

NAFTA and Its Effects

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The Many Automotive Truths of NAFTA
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NAFTA

“The single worst trade deal
ever approved in this country”

- Donald J. Trump, candidate

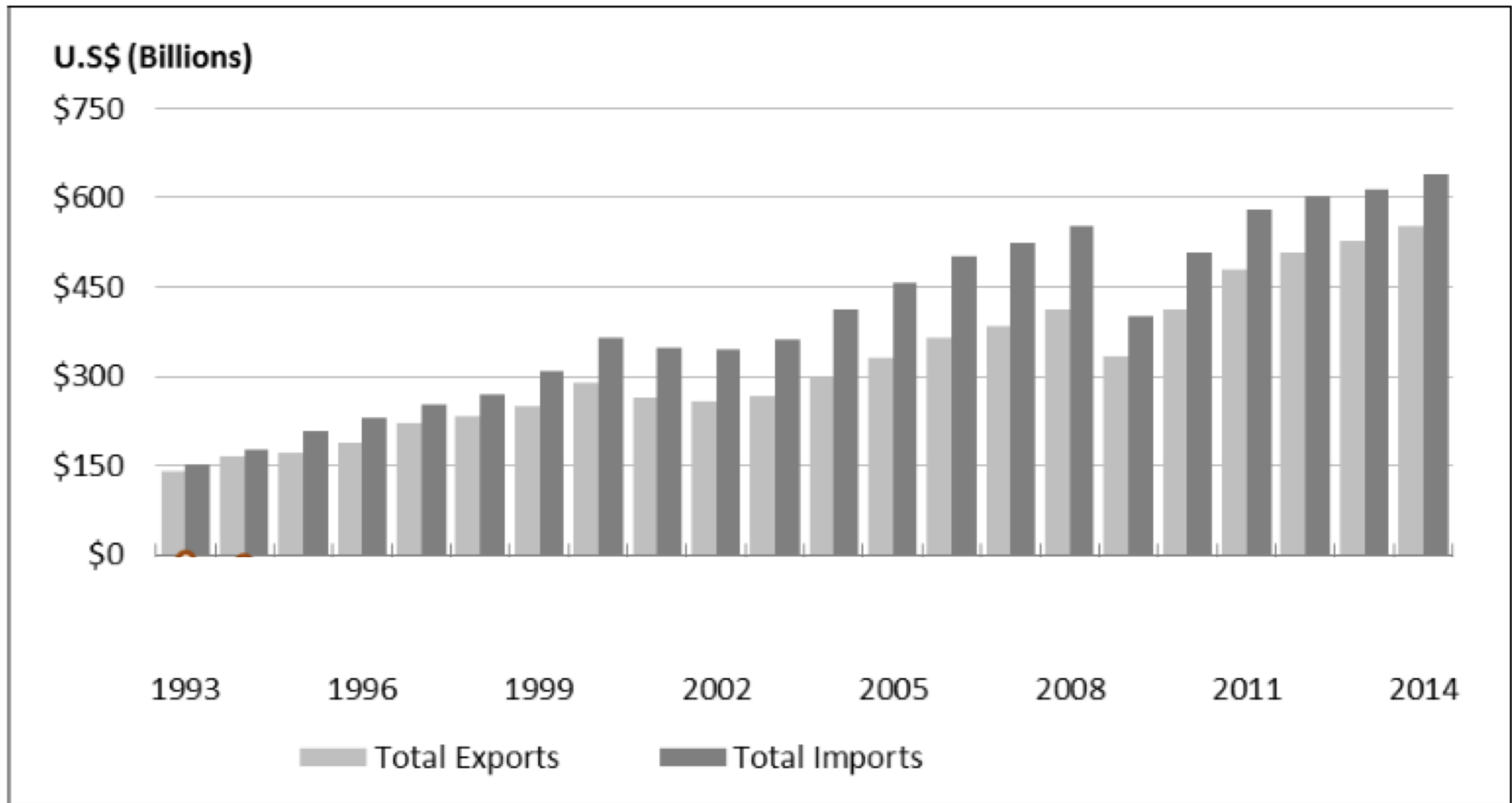
I'll look at

- Trade after NAFTA
- Economic analyses of NAFTA
