



# NAFTA@23

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NAFTA 23 YEARS AFTER

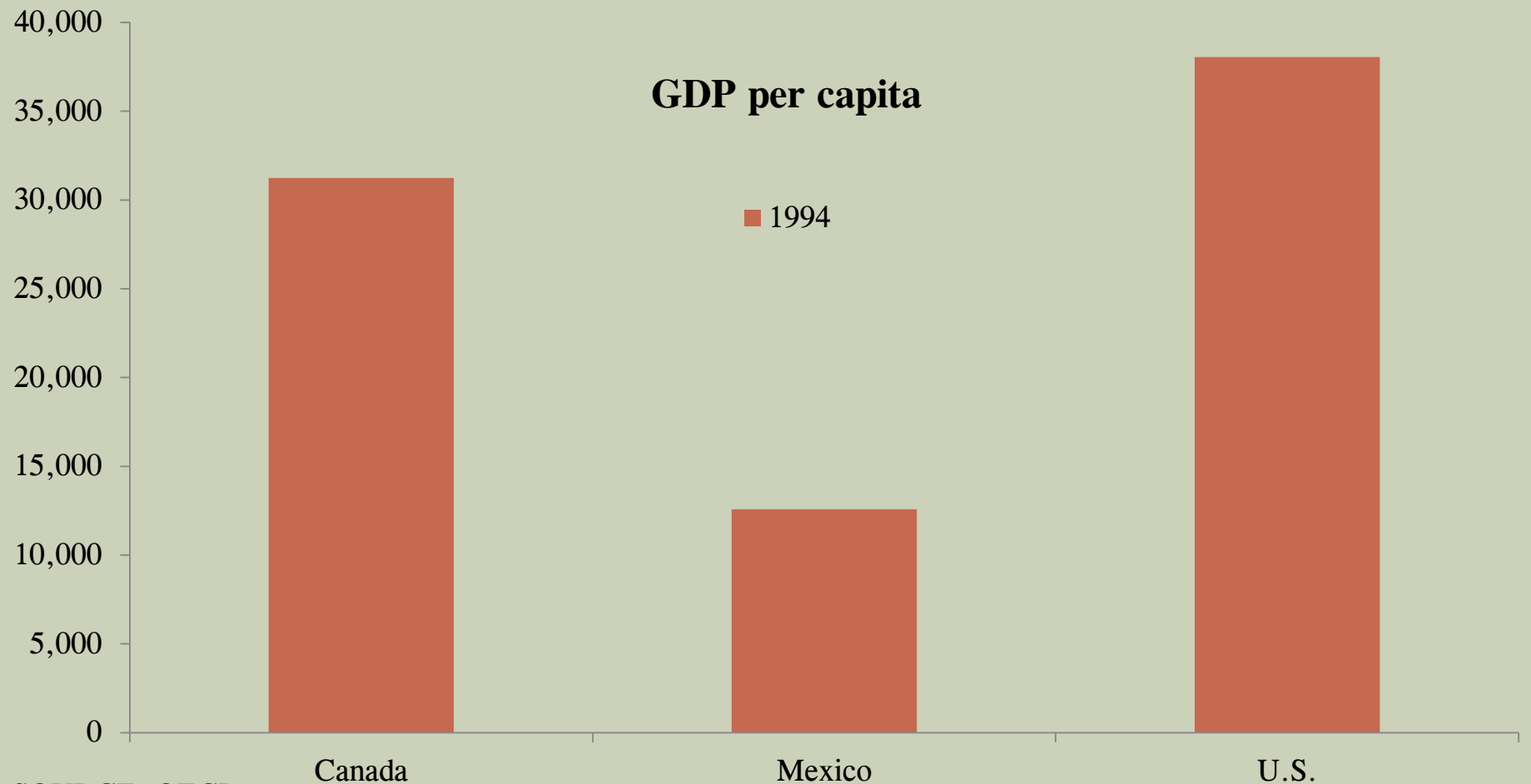


# A HISTORIC AGREEMENT

- Canada and U.S. already had an agreement
  - Adding Mexico broke the mold

# UNEQUAL TRADING PARTNERS

2010 U.S. \$, PPP adjusted



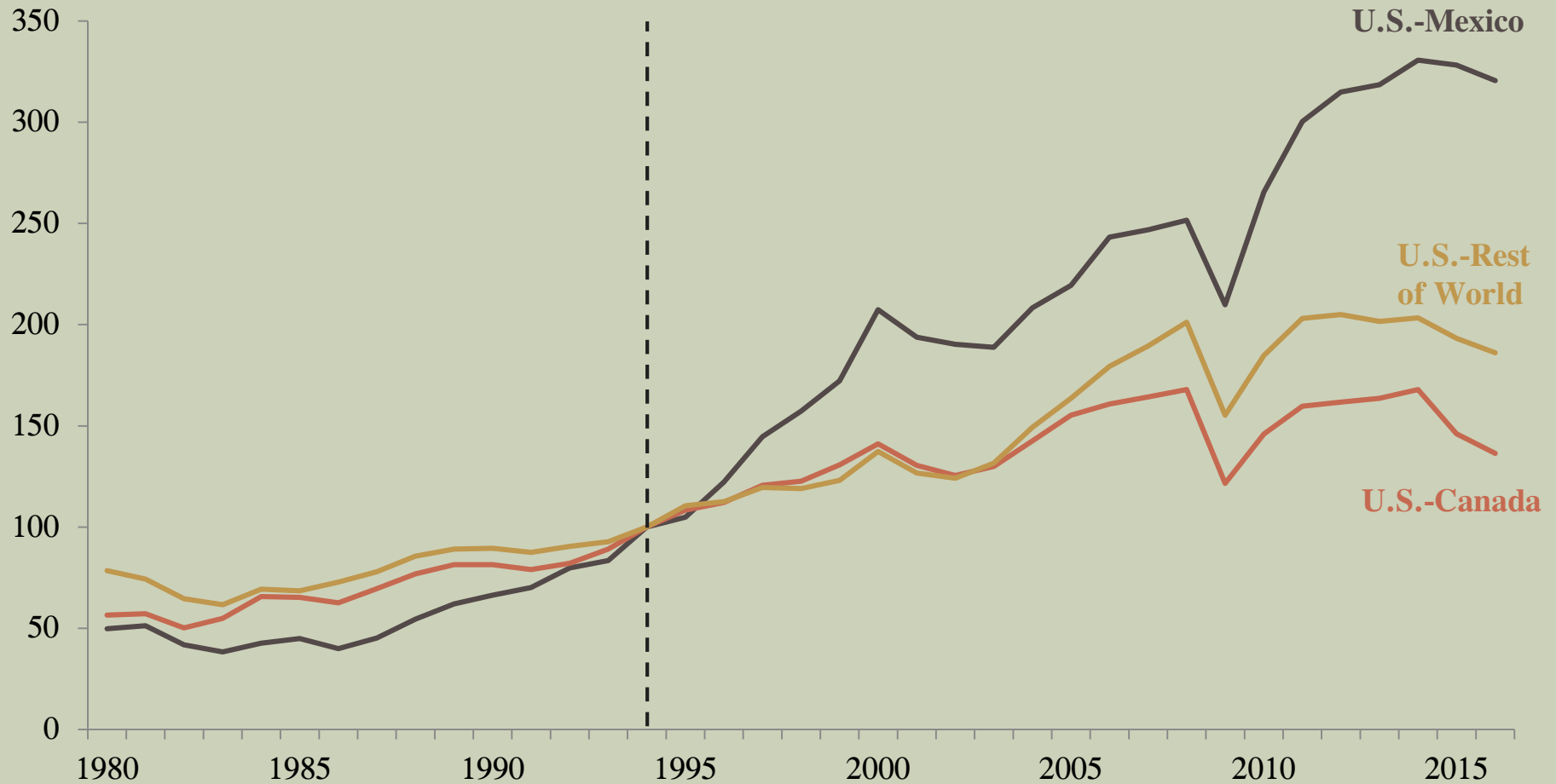
SOURCE: OECD.

