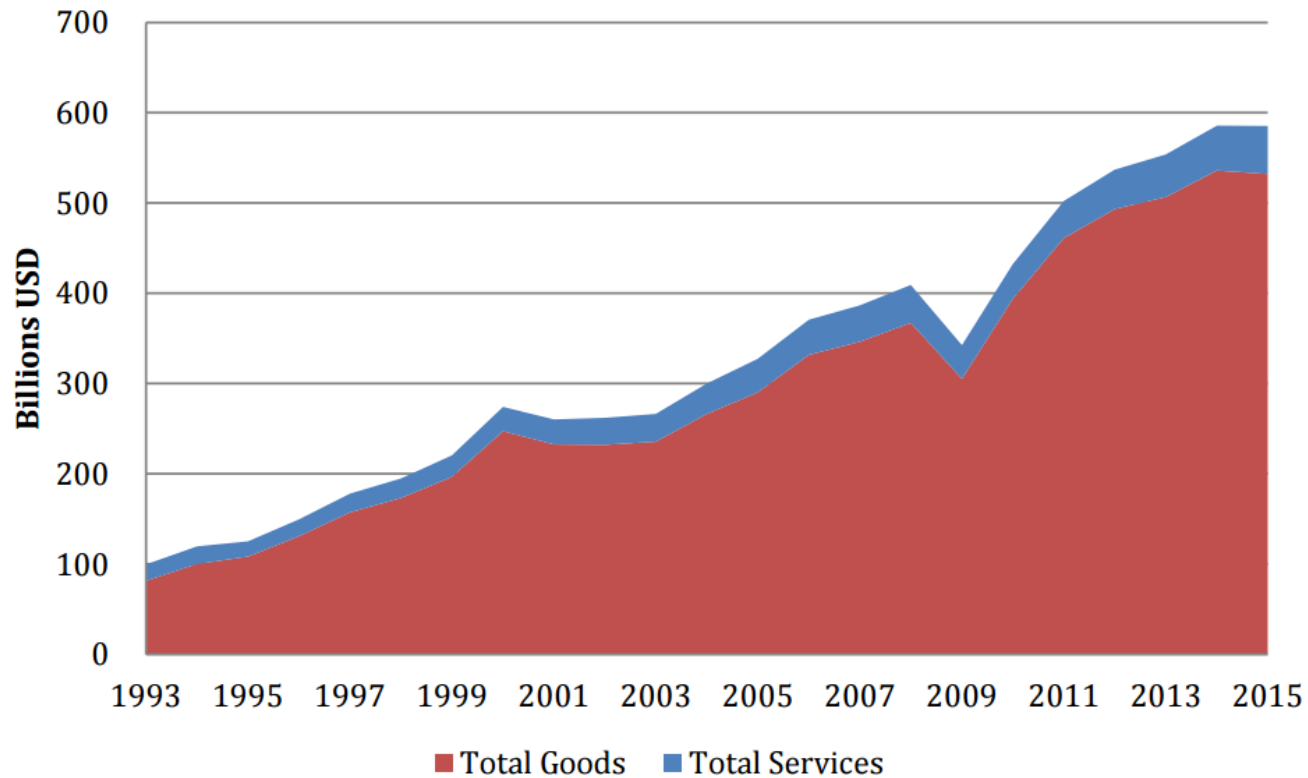


U.S.-Mexico Trade and the New NAFTA Negotiations



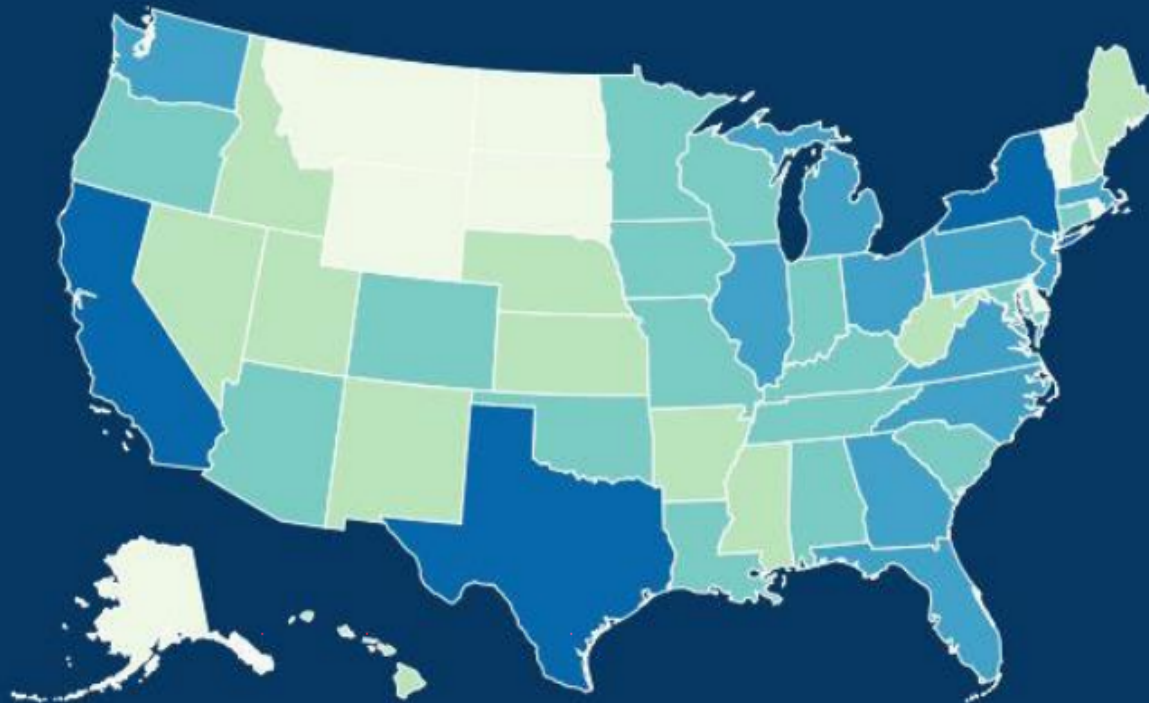
Results of NAFTA and State of Regional Integration

U.S.-Mexico Trade in Goods and Services (1993-2015)



Source: U.S. Census Bureau for goods trade; U.S. Bureau of Economic Analysis and OECD for services trade.