- Renegotiating NAFTA

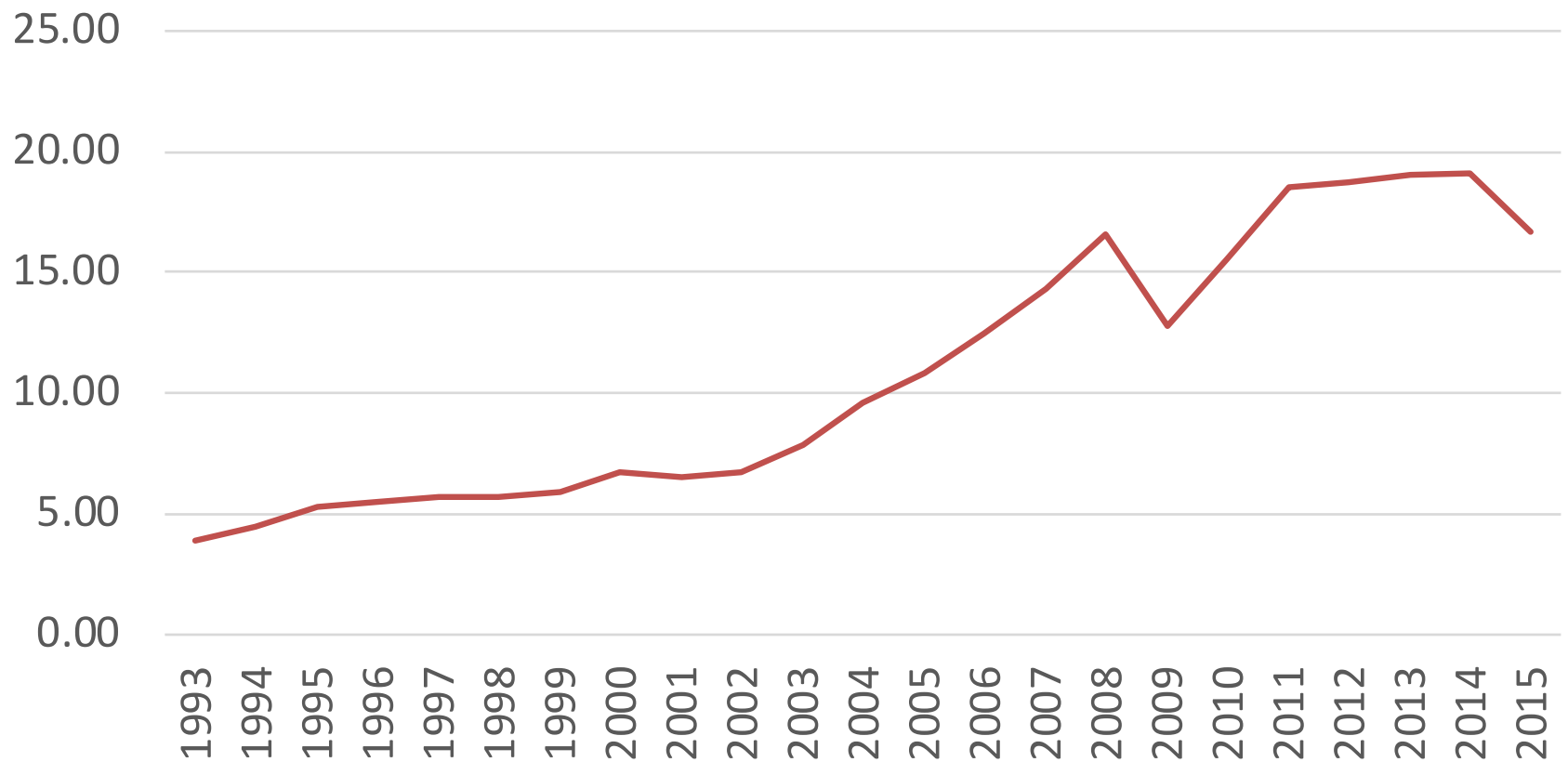
Growth of Trade after NAFTA

- US-NAFTA trade doubled 1993-2000
- World trade grew much less
- US-NAFTA trade grew more slowly after 2000
- World trade took off after 2001 (China's entry to WTO)

Figure 1. U.S. Merchandise Trade with NAFTA Partners: 1993-2014
(billions of nominal U.S. dollars)



