

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

Robert A. Blecker
American University
blecker@American.edu

Levy Economics Institute
April 18, 2018

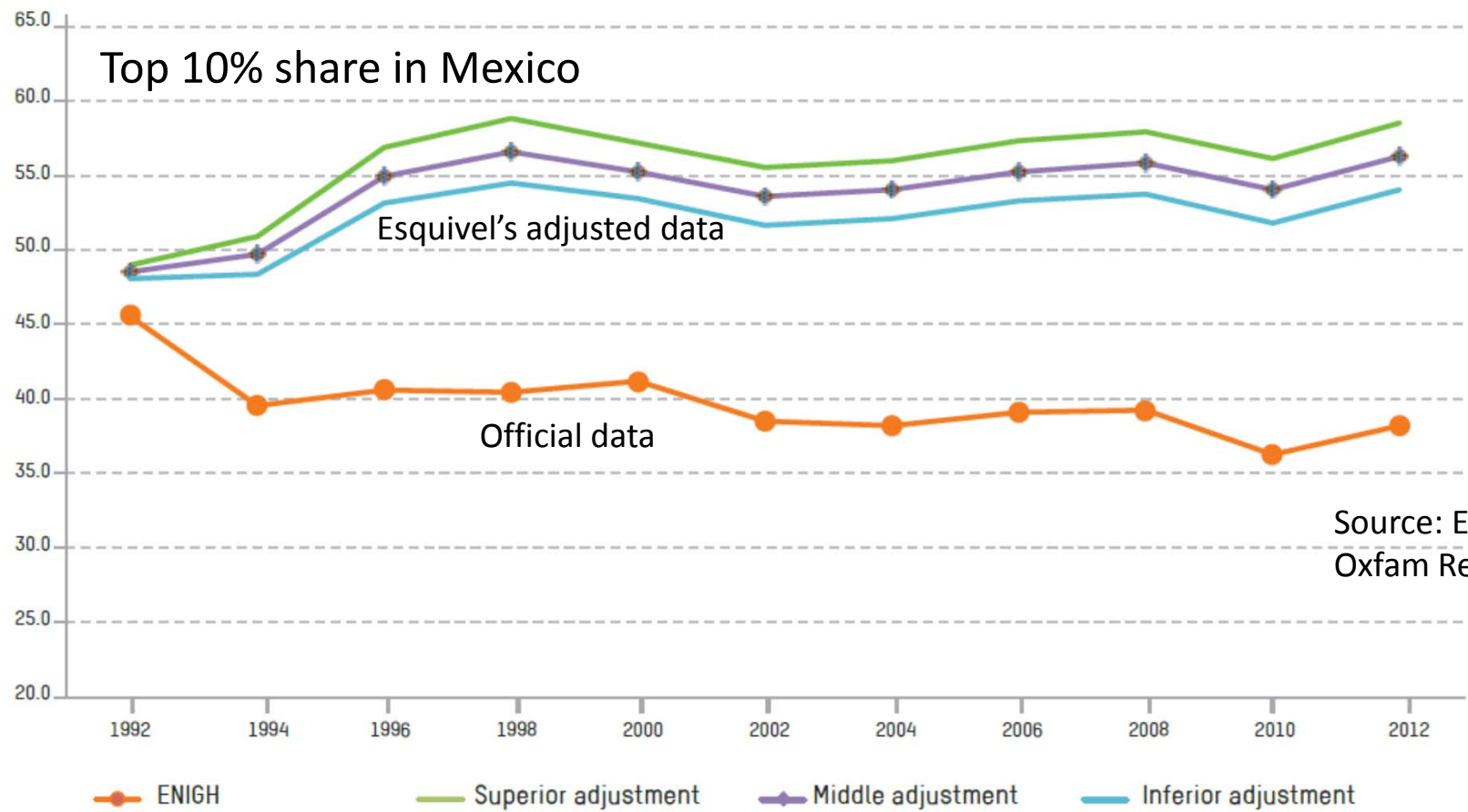
How to think about NAFTA

- 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?