# 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 loss, falling wages
- Fears unrealized, but so were aspirations
  - Elusive Mexican economic development

# U.S. TRADE WITH MEXICO AND CANADA GROWS FASTER POST-NAFTA

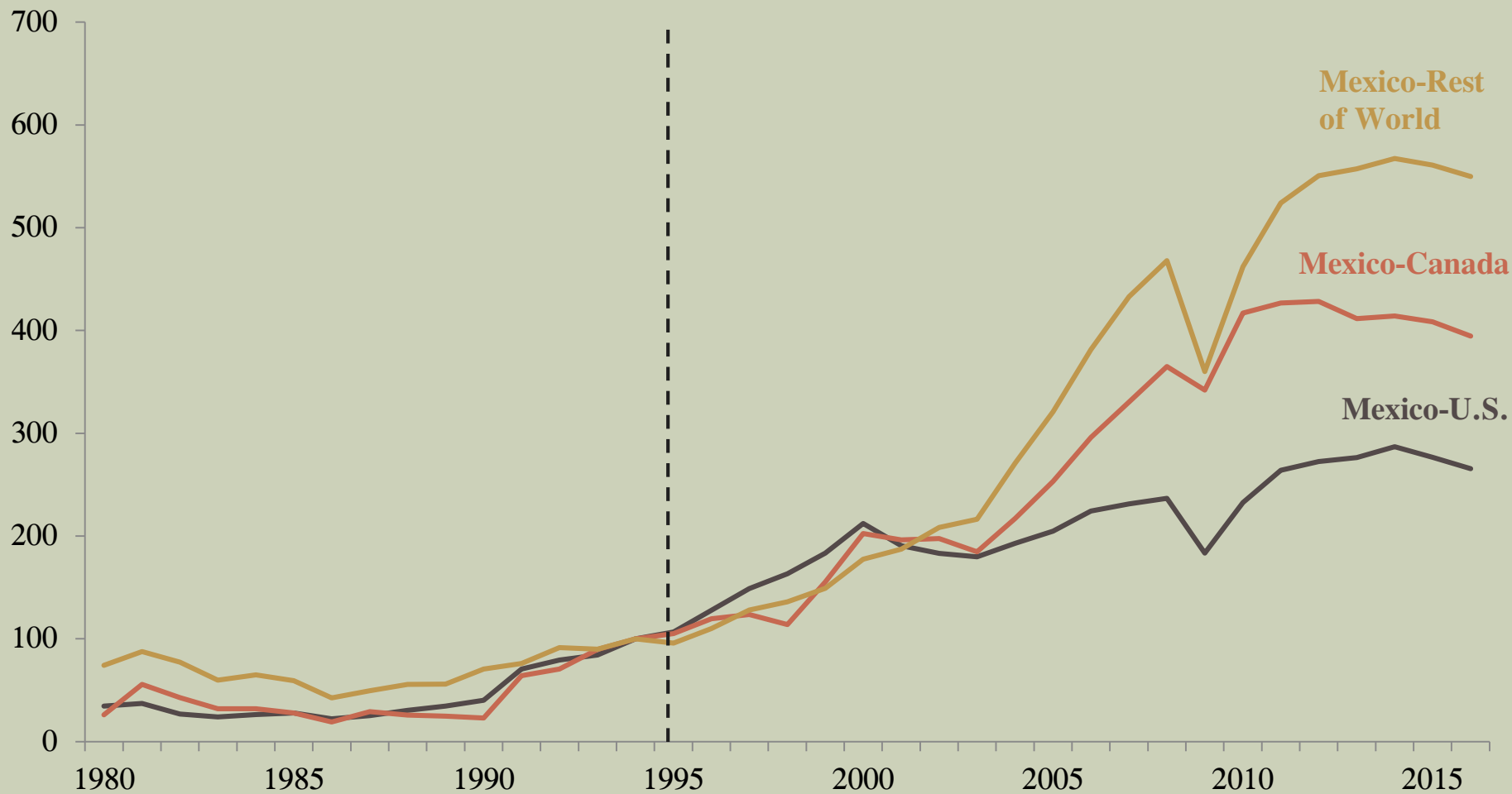
2016 U.S. \$, Index, 1994=100



SOURCE: IMF.

# MEXICO'S TRADE WITH CANADA, REST OF WORLD GREW MOST

2016 U.S. \$, Index, 1994=100



SOURCE: IMF.

