

George Washington University

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NAFTA and Mexico

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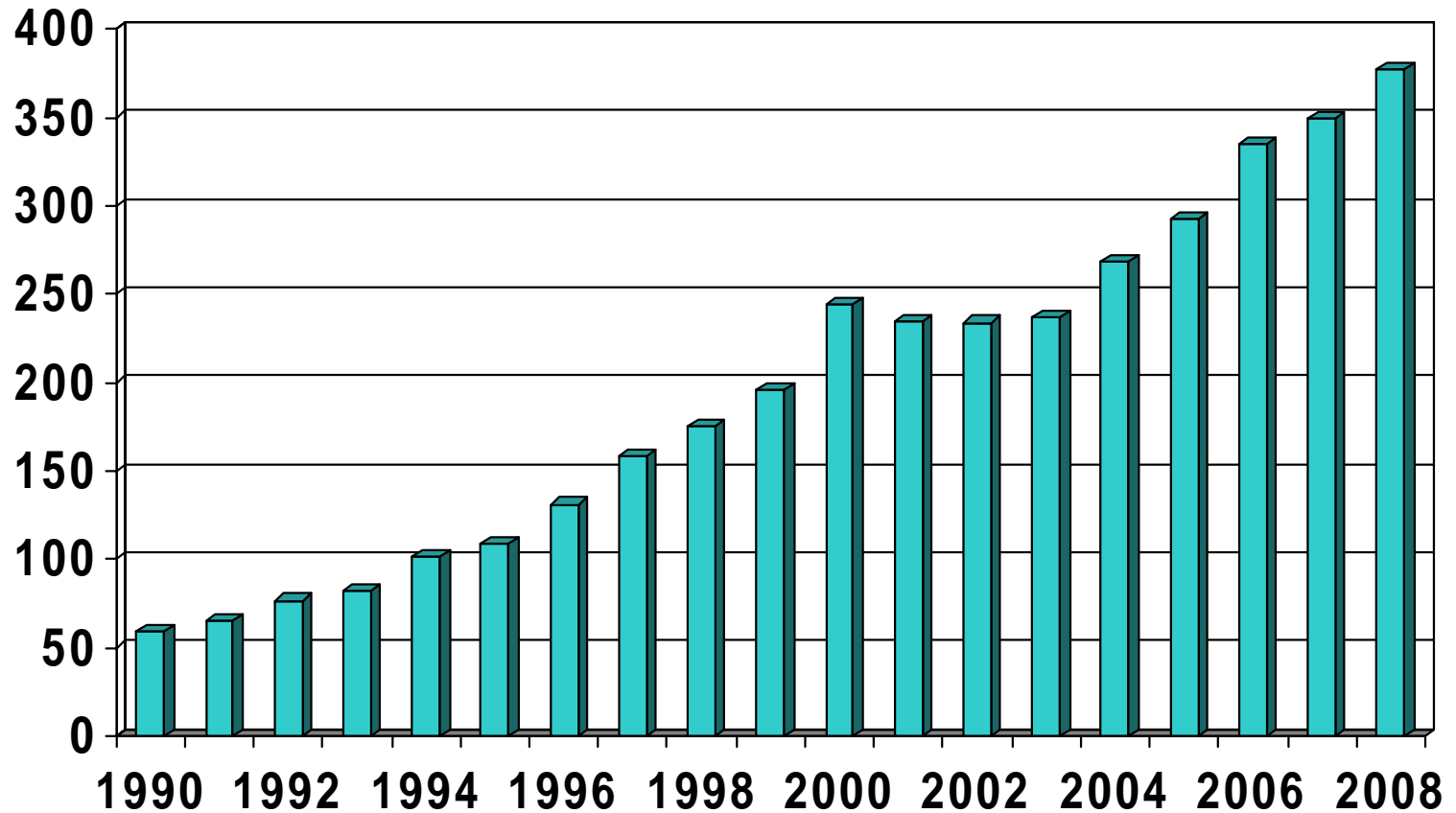


Background: Trade

- NAFTA increased merchandise trade by around 100% more than otherwise.
 - Increase in US two-way trade with NAFTA partners from 4.4% to 6.6% of US GDP between 1993 and 2007.
 - Resulted in a \$60 billion GDP gain for US, roughly \$600 per household.
- The impact of NAFTA on the US trade deficit has been exaggerated!
 - NAFTA share of the US total trade deficit: 17 percent (\$140 billion out of \$855 billion) in 2007.
 - 68 percent of the NAFTA deficit reflects energy imports from Canada and Mexico.

