

Texas Border Cities Illustrate Benefits and Challenges of Trade

U.S.–Mexico Ties in the 21st Century:
Trade and Immigration in a New Era

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Federal Reserve Bank of Dallas
May 12, 2017

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The views expressed in this presentation
are strictly those of the author.

Outline

- Brief discussion about NAFTA
 - In terms of trade and Growth
- Texas and NAFTA
- Border cities
 - Have they progressed?
 - How?
- Summary

A Historic Agreement

- Canada and U.S. already had an agreement
 - Adding Mexico broke the mold
- NAFTA's stated objectives
 - Eliminate barriers to trade & investment
 - *Remove tariffs and non-tariff barriers*
 - *Facilitate cross border movement*
 - *Resolve disputes*
- U.S. fears: Massive job losses, falling wages
- Fears unrealized, but so were aspirations
 - Elusive Mexican economic development

U.S. Trade with NAFTA Partners

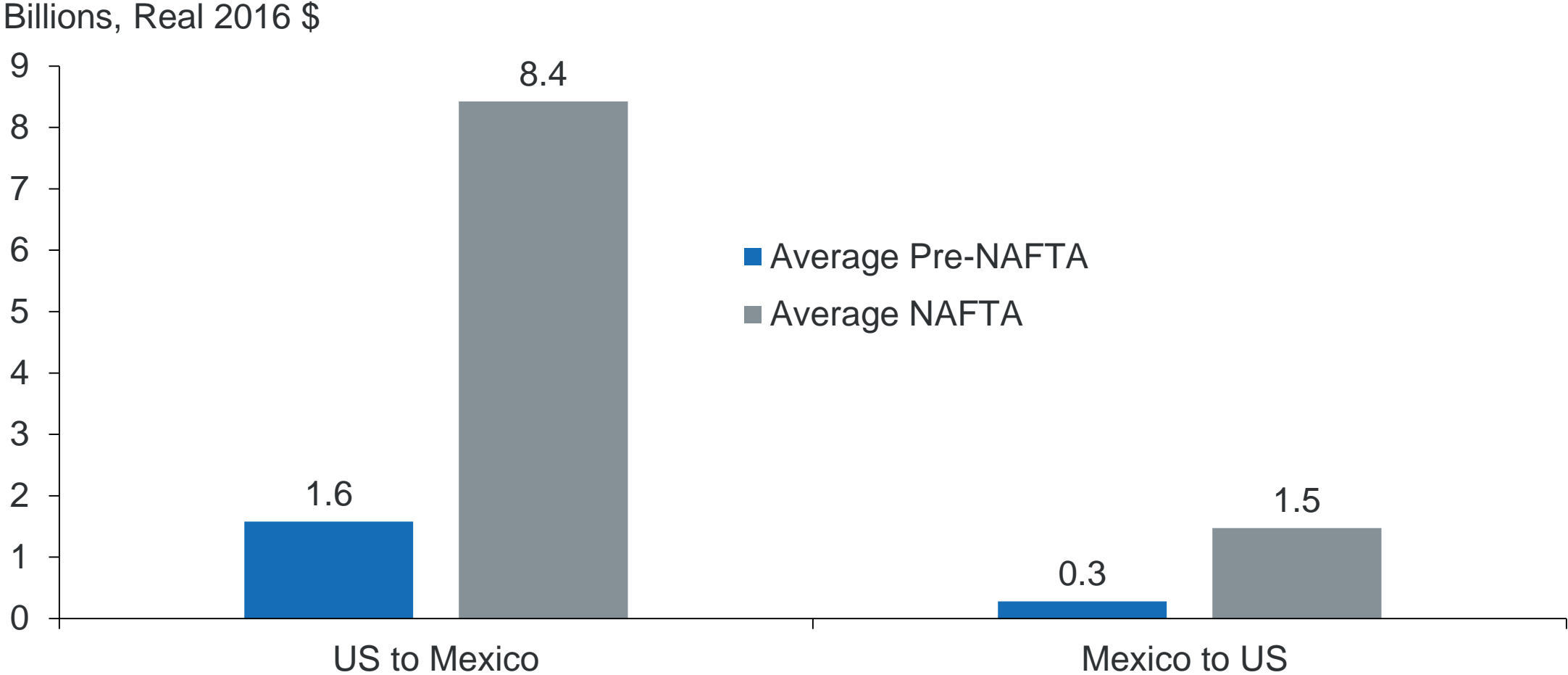
More than Doubled Since 1993

	1993	2016	
	Billions of Dollars		% Change
<u>Exports</u>			
Canada	166.9	266.8	59.9
Mexico	69.1	231.0	234.4
<u>Imports</u>			
Canada	184.8	278.1	50.5
Mexico	66.3	294.2	343.6

NOTE: Data is in billions of 2016 U.S. dollars.

SOURCE: U.S. Census Bureau.

Foreign Direct Investment Higher After NAFTA



NOTE: Pre-NAFTA U.S. to Mexico represents years 1982-1993; Pre-NAFTA Mexico to U.S. represents years 1987-1993.
SOURCE: Bureau of Economic Analysis.

Trade, Wage Effects of NAFTA Tariff Reductions

Country	Volume of Trade	Terms of Trade	Real Wages
Mexico	++	-	++
Canada	+	-	+
United States	+	+	+

SOURCE: Lorenzo Caliendo and Fernando Parro, "Estimates of the Trade and Welfare Effects of NAFTA," NBER working paper No. 18508, 2012.