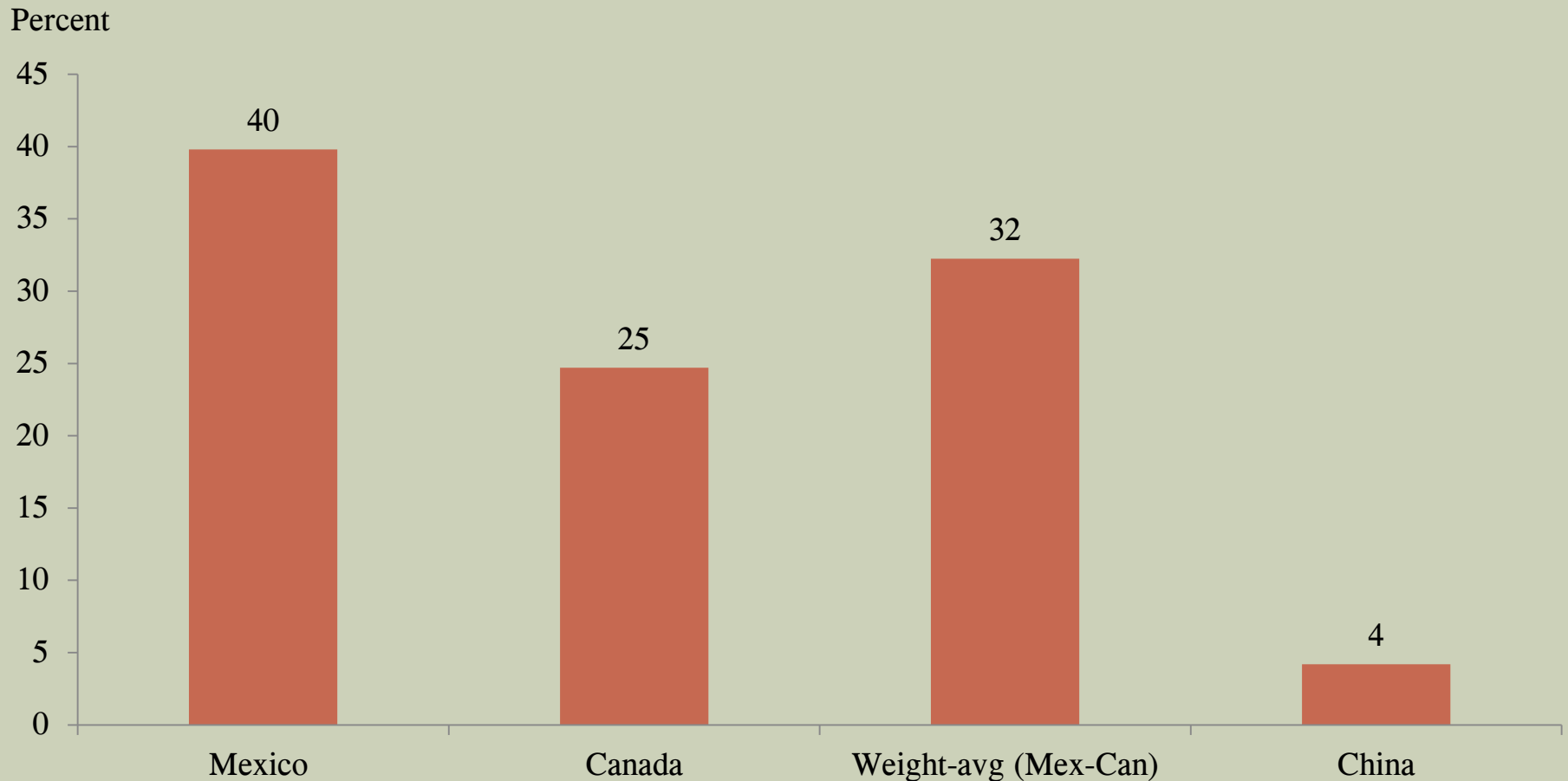
# U.S. TRADE WITH NAFTA PARTNERS MORE THAN DOUBLED SINCE 1993

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

SOURCE: U.S. Census Bureau.

