

USMCA

WHAT IT IS AND WHAT IT DOES.



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The United States-Mexico-Canada Agreement (USMCA) is a modernization of the North American Free Trade Agreement (NAFTA). The USMCA, which came into effect on the first of July 2020, aims to benefit career creators, workers, and the North American economy.

This piece comes courtesy of the Arizona Junior Fellows, a program of the Arizona Chamber Foundation. You can read more work like this at [Business Ballot](#), which publishes detailed analyses and bridges the gap between industry and politics.



Modernization of NAFTA

Taking effect in 1994, more than 25 years ago, the North American Free Trade Agreement (NAFTA) intended to expand trade between the U.S., Mexico, and Canada. In addition, it aimed to make these countries more competitive within the global marketplace, expanding North American economic prowess.

NAFTA was often criticized for costing American jobs and hurting the domestic automotive industry, policy areas prioritized by the drafters of the United States-Mexico-Canada Agreement, or USMCA. Accelerating member countries' economic growth, [increasing exports](#), and lowering oil and grocery prices were all benefits of NAFTA, and USMCA signatories sought to expand on these impacts of the old agreement in the new agreement, albeit with some changes.

Designed to compete with the Treaty of Rome, which laid the groundwork for the European Union, and the Treaty of Maastricht which established the European Union, NAFTA has been the hallmark of North American economic cooperation. Now, the USMCA has taken its place.

Effective July 1st, 2020, the USMCA applies to the United States, Mexico, and Canada and was ratified by all three nations' Presidents and legislative bodies. Due to its multilateral impact, the treaty [explicitly pursues](#) "mutually beneficial trade leading to freer markets, fairer trade, and robust economic growth in North America."

Expected economic impacts

The Office of the United States Trade Representative published a [report](#) in 2019 detailing the projected economic impacts of the USMCA agreement, concluding that it would lead to expanded American prosperity and Mexican and Canadian commerce.

Raising American economic output (GDP) by \$68.2 billion, the USMCA could generate up to 176,000 American jobs. Its "bigger impact", however, regards its updating and of "international data transfers and e-commerce" standards, which were not included in NAFTA.



Intellectual property and digital trade

A key chapter of the USMCA extends the [terms of copyright](#) to an additional 70 years after the life of the author. NAFTA limited copyrights to 50 years.

USMCA also includes additional provisions regarding the digital economy. These [new provisions](#) will prohibit customs duties and “other discriminatory measures” from being applied to products that are distributed electronically. This includes, but is not limited to eBooks, music, software, and games.

Additionally, this chapter will include protections for internet companies so that these companies are not liable for any content their users produce.

De Minimis

In an effort to increase cross-border trade Mexico and Canada will raise their de minimis shipment value levels. The de minimis thresholds for each country under the USMCA are as follows:

- Canada - \$150 CAD for customs duties and \$40 CAD for taxes;
- Mexico - \$117 USD for customs duties and \$50 USD for taxes;
- United States - \$800 USD.

This means shipments that have values up to these levels now can enter with minimal entry procedures. This allows businesses, specifically small and medium sized businesses (SMEs) to partake in cross-border trade with more ease.

Financial services

The updated financial services chapter maintains its commitment to liberalize financial services markets. In addition, the chapter aims to “facilitate a level playing field for U.S. financial institutions, investors and investments in financial institutions, and cross-border trade in financial services”.

Agriculture

Under USMCA, updates have been made to allow for food and agriculture to flow relatively freely across borders, as well as expand exportation of U.S. agricultural products.



This chapter also outlines how Canada must open its dairy markets to U.S. farmers, and Canada will eliminate some of its intricate pricing schemes for certain price-classes of milk.

It will also [open](#) the grocery store wine market in British Columbia to American wine.

Other agricultural highlights within the USMCA are as follows:

- Maintains NAFTA's existing zero-tariff treatment;
- Cooperation on agricultural biotechnology that includes rules to address all biotechnologies, including new technologies such as gene editing in order to support 21st century innovations in agriculture;
- Canada will eliminate its discriminatory grading of U.S. wheat, and no country-of-origin statement will be required on Canada's quality grade certificates.

