The NATIONAL INTEREST FOUNDATION

USMCA, a Replacement for NAFTA, Passes in the House

On December 19th, 2020, the U.S. House of Representatives passed the United States-Mexico-Canada Agreement (USMCA) – a replacement for the 1994 North American Free Trade Agreement (NAFTA) – in a sweeping 385-41 vote. American labor groups have backed the new trade deal which ensures stronger labor and environmental provisions. The deal is expected to revitalize U.S. manufacturing, and is likely to be approved by the U.S. Senate early next year. USMCA will mark a significant change in U.S. economic strategy toward the rest of the world.

President Trump has previously called NAFTA one of the worst trade agreements. He sought to renegotiate change to the deal while at the same time attacking the whole system of free trade, undermining the World Trade Organization (WTO), which the U.S. helped establish in the 1990s. During the process, Trump has also started trade wars with not only China, but also with longtime U.S. allies like Canada, Mexico, and Europe.

Under the new USMCA deal, some of the exchange trade fund (ETF) areas that could be impacted include the agriculture and auto industry. For example, USMCA consists of a requirement that 75% of auto parts come from North America, as opposed to the 62.5% that was required under NAFTA. That provision also demands that 40 to 45 percent of all automobile content be produced by workers making at least $16 an hour, which will reduce Mexico's main competitive advantage with American-based plants. This is expected to reassure auto and auto-parts manufacturers to invest in U.S. plants moving forward. Overall, the U.S. Trade Representative's office estimates that the USMCA will add at least 76,000 additional jobs in the automobile sector within five years of its implementation.

U.S. steel should also benefit from the requirement of higher North American content in the auto industry. Additionally, the USMCA will also give farmers greater access to Canadian markets, especially for the dissemination of dairy products.

U.S. Treasury Secretary Steven Mnuchin estimates that the deal will add 0.5% to U.S. GDP growth. Since consumer spending makes up about 70% of the U.S. GDP, incremental growth from the USMCA deal should benefit consumer stocks and ETFs as well.

The USMCA is a temporary deal that will expire in 16 years. Future administrations may insist on further changes to ensure that U.S. interests are being respected, and as such, trade ministers from each North American country must meet and review the trade agreement's operations every six years.