World Merchandise Trade \$ trillion



Source: WTO data

US Trade Deficit after NAFTA

- Deficit with NAFTA partners grew
 - From about zero in 1993
 - To \$150 billion in 2008
- Most of that was petroleum
- Non-petroleum deficit is now back to about zero

Figure 1. U.S. Merchandise Trade with NAFTA Partners: 1993-2014
(billions of nominal U.S. dollars)

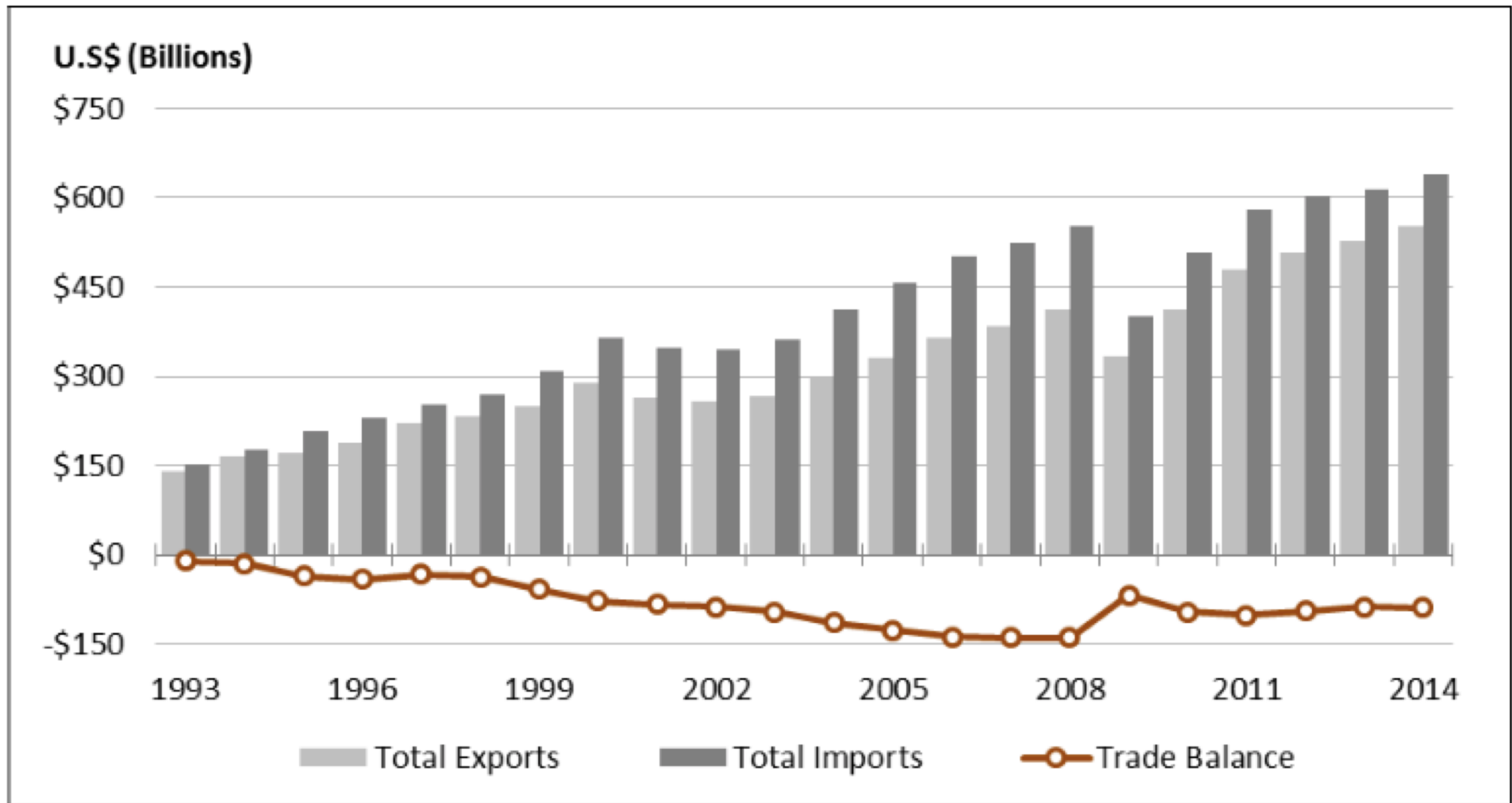
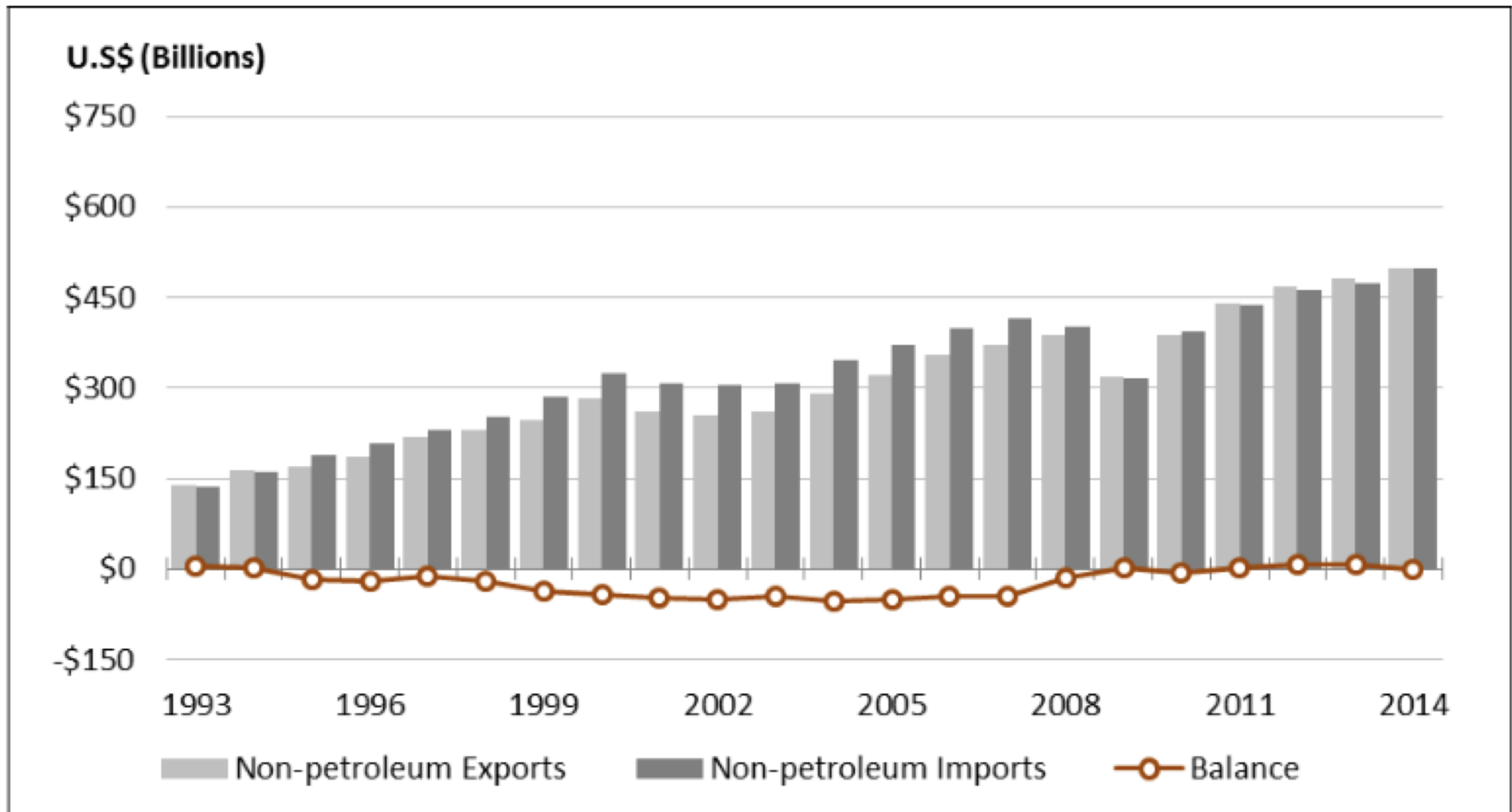


