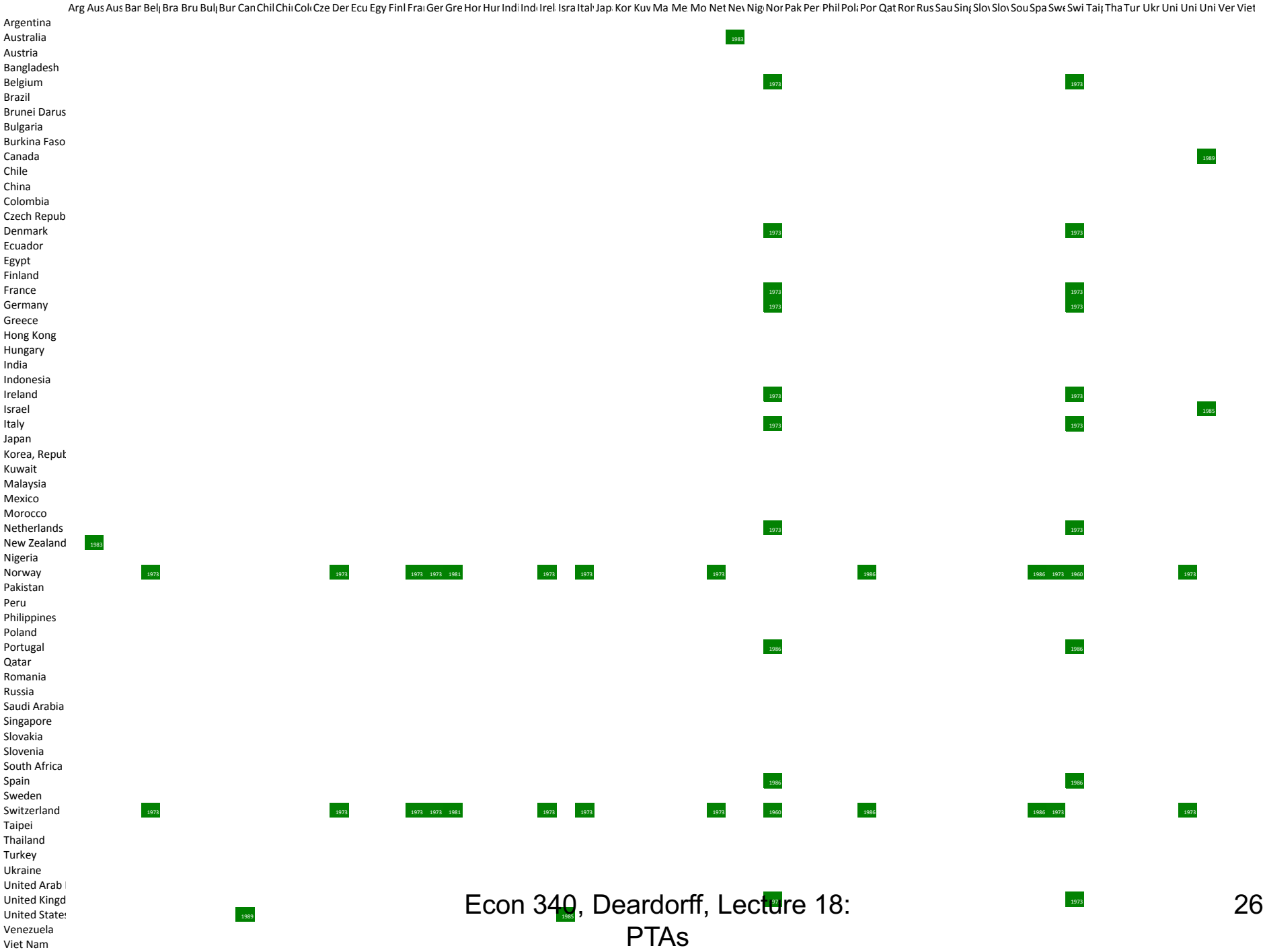
- US also now has smaller FTAs:
  - With Israel (since 1985)
  - 2-country FTAs with Australia, Bahrain, Chile, Jordan, Morocco, Oman, Peru, Singapore
  - A contentious FTA was CAFTA (Central American Free Trade Agreement), approved 2005
  - Somewhat recently, 3 more (Colombia, Panama, and S. Korea)
    - Negotiated 2007
    - Approved late 2011
    - Went into effect in 2012
  - US was to be part of TPP under Obama, but no longer.
- There are more than 400 FTAs and similar arrangements that have been notified to the WTO


Evolution of Regional Trade Agreements in the world, 1948-2019
Number per year
Cumulative Number
695
481
302
Notifications of RTAs in force
Notifications of Inactive RTAs
Cumulative Notifications of RTAs in force and inactive RTAs
Cumulative Notifications of RTAs in force
Cumulative Number of RTAs in force
Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. The cumulative lines show the number of RTAs/notifications that were in force for a given year. The notifications of RTAs in force are shown by year of entry into force and the notifications of inactive RTAs are shown by inactive year.
Source: RTA Section, WTO Secretariat, September 2019.

