

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

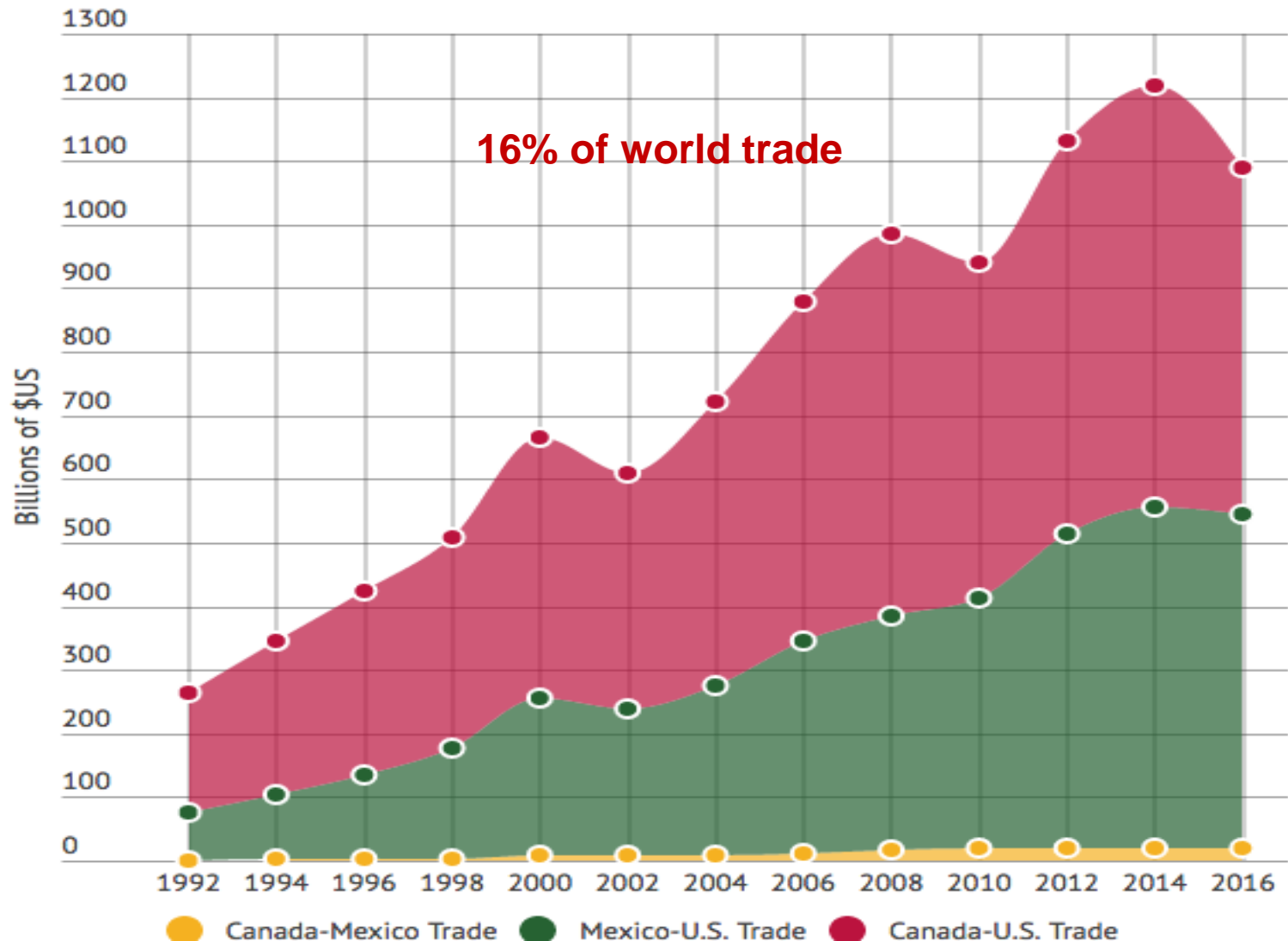
**NAFTA in the Trump era:
Implications for Mexico and its relations with the US**

Luz María de la Mora, PhD
Federal Reserve Bank of Dallas

May 12, 2017

NAFTA TRIGGERED TRADE FLOWS

370% growth (1991-2016)



SOURCE: <http://www.as-coa.org/articles/weekly-chart-nafta-numbers>

NAFTA HAS BEEN A SUCCESS STORY

MEXICO-US TRADE, 2016

\$579.7 billion

Mexico is:

- US' **3rd largest goods trading partner** with \$525.1 bn.
- US' **2nd largest goods export market**
- US' **2nd largest source of goods imports**

US is:

- Mexico's **largest trading partner**
- Mexico's **top export market, 80%**
- Mexico's **top import market, 49%**



SHARED TRADE VALUES/PRINCIPLES: NOT ANY MORE?