U.S. Jobs that Depend on Trade with Mexico

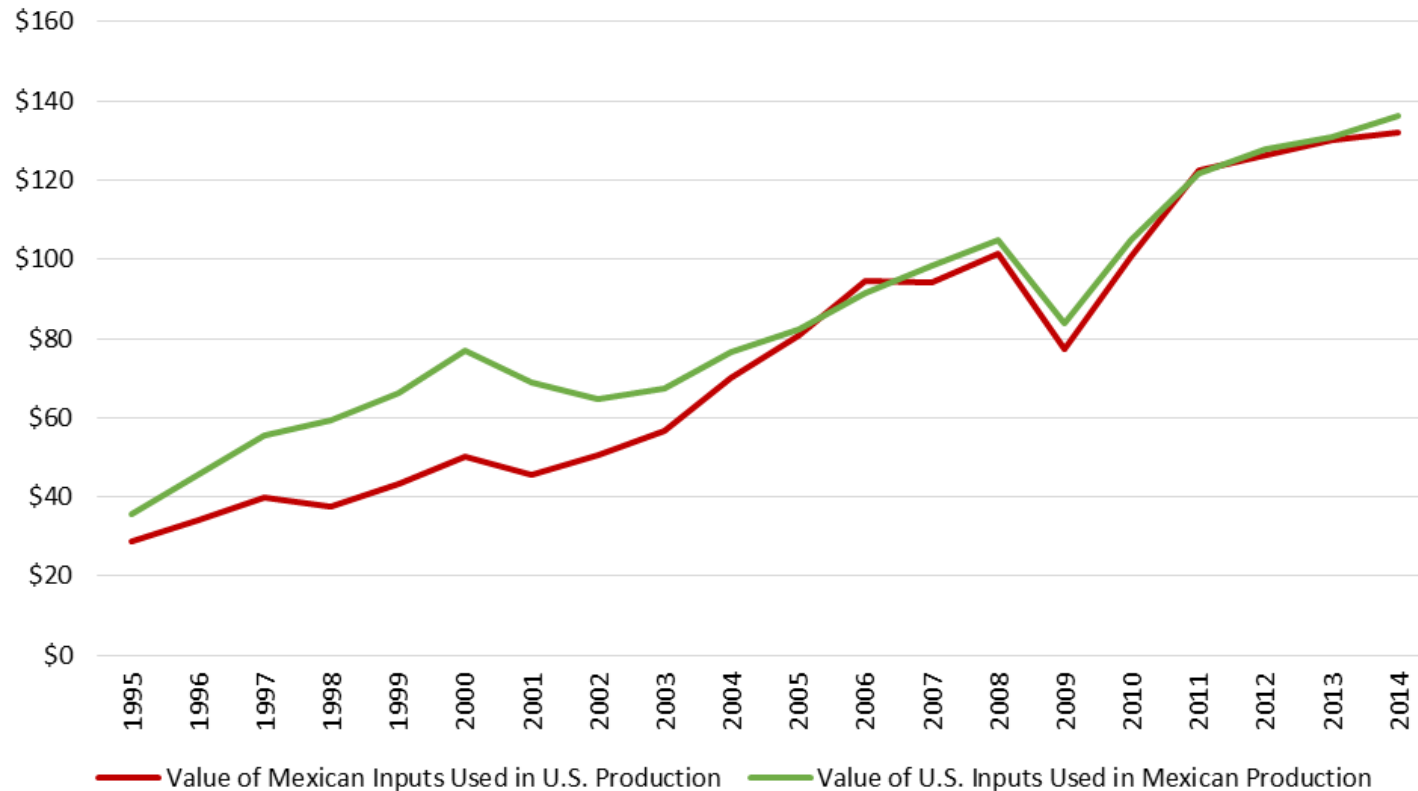


**Nearly 5 million jobs
depend on trade
with Mexico**