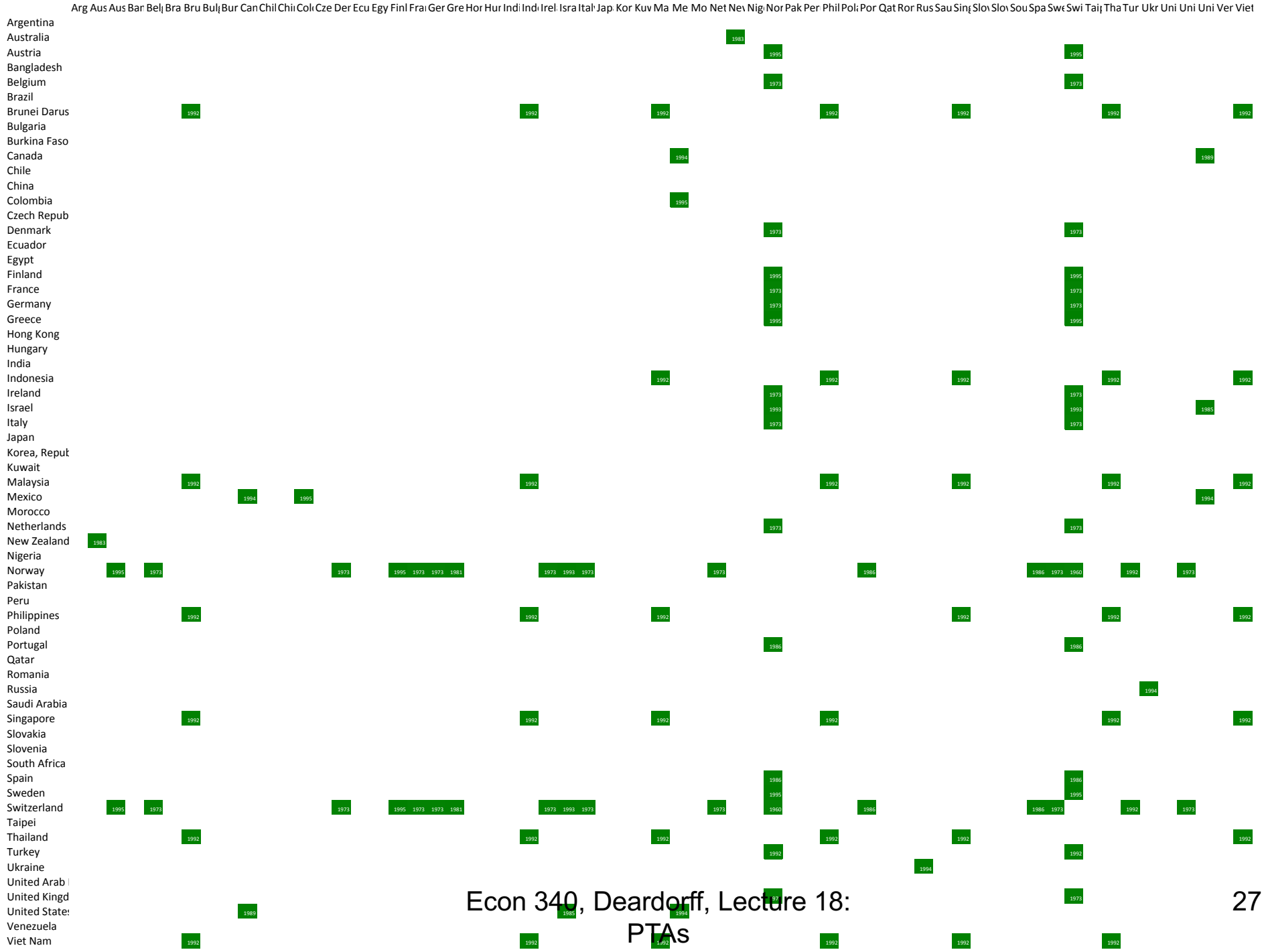
PTAs

Countries connected by FTAs only, as of 1990

1%

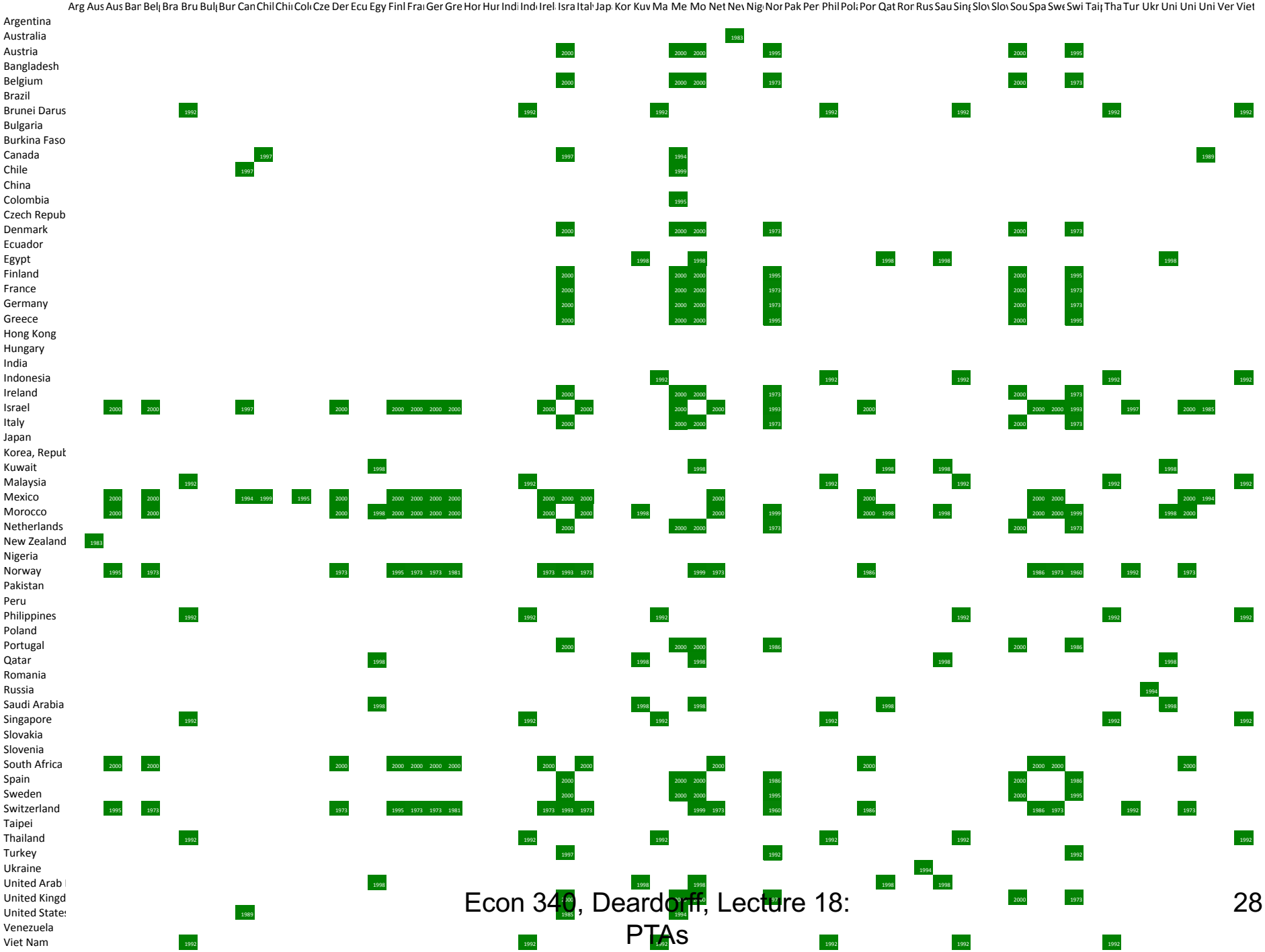


Countries connected by FTAs only, as of 1995



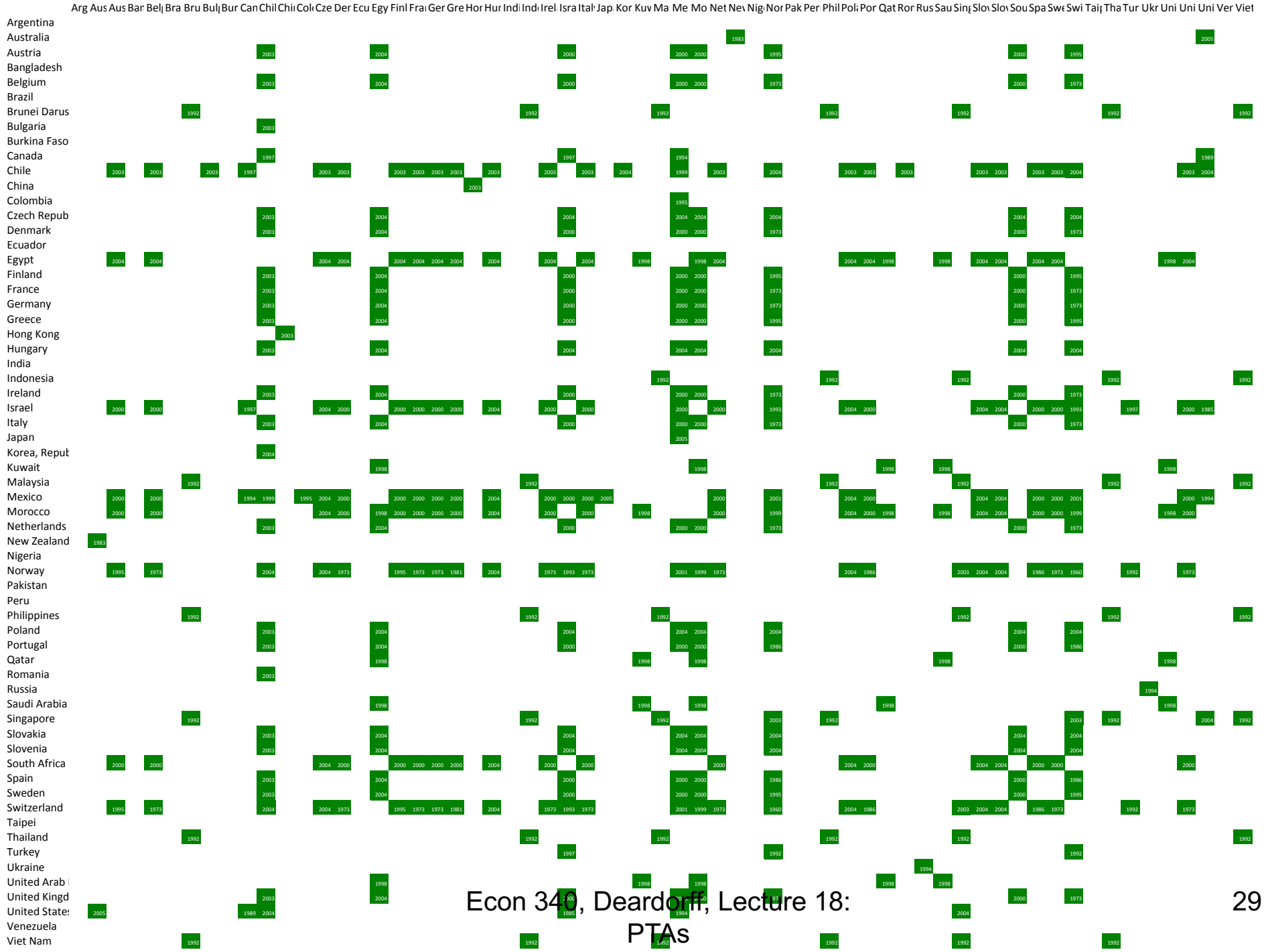
Countries connected by FTAs only, as of 2000

7%

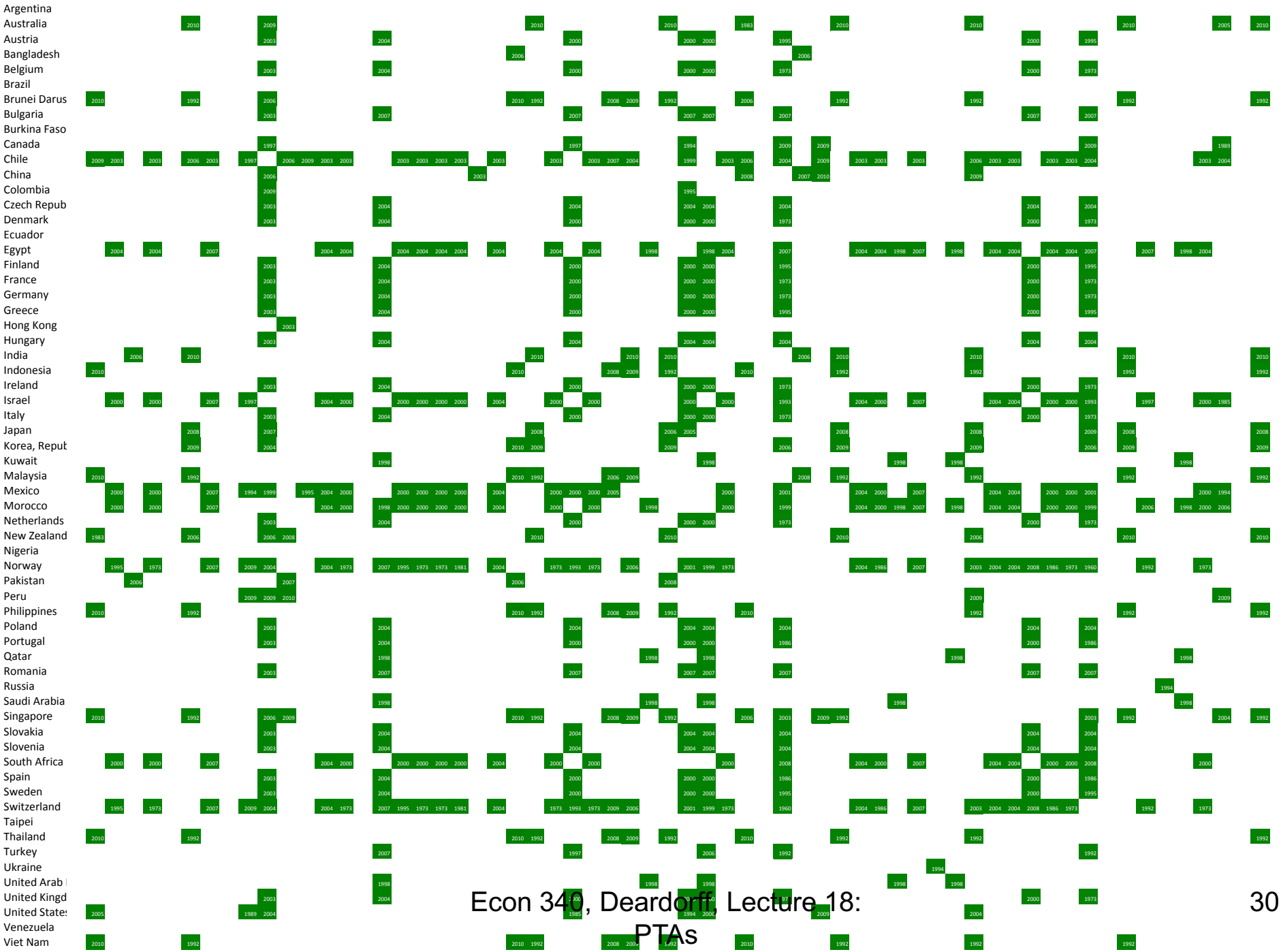


Countries connected by FTAs only, as of 2005

11%

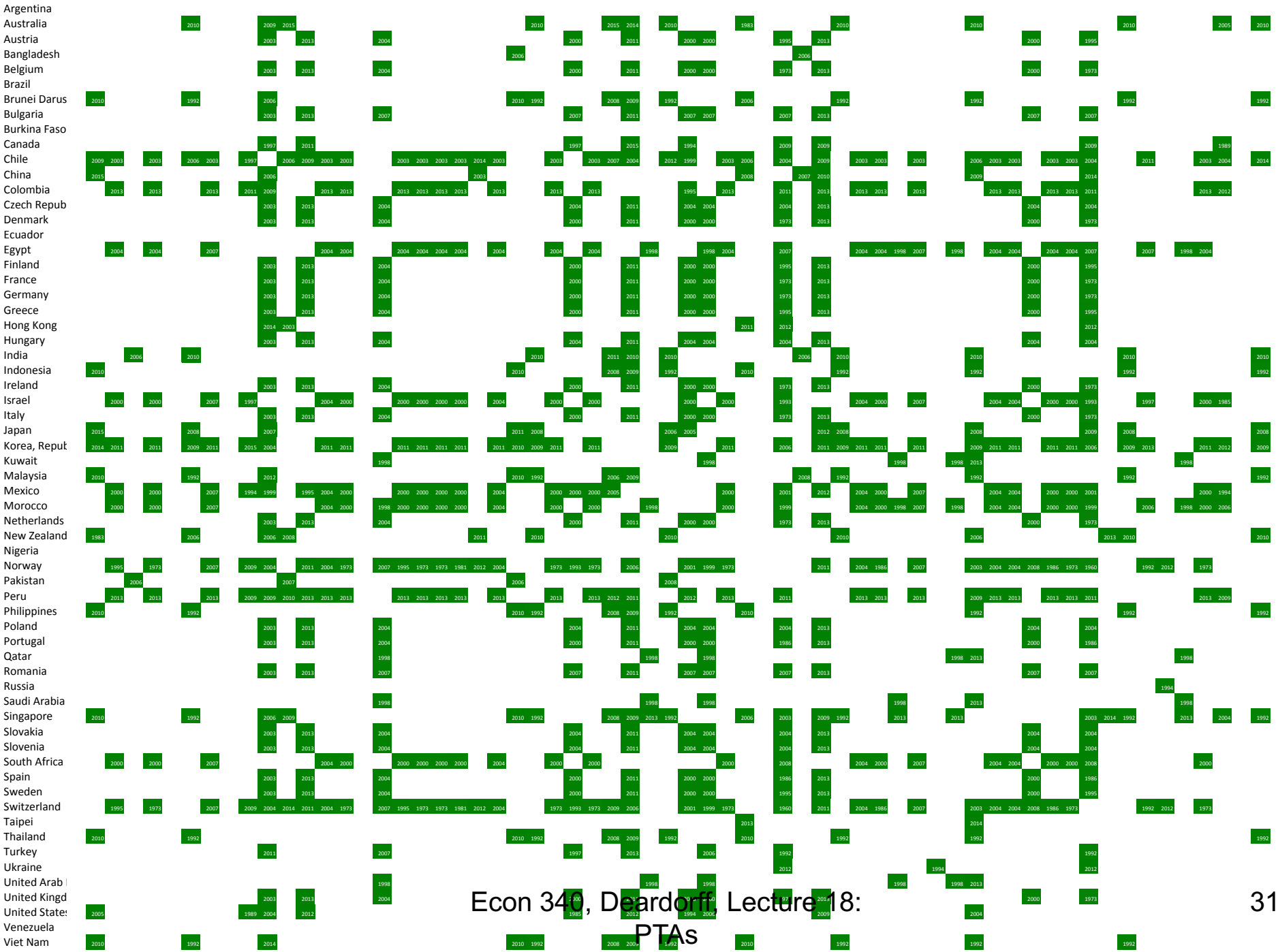


Countries connected by FTAs only, as of 2010



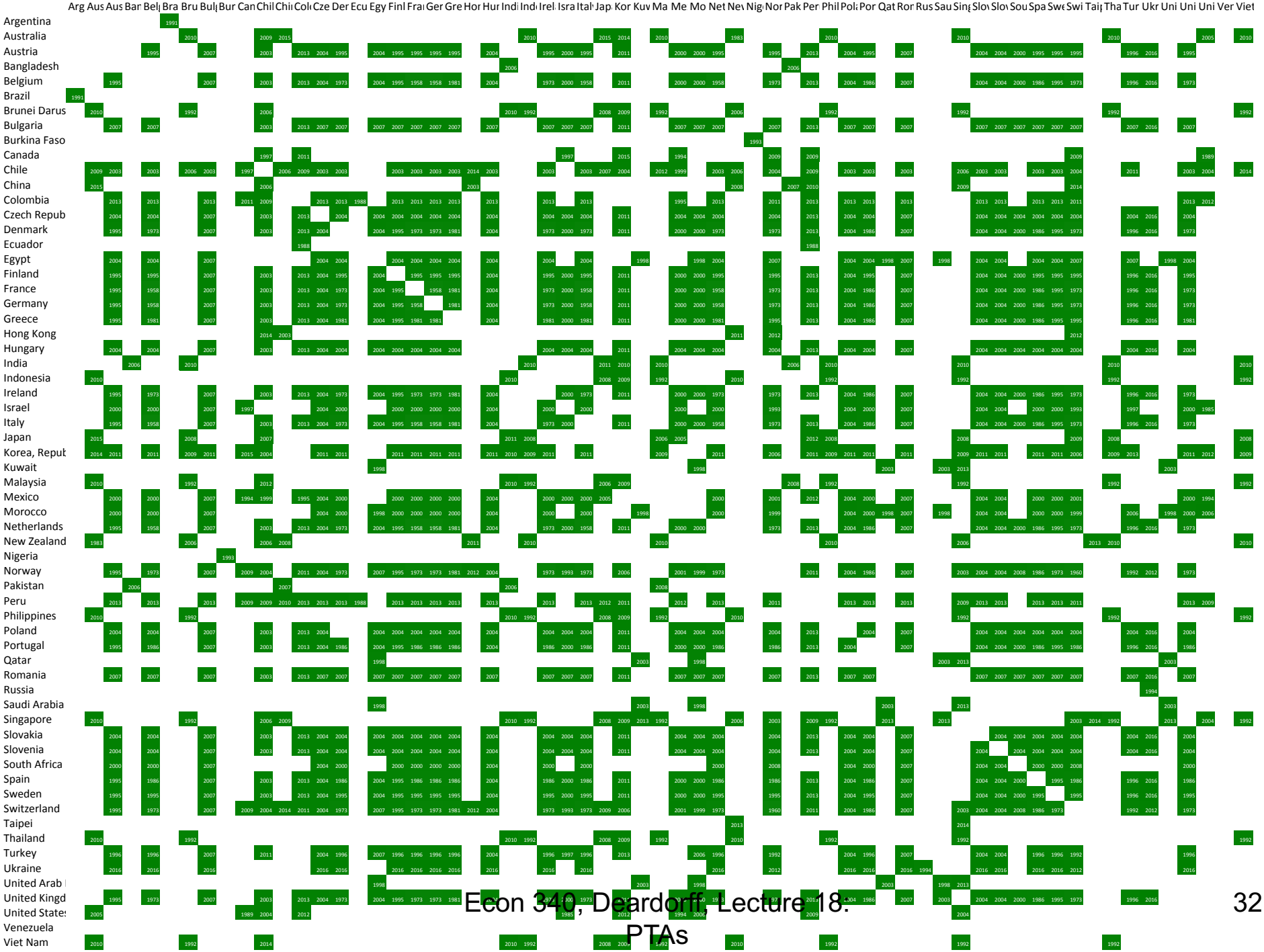
Countries connected by FTAs only, as of 2015

20%



Countries connected by FTAs or CUs

33%



Clicker Question

In which of the following are tariffs on trade among members mostly zero?

a) Free trade agreement
b) Customs union
c) Common market
✓ d) All of the above
e) None of the above

Clicker Question

In which of the following do labor and capital flow freely among members?

a) Free trade agreement
b) Customs union
✓ c) Common market
d) All of the above
e) None of the above

Clicker Question

Which of the following pairs of countries are included within a customs union?