Trade, Wage Effects of NAFTA Tariff Reductions

- On the other hand, recent research suggests:
 - Blue-collar workers, whose industries have been most affected by Mexican imports—including along the border—experienced substantially lower wage growth than their counterparts in other industries
 - Limitations on the mobility of workers both geographically and across industries appear to be very important

SOURCE: “Looking for Local Labor Market Effects of NAFTA,” by John McLaren and Hakobyan Shushanik, *Review of Economics and Statistics*, vol. 98, no. 4, October 2016.

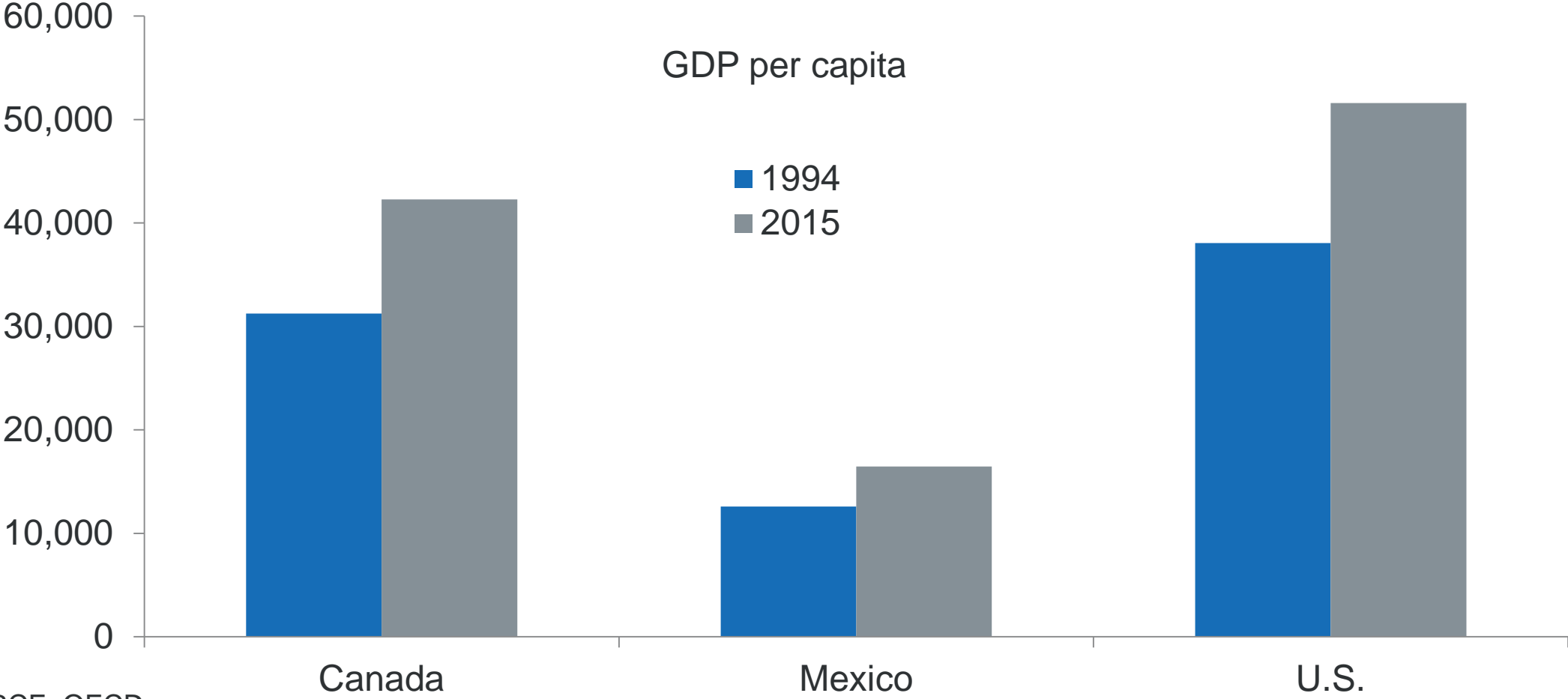
U.S. manufacturing has been able to mitigate some of the impact of economic shocks

- China's entry to the World Trade Organization in 2002
- Labor displacement resulting from increased automation
- Great Recession

SOURCE: "Offshoring and Volatility: Evidence from Mexico's Maquiladora Industry," by Paul R. Bergin, Robert C. Feenstra, and Gordon H. Hanson, *American Economic Review*, vol. 99, no. 4, 2009, pp. 1664–71