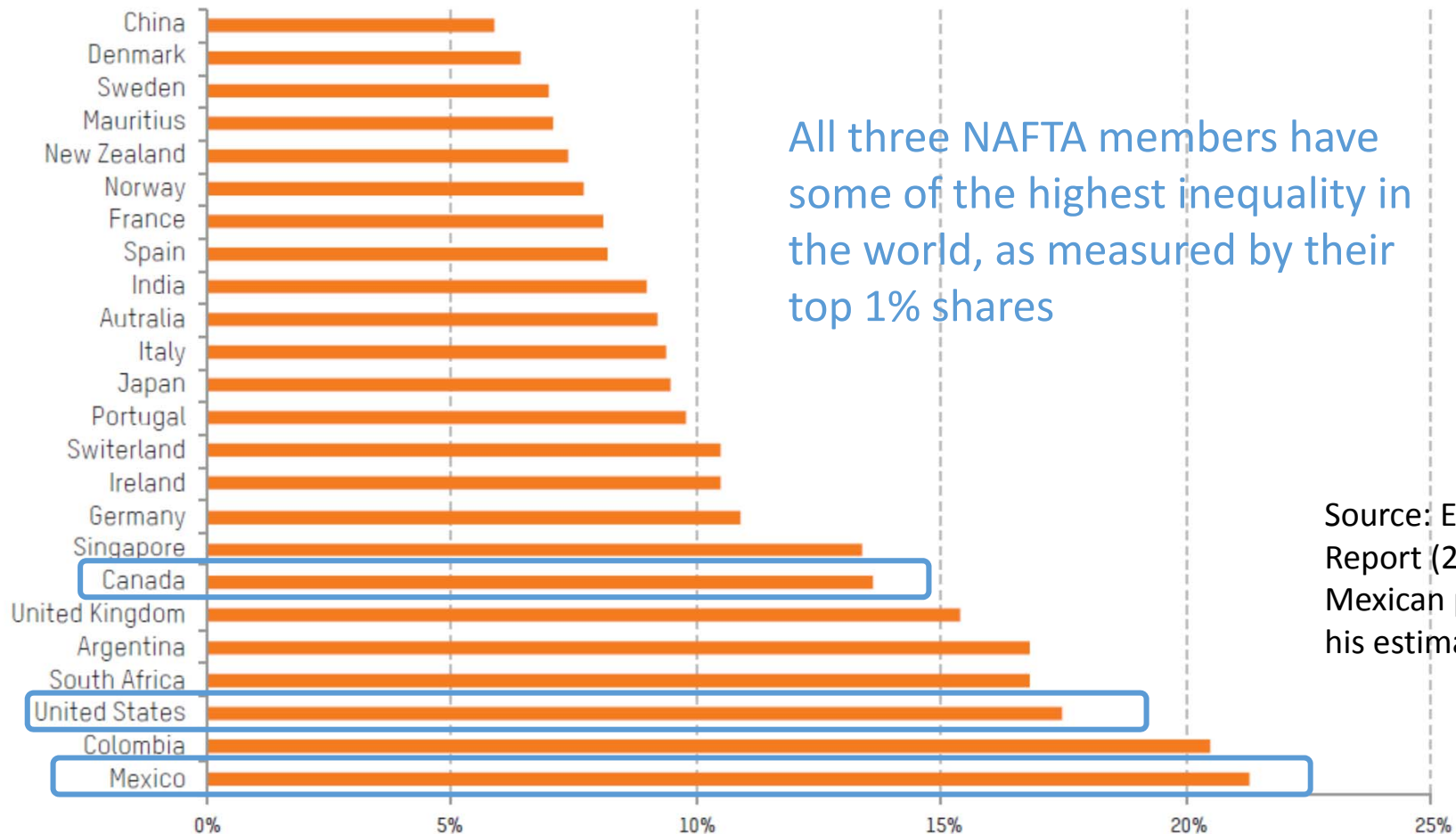
Distributional effects: increased inequality

- 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

Income Corresponding to the Highest Decile:
ENIGH vs. Adjusted Data, 1992-2012
(Percentage of national income)