✓ a) Argentina and Brazil
b) China and Japan
c) Mexico and Canada
d) Russia and the European Union
e) US and South Korea

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Effects of PTAs

- They are NOT the same as multilateral free trade, when a country eliminates tariffs against all other countries
  - The name “free trade area” is misleading
  - It is likely that countries outside a PTA will lose from it
  - Even the members of the PTA may lose from it!

Effects of PTAs

- Two main effects of a PTA
  - Trade Creation
    = Importing from the partner what you would otherwise produce at home
  - Trade Diversion
    = Importing from the partner what you would otherwise import from another (“third”) country

Effects of PTAs

- Welfare effects of one country reducing its tariff on a good from a partner country:
  - Importing country
    - Gains from trade creation
    - Loses from trade diversion (we'll see why shortly)
  - Partner country gains regardless
  - Rest of world
    - Loses from trade diversion
    - Not much affected by trade creation

Effects of PTAs

- Reasons
  - Trade creation is much like true free trade
    - At zero tariff, import from partner only if its cost is lower
    - Thus resources are used more efficiently
  - Trade diversion is not like true free trade
    - What was imported from 3rd country, not partner, when both paid the same tariff, must have cost more in the partner than in the 3rd country
    - Switching to the partner is a switch to a higher cost source for the good

Effects of PTAs

- With trade diversion, importing country is paying more for the good
  - The importing person is not paying more, since the person doesn't pay a tariff on imports from the partner
  - But the importing country got to keep the tariff revenue on imports from 3rd countries
    - Thus the price a person paid on import from 3rd country was higher than the price the country paid

Effects of PTAs

- Example
  - Suppose that, before NAFTA
    - The US imported sugar subject to a 25% tariff
    - The cost of sugar was
      - $8 in Haiti
      - $9 in Mexico
    - US sugar importers would pay, with the tariff,
      - 1.25×8=$10.00 from Haiti
      - 1.25×9=$11.25 from Mexico
    - So they buy from Haiti
      - The importers pay $10.00
      - The US government keeps $2.00 of that
      - So the US as a country pays only $8.00

Effects of PTAs

- Example
  - Now with NAFTA
    - the tariff on sugar from Mexico becomes zero
    - US sugar importers would pay,
      - 1.25×8=$10.00 from Haiti
      - $9.00 from Mexico
    - So they buy from Mexico
      - The importers pay $9.00
      - The US government gets nothing
      - So the US as a country pays $9.00

Effects of PTAs

EXAMPLE:	Without NAFTA	With NAFTA
a. Price in Haiti	$8	$8
b. Price in Mexico	$9	$9
c. Tariff on Haiti	25%	25%
d. Tariff on Mexico	25%	0%
e. Price from Haiti [(1+c)×a]	$10.00	$10.00
f. Price from Mexico [(1+d) ×b]	$11.25	$9.00
g. Imports come from	Haiti	Mexico
h. Importers pay	$10.00	$9.00
i. Government gets	$2.00	0
j. Country's net cost [h−i]	$8.00	$9.00

Trade Diversion

US Loss from Trade Diversion

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Effects of PTAs

- Market-diagram Illustration
  - Suppose Country A can import a good from either Country B or Country C at prices

$$P_C < P_B$$

  - And Country A has a tariff greater than the price difference:

$$t > (P_B - P_C)$$

  - What happens when Country A forms a PTA with high-cost Country B, lowering its tariff to zero on imports from Country B?

Effects of PTAs

Before FTA

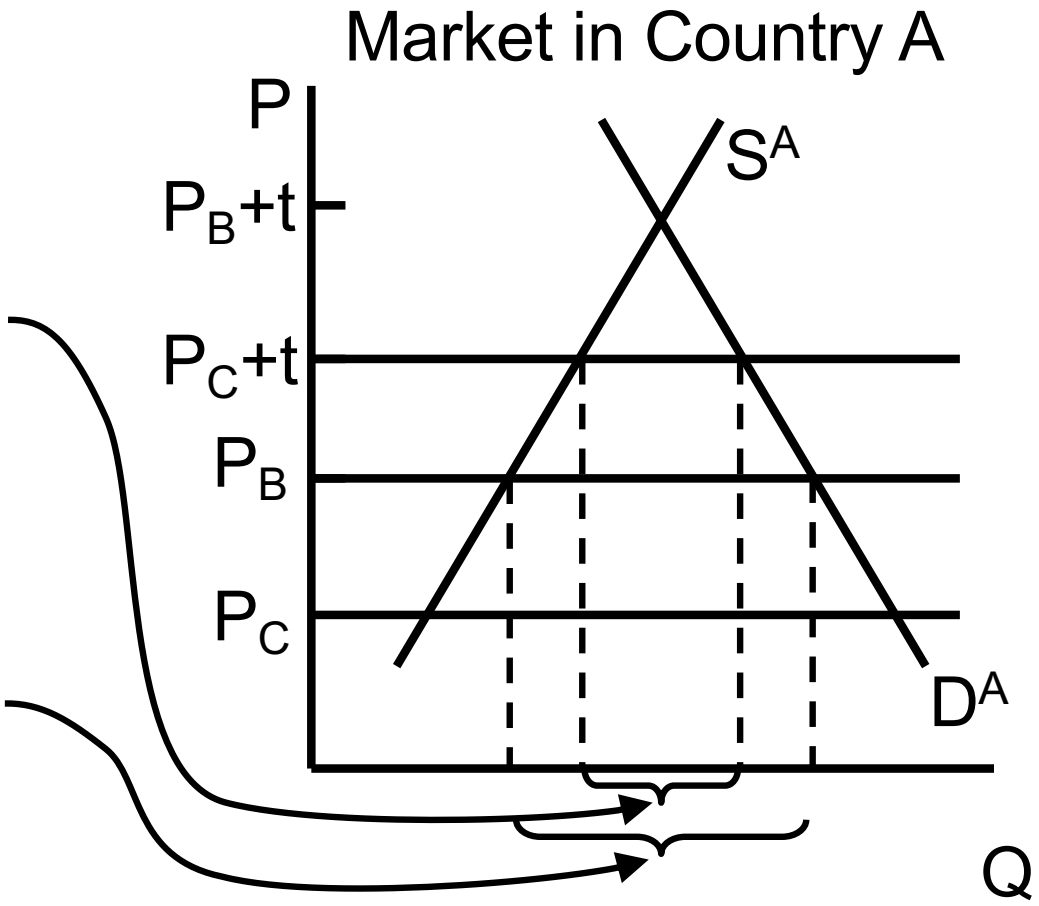
$P_C+t < P_B+t$, so

A imports from C

With FTA

$P_B < P_C+t$, so

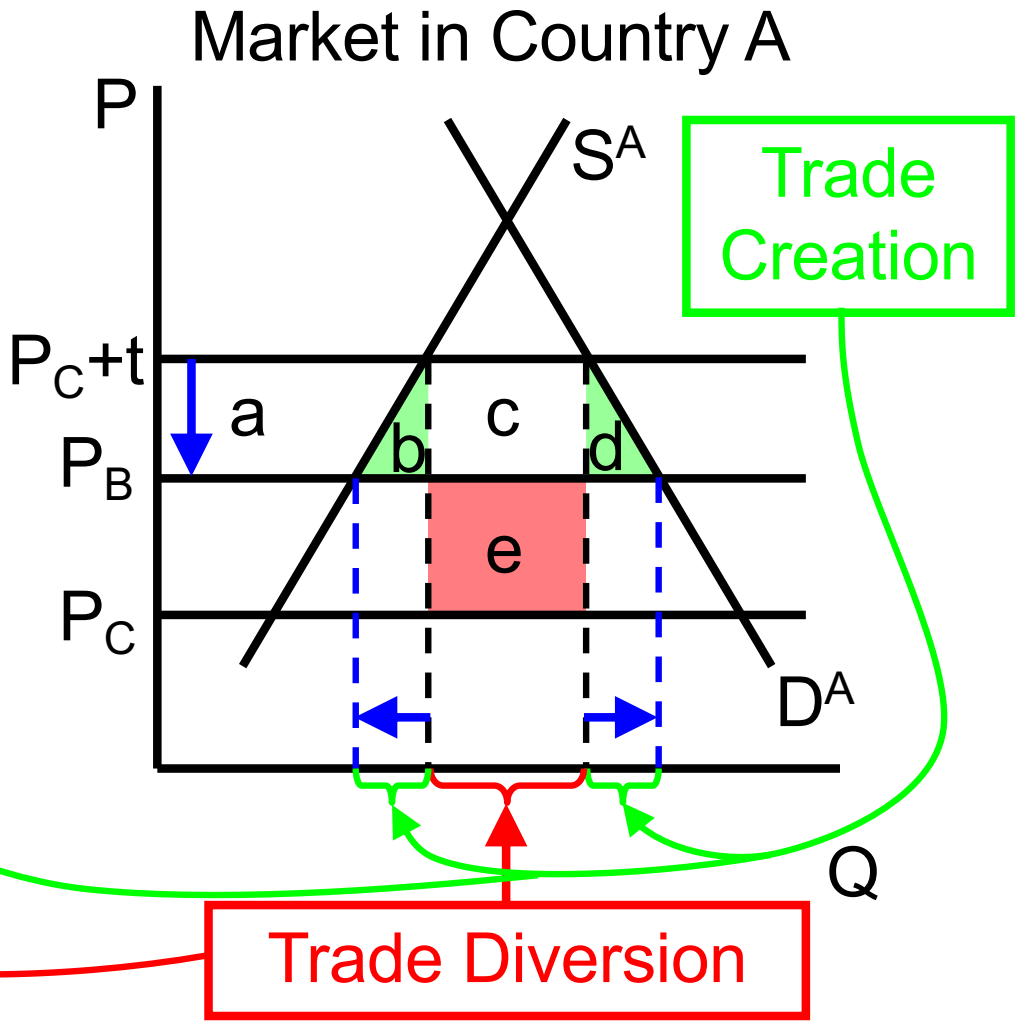
A imports from B



Effects of PTAs

FTA of Country A and Country B:

Welfare effects	
Producers lose	−a
Consumers gain	+(a+b+c+d)
Gov't loses	−(c+e)
Net	+(b+d)−e