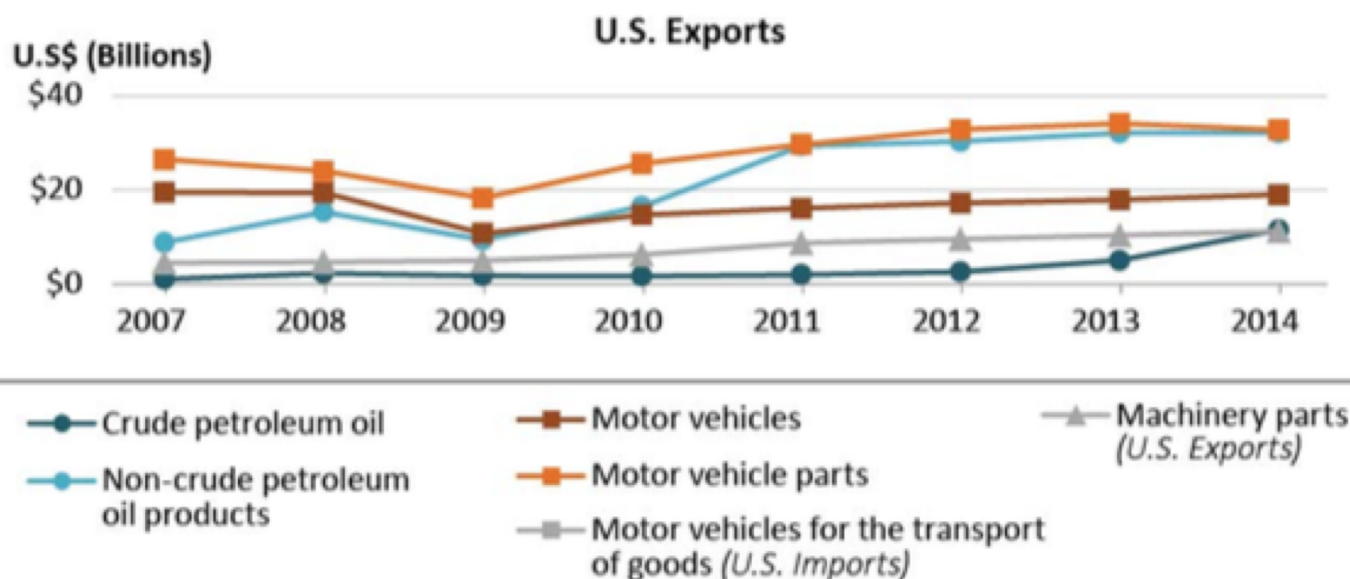
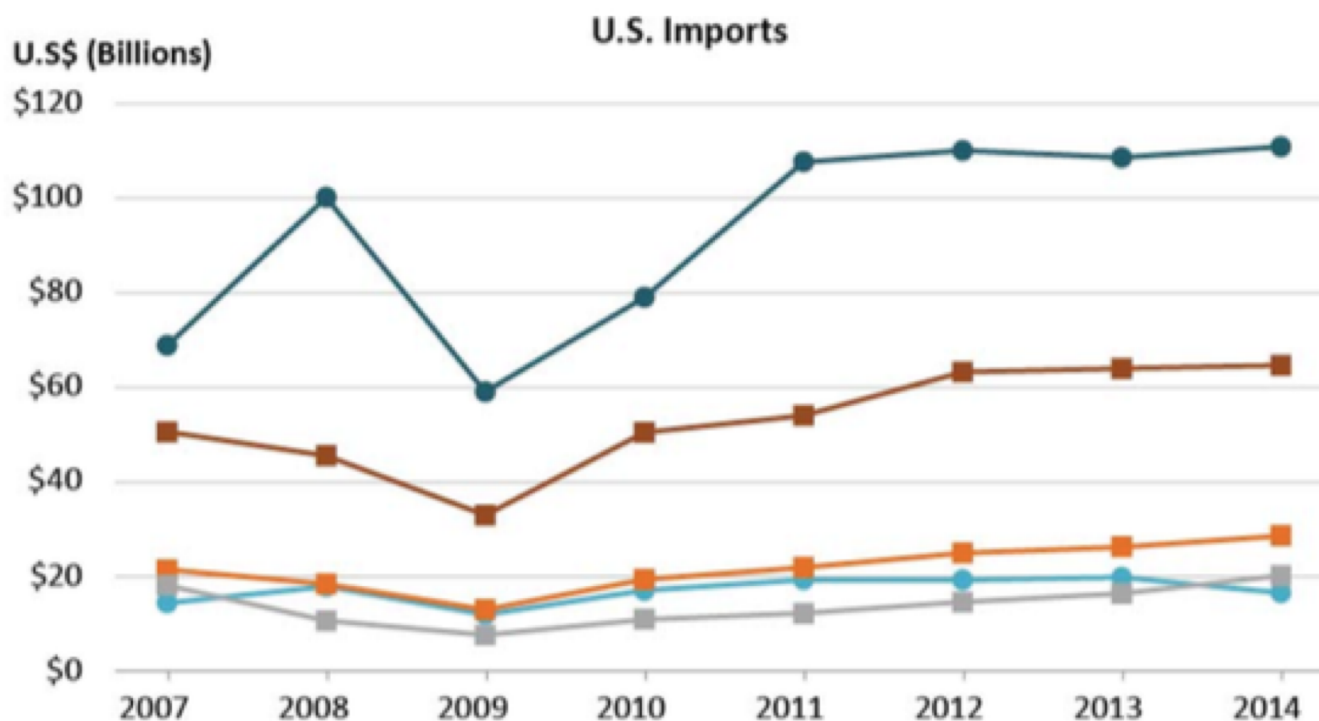
Figure 2. Non-Petroleum Trade with NAFTA Partners: 1993-2014
(billions of nominal U.S. dollars)