U.S. Jobs by State

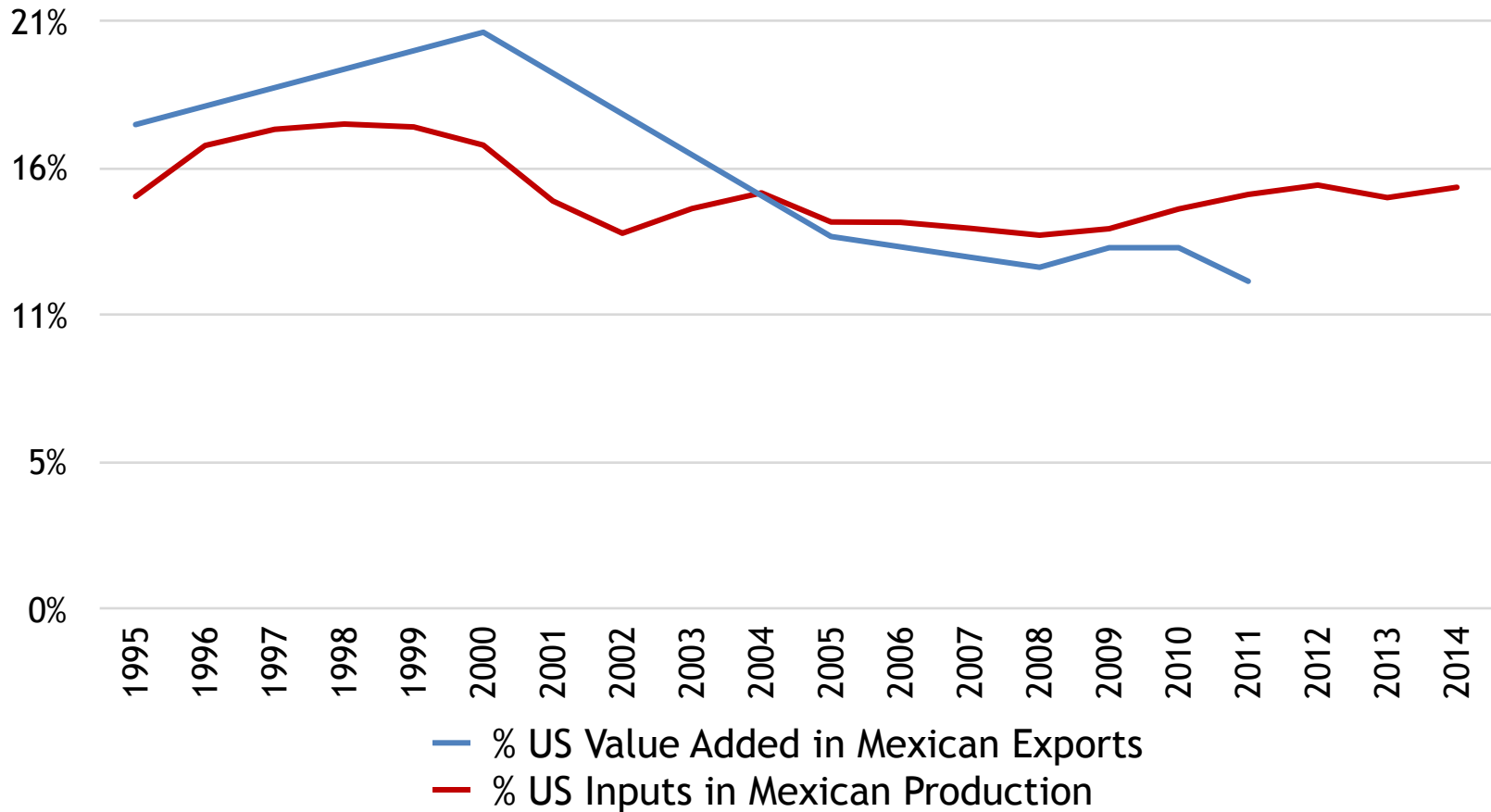
- 0-20,000
- 20,001-50,000
- 50,001-100,000
- 100,001-300,000
- >300,001