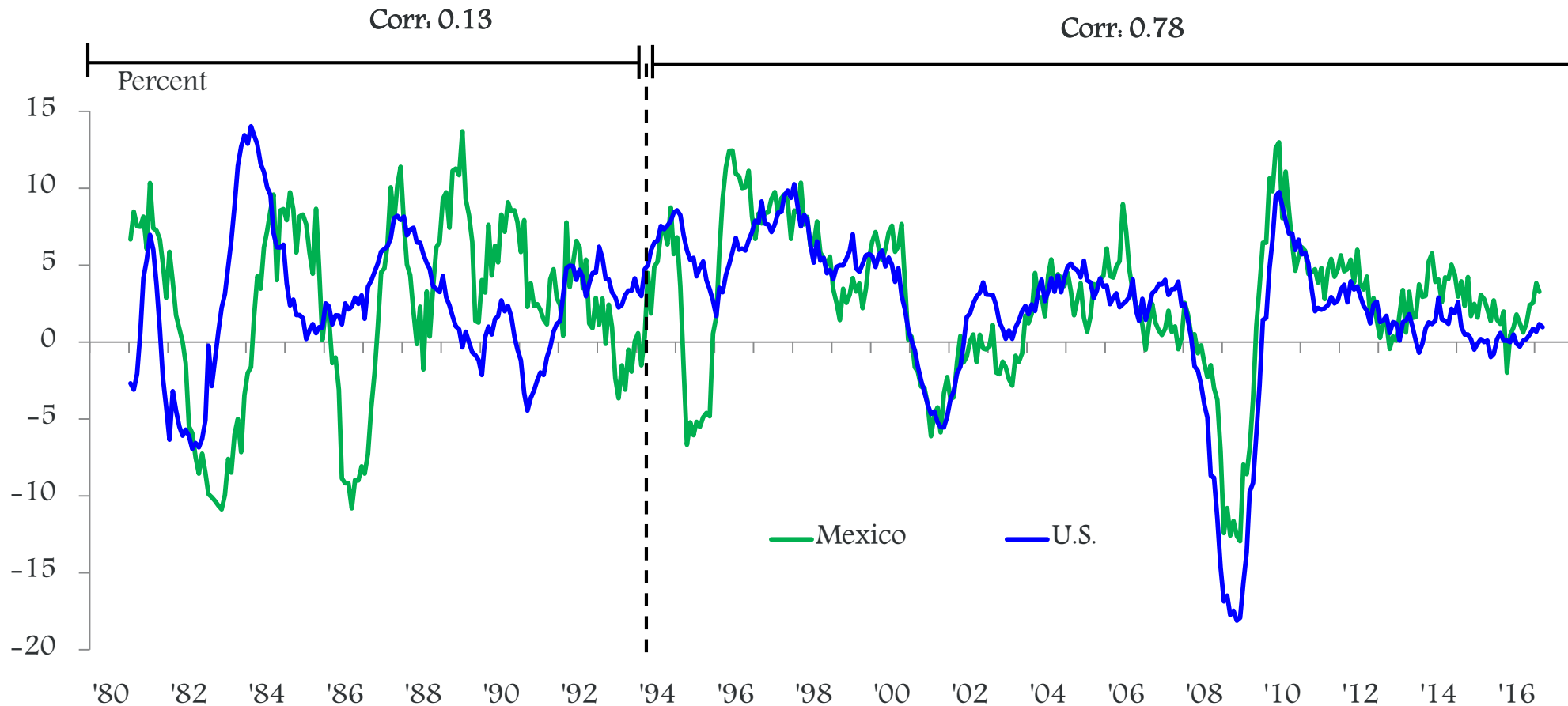
Still Unequal Trading Partners

2005 U.S. \$, PPP adjusted



SOURCE: OECD.

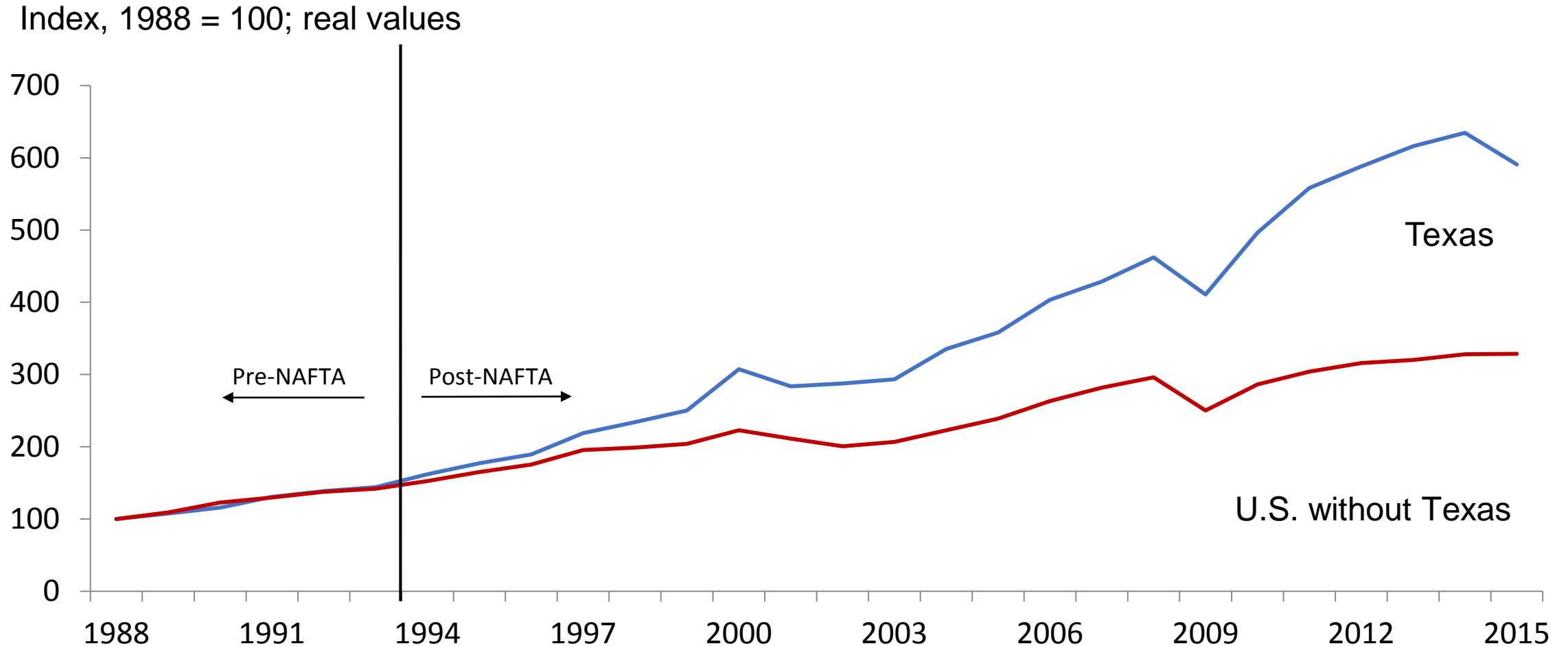
U.S. and Mexico Business Cycle Synchronicity Grows post NAFTA



NOTE: Monthly changes in manufacturing component of industrial production.
SOURCES: INEGI; Federal Reserve Board.