CANADA/ MEXICO

- ✓ Free trade
- ✓ Diversify FTAs
- ✓ Deepening trade liberalization
- ✓ TPP

US

- ✓ Protectionism
- ✓ Isolationism
- ✓ Mercantilism



TRUMP'S INTERPRETATION OF NAFTA MYTHS vs FACTS

Myths

- **The US is the loser in the NAFTA.**
- **Trade deficit with Mexico has been a disaster for the US.**
- **US unemployment created by NAFTA: historical lowest rates (4.4%)**

Facts

- Win-win: NAFTA trade is 16% of world trade.
- México 4th largest trade **deficit**: 8.6% (US\$734 bn). (Deficit with China is 5x)
- 14 mn US **jobs** depend on NAFTA trade
- US imports from Mexico contain 40% US inputs

The name of the game: **UNCERTAINTY** **UNPREDICTABILITY**

- ✓ Mexico has shown its willingness to cooperate and accommodate.
- ✓ Launched consultations on February 2, 2017.
- ✓ Extensive informal consultations at government, non-government, business, legislative, academic, civil society, activist level.
- ✓ We do not know yet what the US wants.

What to expect from a renegotiation?

Trump Options

- Renegotiate the NAFTA text?
- Build upon NAFTA? Update based on TPP?
- Maintain a trilateral FTA or two bilaterals?
- New Disciplines and fine tune existing ones
- NAFTA Repeal

The Positive Agenda

1. Maintain cooperation in a diversity of areas.
2. Safeguard the NAFTA.
3. Build on what we have and retake a trilateral agenda.
4. Include new issue areas: TPP agenda (energy, labor, environment, IP, corruption and transparency, SMEs, gender, border security, etc.)
5. Mexico's interests: deepen integration, 21st Century border, gas supply, order regional labor markets.

The Negative Agenda

1. Reduce NAFTA's ambition
2. Introduce new trade restrictions and/or managed trade (OMAs, VERs from the 1980s).
3. Eliminate Chapter 19: trade remedy laws
4. Impose *Buy America* at the expense of NAFTA partners.
5. Rules of origin that reduce competitiveness to the region vis-à-vis Asia producers.
6. Trade wars: e.g. Sugar/ softwood lumber

WITHOUT NAFTA: WTO MFN average tariffs

	MFN	AGRICULTURE	NAMA
CANADA	4.2	16.7	2.2
MEXICO	7.1	15.6	5.7
USA	3.5	5.2	3.2

SOURCE: WTO. TARIFF PROFILE.

If US repeals NAFTA, it remains in place for Mexico and Canada.

NAFTA LEGITIMACY AT STAKE

- ✓ Passing a new NAFTA will not be an easy sell in the US Congress nor in Mexico
- ✓ Trump has politicized trade policy, FTAs, trade negotiations and the multilateral trading system.
- ✓ US constituents will have an uphill battle to sell NAFTA if results are measured on **deficit and jobs**.



*“MEXICO SHOULD BE WILLING TO
COOPERATE BUT NOT TO CAPITULATE”*

BOB ZOELLICK

Former USTR

- ✓ Rebuild support for trade is a must.
- ✓ Mexico should not rush into a negotiation to get a result before June 2, 2018.
- ✓ Identify the win-wins.
- ✓ 2018 presidential elections in Mexico may coincide with renegotiation.

Luz María de la Mora, PhD.

Platón 433. Col. Polanco Palmitas. 11560 México DF

Imm@Immconsulting.com.mx

contacto@Immconsulting.com.mx

+52 55 26242858

+52 55 50190892

Twitter: @luzmadelamora

@ImmconsultingMX

Facebook: Immconsulting

www.Immconsulting.com.mx