US Trade Policy under Trump: NAFTA, Steel, and Beyond

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How to think about NAFTA

• Trump claims Mexico “won,” the US “lost”
  • According to opinion polls, most Americans agree that Mexico gained the most...
  • ... but most Mexicans and Canadians feel the opposite—the US gained more!

• NAFTA was a huge “success” for the George H. W. Bush administration negotiators
  • The fundamental goal was to enable US corporations to produce in Mexico with low-cost labor and export duty-free to the US without fear of expropriation, regulation, or other loss of property rights
    • The USTR got most of what it wanted, especially on foreign investors’ rights and investor-state dispute resolution
    • Mexico went along because it was desperate for foreign investment and a growth stimulus

• But which country gained more or which one lost is the wrong way to think about a trade agreement

• The two key questions are:
  • Which sectors, groups, or interests won and lost in each country? and
  • How did this agreement (in conjunction with related policies) affect the long-term growth and development of each member and the region as a whole?
Distributional effects: increased inequality

• NAFTA contributed (along with other factors) to rising inequality in both countries
• Less educated ("less-skilled") workers in the US definitely lost (Hakobyan and McLaren, 2016)
  • Those in areas most exposed to NAFTA tariff reductions suffered wage losses up to 17%
• In Mexico, although consumer gains from trade liberalization were widespread, upper income groups and the northern region benefited the most (Nicita 2009)
  • Real wages of manufacturing workers have stagnated since 1994
• Both countries have experienced rising top income shares (1% etc.)
  • The US data are well-known from Piketty, Saez, etc.
  • For Mexico I rely on the corrected data of Esquivel (2015)
• Since the late 1990s, labor shares of national income have fallen in both countries
Top 10% share in Mexico

Esquivel’s adjusted data

Official data

All three NAFTA members have some of the highest inequality in the world, as measured by their top 1% shares.

Source: Esquivel, Oxfam Report (2015); the Mexican percentage is his estimate.
Hourly compensation of Mexican production workers, in real terms and as a percentage of the US level, 1994 - 2016

Real hourly compensation (left scale)

Mexico as a percentage of US (right scale)
Private business sector labor shares, Mexico and United States, 1995-2015

Sources: Blecker et al. (2017). Data from: Ibarra and Ros (2017), used with permission; U.S. Bureau of Labor Statistics (BLS), www.bls.gov; and authors’ calculations.
Sectoral winners and losers

• Caveat: Effects of NAFTA can be hard to identify because they were compounded by exchange rates, financial crises, the impact of China, domestic policies, etc.

• But we can identify specific sectors that gained or lost
  • Mexico gained jobs in automobiles and parts, appliances, electrical and electronic equipment, fruits and vegetables (seasonal)
  • The US gained agricultural markets in basic grains (corn, wheat), soybeans, animal feed, etc.
  • US companies invested in Mexican services, banking, and retail (Walmart, Citibank, fast food)

• US job losses in manufacturing (5 million from 2000 to present) have been much more affected by China than by Mexico (Autor et al. 2013; Acemoglu et al. 2016)
  • Automobiles and auto parts are an exception: about a half million jobs did “move to Mexico”

• Both these sectoral effects and the overall worsening of inequality have fueled the resentments that Trump has taken advantage of
Developmental impact: why Mexico didn’t converge

• By all indicators (per capita income, average wages, etc.) Mexico is no closer to the US today than it was in 1993/94 before NAFTA
  • Obviously, there were many confounding factors, but....

• NAFTA was fundamentally flawed as a development model
  • Mexico was supposed to assemble goods for export to US-Canadian markets based on US inputs (capital and intermediate goods), thereby generating jobs on both sides of the border
    • But Mexico would not reap backward linkages and could not promote national companies
  • Mexico would have to keep wages low (in dollar terms) to compete, and would rely on US consumer demand to replace domestic demand as the driver of growth

• This strategy failed for several reasons:
  • China displaced Mexico in many export products
  • US consumption demand was unsustainable due to rising inequality and household debt
  • The inputs began coming more from Asia than from the US
  • The US economy has been stagnant since 2001 (average growth rate under 2% per year)
What can the Trump renegotiation of NAFTA accomplish?