NAFTA and Texas

Texas Exports Grow Faster in Post-NAFTA Period

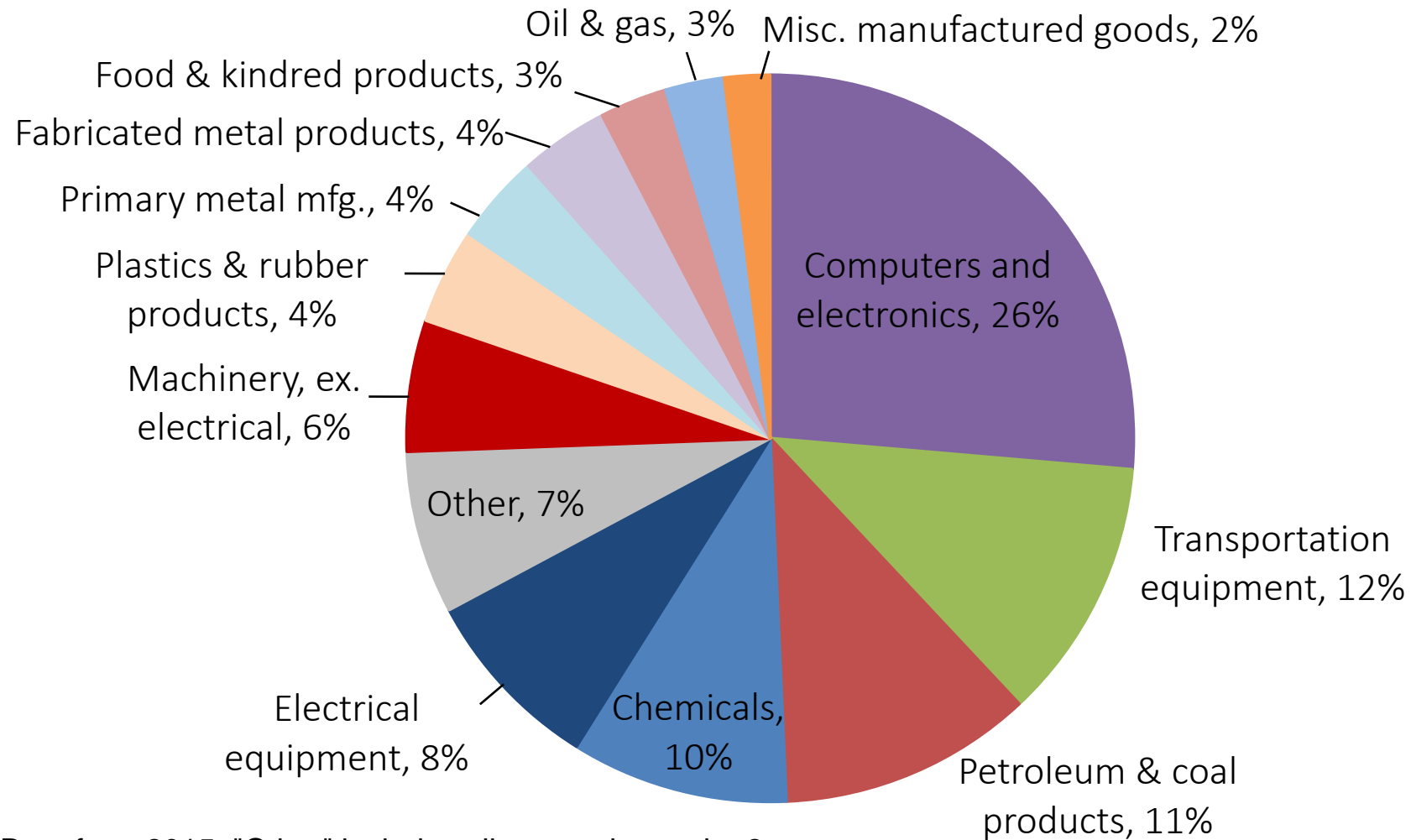


SOURCES: WISERTrade; Census Bureau.

NAFTA and Texas

- Texas exports reached \$247 billion in 2015
 - California at \$163 billion
 - Washington state \$86 billion
- Manufactured goods exports supported an estimated 990,000 jobs in Texas in 2015
 - Equal to 8.2 of the total
- 75 percent of U.S.–Mexico land trade (some \$343 billion in 2015) crosses via a Texas port of entry

Texas Exports to Mexico Quite Diverse



NOTES: Data from 2015. "Other" includes all categories under 2 percent.

