United States-Mexico-Canada Agreement (USMCA)

Why in news?

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- The U.S., Canada and Mexico arrived at a revised trade agreement, replacing the North American Free Trade Agreement (NAFTA).
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- Click here to know more on NAFTA.
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What is the new deal?

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- The new deal will be known as the United States-Mexico-Canada Agreement, or USMCA.
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- The USMCA makes changes to the earlier NAFTA that had some concerns.
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- It will thus replace the quarter-century-old North American Free Trade Agreement (NAFTA).
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- USMCA does not do anything new to promote the cause of free trade among the North American nations.
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- But it achieves the objective of avoiding any significant damage to the international trade system.
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What are the key changes?

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- **Canada** - There are changes in production quotas applied to Canada’s dairy industry.

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- These quotas were intended to help protect the industry by restricting supply.
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- But Canada will now have to allow American dairy producers to compete against locals.
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- This move will largely favour the Canadian consumers.
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- **Cars and Trucks** - The goal of the new deal is to have more cars and truck parts made in North America.
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- Starting in 2020, to qualify for zero tariffs, a car or truck must have 75% of its components manufactured in Canada, Mexico or the US.
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- This is a substantial boost from the current 62.5% requirement.
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- Starting in 2020, cars and trucks should have at least 30% of the work on the vehicle done by workers earning $16 an hour.
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- This is about three times what the typical Mexican autoworker makes.
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- The move addresses the skewed location preferences problem due to the lower wages in Mexico.
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- Besides these, Mexican trucks that cross the border into the US must meet higher safety regulations.
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- **Dispute settlement** - The U.S. agreed to retain Chapter 19 and Chapter 20 dispute-settlement mechanisms as a compromise.
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- Chapter 19 allows the 3 countries to challenge one another’s anti-dumping and countervailing duties before a panel of representatives from each country.
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- This will help Canada and Mexico deal with protectionist duties imposed by the U.S. against their exports.
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- **Intellectual Property** - The new IP chapter contains more-stringent protections for patents and trademarks.
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- These include that for biotech, financial services and even domain names.
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- These updates were necessary given that the original agreement was

negotiated 25 years ago.
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- **Drugs** - U.S. drug companies can now sell pharmaceuticals in Canada for 10 years before facing generic competition.
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- That's up from 8 years of so-called "market protection" now.
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- **Review** - The USMCA stipulates that the three nations will review the agreement after six years.
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- If all parties agree it's still good, then the deal will continue for the full 16 year period.
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What are the concerns?

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- Not all the amendments are very favourable to the prospects of free trade.
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- Many are simply hard compromises that Canada and Mexico may have made just to defuse trade tensions with the U.S.
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- E.g. Canada giving greater market share to U.S. dairy farmers
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- Much like other free trade deals, the USMCA also attempts to micromanage trade.
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- It seems to be benefitting only specific interest groups at the cost of the overall economy.
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- E.g. the new labour regulations and rules of origin will add to the cost of production of goods such as cars
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- This could make them uncompetitive in the global market.
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- Also, the minimum wage specification will make North America a tough place to do business.
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- The agreement does away with resolutions through multilateral dispute panels for certain sectors.
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- So foreign investors may now have fewer protections from unfriendly local

laws.
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What does it mean for India?

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- The agreement is potential to end up as a double-edged sword for the U.S.'s major trading partners including India.
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- Mr. Trump signalled of resetting trade ties with the European Union, China, Japan and India.
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- Terming India "the tariff king", he said it had sought to start negotiations immediately.
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- India's trade negotiators now have the task of ensuring India's exporters the access to a largest market for its services and merchandise.
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Source: The Hindu, The Washington Post

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