

# EASING TENSIONS: ON U.S.-MEXICO TRADE DEAL

Relevant for: International Relations | Topic: NAFTA

Amid rising global trade tensions, there are some signs to hope that all is not lost. The [United States and Mexico on Monday reached a breakthrough](#) bilateral trade agreement replacing the decades-old North American Free Trade Agreement (NAFTA) after Mexico agreed to concessions demanded by the Donald Trump administration. According to the new agreement, 75% of all automobile content must be made regionally, which is higher than the current level of 62.5%. Further, 40-45% of such content must be manufactured using labour that costs at least \$16 an hour. The U.S. hopes that this will discourage manufacturers from moving their facilities to Mexico, where labour is available at rates lower than in the U.S. It has also invited Canada to join talks for a renegotiation of trade terms in favour of U.S. interests. Notably, the U.S.-Mexico bilateral trade deal comes in the aftermath of President Trump's statement in June that he might enter into separate trade agreements with Canada and Mexico, thus effectively junking the tripartite NAFTA deal. U.S. stocks rallied after news of the deal, with the Nasdaq Composite index moving above the 8,000 level for the first time ever and the Dow Jones index breaking above 26,000. The market reaction was probably a sign of relief, riding on hopes that tit-for-tat tariff wars between the U.S. and its trade allies could now draw to a close. It is worth noting that Mexico had earlier joined hands with other economies such as Canada, China and the European Union to impose retaliatory tariffs against the U.S.

## U.S., EU agree to ease trade tensions

Mexico's decision could set an example for other countries which have resorted to retaliatory tariffs to deal with Mr. Trump's aggressive trade war against them. China has been at the forefront of this approach, slapping tariffs on several U.S. goods, together worth billions of dollars. There can be no doubt that Mr. Trump's protectionist trade policy, including the current deal which increases restrictions on cross-border trade in order to protect U.S. jobs, is bad for the global economy. However, the best way to win the trade war against the U.S. may simply be to accept "defeat" by refusing to double down on retaliatory tariffs. The reason for such a response is simple. Retaliatory tariffs can only cause further harm to the world economy by increasing the burden of taxes on the private sector, which is crucial to spur growth and create jobs. Further, there is no reason for America's trading partners, in an attempt to protect their domestic producers, to repeat Mr. Trump's mistake of depriving domestic consumers of access to useful foreign goods. The right response to Mr. Trump's trade war will be to abstain from any mutually destructive tit-for-tat tariff regimes while simultaneously pushing for peace talks.

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