Value of Foreign Inputs for Domestic Production, Billions of USD (1995- 2011)



Source: Author's calculations with data from World Input-Output Database, <http://www.wiod.org/>, 2016.

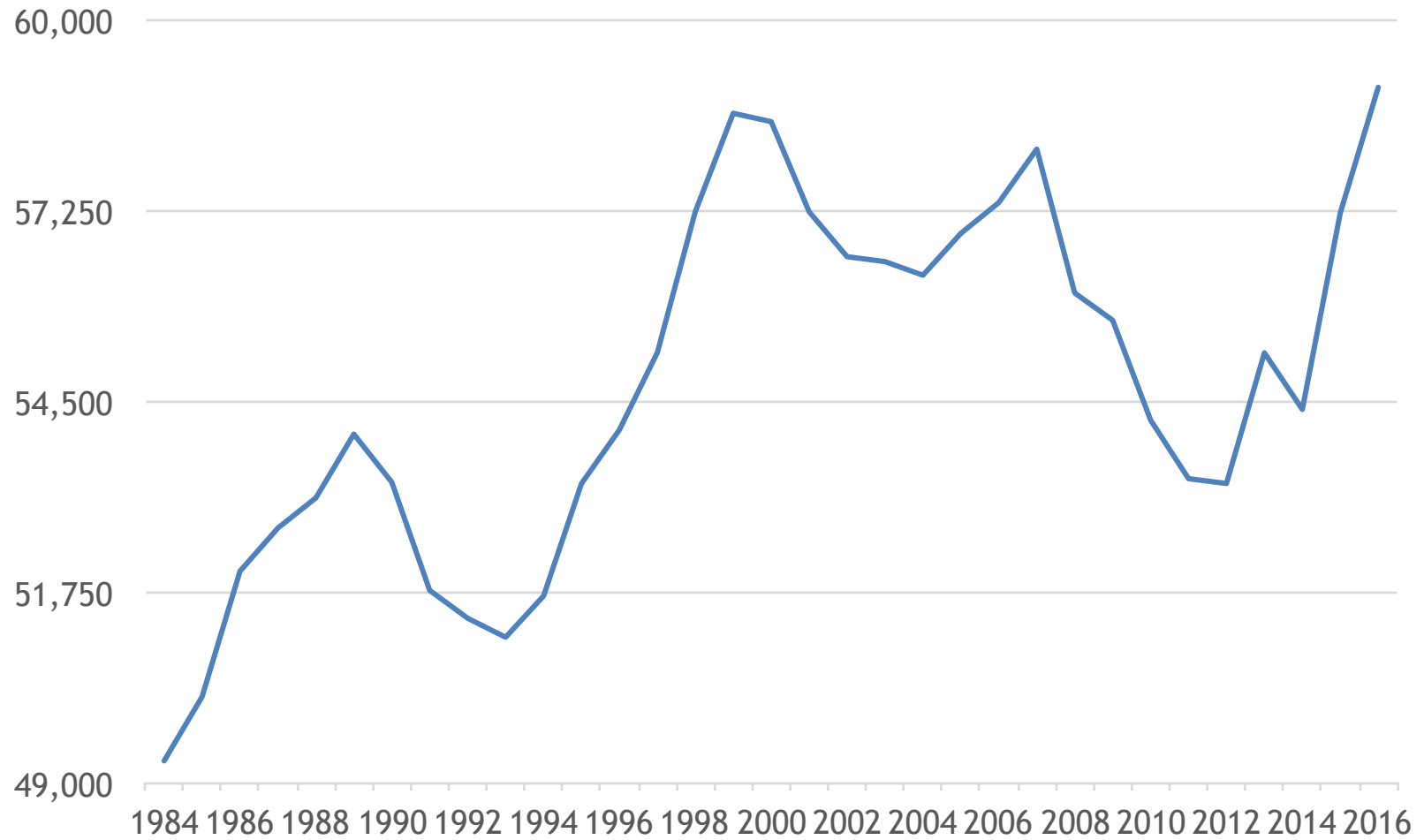
U.S. Share of Inputs for Mexican Production and U.S. Value in Mexican Gross Exports (1995-2014)



