PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

The Path to NAFTA 2.0

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NAFTA Timeline in the US Congress

- On May 18, 2017 US Trade Representative Lighthizer sent 90-day notice to Congress of intent to renegotiate NAFTA.
- On July 17, 2017 US negotiating objectives were published, 30 days before negotiations start.
- Around August 17, 2017 new talks will formally begin.
- If an agreement is reached, the president must notify Congress and wait 30 days before signing.
- Once the implementing legislation is delivered to Congress, the House and Senate have 90 legislative days for an up or down vote on the entire package (“fast track”).
- On July 1, 2018 “fast track” negotiating authority will expire but the Trump administration can request a 3-year extension which will be granted unless either the House or Senate disapproves.

Shift in US Trade Policy under Trump Administration

- **For the first time since 1930, trade was high-profile in the US election**—US trade policy now constrained by anti-globalization sentiment.

- **Four priorities announced** to ensure level playing field for US companies and workers:

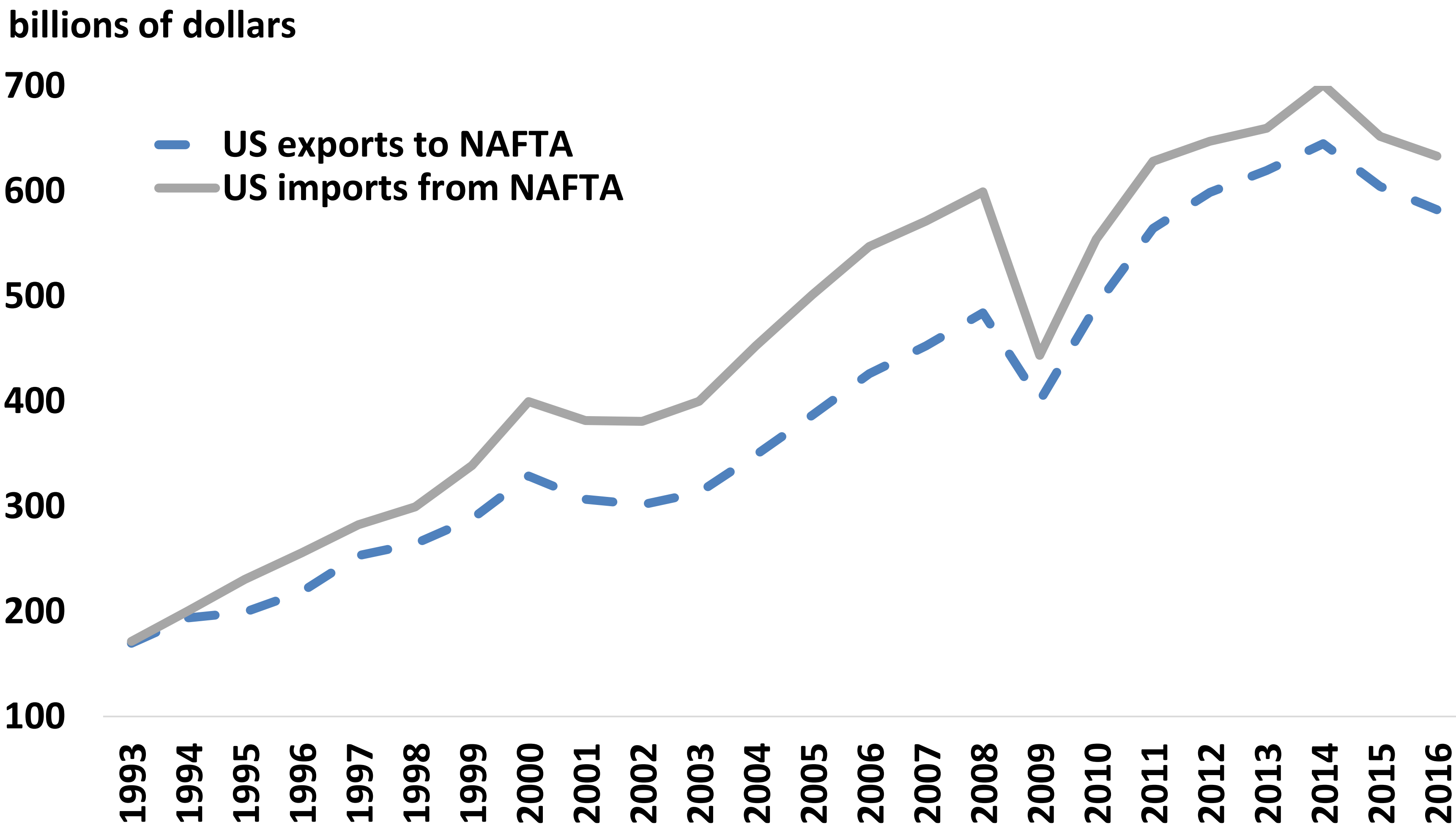
    1. Defend US national sovereignty;
    2. Strictly enforce US trade laws;
    3. Use leverage to encourage other countries to open their markets to US exports, and enforce intellectual property rights;
    4. Negotiate new and better trade deals**—first up, NAFTA**.