Effects of PTAs

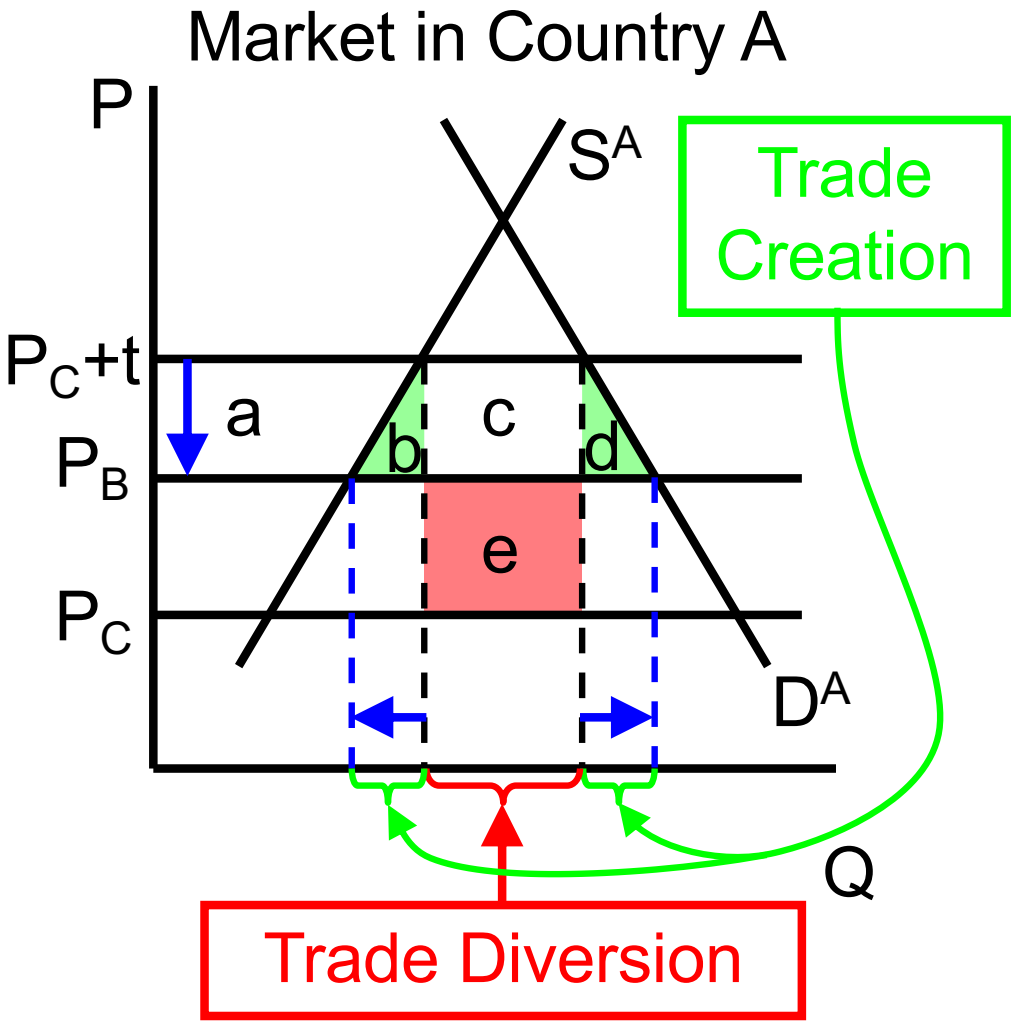
FTA of Country A and Country B:

Implication:

Country A can lose from the FTA in this market, if

$e > (b+d)$

(as it is in this picture)



Clicker Question

Which of the following would be an example of trade diversion due to NAFTA (which includes only US, Canada, and Mexico)?

a) US continues to buy lumber from Canada

b) Mexico buys corn from the US instead of from its own farmers

c) Japan buys more cars from the US

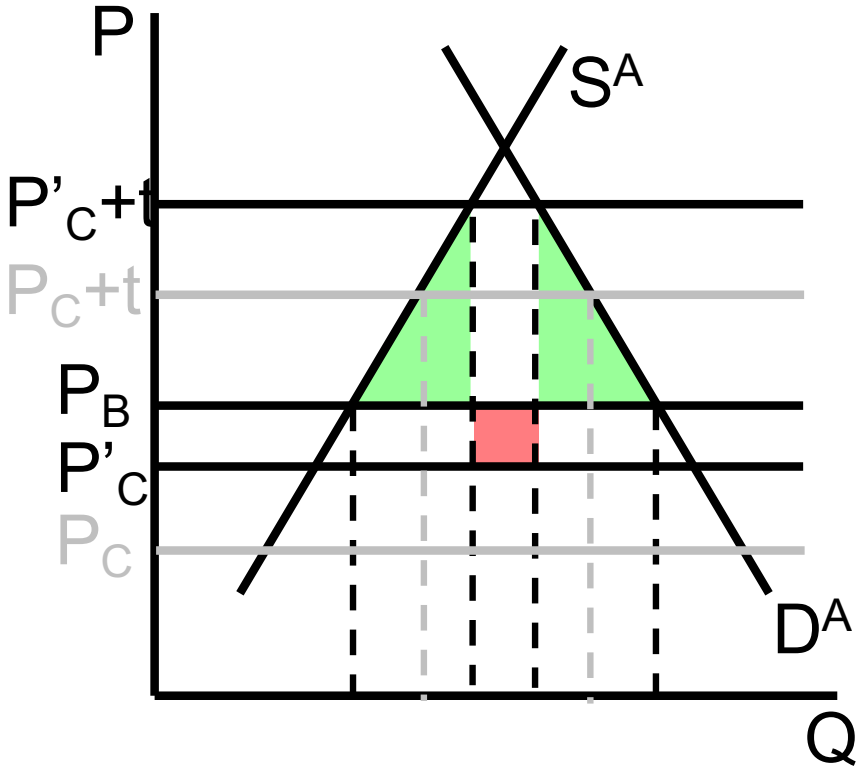
✓ d) Canada buys machine tools from the US instead of from Germany

e) None of the above (none are trade diversion)

Clicker Question

The graph is like the one above, but P_C is higher, at P'_C. Which of these effects of the FTA is <u>not</u> larger than when P_C was lower?

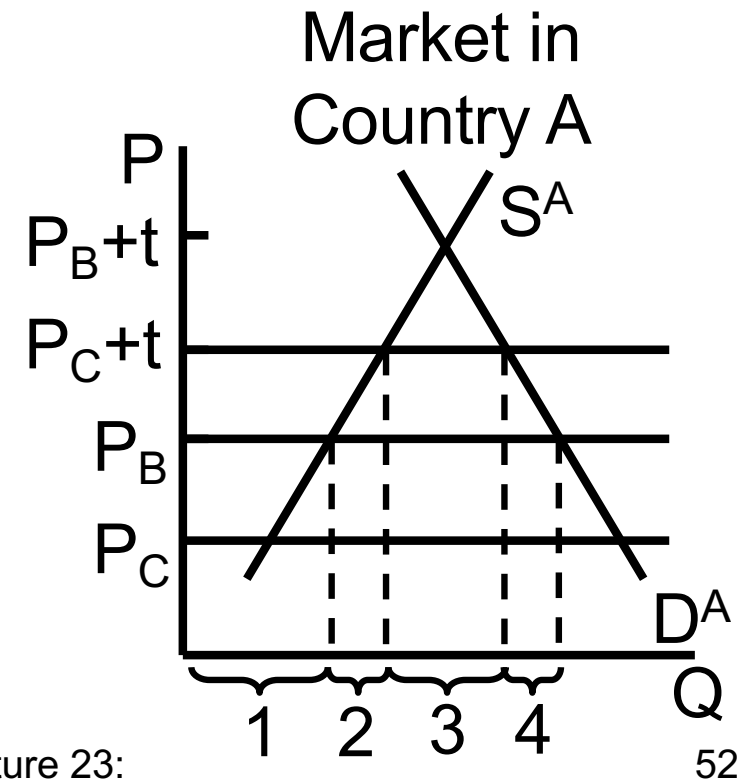
a) Demander gain
b) Supplier loss
c) Trade creation
✓ d) Trade diversion
e) Net benefit from FTA



Clicker Question

In the graph, country A initially levies tariff t on both countries B and C. Then it forms a FTA with only country B. Using the numbered quantities at the bottom, how much is trade diversion?

a) 1
b) 2
✓ c) 3
d) 4
e) 2+4



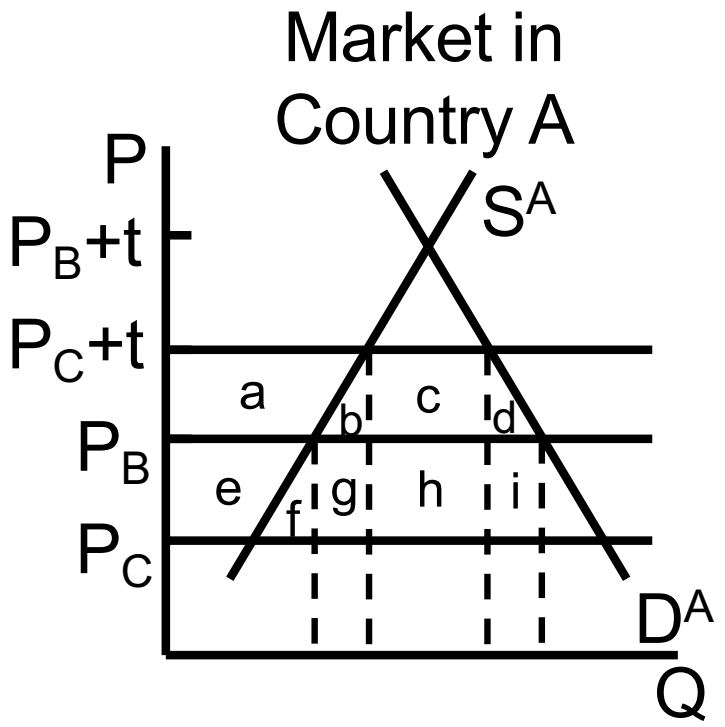
The amount 3 was imported from C before the FTA and is imported from B after. Trade creation is 2+4.

Clicker Question

Same graph and situation. Using the areas labeled with letters, what is the net welfare effect on country A?

a) +a+b+c+d
b) +b+d
c) –b–c–d+h
✓ d) +b+d–h
e) +(b+c+d)–(g+h+i)

Demanders gain +(a+b+c+d)
Suppliers lose –a
Gov't loses –(c+h)



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Skip this, to slide 68

NAFTA - History

- Before NAFTA, US had
  - US-Canada Auto Pact
    - Signed 1965
    - Free trade between US and Canada in cars and car parts
  - US-Canada FTA
    - 1989
    - Prompted by
      - US frustration with multilateral negotiations
      - Canadian frustration with US AD and CVD policies

NAFTA - History

- Before NAFTA,
  - Mexico had
    - High tariffs, like most developing countries
    - Had begun to reduce them in 1980s
    - Even after reductions, Mexican tariffs were much higher than US tariffs
  - Maquiladora Arrangements with Mexico
    - Low tariffs on US imports from Mexico of goods processed there from US inputs
    - Initially restricted to border region

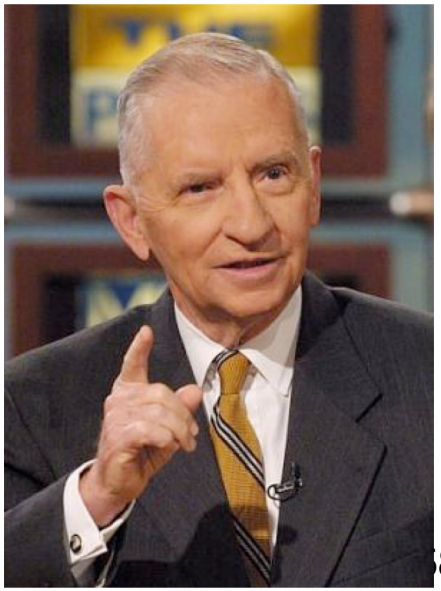
NAFTA - History

- NAFTA Negotiations
  - Done by Bush (Sr.) administration, 1991-2
  - Extended US-Canada FTA to include Mexico
  - Covered many issues in addition to trade
    - Investment
    - Intellectual Property
    - Services
  - Agreement was reached under Bush, but was not yet approved by Congress before 1993

NAFTA - History

- NAFTA Debate (around 1992 US election)
  - Those opposed
    - Labor unions (feared lost jobs and lower wages)
    - Some environmental groups (feared dirty industries)
    - Ross Perot (ran for president)
      - Feared firms would move to Mexico:

        "Great sucking sound"
    - Some Democrats

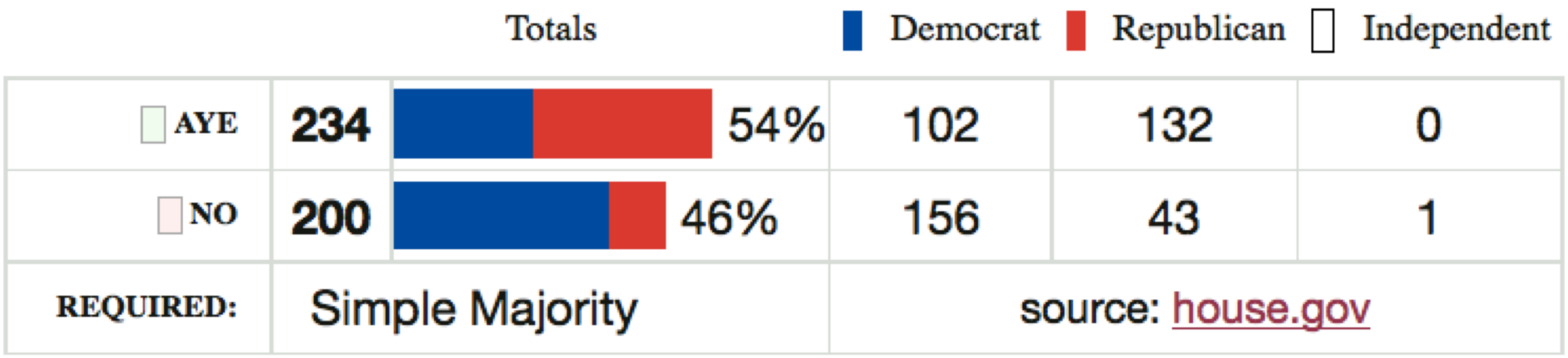


NAFTA - History

- NAFTA Debate (around 1992 US election)
  - Those in favor
    - Bush (Sr.) administration
    - Clinton (Bill) (but with reservations about labor and environment)
    - Most of the business community
    - Most economists (Not all)

NAFTA - History

- After Clinton won election
  - Clinton negotiated Side Agreements on Labor and Environment
  - NAFTA was approved (very narrowly) by Congress Nov 1993