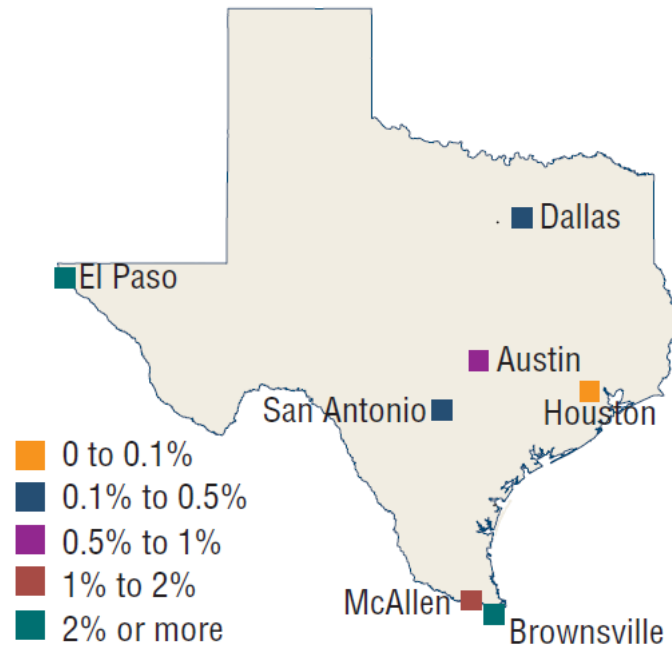
SOURCE: U.S. Trade Database, Census Bureau.

Texas Border Cities

More than 45 percent of an estimated 49,652 Texas job losses due to NAFTA were concentrated along the Texas–Mexico border

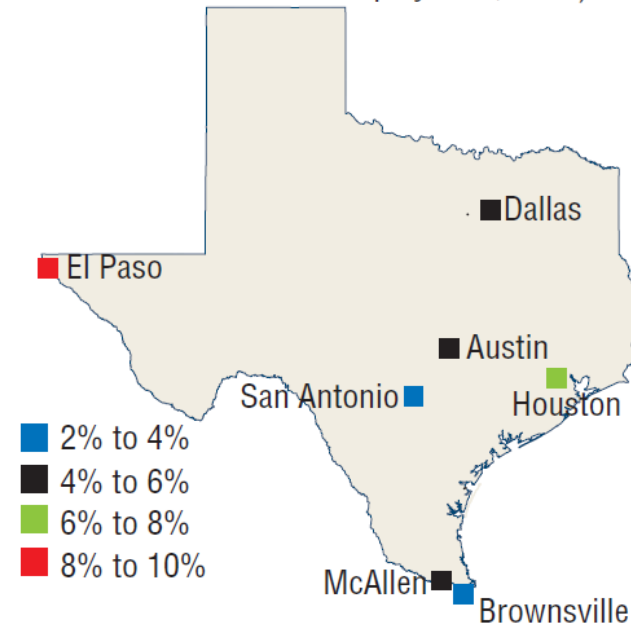
Foreign Firms' Hiring Offsets Job Lost

Workers Displaced by NAFTA
(1994–2014 as share of 1994 employment)



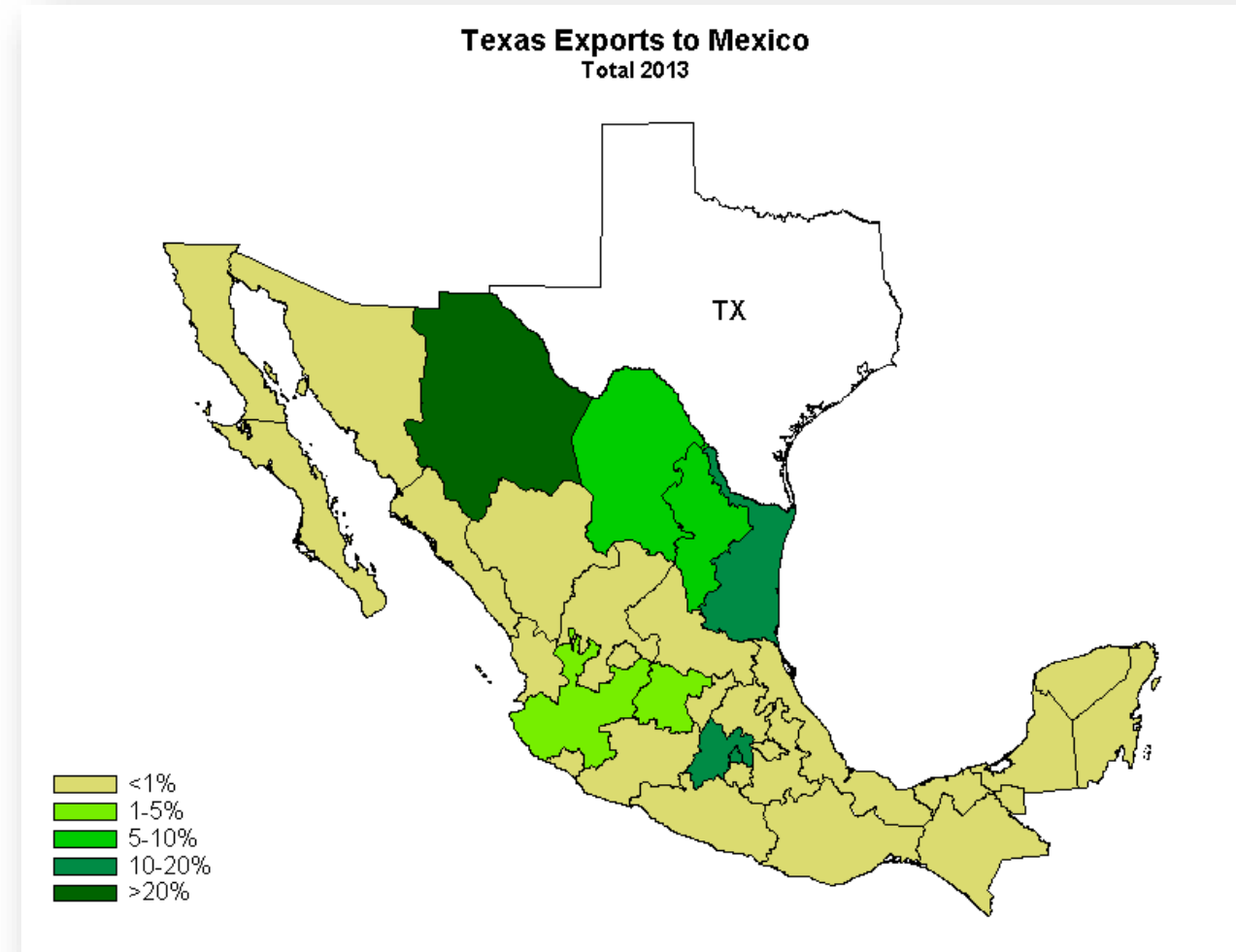
SOURCES: Public Citizen; Bureau of Labor Statistics.