Source: OECD-WTO, Trade in Value Added Database, 2016; and author's calculation based on data from the World Input-Output Database, <http://www.wiod.org/>, 2016.

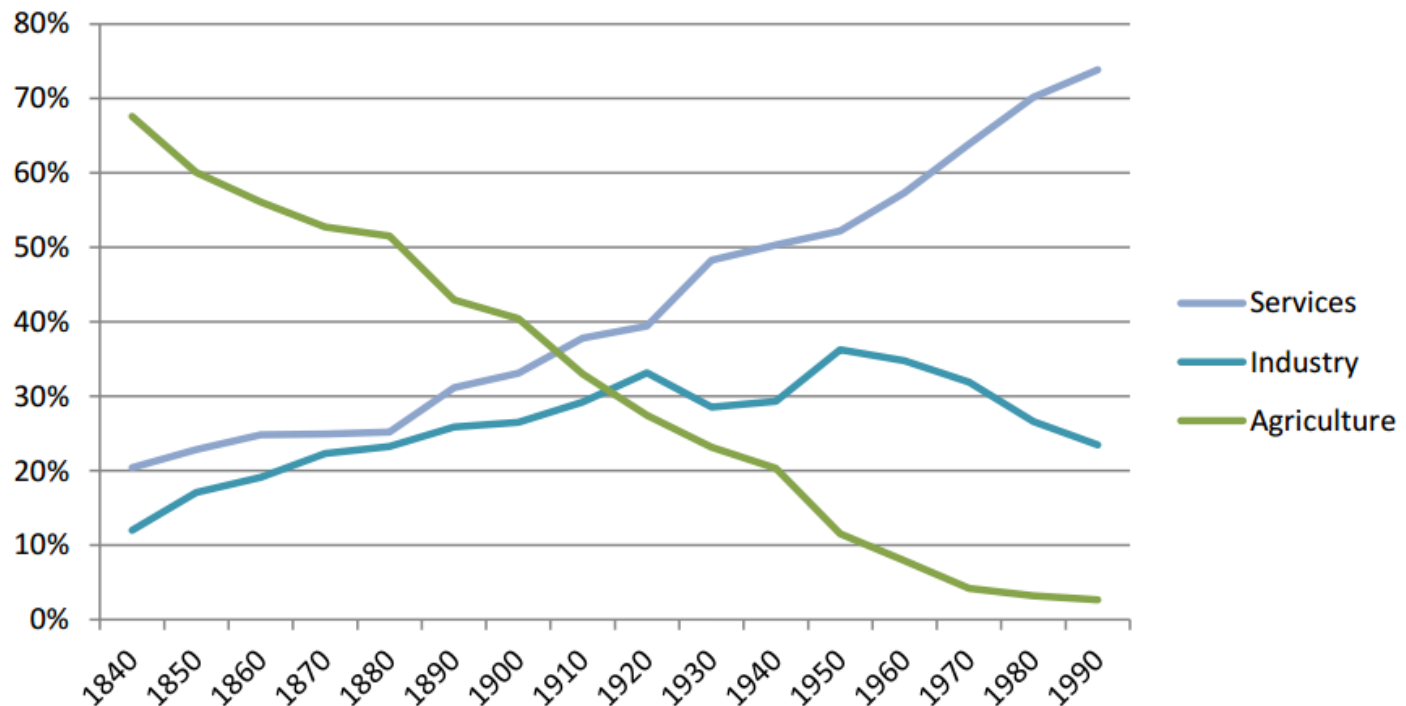
Then Why Trade Skepticism and
Renegotiation of NAFTA?