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

# U.S. CONTENT HIGHEST IN IMPORTS FROM MEXICO, CANADA

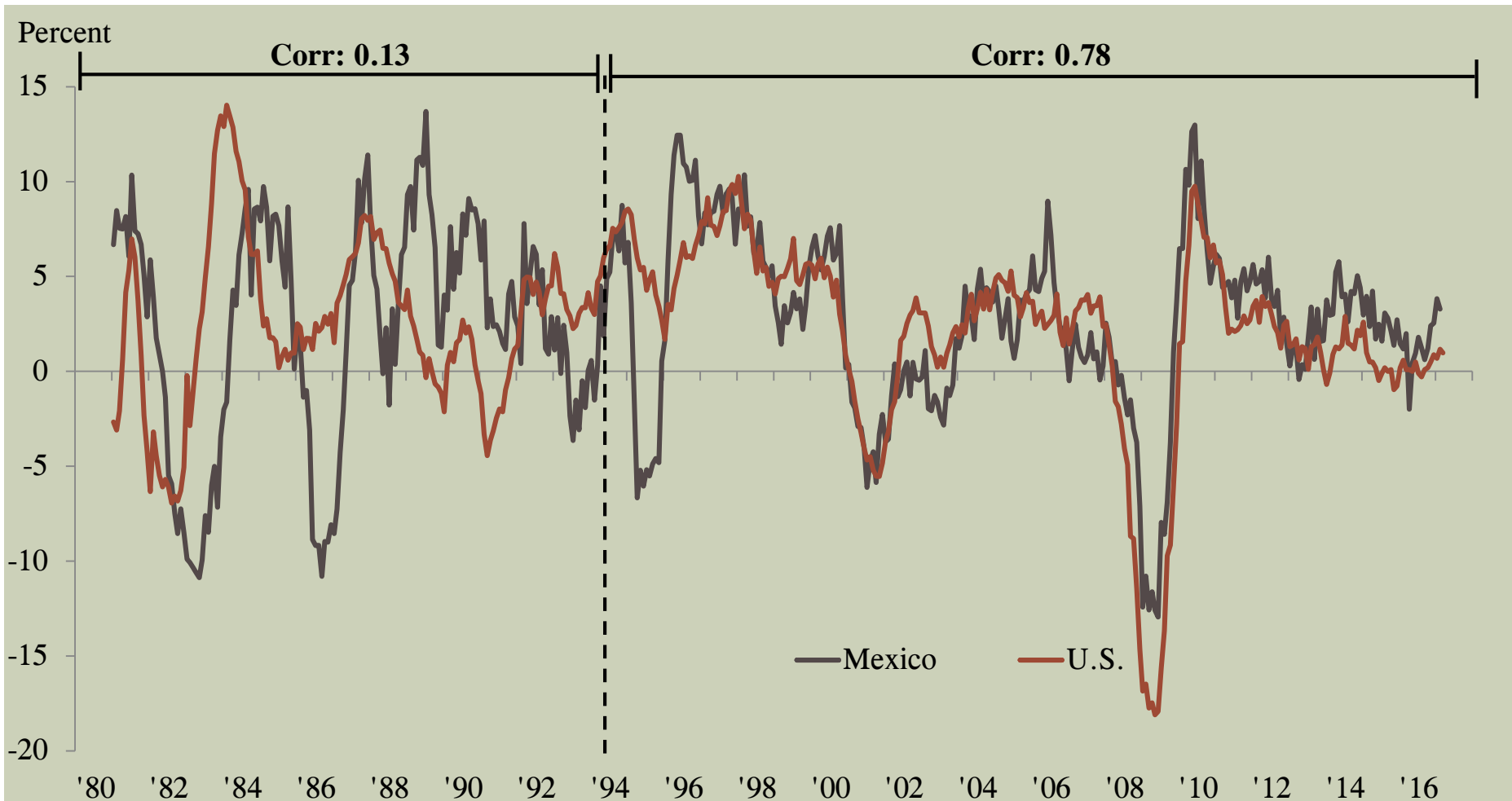


SOURCE: Robert Koopman, William Powers, Zhi Wang, and Shang-Jin Wei, "Give Credit Where Credit is Due," NBER Working Paper No. 16426, 2011.

NOTE: Data is from 2004.



# U.S. AND MEXICO BUSINESS CYCLE SYNCHRONICITY GROWS POST NAFTA

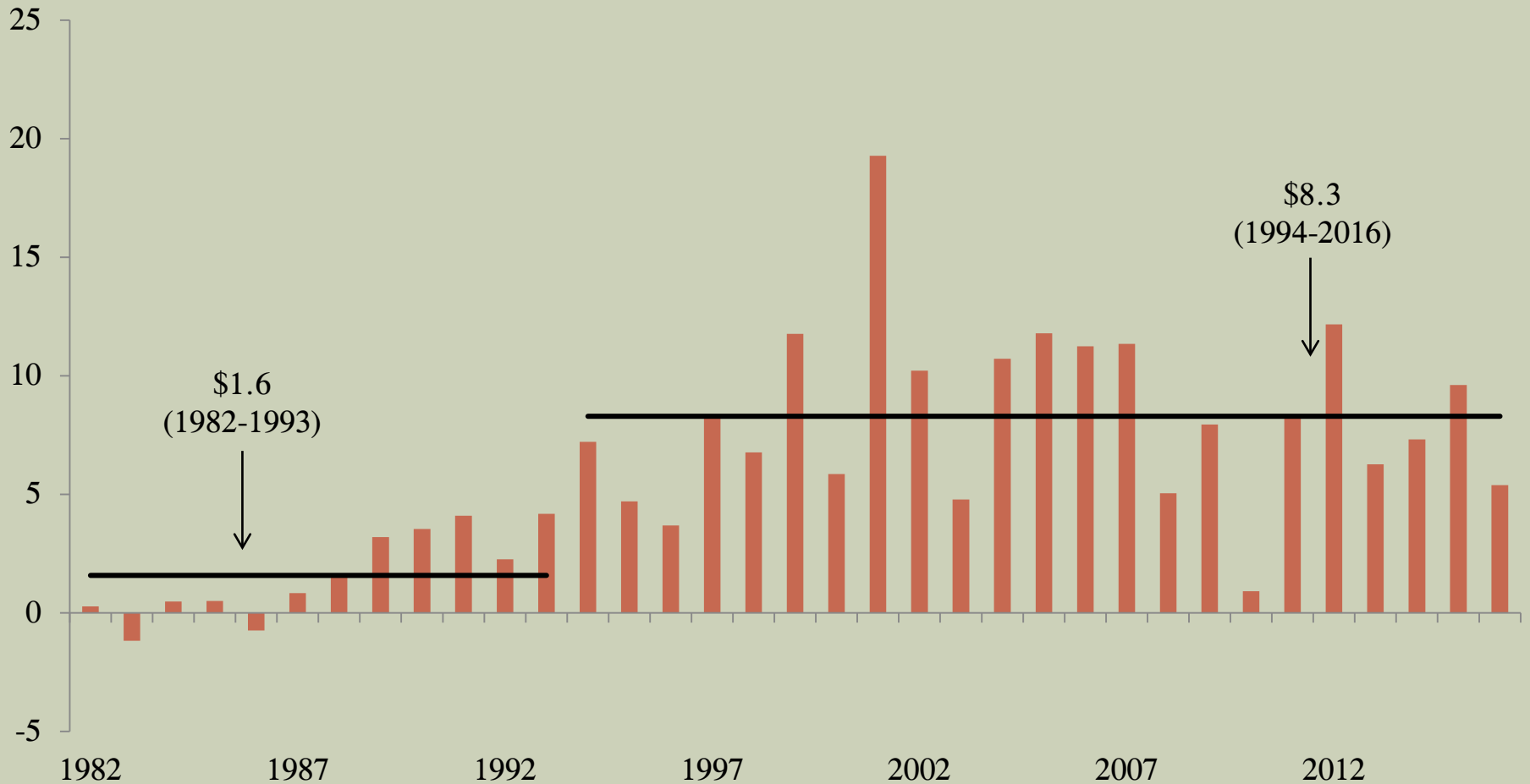


NOTE: Monthly changes in manufacturing component of industrial production.

SOURCES: INEGI; Federal Reserve Board.

# U.S. FDI IN MEXICO HIGHER SINCE NAFTA

Billions of 2016 U.S. \$



SOURCE: BEA.



