



New USMCA deal is Signed As A Replacement For NAFTA – Here Is What You Need To Know

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US President Donald Trump joined Mexican President Enrique Peña and Canadian Prime Minister Justin Trudeau to sign the new United States-Mexico-Canada Agreement (USMCA) during the G20 summit

in Argentina. The new trade agreement is expected to replace NAFTA, a trade deal that had been highly criticized by Trump. The signing signals an important step forward in normalizing trade relations between the three nations but the process of ratification is still long.

It's not clear whether the US Congress will ratify the deal. The matter became complicated further when Democrats took control of

the House in the just concluded midterms. Some Democratic lawmakers have expressed objections to some aspects of the deal. Mexico on the other hand has sworn into office President Elect Andres Manuel Obrador. Obrador has been described by some analysts as a radical and populist leftist who vowed to end neo-liberalism in his inauguration speech. He is the first leftist to be elected President in Mexico in decades. Obrador has however made

◀ it clear that he will be pursuing closer trade and diplomatic relations with the US. It's also very likely that he will push for the ratification of USMCA in Mexico. So, what does this deal offer? Here are some highlights:

Country of Origin rules for the auto industry – the new USMCA deal outlines that all automobiles must have at least 75% of their components manufactured in the US, Mexico, or Canada to qualify for zero percent tariffs. This is a higher percentage compared to NAFTA that set 62.5%.

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There will also be changes in labor requirements in the auto industry. The new deal stipulates that between 40 to 45 percent of all automobile parts must be made by workers who earn an hourly wage of at least \$16. Affected companies will have until 2023 to implement this

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provision. Mexico has also agreed to pass new laws that will give workers in the country the right to union representation. The laws will also extend protections for migrant workers and women.

Tariff exemptions – this is perhaps the most significant step. Mexico and Canada had made it clear that they wanted protections from US tariffs as part of new trade negotiations. Under US law the President can impose tariffs to adjust import of goods. This is the loop hole that was used by Trump to impose steel and aluminum tariffs on Canada, Mexico, and the EU among other countries.

The USMCA deal forces the US to create exemptions for Canada and Mexico from future tariffs.

Why Does This Deal Matter to Mexico?

The USMCA trade agreement if ratified will create one of the biggest free trade zones in the world. Early estimates show that the deal could account to nearly \$1.2 trillion in trade between the three countries. This will have a lot of positive implications on the economies of Mexico, Canada, and the US. In addition to this, the signing of the agreement signals the easing in trade tensions after the US announced its withdrawal from the original NAFTA deal. The tensions have negatively affected investor sentiment not just in Mexico but also in the US. Analysts also believe that new provisions for the auto industry will spur new investments in the sector. Proposed Labor reforms too under the agreement could prove attractive for investments in Mexico in the future.