U.S. Real Median Household Income (1984-2016)



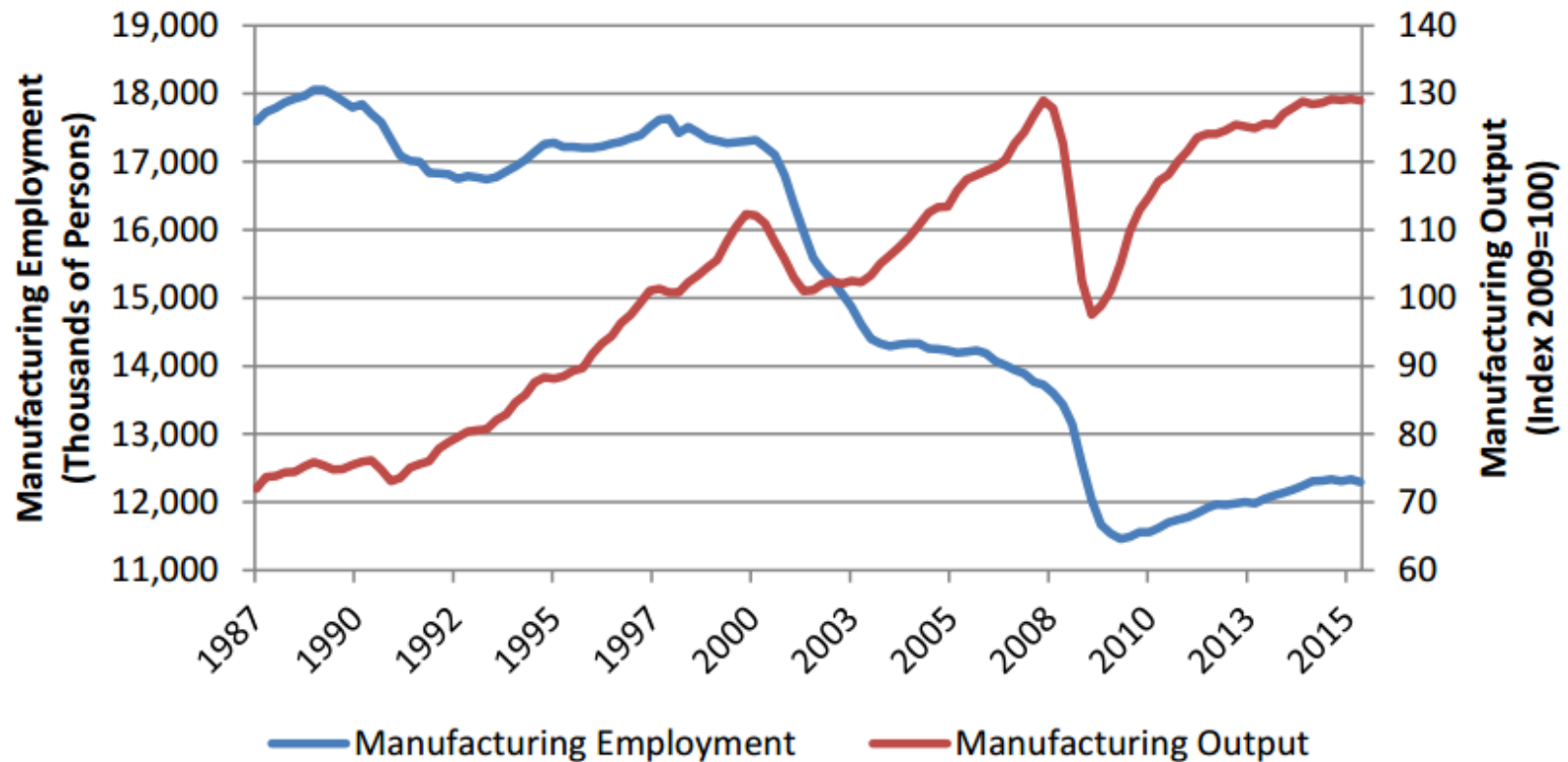
Source: St. Louis Federal Reserve, with data from U.S. Census Bureau, 2017.