	Totals		Democrat	Republican	Independent
AYE	234	54%	102	132	0
NO	200	46%	156	43	1
REQUIRED:	Simple Majority		source: house.gov		

NAFTA - History

- Jan 1, 1994: NAFTA took effect
- What happened?
  - Not much, at first
  - Then, almost a year later, the “Peso Crisis”

NAFTA - History

- Peso Crisis (also called “Tequila Crisis”)
  - Mexico’s exchange rate had been pegged
  - Resisted depreciation during 1994 due to Mexican presidential election in late ‘94
    - Two assassinations in also 1994 disrupted Mexico
  - Late 1994 (after Mexican election)
    - Crisis hit
    - Peso devalued
  - Devaluation had devastating effects on the Mexican economy

Outline: Preferential Trading Arrangements and the NAFTA

- What Are PTAs?
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- Effects of PTAs
  - Not the Same as Free Trade
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    - Trade Diversion
  - Market Diagram Illustration
- NAFTA
  - History
  - Analysis
  - What Happened?
- NAFTA Renegotiation and USMCA

NAFTA - Analysis

- Before NAFTA
  - Many studies examined likely effects
  - Some, from both sides of the debate, used spurious analysis to support their views
    - Example: All imports from Mexico are viewed as costing jobs
    - On the positive side, advocates of NAFTA did the same with US exports, presumed to rise a lot because of Mexico's high tariffs
    - Brown reading notes one study that overstated the benefits and understated the costs

NAFTA - Analysis

- Before NAFTA

  Best academic studies (including “Michigan Model”) predicted

  - Positive, but very small, benefit to the US
  - Negligible disruption of US labor markets
  - Positive, somewhat larger, benefit to Mexico
  - Significant disruption in some Mexican markets

  – Nobody predicted Peso Crisis

NAFTA - Analysis

- Reasons for small predicted effects on US
  - US MFN tariffs were already very low
  - Much trade with Mexico was already at even lower tariffs, under Maquiladora system
  - US trade with Mexico was big, but not all that big, compared to size of US economy

NAFTA - Analysis

- The issue that raised concern
  - Mexican wages were only about 1/10 of US wages
  - Seemed obvious to many (e.g., Ross Perot) that employers would move to Mexico
- Answer
  - Mexican wages were low for a reason: low productivity
  - If this had not been true, jobs would already have moved, given our already low tariffs

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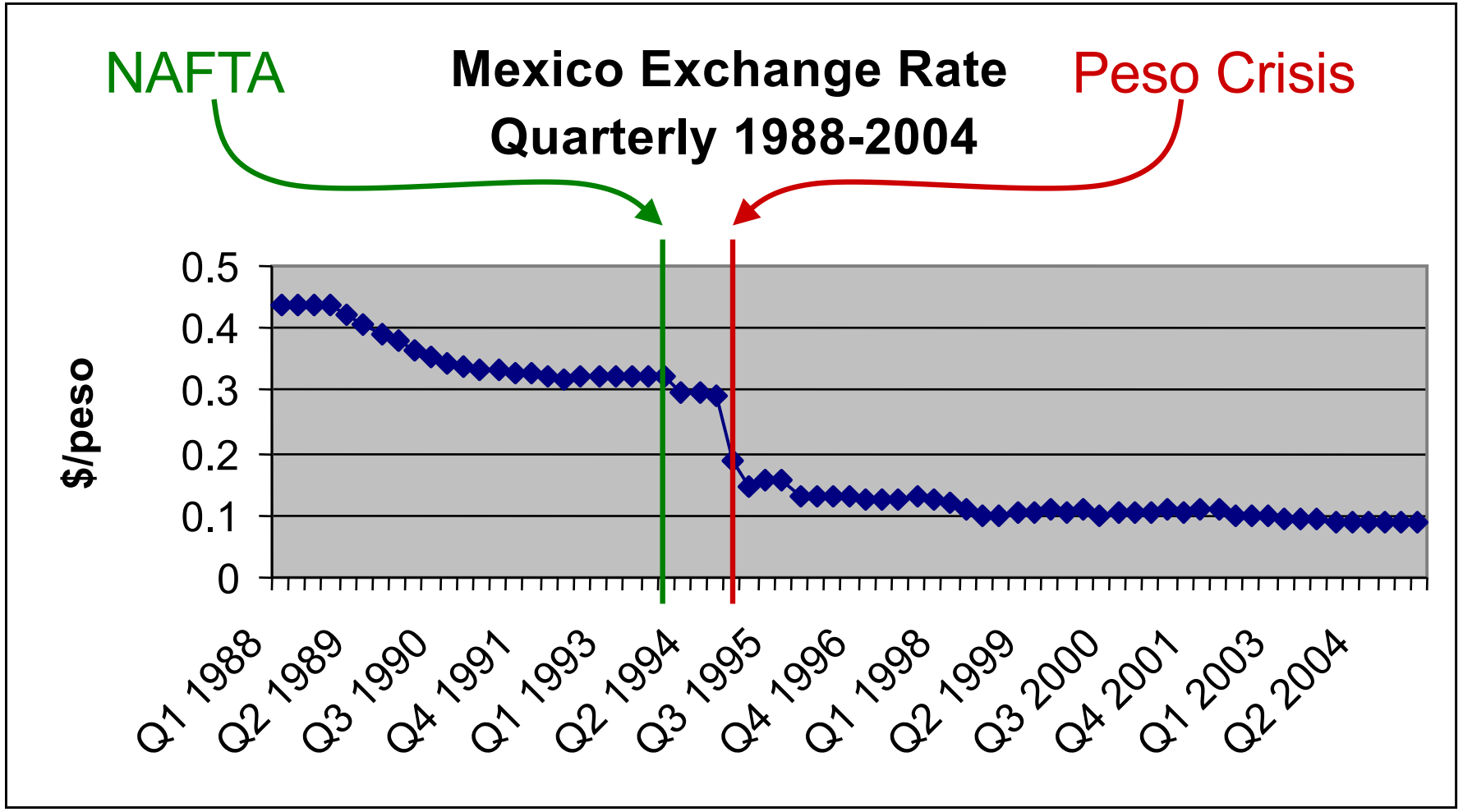
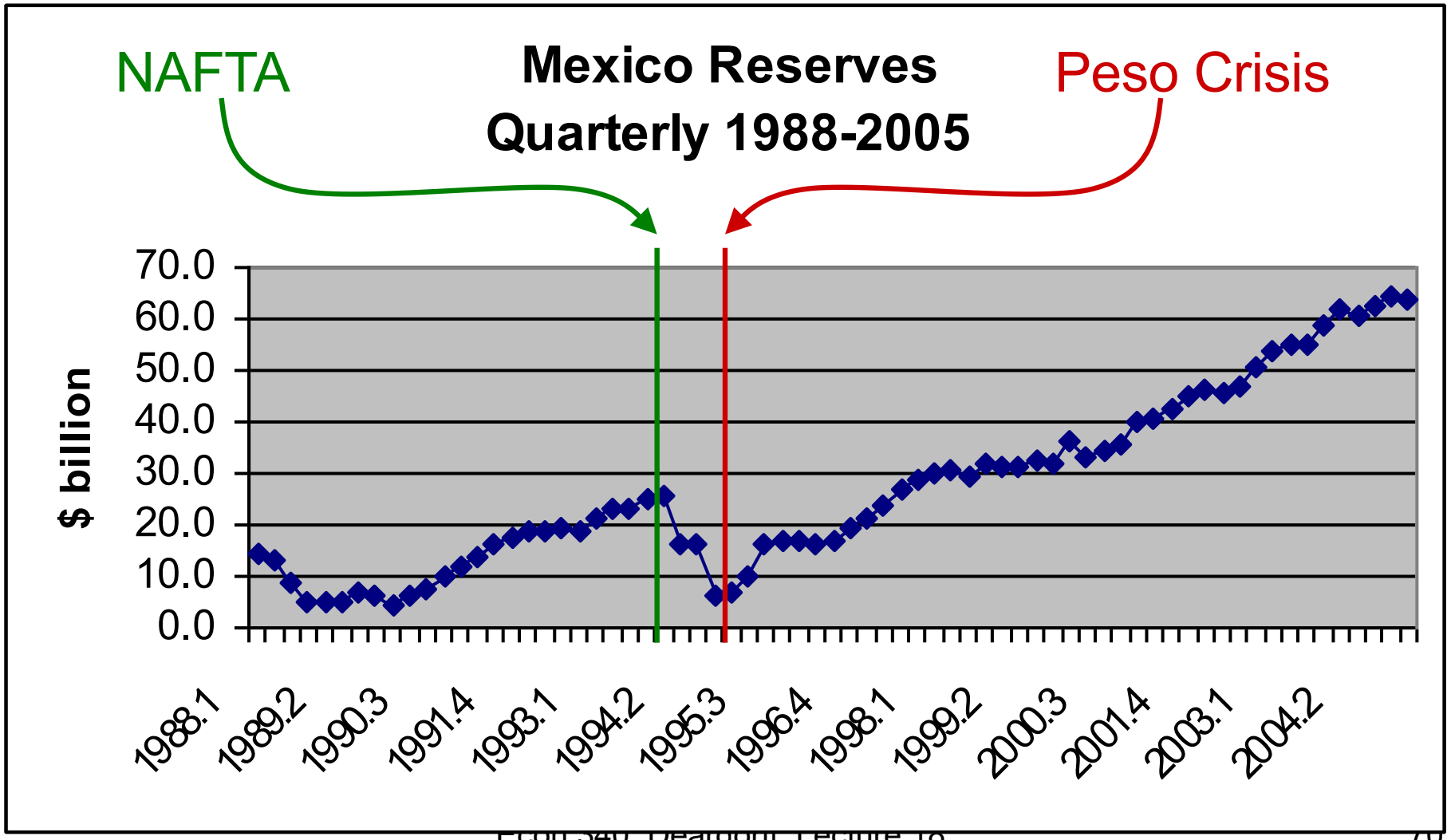
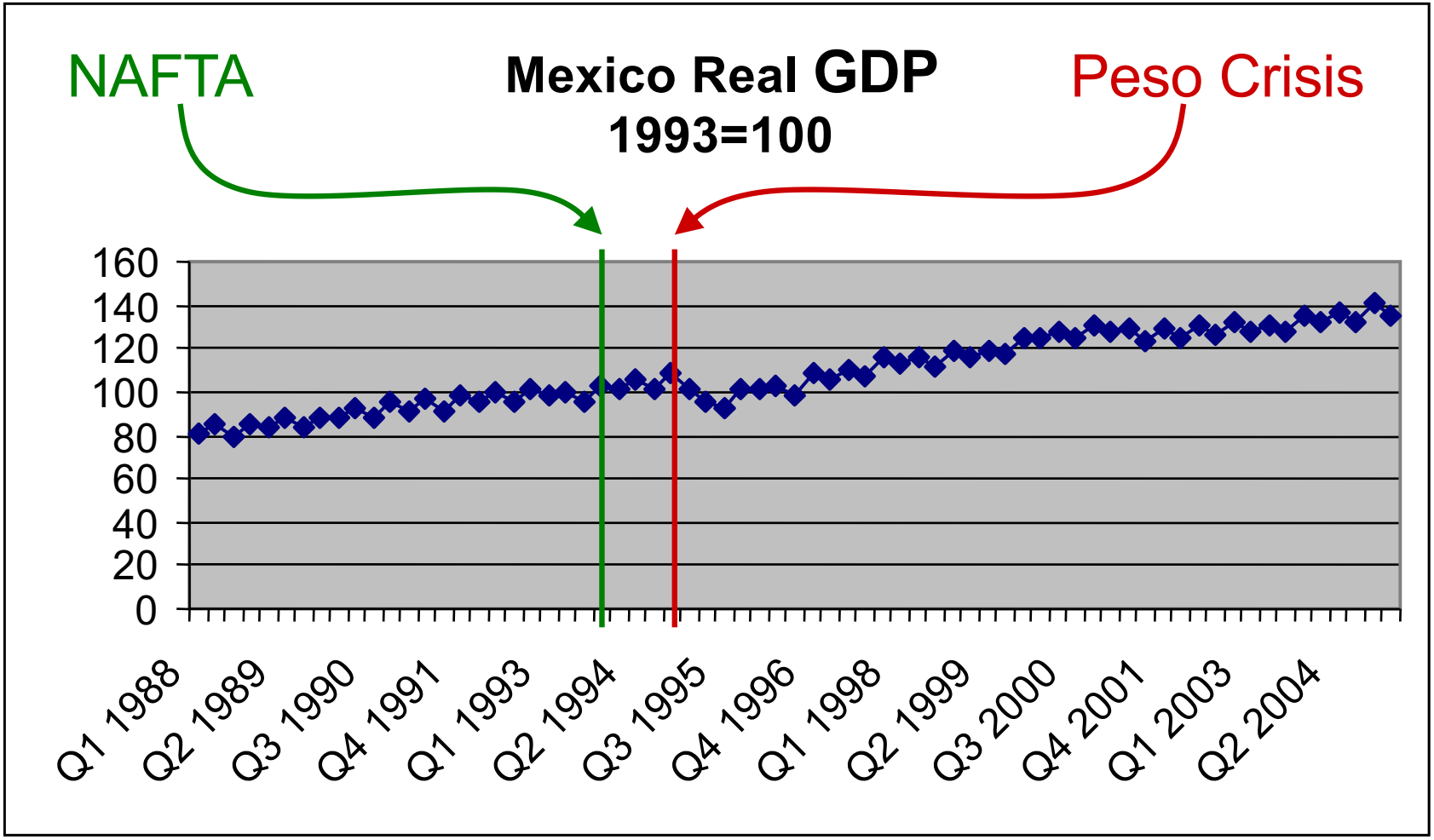
NAFTA – What Happened
Peso Dropped One Year After