# EVALUATION



# EVALUATING NAFTA

- Evaluation is difficult
  - How much of this growth would have happened anyway?
    - Trade diversion versus trade creation
  - Impact on terms of trade, labor markets
- Landmark studies
  - Caliendo & Parro (2012)
    - Model includes trade in intermediate goods
    - Simulates impacts of NAFTA tariff reductions on the 3 economies
  - Oldenski (2014)
    - Looks at benefits to U.S. firms with Mexican affiliates

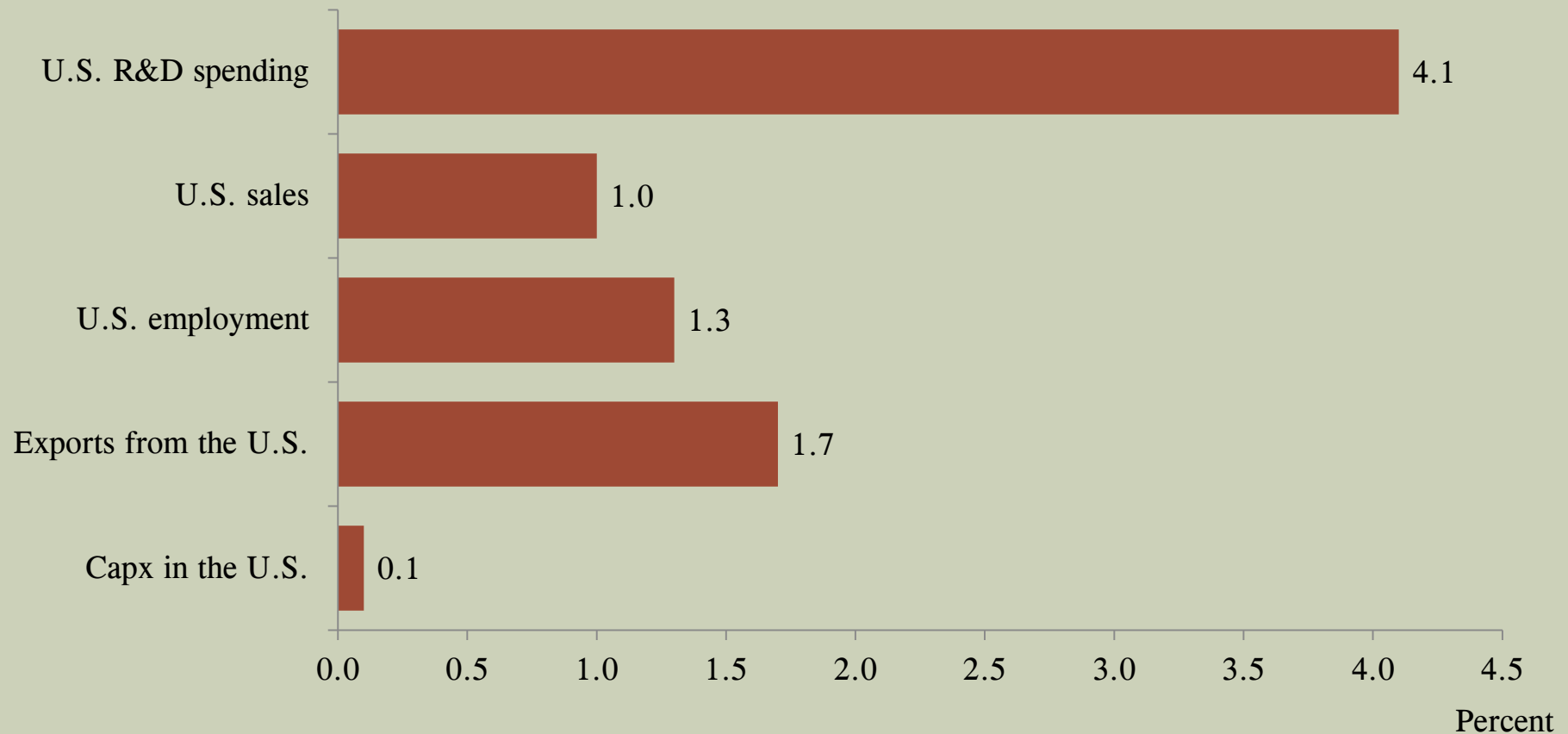
# TRADE, WAGE EFFECTS OF NAFTA TARIFF REDUCTIONS

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.

# FIRM-LEVEL EVIDENCE OF THE BENEFITS OF MEXICAN AFFILIATES

10% increase in employment at Mexican affiliates of U.S. firms is associated with:



SOURCE: Lindsay Oldenski, Peterson Institute for International Economics and Georgetown University, "American Manufacturing Growth Since NAFTA." 2014.



