NAFTA Supply Chains Are Deeply Integrated

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The Rise of GVCs: What Do They Imply for Trade?

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Measuring Global Value Chains

- NAFTA supply chains involve a lot of **back-and-forth trade**

![Diagram showing the flow of US car parts, Mexican cars, and US consumers](image-url)
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  ![Diagram showing supply chain](image)

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  - It’s typically assumed all of an industry’s goods use same input mix
  - but, this ignores NAFTA’s *supply chain specialization*

- **Diagram:**
  - US car parts → Mexican cars → US consumers
  - US car parts → 40% Mexican cars → US consumers
  - US car parts → 40% Mexican cars → German cons.
  - US car parts → 100% Mexican Ford Fiestas → US consumers
  - US car parts → 0% Mexican Volkswagen Beetles → German cons.
NAFTA Supply Chains: Evidence from Mexican Customs Data

- **Source of foreign inputs** used in Mexican vehicle exports to
NAFTA Supply Chains: Evidence from Mexican Customs Data

Source of foreign inputs used in Mexican vehicle exports to...

...the U.S.

74% USA

13% Other

6% JPN

4% DEU

8% CAN
Source of foreign inputs used in Mexican vehicle exports to:

**...the U.S.**
- USA: 74%
- Other: 24%
- CAN: 6%
- DEU: 4%
- JPN: 8%

**...Germany**
- USA: 38%
- Other: 24%
- JPN: 12%
- DEU: 18%
- POL: 8%
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- **Use of inputs** depends on destination country/industry
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  - But note, while informative, data doesn’t trace *where value is created*
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- Share of U.S. value-added in imports from Mexico

![Pie chart showing the share of U.S. value-added in imports from Mexico for various sectors. The chart is not fully visible, but it indicates a high level of integration.]
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- Share of U.S. value-added in imports from Mexico

![Diagram showing the share of U.S. value-added in imports from Mexico across various sectors.](chart.png)

- Conventional Estimates

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- Share of U.S. value-added in imports from Mexico

![Graph showing share of U.S. value-added for various commodities.](attachment:image.png)

- Conventional Estimates
- Bounds
- Estimates with Integrated NAFTA Supply Chains
NAFTA Economies More Integrated,

...When Measured Properly

- Accurately measuring supply chains crucial for
  - constructing value-added trade statistics
  - quantifying the implications of changes in trade policy
    ★ ex. USMCA or NAFTA repeal

- NAFTA supply chains are highly integrated
  - lots of back-and-forth trade ⇒ small tariffs compound, have big effects
  - U.S. imports from Mexico have high U.S. content ⇒ tariffs on Mexican goods ripple up the supply chain and hurt U.S. producers