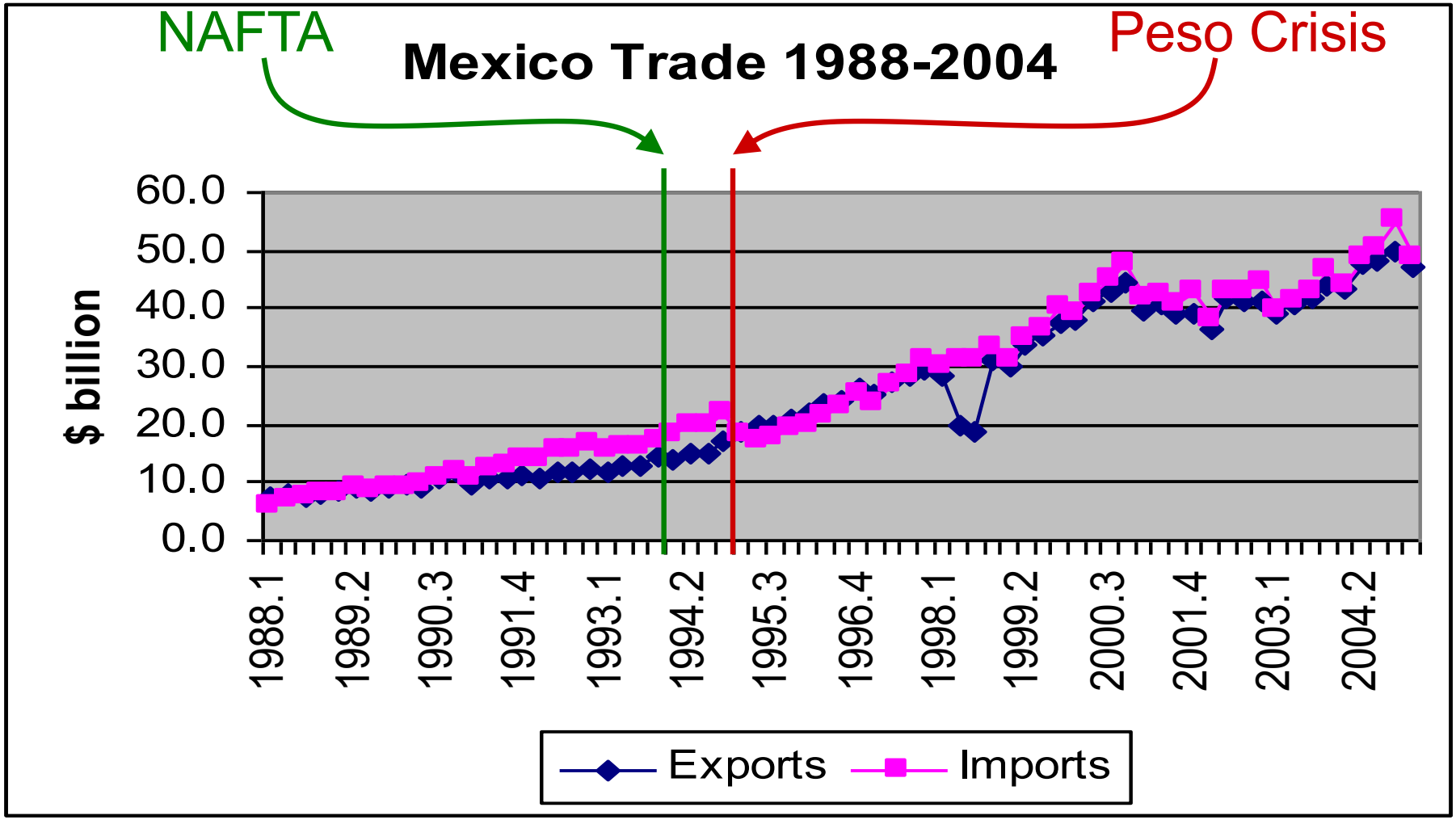
NAFTA: What Happened - Mexico Reserves Dropped at Once



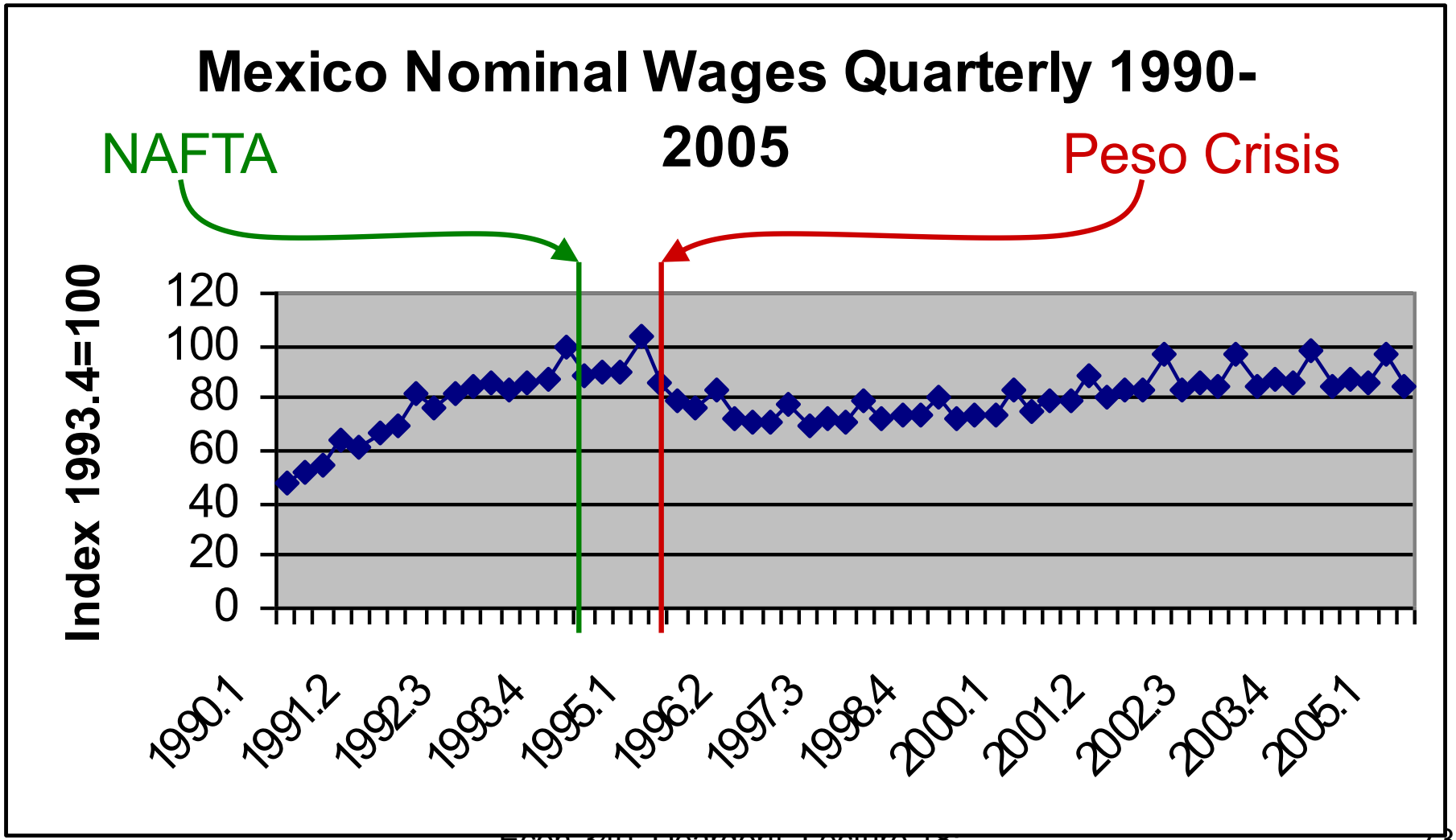
NAFTA: What Happened - Mexico GDP Fell after Peso Crisis



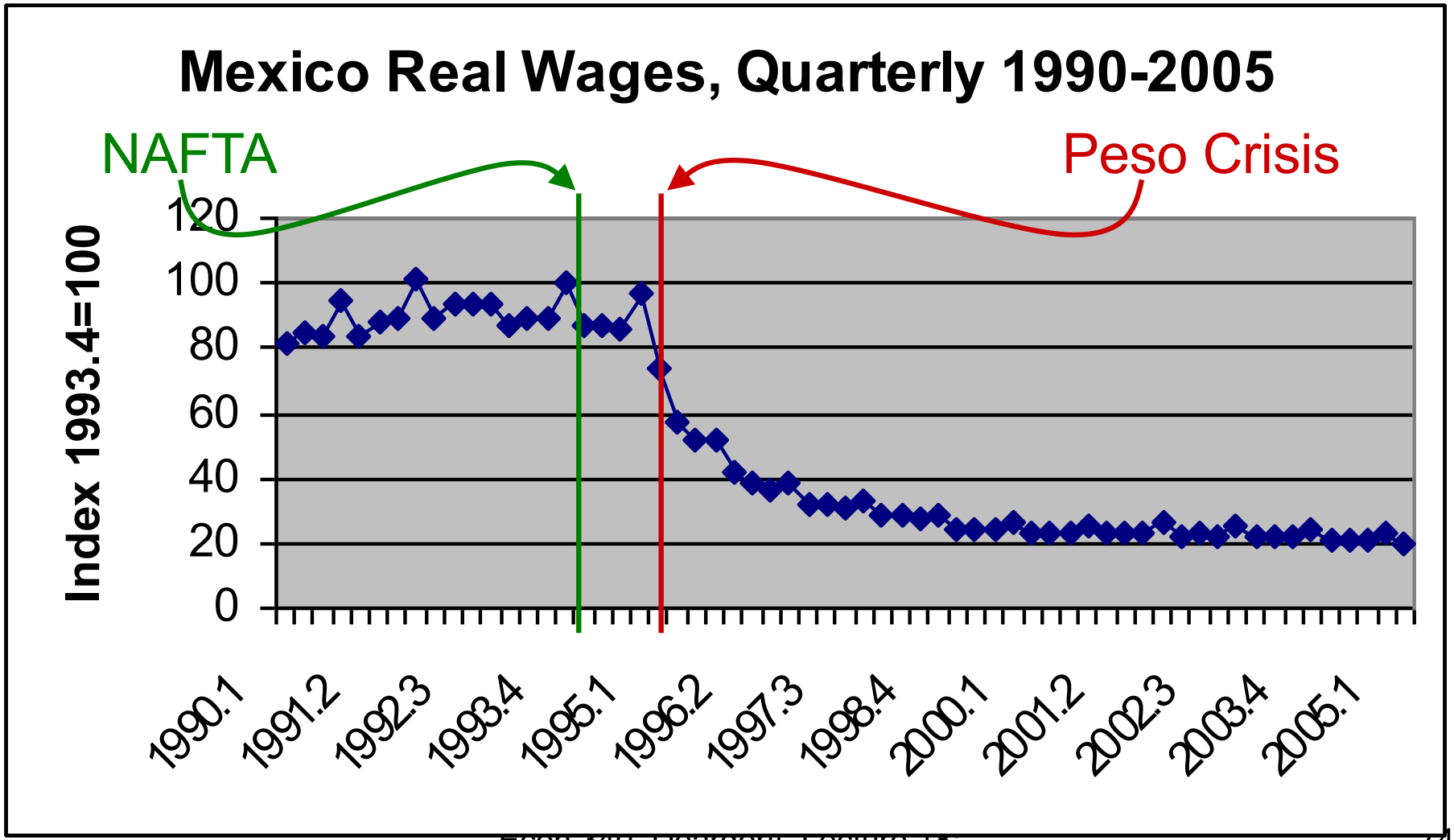
NAFTA: What Happened - Mexico Imports Fell after Crisis