# SUCCESS YET DISAPPOINTMENT

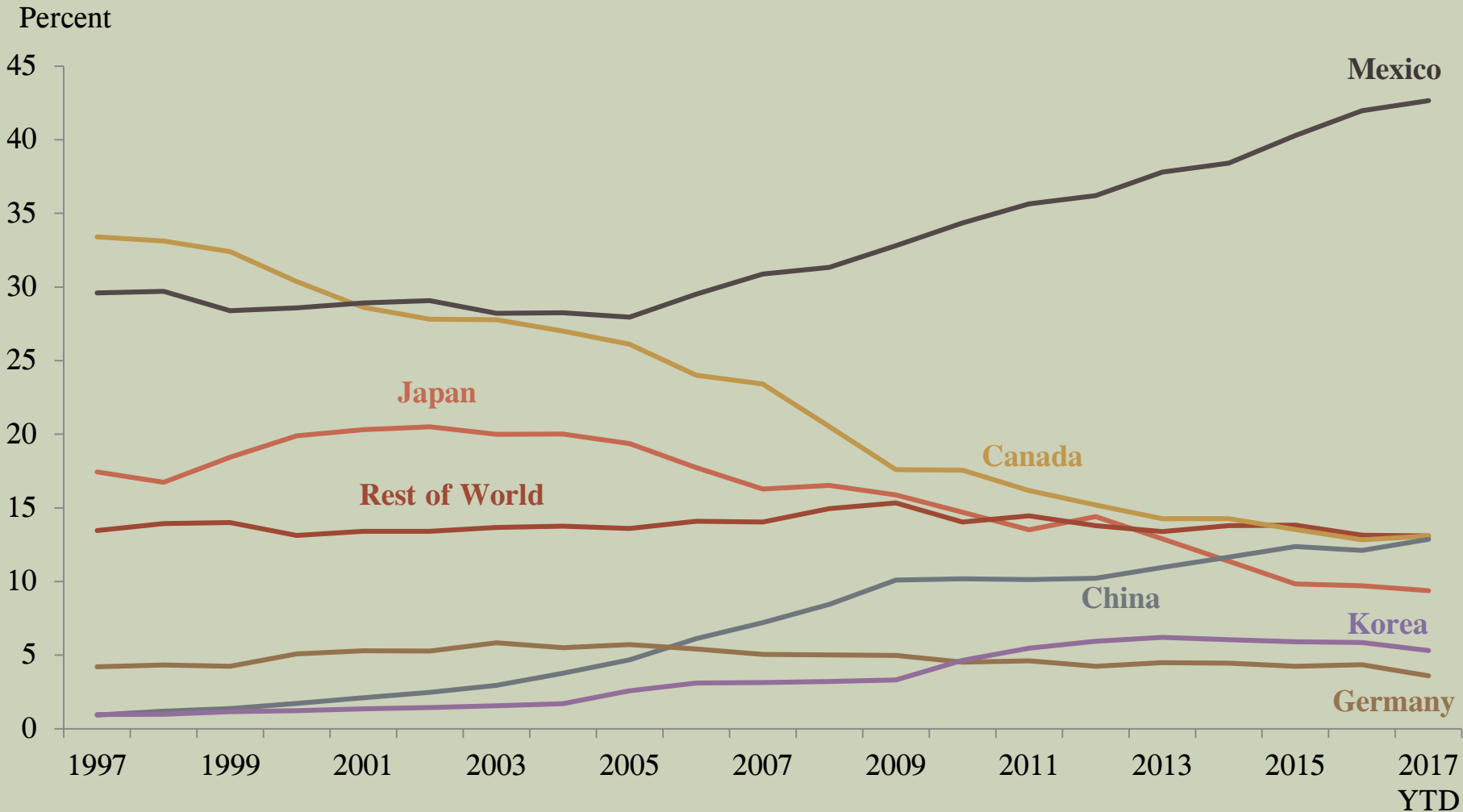


# SUCCESS YET DISAPPOINTMENT

- Mexico develops world class manufacturing sector
  - Top auto & auto parts manufacturer in the world
- Regional benefits significant
  - Texas exports to Mexico have soared
- But Mexico living standards slow to improve

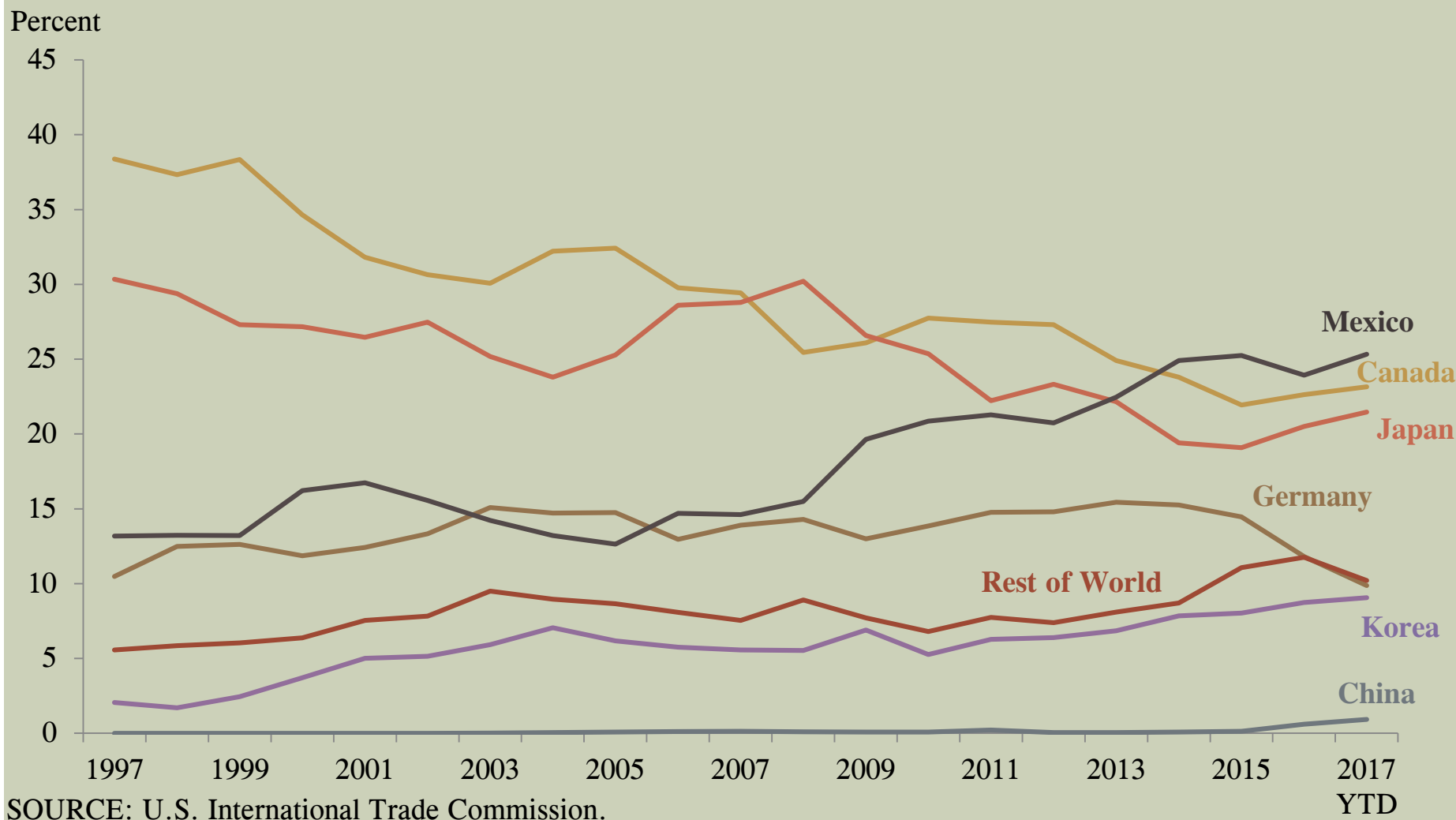


# MEXICO BIGGEST U.S. SUPPLIER OF MOTOR VEHICLE PARTS



SOURCE: U.S. International Trade Commission.