- **“Fairness,” as defined by the administration, is the overarching theme:** (1) Bilateral trade balance; (2) Mirror image reciprocity.

- **Preference for bilateral talks** rather than regional/multilateral initiatives.

- **Aggressive use of US unfair trade statutes** and national security reviews to impose restrictions on imports like steel.

Since 1993, US-NAFTA trade increased by a factor of 3 to $1.2 trillion in 2016



Sources: World Bank's *World Integrated Trade Solutions* database, US Bureau of Economic Analysis.

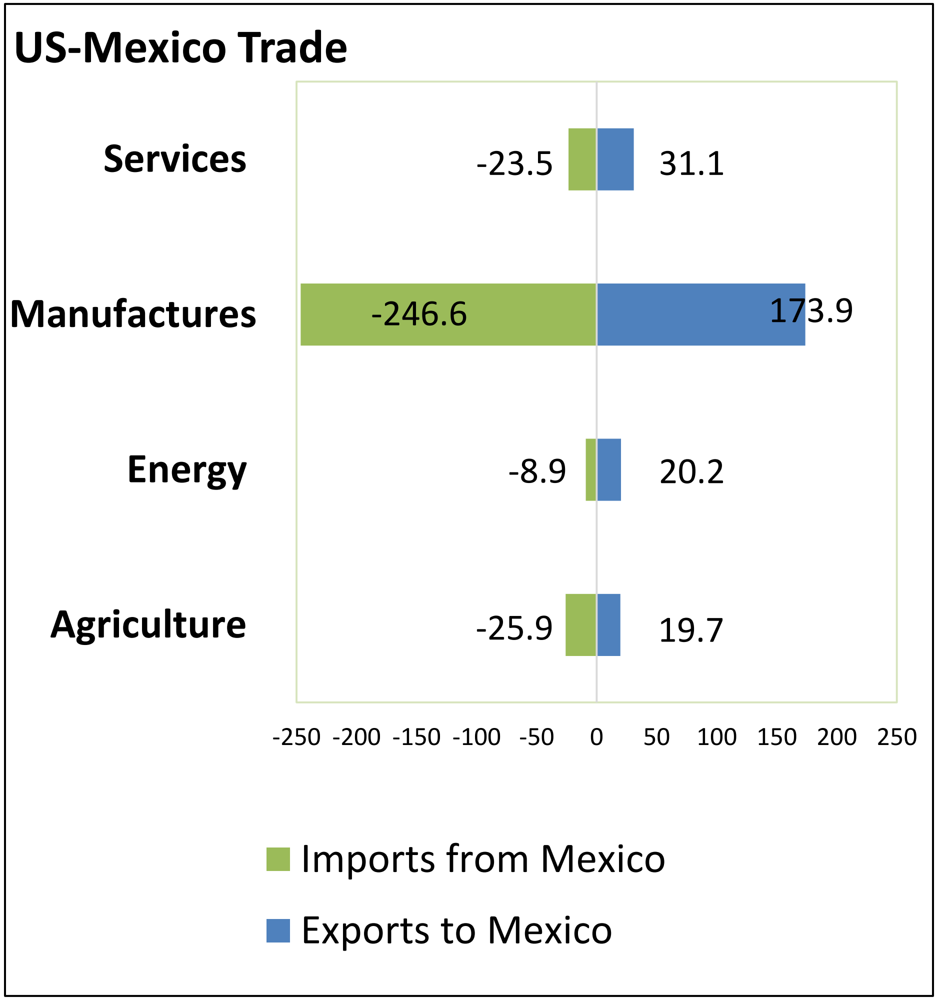
US Trade with Canada and Mexico

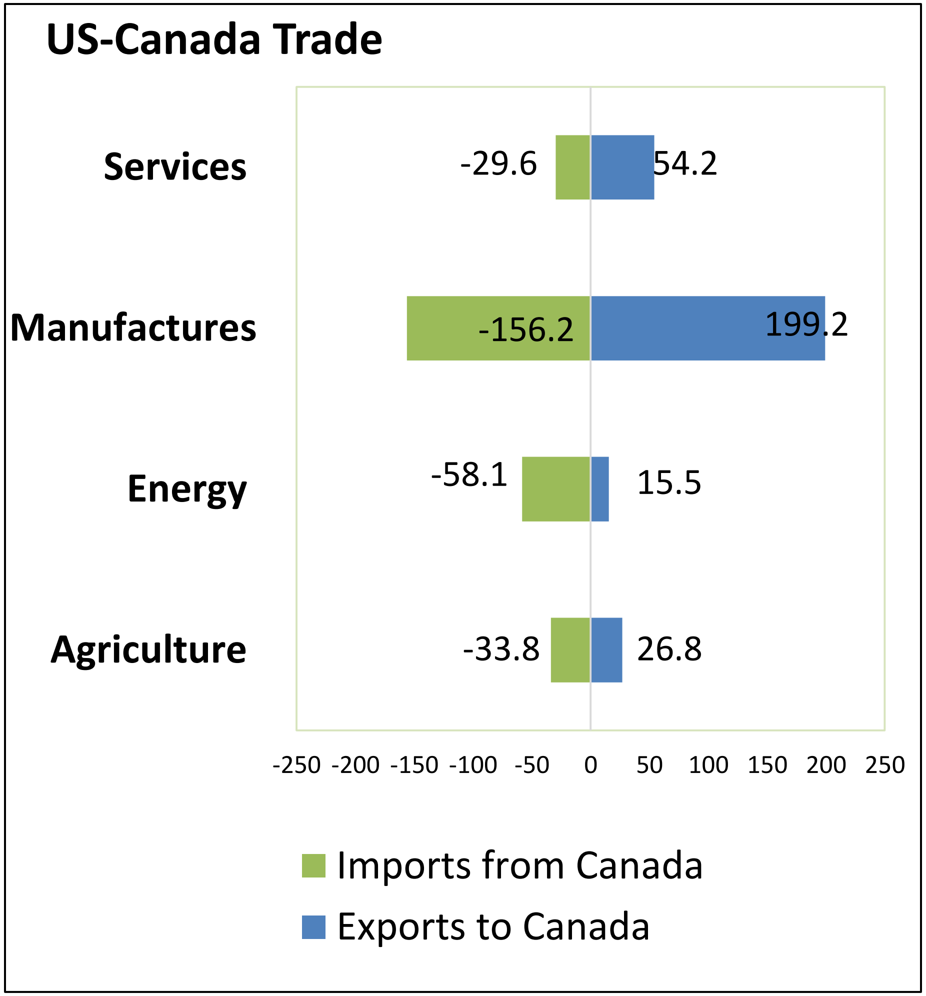
- Two-way US trade with Canada is practically balanced; US trade with Mexico shows a persistent bilateral trade deficit.
- If energy is excluded from the total trade balance, the US runs a large trade surplus with Canada.