Components of US-NAFTA Trade

- Largest imports are petroleum
- Largest exports are motor vehicle parts (also a major import)
- Motor vehicles are major import and (though smaller) export

Figure 3. Top Five U.S. Import and Export Items to and from NAFTA Partners
(billions of nominal U.S. dollars)



Source:
Congressional
Research
Service (2015)

Effects of NAFTA Analyses: Before

- Many studies examined likely effects
- Some, from both sides of the debate, used spurious analysis to support their views
 - Example: All imports from Mexico are viewed as costing jobs
 - On the positive side, advocates of NAFTA did the same with US exports, presumed to rise a lot because of Mexico's high tariffs

Effects of NAFTA Analyses: Before

Best academic studies (including our “Michigan Model”) predicted

- Positive, but very small, benefit to the US
- Negligible disruption of US labor markets
- Positive, somewhat larger, benefit to Mexico
- Significant disruption in some Mexican markets

– Nobody predicted Peso Crisis

Effects of NAFTA

Analyses: Before

- Reasons for small predicted effects on US
 - US MFN tariffs were already very low
 - Much trade with Mexico was already at even lower tariffs, under Maquiladora system
 - US trade with Mexico was big, but not all that big, compared to size of US economy

Effects of NAFTA

Analyses: Before

- The Main Issue that Raised Concern
 - Mexican wages were only about 1/10 of US wages
 - Seemed obvious to many (e.g., Ross Perot) that employers would move to Mexico
- Answer
 - Mexican wages were low for a reason: low productivity
 - If this had not been true, jobs would already have moved, given our already low tariffs

Effects of NAFTA Analyses: After

- Romalis (2005)
 - Welfare effects close to zero for US, Canada, and Mexico
- Caliendo and Parro (2015)
 - Updated earlier studies with more recent analytical tools
 - Found
 - Welfare benefits for US and Mexico, but
 - Welfare loss for Canada

Welfare effects from NAFTA's tariff reductions

	Welfare			
Country	Total	Terms of Trade	Volume of Trade	Real Wages
Mexico	1.31%	−0.41%	1.72%	1.72%
Canada	−0.06%	−0.11%	0.04%	0.32%
U.S.	0.08%	0.04%	0.04%	0.11%

