



TRADE UNCERTAINTY DISSIPATES

The United States has been striving for fairer trade deals to bolster its economic growth, but not at the expense of others.

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For the past few years, corporate CEOs, supply chain managers, investors, and others have been faced with a sea of uncertainty due to a variety of ongoing trade disputes. While negotiations between the United States and many other societies persist with respect to the future structure of commercial engagement, 2020 ushers forth a level of certitude regarding such matters that has eluded decision-makers since at least 2018.

2020 will be different with two new trade agreements

In March 2018, the Trump Administration announced tariffs on steel and aluminum imported into the United States, citing national security concerns.¹ Since at least that point, relations with China, which produces about half the world's steel, have

been rocky. Indeed, the United States has bumped heads with many trading partners in recent years, including a variety of European and Latin American nations, as well as India. The administration in Washington has also avoided engaging in multinational trade negotiations, favoring a strategy of negotiating on a one-on-one basis. There has been at least one noteworthy exception, however — North America.

Trade negotiations among the three North American nations commenced in mid-2017 and were sufficiently complicated and intense enough that consensus in the United States was not achieved until 2019's final month.² Intended to update or perhaps even replace the North American Free Trade Agreement (NAFTA) signed by President Bill Clinton in 1994, the United States–Mexico–Canada Agreement (USMCA or “new NAFTA”) drills down on a number of key issues, including agricultural production, the environment, and working conditions.

Even the most ardent free trader would likely have to agree that, at a minimum, NAFTA required some updating given the emergence of digital movies, e-books, and

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streaming music, which didn't exist a quarter century ago.³ With so much activity taking place online and so much new intellectual property generated each day, new rules of engagement were in order.

For many U.S. negotiators, the most important outcomes concerned creating more opportunities for domestic manufacturers and agrarians. Accordingly, among the provisions in the new agreement are:

1. country of origin rules;
2. labor provisions;
3. specified opportunities for U.S. dairy farmers; and
4. new rules regarding intellectual property and digital trade.⁴

As an example of a country of origin rule, automobiles must now have 75 percent of their components manufactured in Mexico, Canada, or the United States to qualify for zero tariffs (up from 62.5 percent under NAFTA). As an example of a key labor provision, 40 to 45 percent of automobile parts must be made by workers who earn at least \$16/hour by 2023. The deal also extends the terms of copyright to 70 years beyond the life of the author, up from 50.⁵ These types of provisions would tend to favor the United States, where workers are generally more expensive. Additionally, the United States produces more intellectual property than any society on the planet.

The USMCA wasn't the only trade agreement reached in 2019. While tensions will persist through 2020 and likely beyond, the United States and China managed to achieve a Phase 1 trade agreement that helps pause a cycle of tariff-laced retaliation that had the potential to undo the current global economic recovery cycle. The deal reduces certain U.S. tariffs on Chinese goods while bolstering Chinese purchases of American farm, energy, and manufactured goods. The deal also addresses some complaints from the United States regarding intellectual property practices.⁶

Perhaps the most important aspect of the Phase 1 agreement is that it forestalls the implementation of additional barriers to trade. As part of the agreement, the United States agreed not to proceed with the 15 percent tariffs scheduled to go into effect on nearly \$160 billion worth of Chinese goods, including cellphones and

laptops.⁷ These tariffs would have been implemented during the busy holiday-shopping seasons and could have been damaging for many electronics retailers.

There are many benefits for U.S. contractors. First, these trade agreements render it more likely that the current economic expansion, already unprecedented in length, will persist longer, fueling additional demand for construction services in the process. Second, a more favorable trade environment should help moderate commodity and construction material price increases. Third, the ability of negotiators to reach a Phase 1 deal arguably renders it more likely that additional agreements can be reached and makes all-out trade war less likely. In other words, there may be additional trade-related benefits to come.

As evidence that trade deals matter to contractors, the National Association of Home Builders released a statement in support of the USMCA, stating, "The U.S. residential construction and remodeling industries rely on tens of billions of dollars in building materials sourced from Mexico and Canada annually because America cannot produce enough steel, aluminum and other materials and equipment to meet the needs of the domestic housing industry. The price volatility of these imported materials and equipment [is] needlessly driving up housing costs and exacerbating the nation's housing affordability woes."⁸ Additionally, the USMCA would eliminate tariffs on energy products shipped among the three countries, perhaps supplying customers of asphalt manufacturers in the United States, who depend on favorable oil prices, some benefit.

Implications

There was a time when it was unclear what President Donald J. Trump and his administration were attempting to achieve with respect to trade. Was Washington imposing tariffs on steel, aluminum, and other products because it didn't favor trade, or to negotiate better deals for American producers? It appears that we now have an answer — the United States has been striving for fairer trade deals to bolster its own economic growth, but not necessarily at the expense of others. ■

NOTES

- ¹ Swanson, A., Trump to impose sweeping steel and aluminum tariffs, *The New York Times* (March 1, 2018). Available at: <https://www.nytimes.com/2018/03/01/business/trump-tariffs.html>.
- ² Long, H., The USMCA is finally done. Here's what is in it, *The Washington Post* (Dec 10, 2019). Available at: <https://www.washingtonpost.com/business/2019/12/10/usmca-is-finally-done-deal-after-democrats-sign-off-heres-what-is-it/>.
- ³ "United States–Mexico–Canada trade fact sheet, modernizing NAFTA into a 21st century trade agreement," Office of the United States Trade Representative (2018). Available at: <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2018/october/united-states%E2%80%93mexico%E2%80%93canada-trade-fa-1>.
- ⁴ "United States–Mexico–Canada trade fact sheet, agriculture: Market access and dairy outcomes of

the USMC agreement," Office of the United States Trade Representative (2018). Available at: <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2018/october/united-states%E2%80%93mexico%E2%80%93canada-trade-fact>.

- ⁵ Kirby, J., USMCA, Trump's new NAFTA deal, explained in 600 words, *Vox* (Dec 19, 2019). Available at: <https://www.vox.com/2018/10/3/17930092/usmca-mexico-nafta-trump-trade-deal-explained>.
- ⁶ Lawder, D., Shalal, A., and Mason, J., What's in the U.S.-China 'phase one' trade deal, *U.S. News and World Report*, (Dec 13, 2019). Available at: <https://money.usnews.com/investing/news/articles/2019-12-13/fact-box-whats-in-the-us-china-phase-one-trade-deal>.
- ⁷ *Ibid.*
- ⁸ "Deal reached on USMCA trade pact," NAHBNOW (Dec 10, 2019). Available at: <http://nahbnow.com/2019/12/deal-reached-on-usmca-trade-pact/>.