US trade in goods and services, 2016	**Canada (US$ billion)**	**Mexico (US$ billion)**
Exports of goods and services	322	262
Exports of energy	17	22
Imports of goods and services	314	324
Imports of energy	56	9
Trade balance on goods and services	8	-62
Trade balance on goods and services excluding energy	47	-75
Trade balance on goods	-17	-69

Note: Energy includes coal, crude oil, petroleum products, electric energy and other energy products.
Source: US Bureau of Economic Analysis and US Census Bureau

US Trade with Mexico and Canada, By Product, 2016





Source: World Bank's WITS database.

What Did NAFTA Achieve?

- **Economic Payoff**
  - **Benefits flow <u>both</u> from larger exports and larger imports** of goods and services. US two-way trade is some $635 billion larger on account of NAFTA.
  - **A $1 billion increase in trade generates GDP gains of $200 million for countries like Canada and US**; for Mexico it generates GDP gains of $500 million.
  - **For a US household of 3 persons, the payoff is $1,200.**

- **Political Payoff**
  - A new foundation for US-Mexican relations.
  - Fostered Mexico's transition from a one-party system of state capitalism to a multiparty, market-oriented system.

Impact of NAFTA on US Workers

- **More than 400,000 workers lost jobs involuntarily** between 1994-2002 because of NAFTA according to Department of Labor – 50,000/year
- **Represented less than 2% of the 31 million total jobs lost involuntarily over that period**—most jobs were lost because of automation and other nontrade factors.
- However, Hakobyan and McLaren (2016) found that **1.3 million workers experienced slower wage growth of 5%** or more during 1990s because of import competition from Mexico.

Trade agreements have little net effect on national employment but do contribute to "churn" in the job market. They are not a leading cause of stagnant wages for non-college American men.

Negotiating Objectives

- Seek reciprocal and balanced trade – reduce bilateral trade deficit with Mexico.
- Secure commitments not to impose customs duties on digital products.
- Include labor and environment provisions in the core of the Agreement and enforce these obligations.
- Remove all restrictions on “Buy America” preferences at the state and municipal level.
- Eliminate NAFTA Chapter 19 Review of AD and CVD determinations.
- Eliminate the NAFTA global safeguard exclusion.
- Reduce or eliminate barriers to US investment in all sectors in the NAFTA countries.

These demands will be strongly resisted by Mexico and Canada.

Alternates to Successful Negotiation: US-Canada

- In talks fail, **President Trump has threatened to withdraw from NAFTA**.
- If Trump abrogated NAFTA, US-Canada trade relations would **largely revert to terms of Canada-US FTA of 1989 (CUSFTA).**
- CUSFTA would **carry on most of the bilateral trade preferences**.
- However, the deal **did not address problems that have provoked Trump's criticism of NAFTA – in particular, Canadian import barriers on dairy and a few other products.**
- Canada and Mexico **would continue to apply NAFTA** to their bilateral trade.

Alternates to Successful Negotiation: US-Mexico

- **Mexico and the United States would revert to most favored nation (MFN) tariff treatment like other WTO members.**
  - US applied MFN tariffs average 3.5%, Mexican MFN tariffs average 7%.
- **But Mexico's high bound rates—the upper threshold committed to in the WTO—gives it great latitude to raise tariffs beyond MFN.**
  - More than 90% of US exports to Mexico (by value) are in products with bound rates above 30% (Amiti and Freund 2017).
- **Terminating NAFTA would severely disrupt North American supply chains.**

Thank you!