ECONOMIC IMPLICATIONS FOR THE UNITED STATES OF A NORTH AMERICA WITHOUT NAFTA OR USMCA

Christine McDaniel, Mercatus Center at George Mason University
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If the US-Mexico-Canada Agreement fails and the US withdraws from NAFTA ... What would it mean for the United States?*
Key take aways:

1. US exports lose preferential access
2. Strain on agriculture
3. Possibly freer trade in autos
4. Greater uncertainty overall
• 27% of US exports go to Canada and Mexico

• With no USMCA or NAFTA:
  • US agriculture would face up to 45% tariffs in Mexico and 15% in Canada
  • US goods would face up to 35% tariffs in Mexico and 5% in Canada

• Behind-the-border barriers
STRAIN ON AGRICULTURE

No USMCA, No NAFTA is Made Worse by No Participation in TPP

Under NAFTA and USMCA

Tariffs Until the Cows Come Home for U.S. Meat

$737M worth or 20% of U.S. beef exports went to Mexico duty free in 2018

No NAFTA, No USMCA

Reverts to 20% tariff for U.S. meat

Competitors from Australia and Canada get reduced or zero tariffs under TPP
No USMCA, No NAFTA is Made Worse by No Participation in TPP

Under NAFTA and USMCA

Spilled Milk for U.S. Dairy

$329M worth or 7% of U.S. dairy exports went to Canada duty free or near duty free in 2018

No NAFTA, No USMCA

Reverts to an 11% tariff or an additional $2.07 per kg

Competitors from New Zealand get reduced or zero tariffs under TPP

STRAIN ON AGRICULTURE
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No USMCA, No NAFTA is Made Worse by No Participation in TPP

Under NAFTA and USMCA

Lager Head to Head

$152M worth or 21% of U.S. beer exports went to Mexico duty free in 2018

No NAFTA, No USMCA

Reverts to 20% tariff

U.S. beer loses advantage against beer from Belgium, Germany, Netherlands, and the United Kingdom, which also pay 20%
# Possibly Freer Trade in Autos

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<th>USMCA</th>
<th>NAFTA</th>
<th>NO DEAL</th>
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<tr>
<td>Stricter</td>
<td>• Stricter rules of origin</td>
<td>• Existing rules of origin</td>
<td>• No rules of origin</td>
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<tr>
<td>Rules of Origin</td>
<td>• Higher wage requirements on Mexico</td>
<td>• No wage floor</td>
<td>• No wage requirements</td>
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<td>• Enforceable labor rules</td>
<td>• Weak enforcement of labor rules</td>
<td>• MFN tariffs imposed</td>
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POSSIBLY FREER TRADE IN AUTOS
POLICY RISK UNDERMINES INVESTMENT & GROWTH

- Uncertainty drove the results of USITC study
- Uncertainty is tied to investment downturns
- Stories from the streets

Spread between 2-year note and 10-year note
Inverted for first time since June 2007

Source: Federal Reserve Bank of St. Louis
THE GHOST OF TPP

- Ironically, many of our woes in North American trade stem from leaving TPP
  - US agriculture losing markets
  - US economic uncertainty is exacerbating global risks
- Trade agreements on the table today are more about damage control than market opening
  - US-Japan
  - USMCA
  - US-EU
Will Congress vote on USMCA this fall?
Will President Trump withdraw us from NAFTA?
Election year 2020: The political calculus is not positive

CONGRESS WILL DECIDE
Economic Implications for the United States of a North America without NAFTA or USMCA: A Brief Summary of Key Areas

Christine A. McDaniel
May 2019

While acknowledging the potential for full if the USMCA is not ratified, this brief presents a hypothetical scenario in which the United States no longer has a proposed trading arrangement with Canada and Mexico that President Trump successfully renegotiated from NAFTA and Congress did not approve the USMCA. This scenario does not consider the effects of NAFTA and is limited to the following areas: market access for trade in goods and services, digital trade, intellectual property rights, and labor standards.

Key economic implications for the United States in the absence of a North American trade agreement include the following:

1. US exports of goods, services, and services would lose existing preferential treatment in Canada and Mexico, including import duty exemptions and specific sectors.

Thank you!

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