Key provision of USMCA trade deal aimed at China

By Nick Beams
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The US-Mexico-Canada Agreement (USMCA) on trade that was concluded last week contained a clause which makes clear that one of its essential aims is the economic isolation of China, as the US steps up its trade war against Beijing.

The clause, contained in article 32.10 of the agreement, stipulates that: "Entry by any Party into a free trade agreement with a non-market country, shall allow the other Parties to terminate this Agreement on six-month notice and replace this Agreement with an agreement as between them (bilateral agreement)."

China was not specifically named but there is no doubt it is the target, with the US having designated it a "non-market" economy.

International experts have said that nothing like this clause has ever been seen in previous trade deals. According to Gary Hufbauer of the Peterson Institute for International Economics, the clause is "completely novel in a trade agreement." He described it as the "latest strand in the Cold War that the [US] administration has launched against China."

US Commerce Secretary Wilbur Ross told Reuters the clause was "logical" and a "kind of poison pill." The US insisted upon it during the negotiations with Canada after raising concerns that Prime Minister Justin Trudeau was exploring the possibility of a free trade deal with Beijing.

The provision is intended to go far beyond Canada and Mexico and become the template for the bilateral trade agreements the US is seeking with its major trading partners, in particular the European Union.

In the lead-up to the USMCA deal, the US secured an agreement from both the EU and Japan for bilateral negotiations on trade. Both parties had been reluctant to enter such discussions, fearing that in one-on-one negotiations they would be forced to make major concessions in order to secure access to US markets. However, they dropped their previous insistence on multilateralism after President Donald Trump threatened to invoke auto tariffs of up to 25 percent on "national security" grounds if they did not agree—a threat also used against Canada.

Reporting on the non-market economy (NME) clause in the USMCA, the *Financial Times* cited an unnamed "senior White House official" who said the US "would try to replicate it in other negotiations, including talks that have started with the EU and Japan as well as future talks with the UK" after it leaves the EU.

"Will this be a precedent for the future? Absolutely," the official told the newspaper. "It's important that we make sure that any agreements we enter into do not ultimately get undermined and China does not find a backdoor way to gain access to the US market."

Asked about a future free trade agreement [FTA] with Britain after it leaves the EU and whether the US would insist on restrictions in dealing with China, the official said: "I'm not going to say we are absolutely going to put an NME cause in that arrangement … [but] if we do enter into an FTA with the UK, are we going to say, you need to work with us on provisions to counter the biggest threat to the global trading system? Absolutely."

Arthur Dong, a professor at Georgetown University's McDonough School of Business, told the *Financial Times* the US move to restrict other countries' dealings with China marked a "very significant departure from the previous US trade posture" and were "nothing less than an intended strategic reset of the global trade order."

Dong said: "Should the EU or Japan contemplate a direct trade deal with China, they will have to act cautiously as there will be consequences to such actions."

Dan Price, a former senior official in the George W. Bush administration, told the newspaper: "This is essentially extending US secondary sanctions architecture through a trade agreement. If you wish to have preferential access to the US market, you may not conclude FTAs with countries we don't like."

How far such an extension of US sanctions potentially could go can be seen in the measures initiated by the Trump administration following its repudiation of the nuclear agreement with Iran.

Despite every international agency responsible for the agreement having declared that Iran has fully complied with its terms, the US decreed that any corporation buying oil from Iran, or having dealings with its central bank, will be excluded from the US financial system from November 4. While the EU is trying to devise a system to get around the sanctions, significant European corporations, among them the French oil company Total, have announced they will not go ahead with investment projects in Iran.

The Trump administration's actions represent a significant escalation of the US trade war, but they are not simply a product of the present-day occupants of the White House. They are a deepening of the Obama administration's policies, even though Trump scrapped its specific measures, such as the Trans-Pacific Partnership with Asian countries excluding China, and the Transatlantic Trade and Investment Partnership covering relations with the EU.

The aim of these agreements was, in the words of Obama's Trade Representative Michael Froman, to place the US "at the center of a web of arrangements that will provide unfettered access to two-thirds of the global economy."

In a *Foreign Affairs* article in November 2014, entitled "The Strategic Logic of Trade," Froman made the connection between trade, national security and military preparedness. These have been the Trump administration's essential themes as it links trade to "national security" issues.

Froman noted that "trade policy is national security policy" and "markets can have as much influence as militaries." He identified the essential driving force of the agenda of US imperialism as it moved to do away with the foundations of the post-war trading order that had been based on multilateral agreements. The US, he wrote, no longer held "as dominant a position as it had at the end of World War II, and it must build trade coalitions willing to work toward consensus positions."

In other words, the post-war international trading system had undermined the dominance of the US and had to be fundamentally changed.

This is the Trump administration's position. It has only put the shift in cruder terms, as it rails against the present trading system as having "ripped off" the US to the tune of hundreds of billions of dollars, to the benefit of its old rivals in Europe and Japan and a new one in the form of China.

The Trump administration is now lashing out to try to reverse this decline and achieve a "consensus" and a "coalition of the willing" to back its objectives through economic warfare against "foes" and "allies" and, if necessary, by military means. The intended "reset" of international trade relations through the NME stipulation in the USMCA is another significant step in this accelerating process.