

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

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Reserve Bank of Dallas and SMU

If the US-Mexico-Canada Agreement fails  
and the US withdraws from NAFTA ...  
What would it mean for the United States?\*

## Without USMCA or NAFTA

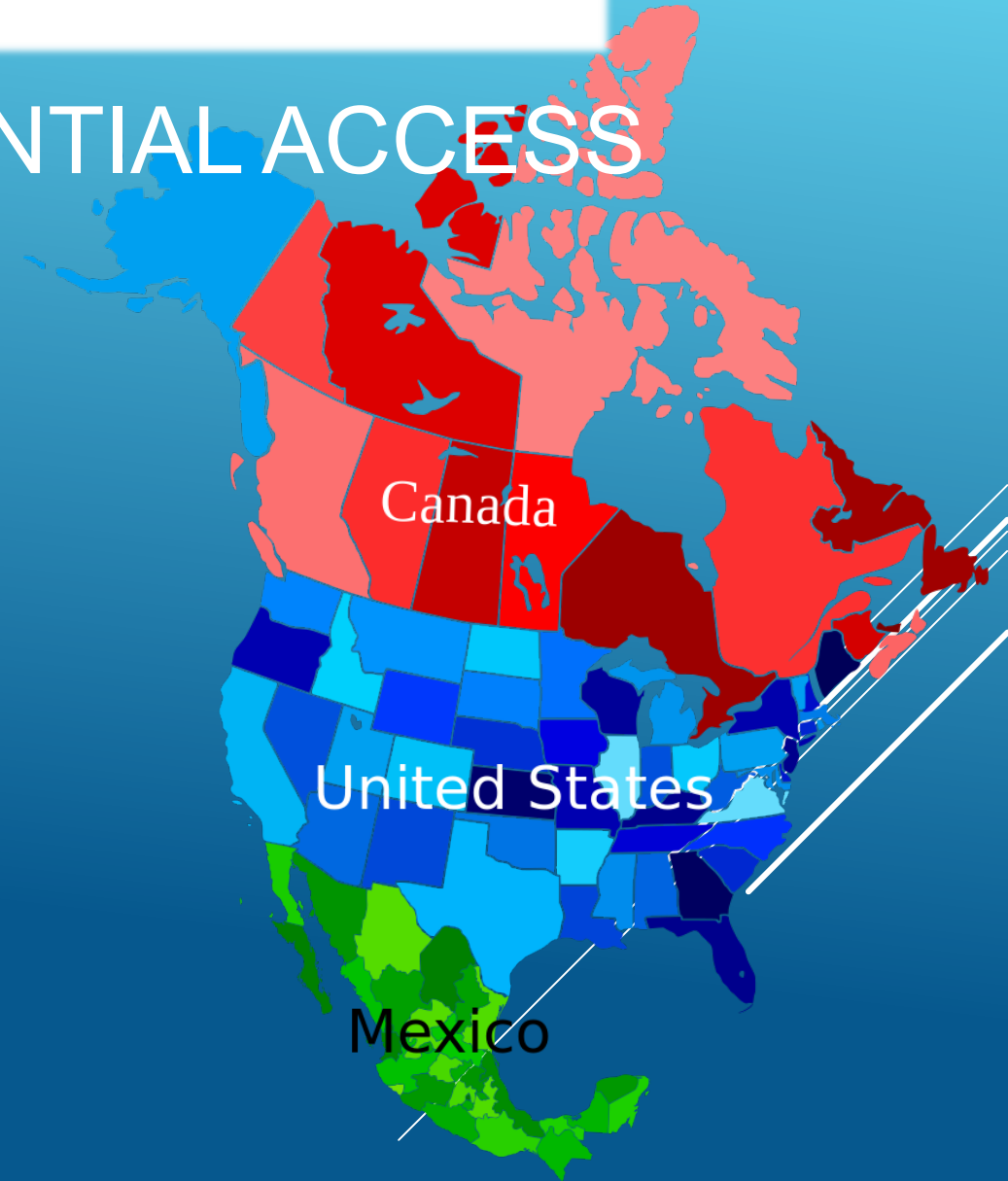
### Key take aways:

1. US exports lose preferential access
2. Strain on agriculture
3. Possibly freer trade in autos
4. Greater uncertainty overall

Without USMCA or NAFTA

## US EXPORTS LOSE PREFERENTIAL ACCESS

- 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

No NAFTA, No 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

Reverts to 20%  
tariff for U.S. meat

Competitors from  
Australia and Canada get  
reduced or zero tariffs  
under TPP

# STRAIN ON AGRICULTURE

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

Under NAFTA and USMCA

No NAFTA, No 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

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

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

Under NAFTA and USMCA

No NAFTA, No USMCA

### Lager Head to Head



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

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



## USMCA

- Stricter rules of origin
- Higher wage requirements on Mexico
- Enforceable labor rules