• Relatively little, even if “successful”
  • A US withdrawal is still possible

• USTR Lighthizer is focused on
  • More protection for the auto sector
    • Raise NAFTA content from 62.5% to 85%, require US content of 50% (or minimum wage requirements in auto production), tighten up tracking of input sources
    • If costs rise too much, producers could forego NAFTA tariff preferences and import from other countries
  • Weakening regional dispute resolution
    • Making investors’ rights and investment dispute resolution asymmetrical in favor of US laws and US companies (which could opt for US laws and courts)

• At best, this could bring back a small number of US jobs in a few sectors
  • It could also cause job losses in other sectors
  • It would not reverse, and might even worsen, the unequal distributional effects
    • Unless minimum wages are addressed
Other areas of Trump’s trade policy

• “National security” protection for steel and aluminum
  • Argument is vitiated by the many exemptions granted
  • But the president has total discretion under this provision

• Section 301 tariffs on China in response to alleged unfair trade practices (violations of intellectual property rights, subsidies, etc.)
  • With China threatening retaliation, fears of a “trade war” are growing
  • The US could take this case to the WTO but instead is pursuing a unilateral route

• Safeguard tariffs for solar panels and washing machines
  • Based on injury findings by the USITC, but required presidential approval

• Various disputes with Canada (softwood lumber, dairy products, etc.)

• Withdrawal from TPP
  • Which is now going forward with 11 other countries, minus various US-backed provisions
  • Recently Trump said he might reverse himself
Common themes

• Unilateralism
  • Attacking allies (Canada, Mexico, South Korea, EU) instead of engaging them
  • Undermining the “rules based” multilateral system (WTO etc.) and dispute resolution procedures

• Bullying
  • Impose tariffs or threaten withdrawal first, negotiate second
  • Policy making by tweet; insulting other countries (Mexico and others)

• Use trade laws that give the president maximum discretion
  • National security (232), unfair practices (301), and safeguards (201) instead of ADD & CVD

• Protection of sectoral interests important to Trump’s political base
  • But the impact of retaliation targeted on US farmers etc. could undermine this

• Lack of an effective strategy or coherent goals
  • Inconsistency
  • No clear vision of what “success” would look like

• Other administration policies (budgetary, science, education, environment, deregulation) would undermine rather than support US industrial revival and technological leaderships
Ironies and tragedies

• Trump’s nationalistic approach does recognize genuine problems
  • Chronic US trade deficits/global imbalances
  • China’s violations of trading norms and property rights (albeit in its own interest)
  • US job losses in manufacturing
  • Falling wages for less-skilled US workers
  • US policies (from trade agreements to the strong dollar) have often weakened rather than strengthened the domestic economy
    • Previous trade and investment agreements have focused more on corporate rights than worker rights
    • The philosophy has been, “What’s good for US corporations abroad is good for America”

• Trump’s “populist” appeal stems from these and other consequences of neo-liberal globalization
  • But his responses are wrong-headed, backward-looking, and unlikely to succeed
  • Costs and downsides are overlooked; the power relations are never addressed
  • After initially getting credit for acting “tough,” Trump often ends up accomplishing very little
    • Carrier jobs, steel tariffs, etc.
The global trading system after Trump

• His disengagement from TPP, WTO, TTIP, etc. means less US influence globally, not more
  • US standards can still be imposed through bilateral relations, as with Mexico and Canada in a
    renegotiated NAFTA or a possible deal to avert tariffs on China
  • Otherwise, other countries will be more free from US intellectual property rules and other
    standards (e.g. in TPP)
  • China will gain more influence in the Asia-Pacific region and globally
    • There could be some benefits in allowing countries to choose their own domestic systems

• Trump’s idea of trade “deals” seems to consist of bilateral managed trade arrangements
  • For example, South Korea has negotiated a voluntary export restraint on steel and increased
    imports of US automobiles in exchange for exemption from steel tariffs

• Whether there is a complete breakdown of the post-war liberal trading order, or only a
  temporary interruption, will depend on future political developments in the US and
  other countries
  • The international trade and investment order does need rethinking, but not of the Trump kind