Foreign-Owned Enterprise Employment
(As share of total metropolitan statistical area employment, 2011)



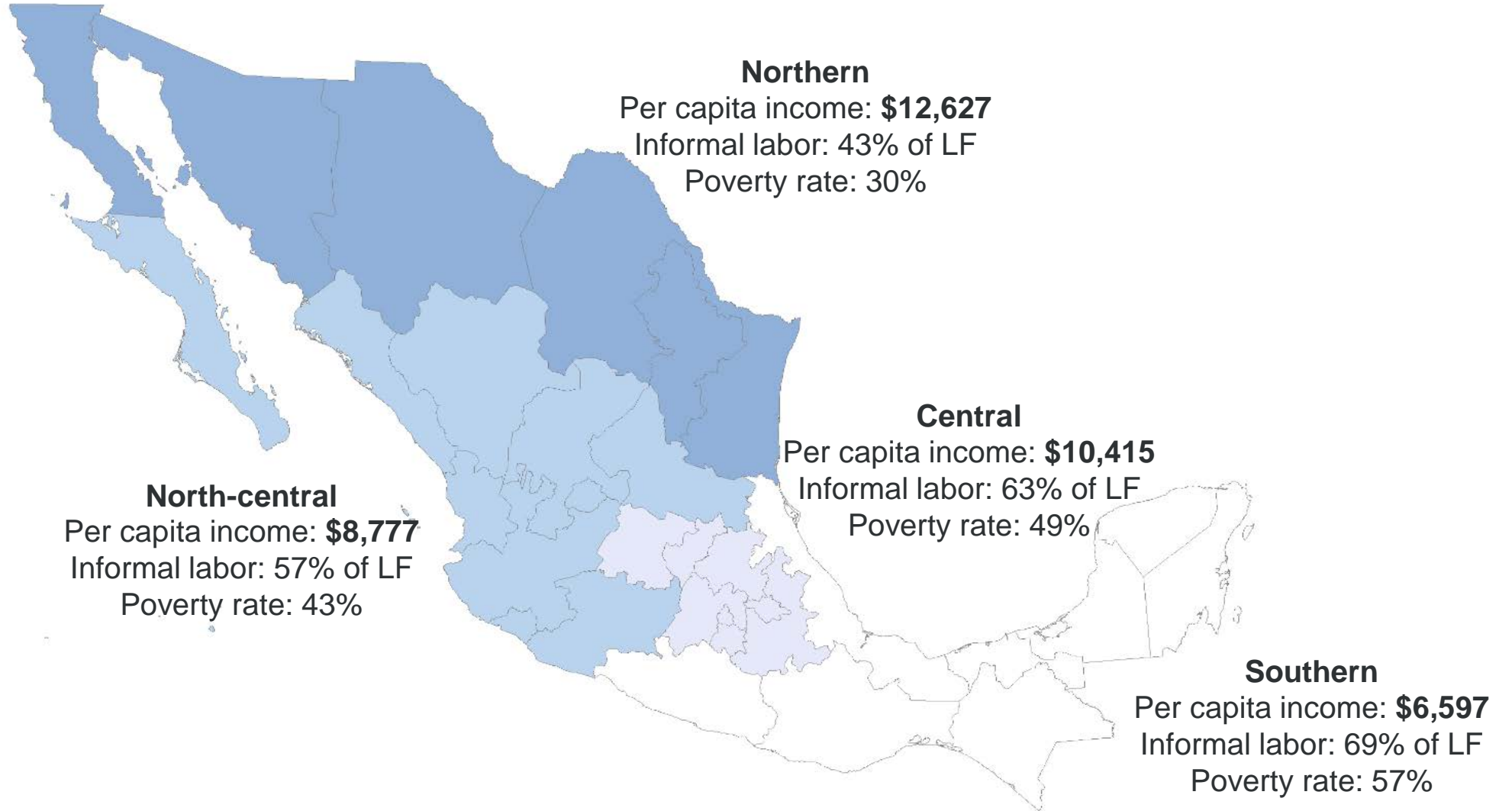
SOURCE: Brookings Institution.

Texas Exports Mainly go to Northern States



SOURCE: Bureau of Transportation Statistics.