## NAFTA

- Existing rules of origin
- No wage floor
- Weak enforcement of labor rules

## NO DEAL

- No rules of origin
- No wage requirements
- MFN tariffs imposed

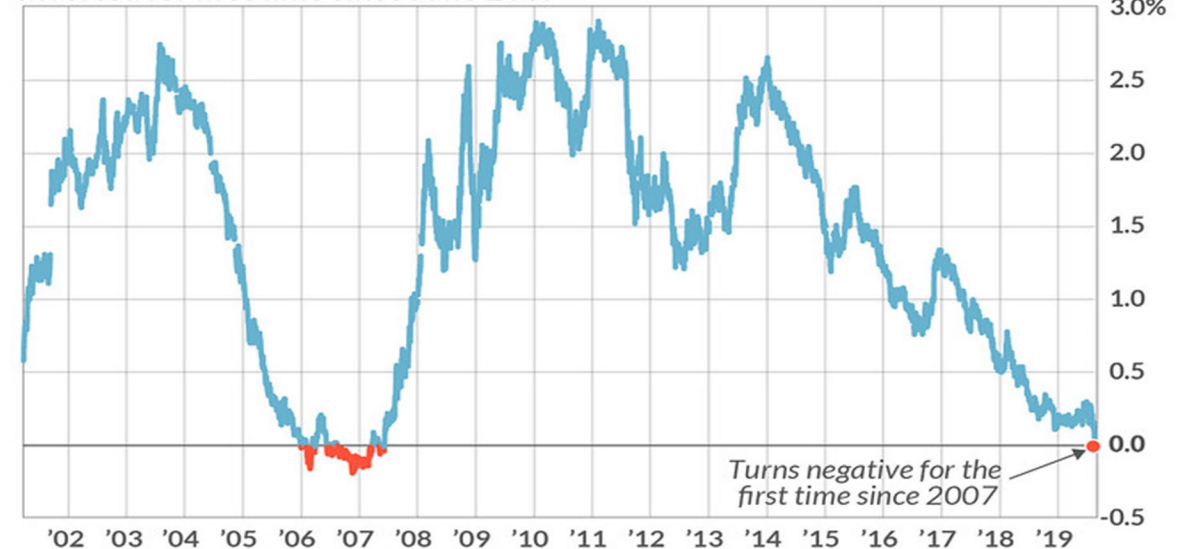


# POLICY RISK UNDERMINES INVESTMENT & GROWTH

- ▶ 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

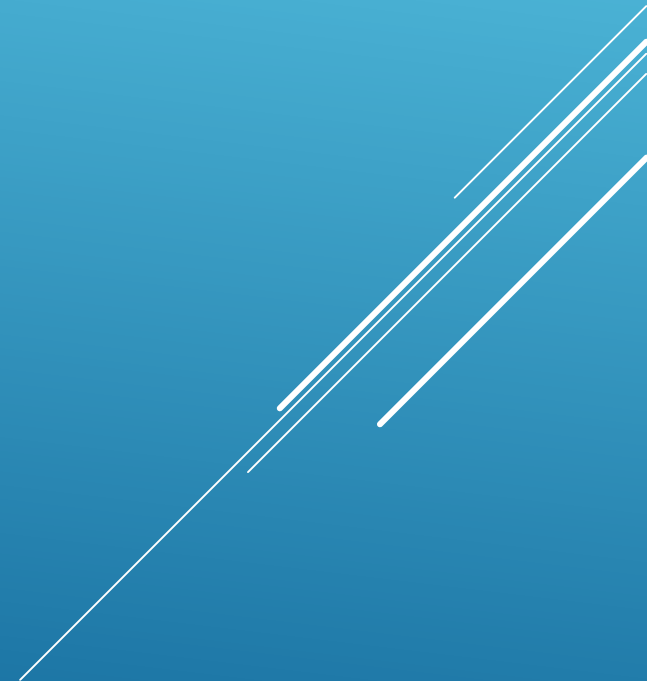
Inverted for first time since June 2007



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**



Thank you!

Christine McDaniel  
Mercatus Center  
George Mason University



POLICY BRIEF

## Economic Implications for the United States of a North American Free Trade Agreement (NAFTA) if Congress does not approve the United States-Mexico-Canada Agreement (USMCA): A Brief Summary of Key Areas

Christine A. McDaniel  
May 2019

President Trump has stated that he intends to withdraw the United States from the North American Free Trade Agreement (NAFTA) if Congress does not approve the United States-Mexico-Canada Agreement (USMCA).<sup>1</sup> Evaluating both the legal possibility and the economic effect of this action is difficult. There is profound disagreement in the United States on the extent of executive power. International trade is governed by a complex web of multilateral, regional, and bilateral agreements. Withdrawing from NAFTA without ratifying the USMCA would have potential ripple effects as other agreements will fill the vacuum created by the end of a regional trading arrangement between the United States, Canada, and Mexico.

While acknowledging that NAFTA remains in force if the USMCA is not ratified, this brief presents a hypothetical scenario in which the United States no longer has a regional trading arrangement with Canada and Mexico (that is, President Trump successfully withdraws the nation from NAFTA and Congress does not approve the USMCA). This scenario does not consider economy-wide effects, and it is limited to the following areas: market access for trade in goods and agriculture, autos, intellectual property rights, digital trade and e-commerce, investment disputes, and labor standards.<sup>2</sup>

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

1. US exports of goods, agriculture, and services would no longer benefit from preferential treatment in Canada and Mexico, including duty-free treatment and special market access