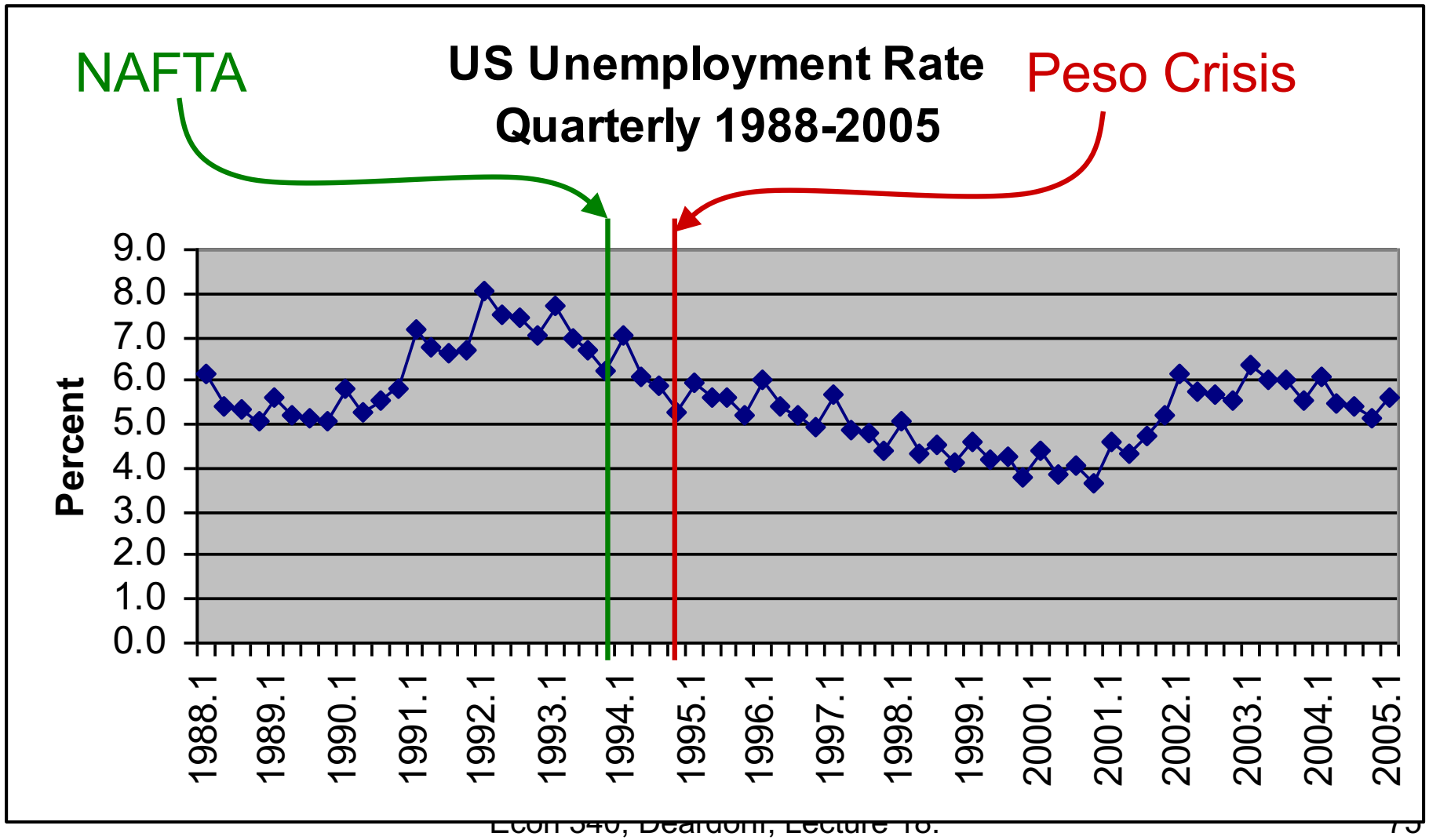
NAFTA: What Happened - Mexico Wages Fell after Crisis



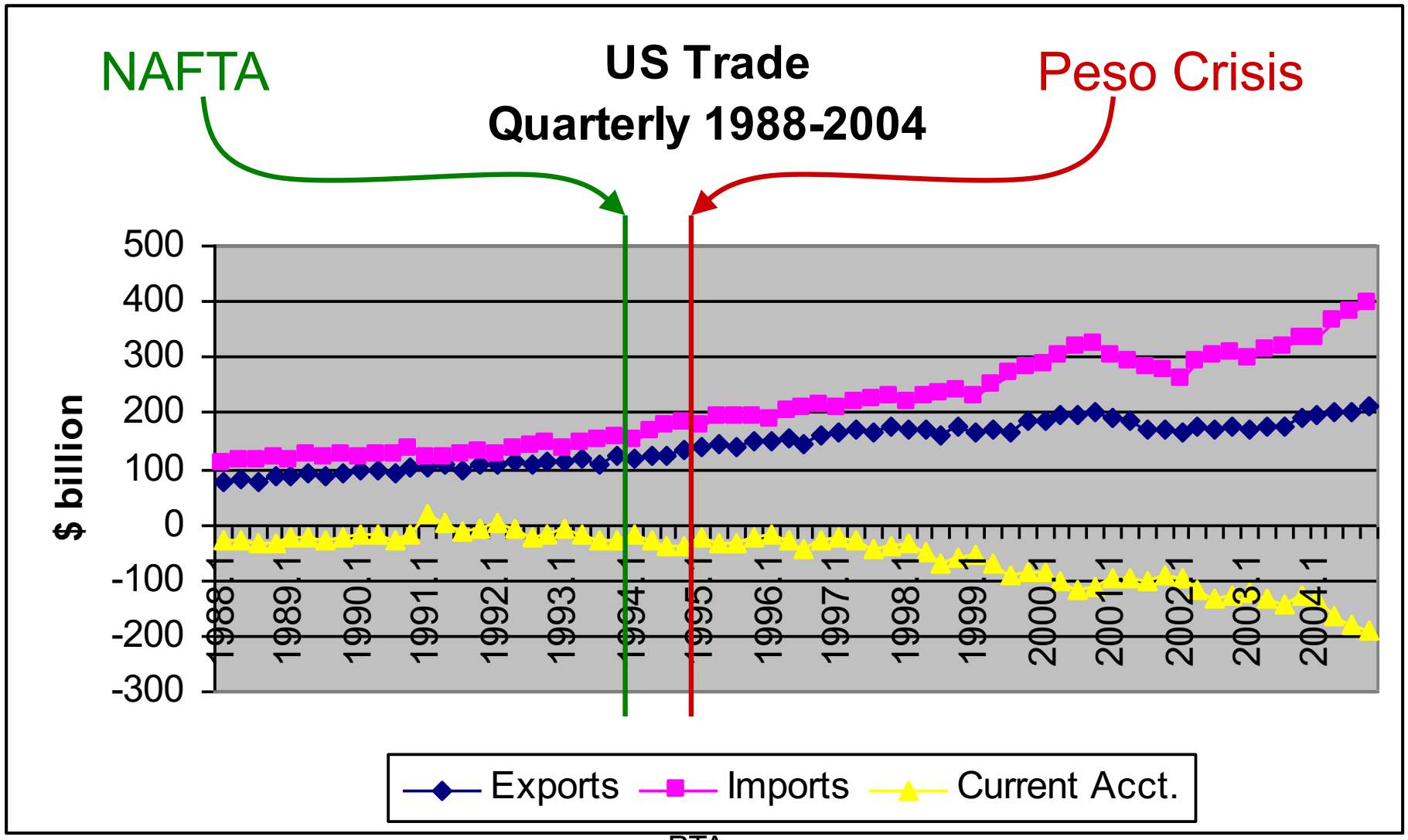
NAFTA: What Happened - Mexico Real Wages Plummeted!



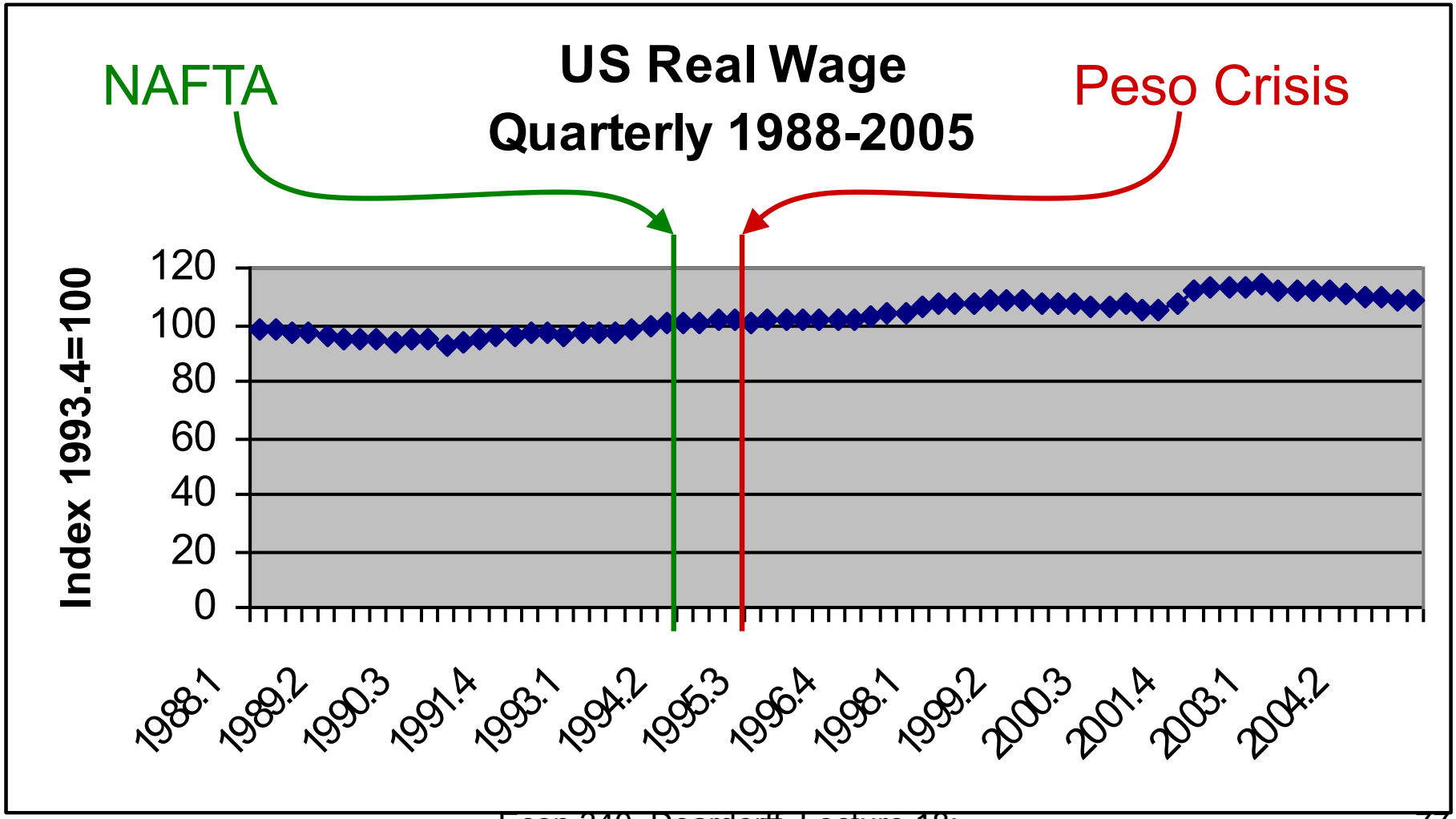
NAFTA: What Happened - US Unemployment: No effect (or fell)



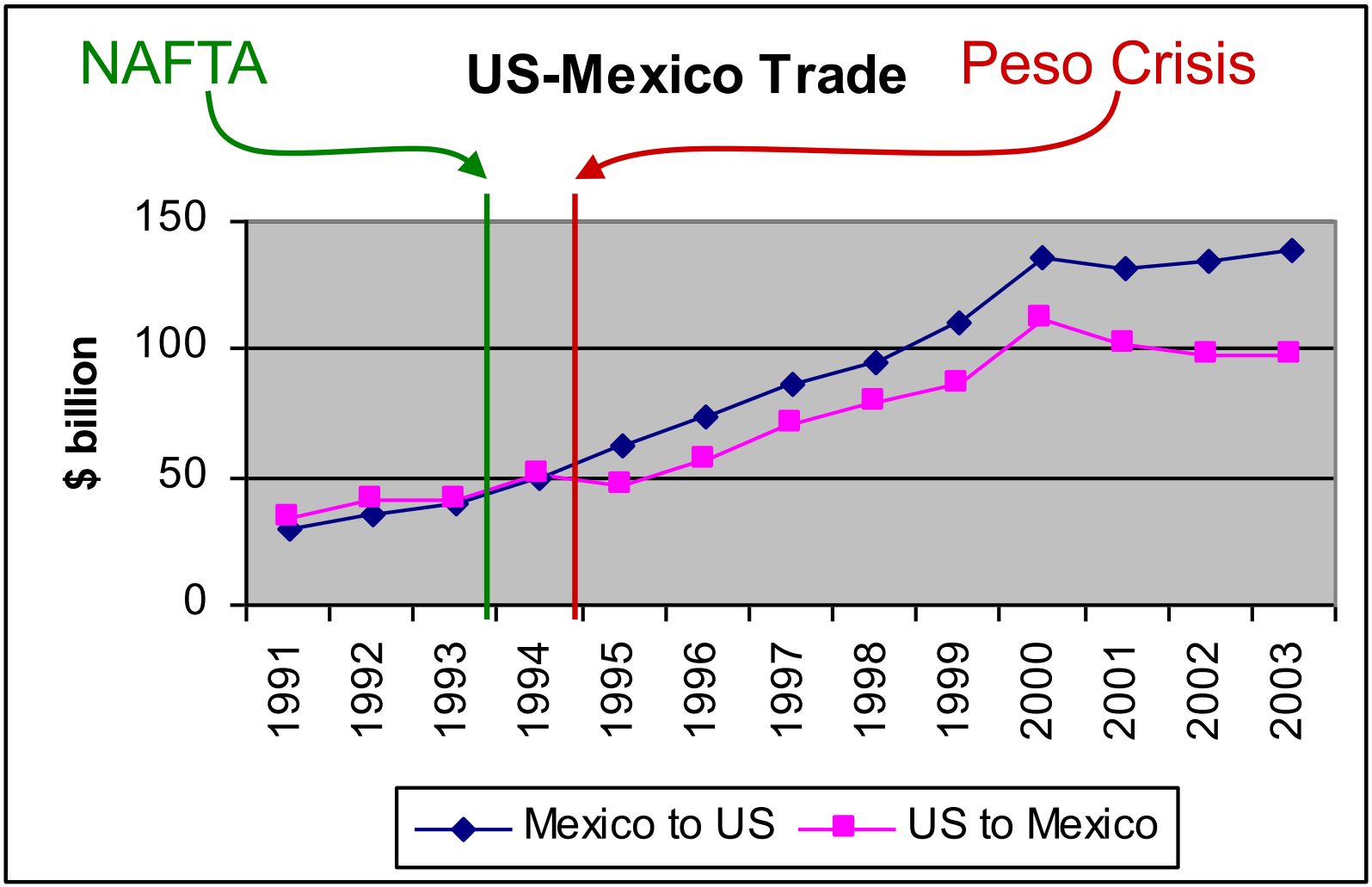
NAFTA: What Happened - US Trade: Continued growth