Texas Trades with the Rich and Industrialized North



Maquiladoras Drive Employment Growth In Texas Border Cities

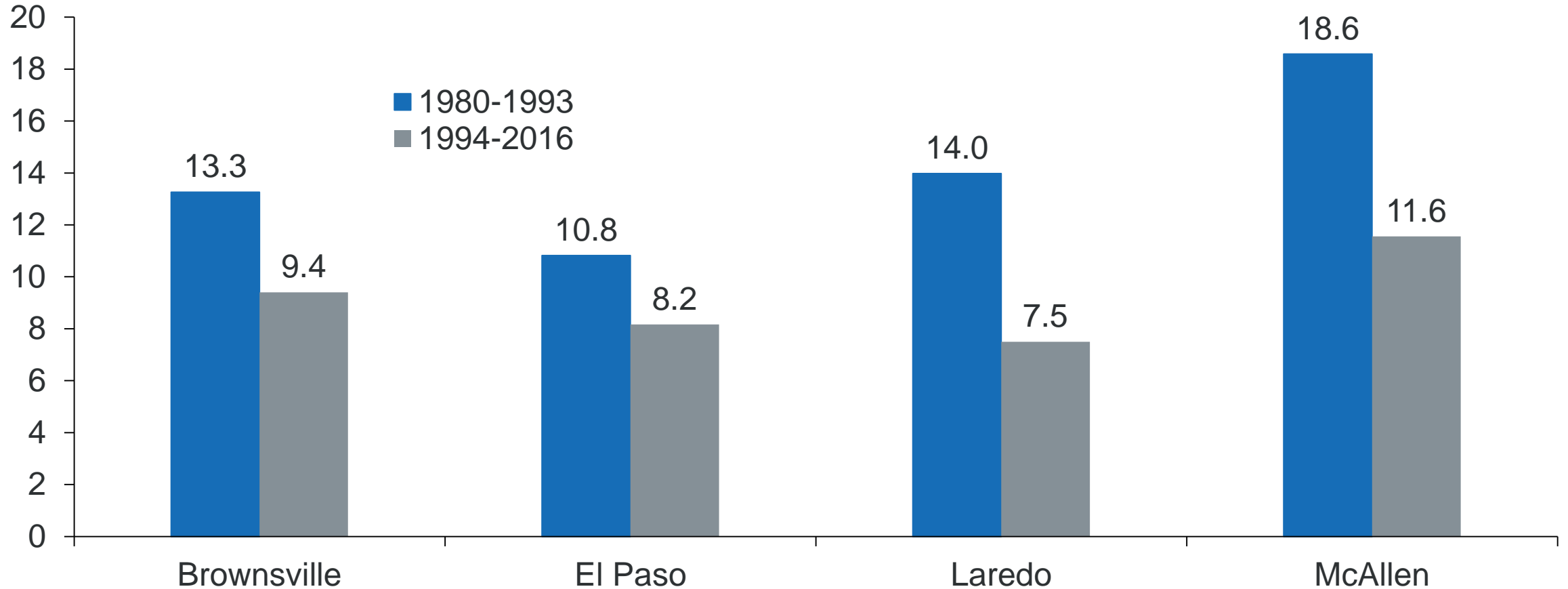
Estimation method: IV	El Paso	Laredo	McAllen	Brownsville
City Level	2.77*	4.62	6.58*	2.21
Construction	0.20	3.19	4.04*	1.29*
Manufacturing	-1.28	1.02	1.64	0.66
Transportation	5.30*	7.21*	6.63*	4.6*
Wholesale	0.43	1.96	4.01*	0.84
Retail	1.31	0.66	3.21*	1.34*
FIRE	2.12*	8.23*	4.63*	0.64
Services	1.84*	5.93*	7.38*	3.89*

NOTES: This table shows elasticity estimates. That is the table shows the percentage increase in local employment from a 10 percent increase in maquiladora production for each Texas Border Cities. * indicates significant at the 10% level.

SOURCE: J. Cañas, R. Coronado, R. Gilmer, E. Saucedo (2011) "The Impact of Maquiladoras on U.S. Border Cities", Federal Reserve Bank of Dallas, working paper.

