U.S.-Mexico Trade and the New NAFTA Negotiations
Results of NAFTA and State of Regional Integration

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

Wilson Center
MEXICO INSTITUTE
Value of Foreign Inputs for Domestic Production, Billions of USD (1995-2011)


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)

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

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

- 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

Red= Potential Disagreement
Green= Similar Objectives
✓ = Completed Chapter
⇨ = “Meaningful Advancements”
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)