Two-way Merchandise Trade Between the United States and Mexico, 1990-2008

(in billions of US dollars)



Source: IMF Direction of Trade Statistics February 2009



Robust FDI trends in NAFTA

- Total FDI inflows to all NAFTA countries grew rapidly during the 1990s.
- For the whole region: the FDI stock in 2002-05 was 3.6 times larger than in 1989-1992. Relative to regional GDP, FDI stock almost doubled from 8% to 15%.
- Canada and Mexico: more than 50% of their 2006 inward FDI flows and stock come from US.
- US: Less than 10% of inward FDI stock in 2006 came from Canada and Mexico.

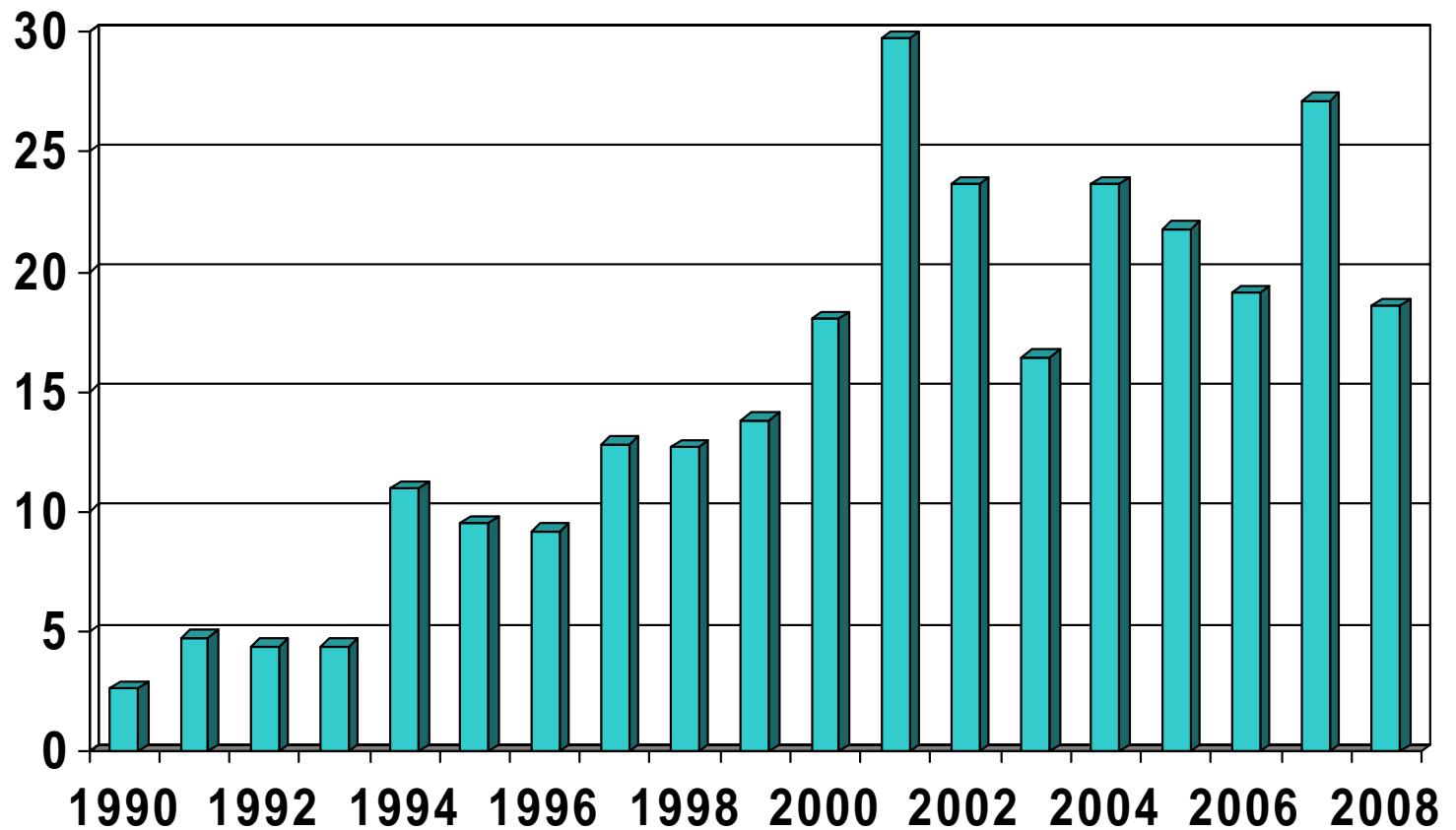


Challenges for Investment

- Upgrade infrastructure, especially in the United States and Mexico, and at all major border crossings.
- Reform corporate taxes. We are a high tax region!
- Automate customs to reduce delays and facilitate US cargo security measures.
- Improve issuance of US visas for third country professionals (e.g., Japanese or EU investors).

FDI inflows into Mexico, 1990-2008

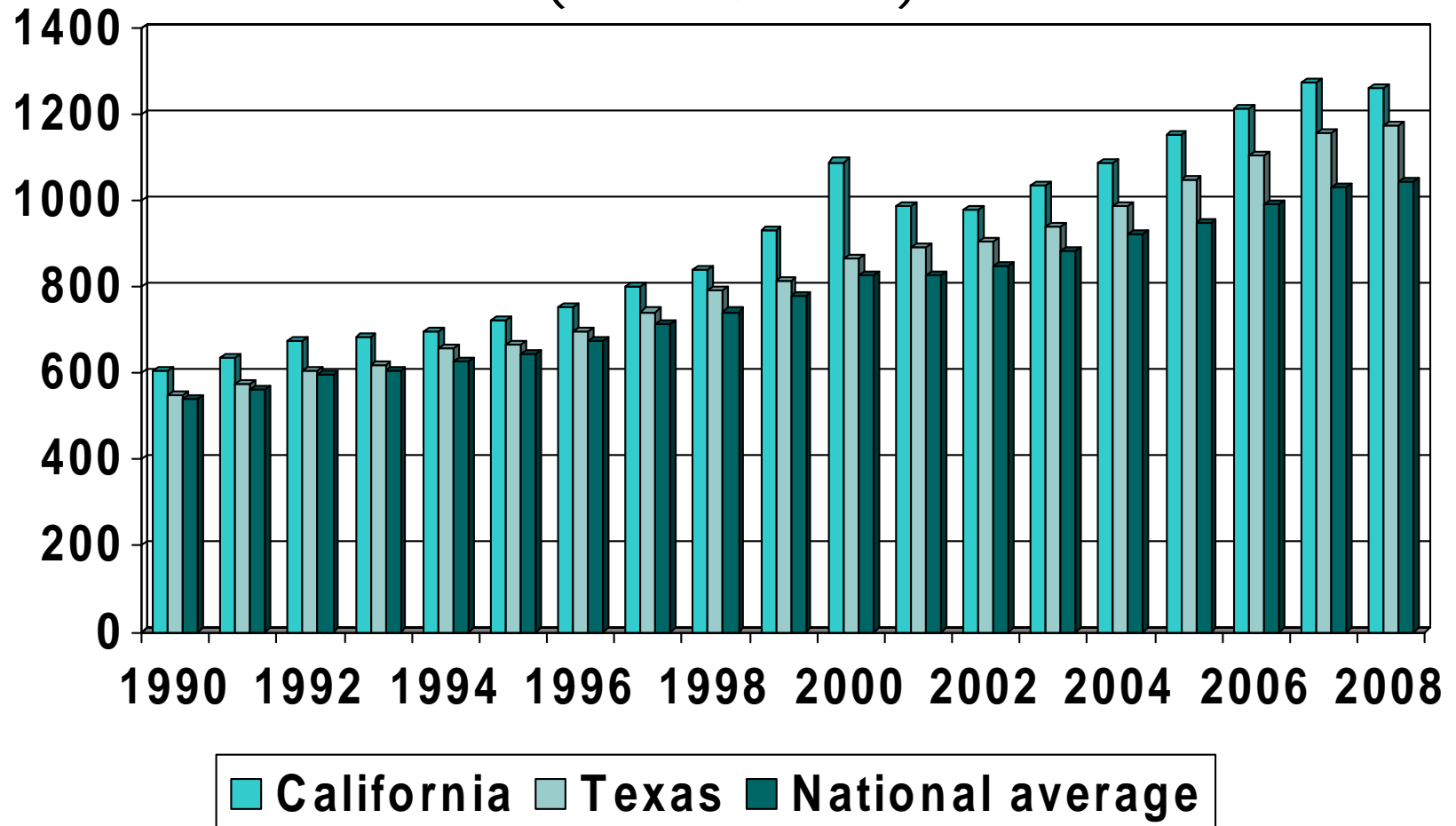
(in billions of US dollars)