# MEXICO FIRST IN SHARE OF U.S. MOTOR VEHICLE IMPORTS

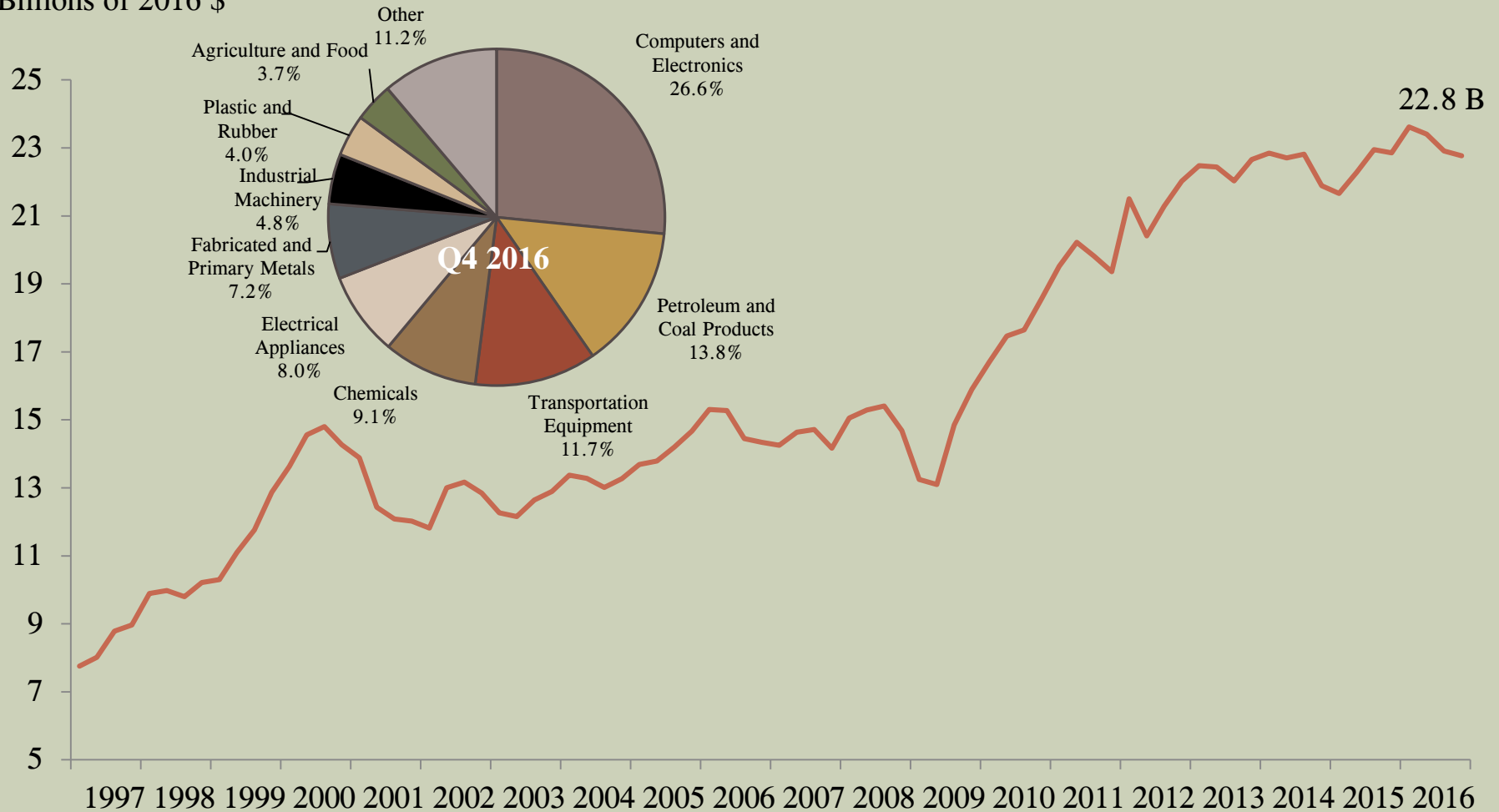


SOURCE: U.S. International Trade Commission.