Source: Caliendo and Parro (2015), Table 2

Effects of NAFTA

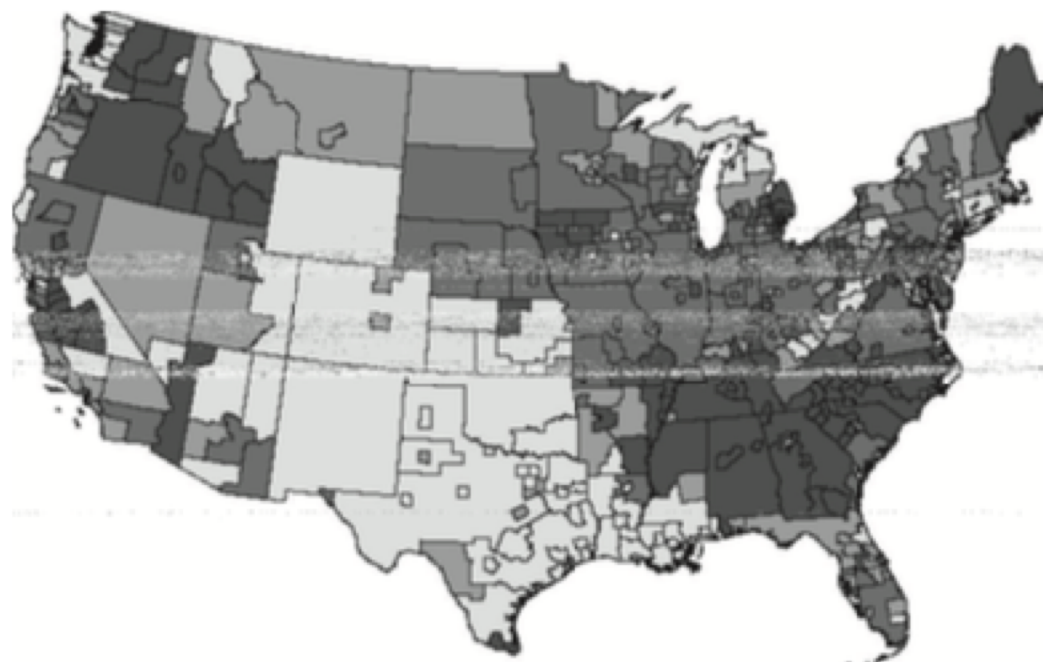
Analyses: After

- Posen (2014)
 - “For every 100 jobs US manufacturers created in Mexican manufacturing, they added nearly 250 jobs at their larger US home operations”
 - Unemployment in US was actually lower after NAFTA than before (until the 2008 financial crisis)
 - Critics say NAFTA cost 45,000 jobs a year.
 - That may be true
 - But this is only 0.1% of normal job turnover in the US, where 4m-6m workers leave or lose jobs per month)

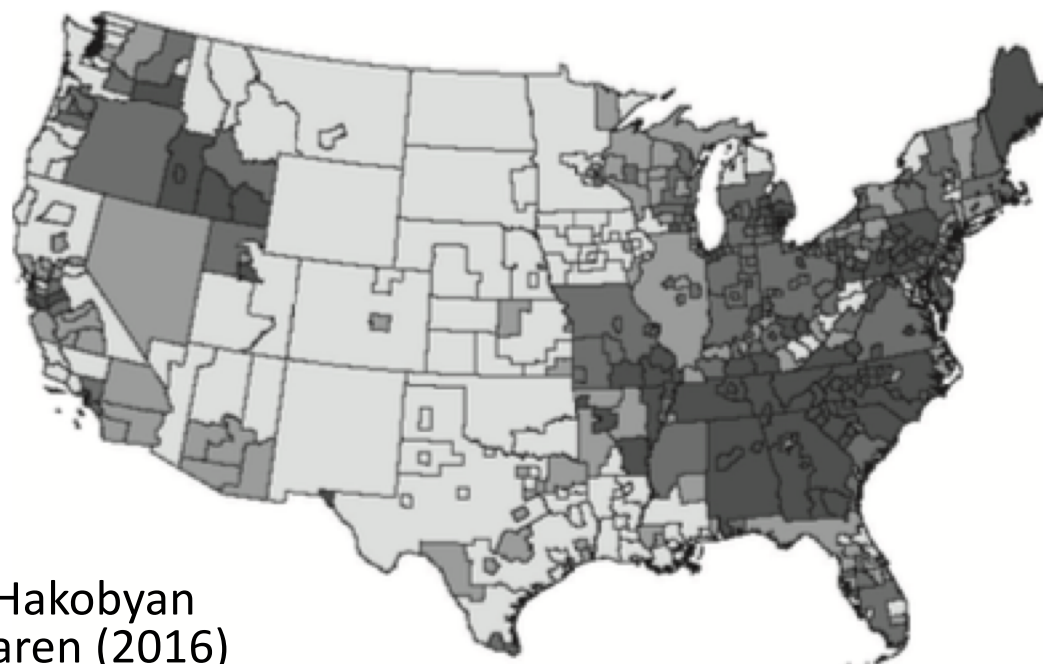
Effects of NAFTA Analyses: After

- Hakobyan and McLaren (2016)
 - They look for effects on local labor markets, where
 - industries
 - and/or communities
 - were vulnerable to large tariff cuts against Mexico
 - They find
 - Substantial variation across localities