Average Unemployment Rate Declined Along The Texas–Mexico Border After NAFTA

Percent

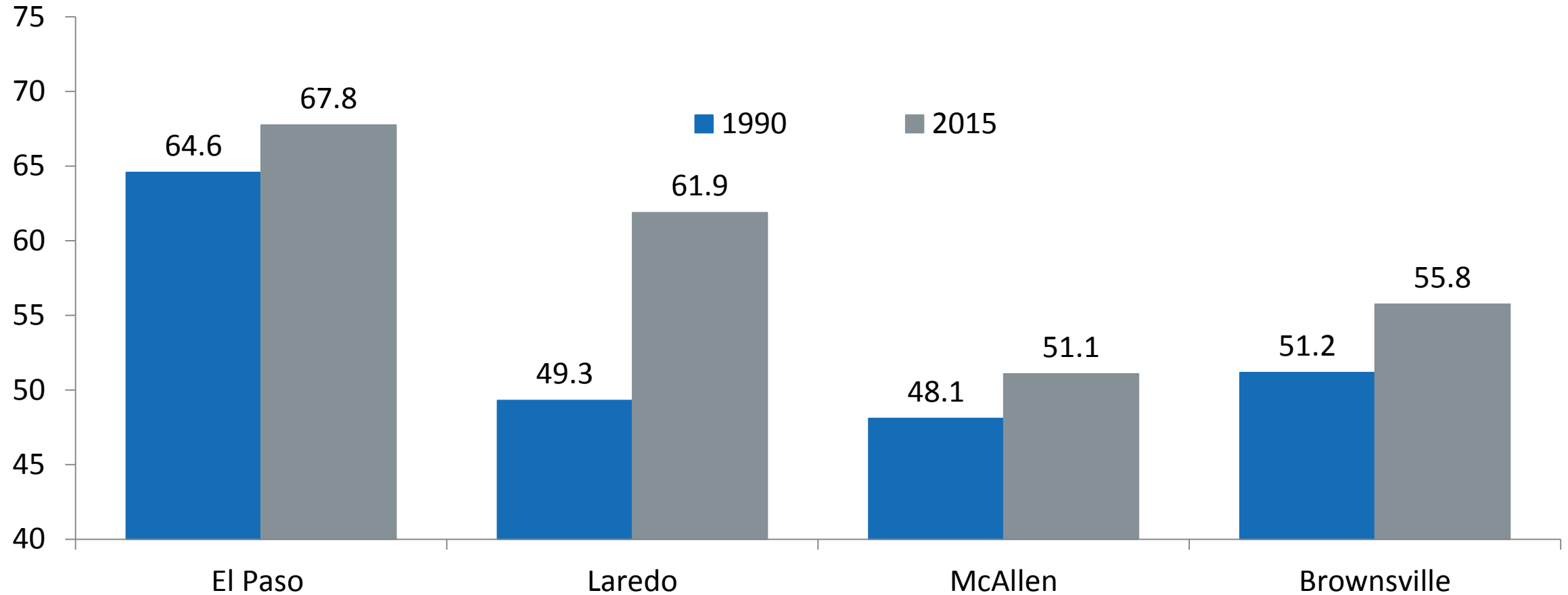


Source: Bureau of Labor Statistics.

Texas Border Cities Narrowing the Income Gap With Nation

(income as a share of U.S. total)

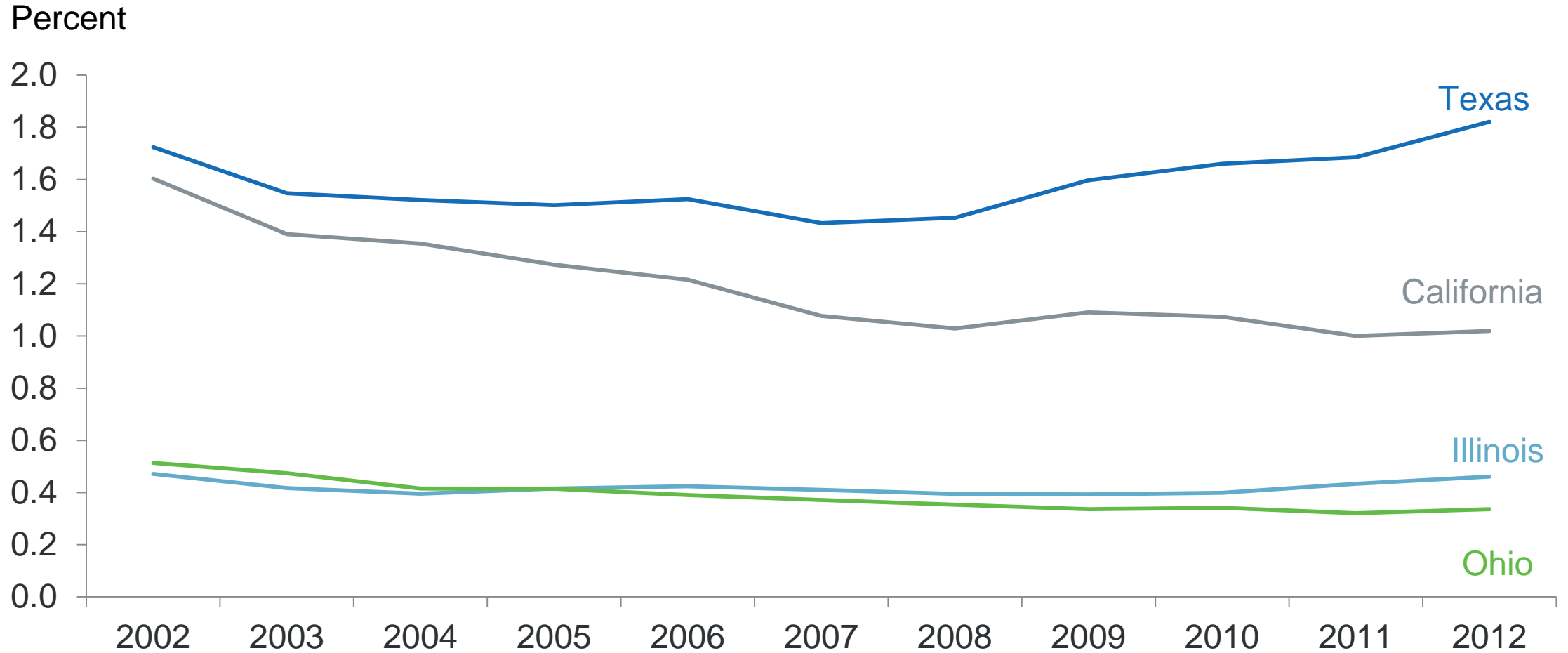
Percent



SOURCE: Bureau of Economic Analysis.

Texas More Competitive Domestically

(RCAs)



SOURCE: "Texas Comparative Advantage and Manufacturing Exports," by Jesus Cañas, Luis Bernardo Torres Ruiz and Christina English, in *Ten-Gallon Economy*, Pia M. Orrenius, Jesus Cañas and Michael Weiss, eds., New York, Palgrave Macmillan, 2015, pp. 159–179

Summary

- More trade and investment
 - NAFTA record on growth mixed
- The Texas economy has been transitioning toward a service-based economy
 - Lean and increasingly productive manufacturing sector
 - 4 million jobs gained in Texas between 1994 and 2015
 - Per capita real income up from \$30,000 to \$47,000
- Texas border cities have adjusted to trade
 - taking advantage of geographic location
 - growth in northern Mexico
 - supplying business services
- Useful case study to help trade-impacted communities transition to the next level of economic development