USMCA & manufacturing

The USMCA [will require](#) 40-45% of auto content to be made by workers who earn no less than \$16 an hour. Specifically, at least 40% of the value of a passenger car and 45% of a light truck. Any auto manufacturer that fails to meet this requirement is subject to tariffs.

Additionally, automotive companies will also be [required](#) to manufacture at least 75% of the car's components in either Mexico, Canada, or the U.S. without being subjected to tariffs, compared to the previous 62.5%.

For more information on the USMCA and the automotive sector click [here](#).

American manufacturers

Besides expanding American manufacturing access to Mexico and Canada, the USMCA is intended to expand economic opportunities for American workers.

Canada and Mexico are American manufacturers' most critical partners. Together they [purchased a third](#) of all the nation's manufactured goods in 2016. [According](#) to the Northern American Economic Alliance, "U.S.



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manufactured goods exports to Canada and Mexico alone support more than two million jobs in the United States”. As a result of NAFTA, American manufacturers [added 800,000 jobs](#) in the first four years after NAFTA’s establishment, and USMCA is sold as an improved and modernized version of this agreement.

Annually, both Canada and Mexico purchase [half a trillion dollars](#) of American manufactured goods, surpassing the next 10 U.S. trading partners combined. These purchases, [according](#) to the North American Economic Alliance, “generate almost \$37,000 in export revenue for every American factory worker”.

The USMCA commits to strengthening IP rules which will protect intellectual property pertinent to the American manufacturing sector. This in turn sets updated standards for the digital economy and will expand American manufacturing’s ability to develop and export products. USMCA also aims to ensure that American manufacturers are able to sell their products duty free across North America.

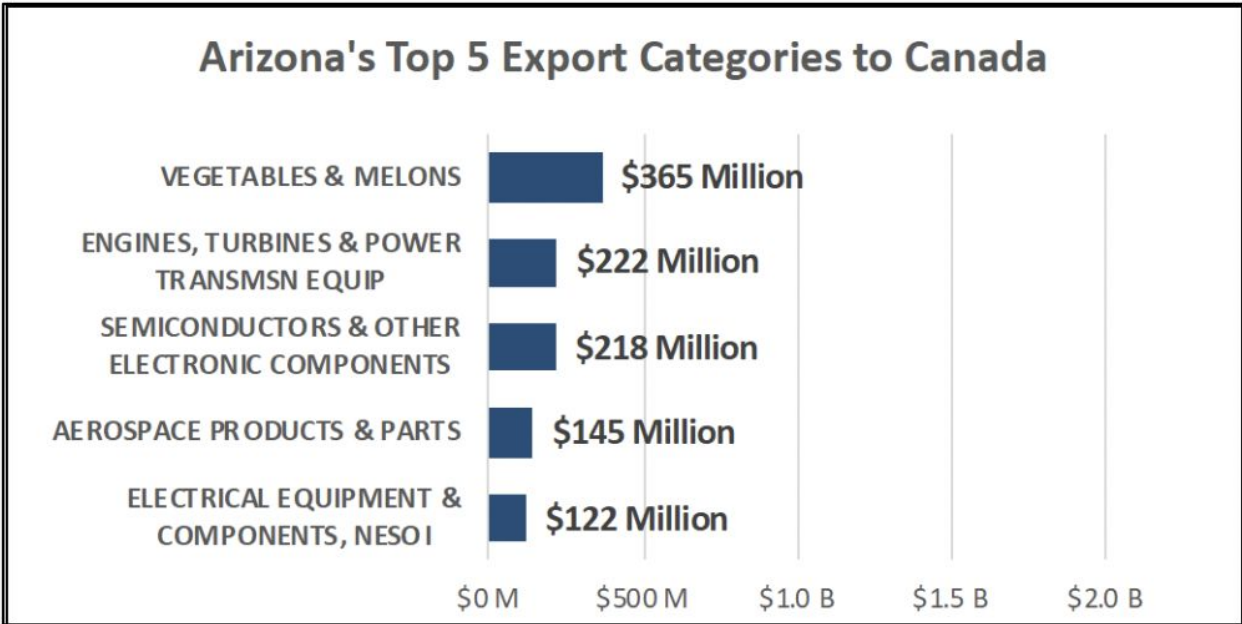
By raising standards, increasing opportunity for growth, prohibiting anti-U.S. discrimination by foreign governments, and increasing ease of access at the border, the USMCA is a huge win for manufacturers across the country.

