US-Mexico-Canada: All for One and One for All?

Forging a New Path in North American Trade & Immigration

Raymond Robertson
Senior Fellow, Texas-Mexico Center
IZA Research Fellow
Director, Mosbacher Institute
Helen and Roy Ryu Professor of Economics and Government
We Need a Clear Vision for North America

• Based on Studies, Research, and Facts (not ideology)
• Part of a Grand Strategy for both the United States and the Region
• Based on the reality of integration and an acknowledgement of the challenges that come with the benefits
• Consistent with the realities of an integrated and increasingly competitive world economy
• A realization that Better Neighbors make us stronger domestically and more competitive with the rest of the world
The Benefits of Integration

- Regional integration makes the region stronger relative to the rest of the world
  - Exporters gain experience and knowledge
  - Optimal regional input sourcing minimizes costs
  - Allowing finance to flow where needed
  - Facilitating worker movement to optimize skill allocation across borders
- Promoting regional integration acknowledges the power of gravity
- Other regions are increasingly integrated
  - Europe
  - China with East, South East Asia
Integrated Labor Markets

• Robertson (2000) shows U.S. and Mexican labor markets are closely integrated

• Migration, one force of integration, has changed dramatically between 2000 and 2019.
  • Net flows into US from Mexico are negative
  • Changing demographics of immigrants

• 32.2% of all businesses in Dallas are owned by immigrants (who make up 24% of the population). Vizcaino (2019)

• Fostering labor market integration increases economic efficiency
The Current Climate

- Falling manufacturing employment is very costly for workers (adjustment costs: 8x income?)
- Others point to rising trade deficit with Mexico as evidence of U.S. losses
Without coherent vision, uncertainty raises costs

- USMCA: Already discussed by some of the very best in the field (Christine McDaniel, Kei-Mu Yi)
- USMCA scheduled to be reviewed in 6 years (most business investment has a longer timeframe)
- 6.7.2019: Trump’s threat of putting tariff on Mexico goods
- 7.3.2019: Trump demanded that Mexico deploy their troops to halt migrants.
- Economist (8/17/2019), Baker, Bloom, and Davis: Rising uncertainty has real effects (lower investment, employment)

Peso plunges vs the US dollar after Trump announces Mexican import tariffs
PUBLISHED FRI, MAY 31 2019 9:28 AM
Are Mexican and U.S. Production Workers Complements or Substitutes?

- Alonso de Gortari (2019) shows the deep integration in Mexican production, building on work by Gordon Hanson and others.
- Current estimates suggest that before NAFTA, U.S. and Mexican production workers were substitutes.
- Current estimates suggest that after NAFTA, U.S. and Mexican production workers are complements.
- Policy implications: North American production is best characterized by a common labor demand approach: Factory North America.
- Labor demand approach works very well to represent the economic restructuring that followed NAFTA.
Natural Complements

Density

Education Level

Mexico

USA
Mexican and U.S. Production Workers

![Graph showing the comparison of Mexican and U.S. Obrero Hours over time from 2006m1 to 2018m1.](image_url)
The North American Automobile Industry

• North America produced nearly 17.2 million vehicles in 2018
  • Mexico: 3.9 million
  • Canada: 2 million
  • Mexico exported 2.5 million to the United States

• U.S. content in vehicles imported from Mexico
  • Pre NAFTA: Less than 5%
  • Post NAFTA: 40%

• When 9/11 closed borders, the supply disruptions resulted in closed U.S. auto plants

• USMCA increases admin costs and domestic content

• Labor-demand estimates show automobile workers are strongly complements (not substitutes).
Mexican Employment Depends on U.S.

- Falling Mexican employment directly linked to U.S. apparel imports from Mexico
- Use a local-labor market approach to estimate the effects on employment
- Apparel is especially important because it is a gateway for women to enter the formal labor force
US Apparel Imports (2016)
U.S. Imports from China affect Mexico

• “Mexico and China compete. When Mexico wins, China loses. When China wins, Mexico loses,” Jorge Guajardo, former Mexican ambassador to China (https://www.cnbc.com/2019/05/31/china-won-in-us-mexico-tariff-battle-ex-mexican-ambassador-to-china.html)
• Building on the work of Daniel Chiquiar and others
• Present apparel as a case study (Robertson, Halliday, Vasireddy 2019)
Costs of Chinese Competition

- Results show that U.S. apparel imports from China are linked to employment in Apparel and workers are pushed into other sectors.
- Movement between sectors imposes adjustment costs on workers that are very high.
Mexican Apparel Wages

• As U.S. imports of apparel fall (and as China’s apparel exports to the United States rise), apparel wages fall in Mexico.
• Falling wages hit all levels of the wage distribution.
Potential Gains from U.S.-China Trade War

• Apparel production in particular, and trade in general, is sensitive to differences in costs across countries.
• Our results suggest that a 10 percent increase in Chinese apparel prices will result in a 13–25 percent (depending on the country) rise in SAR countries’ apparel exports to the United States, although this is below the 37-51 percent increase in the Southeast Asian countries.
• Rising tariffs from China may help bring investment to the U.S. generally and to the Texas border region in particular.
• The Texas-Mexico Border has several advantages vis a vis China.
  • Lower shipping costs and similar time zones
  • Mexican companies maintain independent operational control
  • Cheaper minimum wage ($4.7/day in Mexico, and $12/day in China main provinces)
  • Cost-effectiveness of manufacturing in Mexico under the IMMEX program (formerly Maquiladora program, offering favorable tax benefits for those who primarily export products to the US) brought US companies advantages to expand manufacturing to Mexico.
Next Steps along the New Path

• Articulate a vision of a unified and integrated North America
• Recognize North America as a single production unit and support trade agreements and policies that facilitate integration
• Recognize that integrated production makes us stronger relative to the rest of the world
• Implementing meaningful migration reforms based on a changed reality and medium-term needs
• Implement effective compensation mechanisms to help those adversely affected by trade
  • Review of what has worked and failed with current programs
  • Supporting people linked to occupations rather than industries
• Attracting investment
  • HR support programs that help foreign capital succeed
  • Identifying skill gaps in Texas and elsewhere based on a vision of integrated production