# TEXAS EXPORTS TO MEXICO

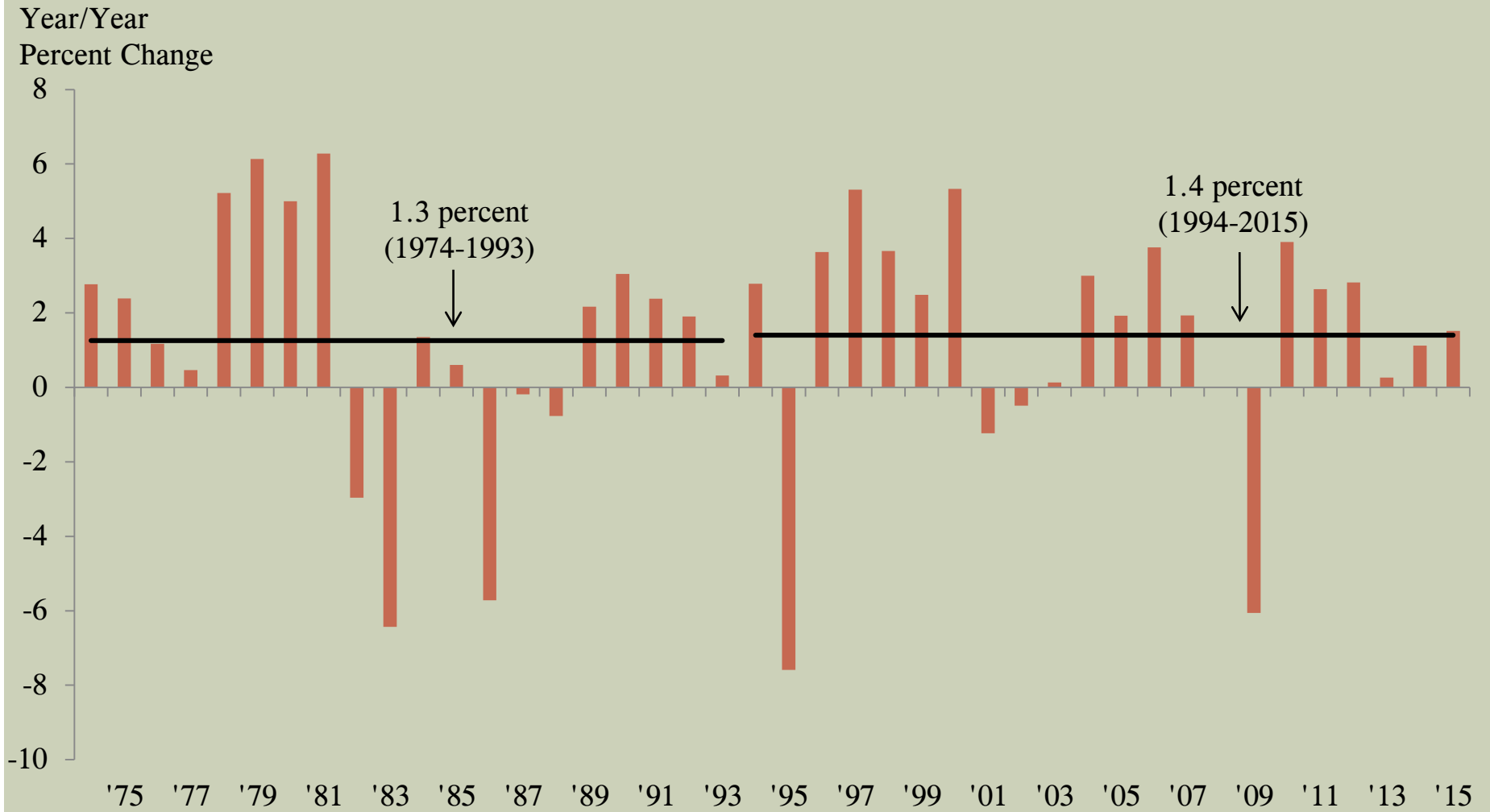
## DIVERSE, INCREASING

Billions of 2016 \$



SOURCE: WISERTrade.

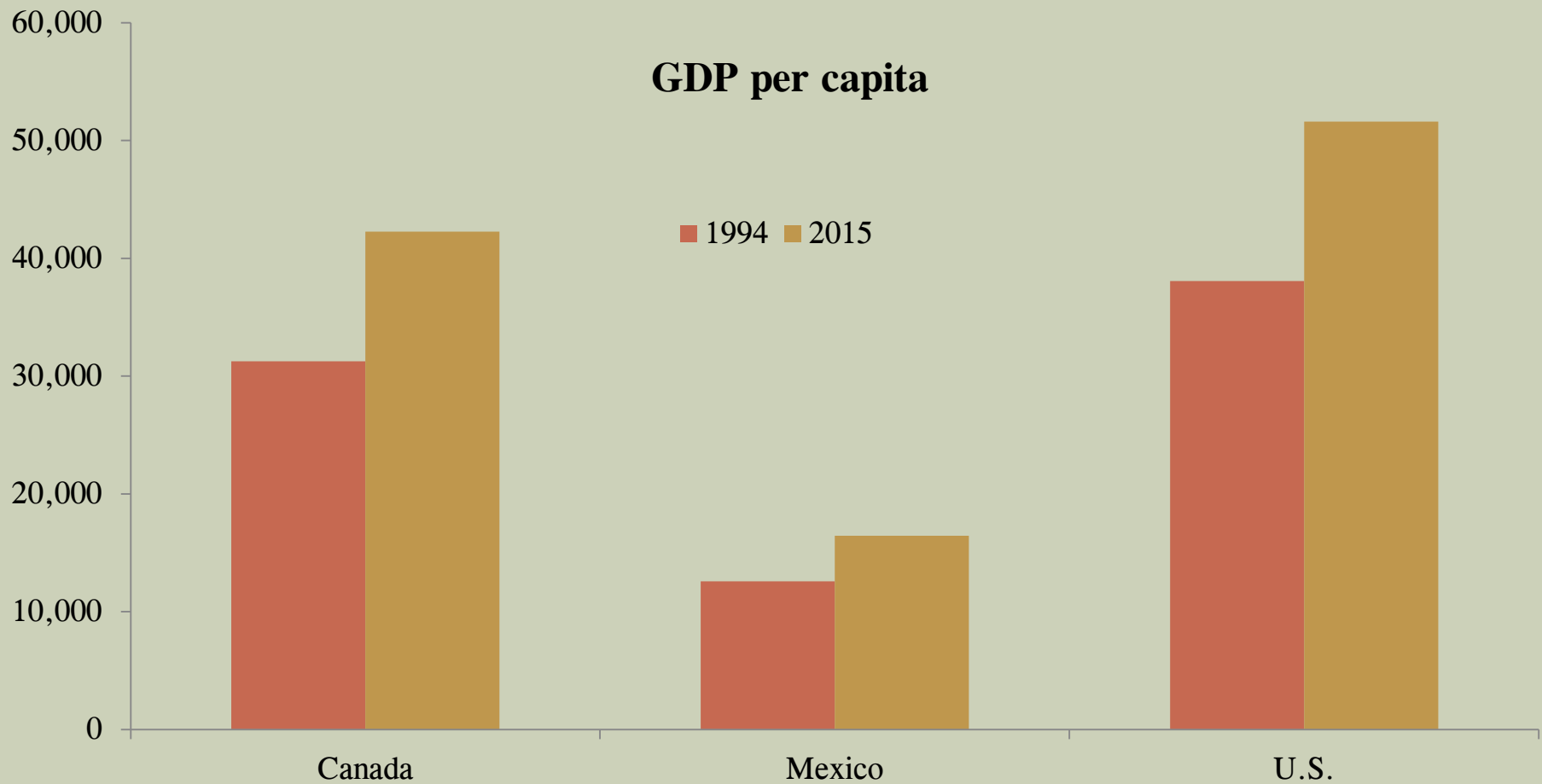
# BUT MEXICAN GDP PER CAPITA GROWTH BARELY IMPROVES POST NAFTA



SOURCE: OECD.

# STILL UNEQUAL TRADING PARTNERS

2010 U.S. \$, PPP adjusted



SOURCE: OECD.

# VISAS RISING FOR SKILLED MIGRANTS FROM MEXICO



NOTE: Last data point is 2016 for TN and H-1B and 2015 for green cards.

SOURCES: U.S. State Department; Department of Homeland Security.

# SUMMARY AND OUTLOOK

- **NAFTA scorecard**
  - Succeeded in raising trade, investment with few adverse effects on U.S. labor markets
  - Consumers benefited from lower prices, higher quality goods
  - Created a world class manufacturing sector in Mexico
  - But failed to lift growth, close the gap with richer neighbors

# SUMMARY AND OUTLOOK

Cont'd

- Peña Nieto reforms address Mexico's structural problems
  - May allow benefits of competition to spread to non-tradables sector
- NAFTA unlikely to be re-opened
  - Old issues likely to remain
  - New issues addressed elsewhere
- TTIP and TPP may change North American dynamics, lessen the significance of NAFTA