USMCA & Arizona

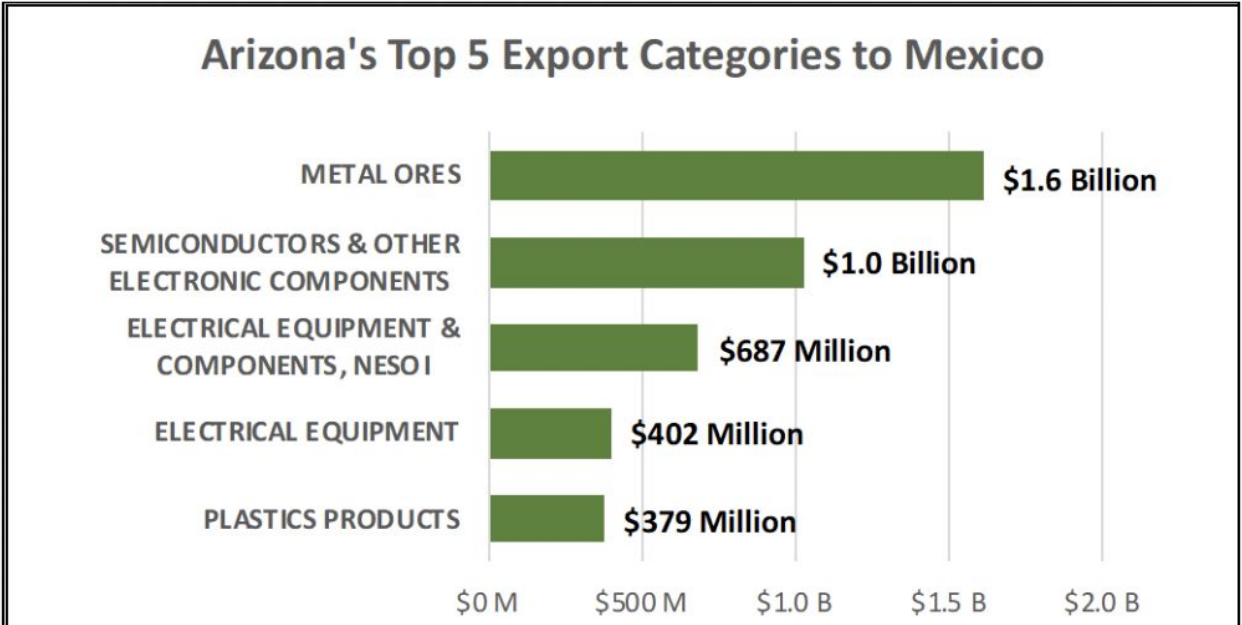
The USMCA is particularly important in Arizona. In 2019 the state exported \$24.7 billion worth of goods and was the 19th largest exporter of goods within the country. Of that \$24.7 billion, \$10.4 billion of that was exported to Mexico and Canada which accounted for 42% of the state’s exports to the world. In 2018, 87% of companies who exported goods from our state were SMEs.



In 2019, Arizona exported \$2.2 Billion to Canada, 9 percent of Arizona's exports to the world.



In 2019, Arizona exported \$8.2 Billion to Mexico, 33 percent of Arizona's exports to the world.



[According](#) to the International Trade Administration, the state's top exports to both of those countries include computer and electronic products, electric equipment, appliances and components; minerals and ores; transportation equipment, and machinery. All six of those industries combined employ over 90,000 people within the state and all six of those industries are focused on by the USMCA.

Future of the USMCA

The USMCA includes a sunset clause, which means the terms of the agreement will remain in effect for a set period of 16 years. At the end of this period all three countries can revisit and/or renegotiate terms if they so choose. Additionally, at that time any party has the ability to withdraw from the agreement all together. That being said, after a period of 6 years the term of USMCA's sunset clause (16 years) can be revisited and/or extended if the parties feel it beneficial.

To read the full USMCA text click [here](#).

The Arizona Chamber Foundation published a policy review in 2019 titled "The USMCA And Its Impact on Arizona" that goes further in-depth on the agreement's impact on Arizona directly. You can find that text [here](#).