Distribution of the U.S. Labor Force by Sector (1840-1990)



Source: Louis D. Johnston, *The Growth of the Service Sector in Historical Perspective: Explaining Trends in U.S. Sectoral Output and Employment, 1840-1990*, Working Paper, College of Saint Benedict/Saint John's University, 2001.

U.S. Manufacturing Employment and Output, Seasonally Adjusted (July 1987-April 2016)



Source: Saint Louis Federal Reserve, with data from U.S. Bureau of Labor Statistics, 2016.

The Role of Trade in Economic Transition and Employment Challenges

- **87%** of manufacturing job losses from 2000-2010 were caused by productivity increases.
- The growth of U.S.-China trade was responsible for **one quarter** of all U.S. manufacturing job losses from 1990-2007.
- General consensus among researchers that NAFTA did not have significant long-term effects on U.S. labor market, but McLaren and Hakobyan (2010) find some focused negative impact on wages of non-college graduates in especially exposed industries and locales.
- A **10%** increase in employment at U.S. companies' operations in Mexico leads to a **1.3%** increase in the size of their workforce in the U.S., a **1.7%** increase in exports from the U.S., and a **4.1%** increase in U.S. research and development spending.

1. Michael Hicks, Srikant Devaraj, The Myth and the Reality of Manufacturing in America, Ball State University, 2016, <http://conexus.cberdata.org/files/MfgReality.pdf>.

2. David Autor, David Dorn, Gordon Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," National Bureau of Economic Research Working Paper 18054, Cambridge, MA: NBER, May 2012, pp. 20-21. Online.

3. John McLaren and Shushanik Hakobyan, "Looking for Local Labor Market Effects of NAFTA," NBER Working Paper 16535, Cambridge, MA: NBER, November, 2010.

3. Theodore H Moran and Lindsay Oldenski, "The US Manufacturing Base: Four Signs of Strength," Washington, DC: Peterson Institute for International Economics, June 2014; and Theodore H Moran and Lindsay Oldenski, "How US Investments in Mexico Have Increased Investment and Jobs at Home," Washington, DC: Peterson Institute for International Economics, July 2014.

Mexico's Strategy

- Market Access Threatened —> Put the Whole Relationship on the Table
- Presidential Elections in 2018 —> Aim for Quick Conclusion
- Avoid a Weakening of NAFTA —> Present an Offensive, Trade Expanding Agenda

U.S. vs. Mexican NAFTA Objectives

Red= Potential Disagreement
Green= Similar Objectives

✓ = Completed Chapter

⇒ = “Meaningful Advancements”

- Reduce Deficit
- Expand Market Access
- Modernize Agreement (digital trade, e-commerce) ⇒
- Customs and Trade Facilitation ⇒
- Strengthen Rules of Origin (adding US content req.)
- Dispute Resolution: Eliminate Ch. 19 and NAFTA Safeguard Exclusion; opt-in to ISDS; non-binding state-to-state
- Labor and Environment Chapters
- Keep Subnational ‘Buy American’ and limit MX and CAN access to procurement contracts
- Increase SME Trade ✓
- Anticorruption
- Regulatory Compatibility ⇒
- Currency Manipulation Chapter
- Competition ✓
- Preserve and strengthen energy
- State Owned Enterprises
- Eliminate Textile Tariff Preference Levels (TPLs)
- Telecoms (⇒) and Financial Services
- Sunset Clause
- Strengthen Regional Competitiveness
- Maintain or Expand Market Access
- Telecoms (⇒) and Financial Services
- Review (maintain) Dispute Settlement
- Facilitate Crossborder Trade (improve border infrastructure) ⇒
- Modernize Agreement (digital trade, e-commerce) ⇒
- Expand NAFTA Visa Categories
- Anticorruption
- Increase SME Trade ✓
- Strengthen Labor, Environment
- Regulatory Best Practices ⇒
- Include gender provisions
- Competition ✓
- Expand Textile TPLs
- Update Energy
- Workforce Development

Potential Outcomes

1. Renegotiations Succeed: NAFTA modernized, maybe more restrictive in some targeted areas, certainty returns.
2. Renegotiations Fail, but NAFTA continues: Status quo (President could always decide to withdraw)
3. Renegotiations Fail, U.S. withdraws: Potential legal challenges but likely feasible; fall back on WTO-MFN tariff rates (average applied 3.5% for U.S., 7% for Mexico)