Source: Banco de Mexico

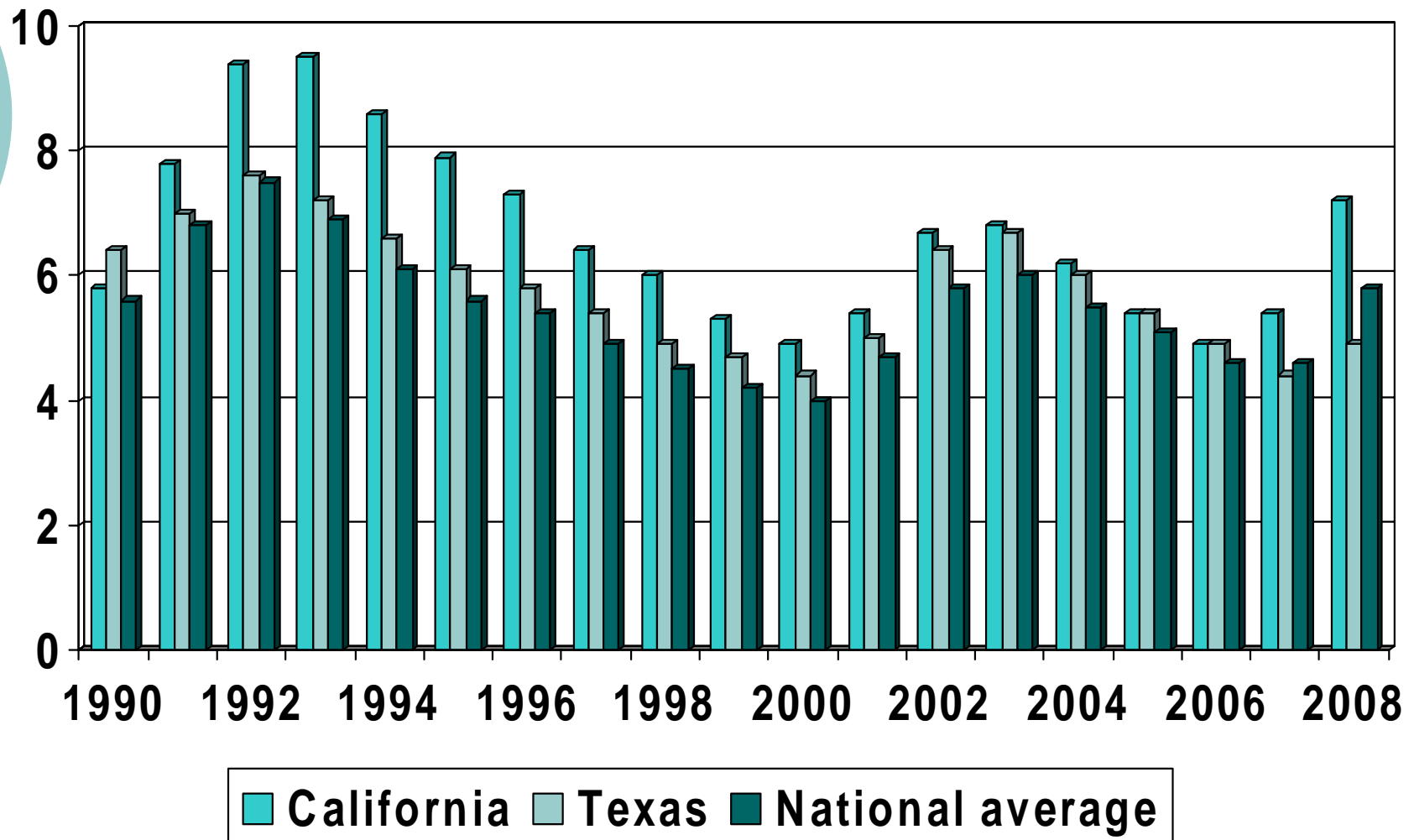
Manufacturing Wage Rates in California and Texas, 1990-2008