FIGURE 2.—VARIATION IN LOCAL AVERAGE TARIFF



(Includes agriculture)



(Excludes agriculture)

Source: Hakobyan
and McLaren (2016)

TABLE 2.—TOP TEN MOST PROTECTED INDUSTRIES IN 1990

Industry Name	τ_{1990}^j (%)
Footwear, except Rubber and Plastic	17.0
Apparel and Accessories, except Knit	16.6
Canned, Frozen, and Preserved Fruits and Vegetables	15.9
Knitting Mills	15.7
Structural Clay Products	14.5
Yarn, Thread, and Fabric Mills	9.3
Leather Products, except Footwear	7.4
Dyeing and Finishing Textiles, except Wool and Knit Goods	7.4
Carpets and Rugs	6.9
Grain Mill Products	5.5

Source: Hakobyan and McLaren (2016)

TABLE 3.—MOST AND LEAST VULNERABLE CONSPUMAS, EXCLUDING AGRICULTURE

State	Counties/Cities	$loc\tau_{1990}^c$ (%)
<i>A: Top Ten Most Vulnerable Conspumas</i>		
Georgia	Catoosa, Dade, Walker (Consistent Public-Use	4.74
North Carolina	Alamance, Randolph Microdata Areas)	4.41
South Carolina	Oconee, Pickens	4.24
South Carolina	Including Cherokee, Chester, Chesterfield, Clarendon	3.67
South Carolina	Anderson	3.62
North Carolina	Cabarrus, Rowan	3.54
North Carolina	Alexander, Burke, Caldwell	3.51
South Carolina	Including Abbeville, Edgefield, Fairfield	3.47
North Carolina	Cleveland, McDowell, Polk, Rutherford	3.46
Indiana	Gary	3.32
<i>B: Top Ten Least Vulnerable Conspumas</i>		
D.C.	Washington	0.09
Washington	Kitsap	0.19
Virginia	Arlington	0.21
Maryland	Calvert, Charles, St. Mary's County	0.23
Montana	including Flathead, Lincoln, Missoula, Ravalli	0.27
Maryland	including College Park, Hyattsville, Prince George's	0.28
Virginia	Alexandria	0.29
Montana	Including Big Horn, Blaine, Carter, Chouteau	0.30
South Dakota	Including Aurora, Beadle, Bennett, Brule, Buffalo	0.30
Iowa	Calhoun, Hamilton, Humboldt, Pocahontas, Webster	0.30

Effects of NAFTA Analyses: After

- Hakobyan and McLaren (2016)
 - “The fact that both the location and the industry effects hit blue-collar workers, especially **high school dropouts, but not college graduates** suggests the possibility that the costs of moving or of switching industries are larger for less educated workers, so that **more educated workers can adjust more easily** and arbitrage wage differences away.”

Effects of NAFTA Analyses: After

- Hakobyan and McLaren (2016)
 - “...even workers in a nontraded industry — waiting on tables in a diner, for example — saw a sharp reduction in wages if they were in a vulnerable location that lost its protection quickly.”

Effects of NAFTA Analyses: After

- Disruption of some industries and localities
 - Was expected
 - May have been larger than expected
 - Has not been dealt with adequately by TAA
 - Nonetheless was still small
 - But provides easy ammunition for critics

Renegotiating NAFTA

- Donald Trump said he would either
 - Pull out of NAFTA, or
 - Renegotiate NAFTA

Renegotiating NAFTA

- Nov 21, 2016:
WSJ Donald Trump Poised to Pressure Mexico on Trade
- Feb 1, 2017:
WSJ Mexico Says Nafta Negotiations Should Start in May
- Mar 30, 2017:
WSJ Trump Administration Signals It Would Seek Mostly Modest Changes to Nafta

Renegotiating NAFTA

- The “modest changes”:
 - “Snapback tariffs”
 - Changes in Rules of Origin
 - Permit “Buy American” in government procurement
 - Several features that were part of TPP
 - Protection of digital trade
 - Tougher intellectual property enforcement
 - Requirements on state-owned enterprises
 - Labor and environment provisions
 - Does not mention currencies

Renegotiating NAFTA

- April 11, 2017:



In a meeting with company executives Tuesday morning, Trump promised more progress on the talks. "We're going to have some very pleasant surprises for you on NAFTA," he said.