NAFTA: What Happened - US Real Wage: No Change



NAFTA: What Happened
Trade Grew, More To US than From



NAFTA: What Happened

Skipped to here from slide 43

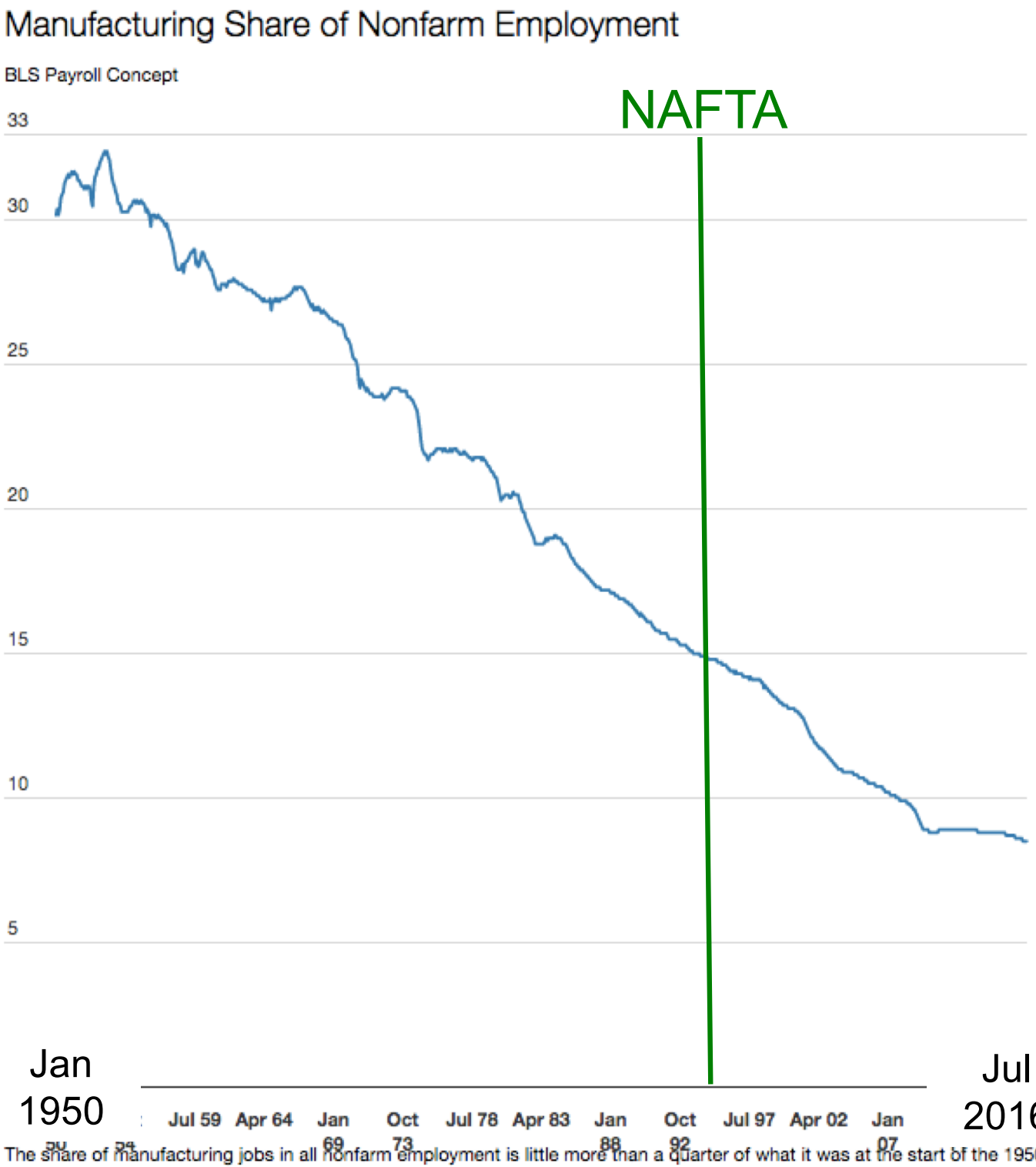
- Posen (see reading) says
  - "For every 100 jobs US manufacturers created in Mexican manufacturing, they added nearly 250 jobs at their larger US home operations"
  - Unemployment in US was actually lower after NAFTA than before (until the 2008 financial crisis)
  - Fears of Mexican farmers crossing border into US haven't happened:
    - border apprehensions have fallen since 2000,
    - as have most estimates of illegal immigration
  - Critics say NAFTA cost 45,000 jobs a year.
    - That may be true
    - But this is only 0.1% of normal job turnover in the US, where 4m-6m workers leave or lose jobs per month)

NAFTA: What Happened

- Villarreal & Fergusson (see reading) say
  - "In reality, NAFTA did not cause the huge job losses feared by the critics or the large economic gains predicted by supporters."
  - "The net overall effect of NAFTA on the U.S. economy appears to have been relatively modest, primarily because trade with Canada and Mexico accounts for a small percentage of U.S. GDP."
  - "However, there were worker and firm adjustment costs as the three countries adjusted to more open trade and investment among their economies."

NAFTA: What Happened

- DeLong (see reading) notes that
  - The shift from manufacturing to services is just one of many such shifts that have happened in history
    - From hunter-gatherers to agriculture
      - And then horses, fertilizer, mechanization
    - From agriculture to manufacturing
  - Estimates of any jobs lost (shifted really) due to NAFTA were a tiny fraction of US employment
  - The decline in US manufacturing employment did not start, or even speed up, with NAFTA


Manufacturing Share of Nonfarm Employment
BLS Payroll Concept
NAFTA
33
30
25
20
15
10
5
Jan 1950
Jul 2016
Jul 59
Apr 64
Jan 69
Oct 73
Jul 78
Apr 83
Jan 88
Oct 92
Jul 97
Apr 02
Jan 07
The share of manufacturing jobs in all nonfarm employment is little more than a quarter of what it was at the start of the 1950s

NAFTA: What Should Happen?

- During 2008 primary campaign, Obama (& Clinton) argued for "renegotiating NAFTA"
  - Early on, said NAFTA was "devastating" and "a big mistake"
  - Obama later said only that he would "open up a dialogue" with Canada and Mexico
  - Wanted stronger agreements on labor and environmental standards
- After 2008
  - Obama administration did not tamper with NAFTA
  - NAFTA was not an issue in the 2012 campaign
  - Did negotiate TPP=Trans-Pacific Partnership, FTA that included Canada and Mexico

NAFTA: What Should Happen?

- Faux (see reading) says
  - NAFTA has
    - Caused a larger wage gap between US and Mexico
    - Turned US bilateral trade surplus into deficit
    - Driven 2 million Mexican farmers off the land (due to US subsidies)
    - Caused illegal immigration from Mexico to double
  - Reason: Mexico is "run by a small elite of crony capitalists" who were strengthened by NAFTA
  - Argues for a deal that would
    - Create a "fund for investment in Mexico" (like what EU did for Spain, Portugal, Ireland, Greece)
    - In exchange, require "guarantees for free trade unions, enforceable minimum wages, and an increase in education and other social spending"

NAFTA: What Should Happen?

- Donald Trump, before election
  - Trump opposed NAFTA as early as 1993
    - "The Mexicans want it, and that doesn't sound good to me."
  - Called NAFTA "The single worst trade deal ever approved in this country"
- Donald Trump, after election
  - Called for renegotiation of NAFTA, as promised
  - May 18, 2017, Trump formally launched renegotiation
  - Aug 16, 2017, negotiations began

Clicker Question

How has the US share of employment in manufacturing changed before and after NAFTA?

a) It rose before NAFTA and fell after
b) It fell before NAFTA and rose after
c) It rose both before and after NAFTA
✓ d) It fell both before and after NAFTA
e) It was constant over time before NAFTA and fell after

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NAFTA Renegotiation Issues

- Trade imbalances: Trump wants deficits to fall
- Rules of origin: tighten them
- Dispute mechanisms: keep or remove
  - Chapter 11: Investor-State Dispute Settlement (ISDS)
  - Chapter 19: Dumping and CVD
- Dairy and poultry (Canada's policies)
- Sunset clause
- New issues (digital trade, state-owned enterprises, labor standards)

Clicker Question

Which of the following is not being asked for by the US in the NAFTA renegotiation?

a) That Mexico reduce its trade surplus with the US

✓ b) That Mexico pay for a wall between the US and Mexico

c) That Canada reduce its tariff on imported dairy

d) That any agreement have a "sunset clause"

e) That more North American content be required for cars to be imported tariff-free into the US

Clicker Question

Why did the NAFTA not require free trade within North America in energy? (This is from the Schultz and Aspe reading, not lecture)

a) Because the NAFTA countries did not then produce energy products

b) Because Ross Perot, an oil company executive, would have objected.

✓ c) Because the oil sector in Mexico at that time was state owned.

d) Because that would have violated the rules of the GATT.

e) Because Republicans owned the US oil companies.

USMCA

- Outcome of the Renegotiation
  - May 18, 2017: Renegotiation began
  - Aug 27, 2018: Agreement reached between US and Mexico
  - Sep 30, 2018: Agreement reached with Canada to join USMCA
- USMCA = U.S.-Mexico-Canada (Trade) Agreement

USMCA

- Features of USMCA
  - Auto rules of origin
    - Required North American content raised from 62.5% to 75%
    - 40-45% content must be from labor paid $16/hr or more (but does not rise with inflation)

USMCA

- Features of USMCA
  - New rules (similar to TPP) on
    - Intellectual property
    - Environment
    - Labor
    - Financial services
    - Digital trade

USMCA

- Features of USMCA
  - Sunset clause? Not exactly
    - Revisit deal after 6 years
      - If happy, extend for 10 more
      - If not, new negotiations

USMCA

- Features of USMCA
  - Canadian dairy
    - Canada will increase permitted imports of dairy from US, to 3.6% of its market
    - Canada to cease selling some dairy ingredients abroad at low prices and will tax exports over over some threshold

USMCA

- Features of USMCA
  - Currencies
    - Commitment to “refrain from competitive devaluations and targeting exchange rates”

USMCA

- Features of USMCA
  - Trade with China
    - Countries must inform US 3 months before beginning trade negotiations with any “non-market economy” (i.e., China)
    - If agreement with such economy is reached, US can terminate USMCA with six months notice.

USMCA

- Features of USMCA
  - Chapter 19
    - Keeps this dispute settlement system for trade remedies such as anti-dumping
    - Does not apply them to “national-security-based” tariffs

USMCA

- Features of USMCA
  - Chapter 11 (ISDS)
    - Removes this for disputes between US and Canada
    - Keeps it for disputes with Mexico

USMCA

- "Side letter" of USMCA
  - Promise to shield Canada Mexico from future "national-security-based" tariffs (i.e., cars) (not enforceable)

USMCA

- NOT a Feature of USMCA
  - Removal of US recent tariffs on steel and aluminum from Canada and Mexico
  - But these were eventually removed anyway, May 17, 2019

USMCA

- Prospects for approval
  - Must be approved by all three legislatures
    - Canada: Dairy will resist, but approval assured
    - Mexico: Ratified June 19, 2019
    - US: Contentious, Democrats in House want changes

USMCA

- Importance of USMCA
  - Trump: “It’s not NAFTA redone, it’s a brand-new deal”
  - NYT: “a consequential set of revisions”
  - Economist: “a modest revision”, “inferior to the agreement it replaces”
  - Bown: deal to “result in less trade, not more”

Clicker Question

Once the USMCA is fully in place, how much of a car imported to the US from Mexico with zero tariff can be made in China?

a) None
b) 10%
✓ c) 25%
d) 37.5%
e) 50%

The required North-American content will rise to 75% (from 62.5%)

Clicker Question

What country's past currency manipulation was the reason for including this as a feature of USMCA?

a) Canada
✓ b) China
c) Mexico
d) US
e) All of the above except US

Clicker Question

Which of the following is not an issue included in the USMCA?

a) Intellectual property
b) Environment
c) Labor
✓ d) Aircraft
e) Digital trade

Next Time

- International Policies for Economic Development: Trade
  - The Issues
  - Washington Consensus
  - Pros and cons of free trade for developing countries
  - Policy recommendations

Clicker questions on skipped slides.

Clicker Question

Under what US president was the NAFTA approved in Congress?

a) Ronald Reagan
b) George H. W. Bush
✓ c) Bill Clinton
d) George W. Bush
e) Barak Obama

Clicker Question

When did the Peso Crisis happen, compared to the NAFTA?

a) One year before
b) One month before
c) One week after
✓ d) One year after
e) Two years after

Clicker Question

What happened to real wages in the US and Mexico over the years after the NAFTA?

a) Wages rose a lot in Mexico and fell a lot in the US

b) Wages fell a lot in Mexico and rose a lot in the US

c) Wages changed very little in both countries

d) Wages changed little in Mexico and fell a lot in the US

✓ e) Wages changed little in the US and fell a lot in Mexico