(in US dollars)



Source: US Bureau of Labor Statistics

Unemployment Rates in California and Texas, 1990-2008



Source: Bureau of Labor Statistics



NAFTA Job Impact

- President Obama: “One million jobs were lost because of NAFTA”.
- This accords with high-end estimates of job losses, some 100,000 jobs annually.
- A realistic estimate, however, is that around 60,000 US jobs are lost a year on account of increased trade with Canada and Mexico, while US exports to NAFTA partners support 70,000 new US jobs a year.

NAFTA Job Impact

- Annually, the dynamic US economy displaces approximately 17.5 million jobs and creates about 18.3 million new jobs.
 - NAFTA accounts for a small fraction (under one percent) of annual job churn.
- After NAFTA was signed, US unemployment rate fell from 6.1% to 4.6% (1994 to 2007). The famous sucking sound is not evident in employment statistics. Rising unemployment since 2007, to 8%, has everything to do with Wall Street and nothing to do with Mexico.



Border Security: Cargo Issues

- The Container Security Initiative Partnership
 - No secondary scan requirement at the Canada-US border for sealed cargo entering the North American perimeter through Canada and continuing to the United States.
 - Mexico does not have such an agreement.
- Obama made a campaign commitment not to liberalize trucking. This is now being codified in legislation.
 - Mexico will be the loser. Some shipments reach the US more quickly from China than from the Mexican interior.



Border Security: Illegal Immigration

- The flow of illegal immigrants from Mexico increased.
 - Annual average: 270,000 in the 1990s; 315,000 in the 2000s.
 - Stock: 2.5 million persons in 1995; 6.6 million in 2006.
- Underlying causes are huge differentials in earnings and economic performance between Mexico and US.
 - Hourly compensation for manufacturing workers: \$30 in US vs. \$4 in Mexico
- NAFTA says nothing about border control.
 - NAFTA visas are only available to skilled professionals.



The Future: Energy Security

- Trilateral energy flows (petroleum, natural gas and electricity) increased to more than \$740 billion in 2007.
- Canada is the largest and most secure supplier of oil and natural gas to the United States.
 - Electricity grids are integrated between the US and Canada, but not between the US and Mexico.



The Future: Energy Security

- NAFTA led to the removal of tariffs and quantitative restrictions on energy trade between the US and Canada
 - Those rules were not extended to Mexico.
- NAFTA does not go far enough to ensure energy security.
 - This is a subject for much greater cooperation: renewable energy; petroleum storage; nuclear power.



The Future: Climate Change

- Numerous bills on the congressional docket endorse alternate energy subsidies and border taxes against carbon-intensive imports.
- Challenge: how to avert new barriers to North American trade.
- NAFTA partners need to agree on industrial standards and GHG targets. Cooperative efforts are essential for monitoring GHG emissions and creating efficient trading markets for North American emissions permits.