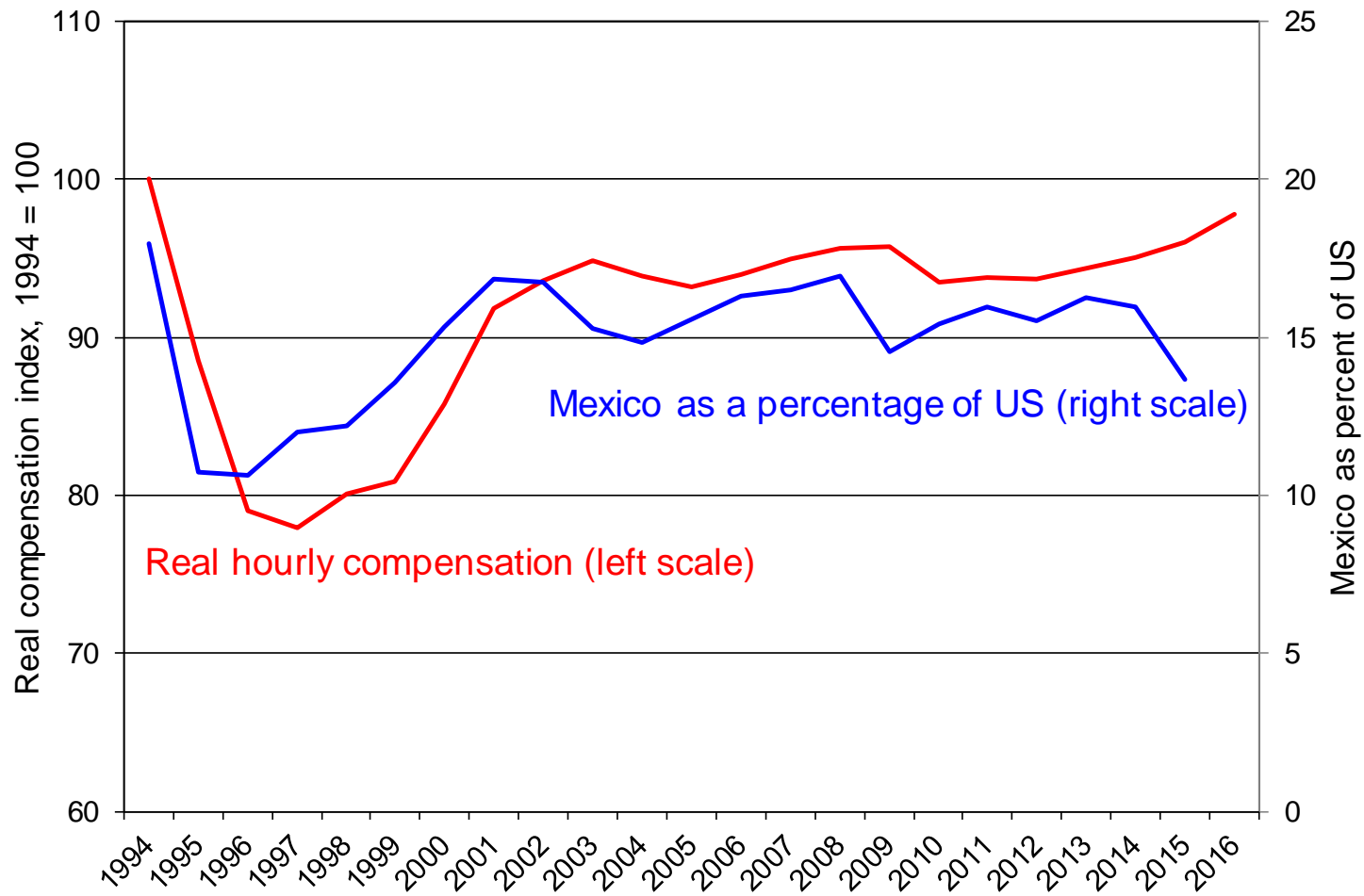
Participation of the top 1% as a share of total income
(Different years, for Mexico estimates for 2012)



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

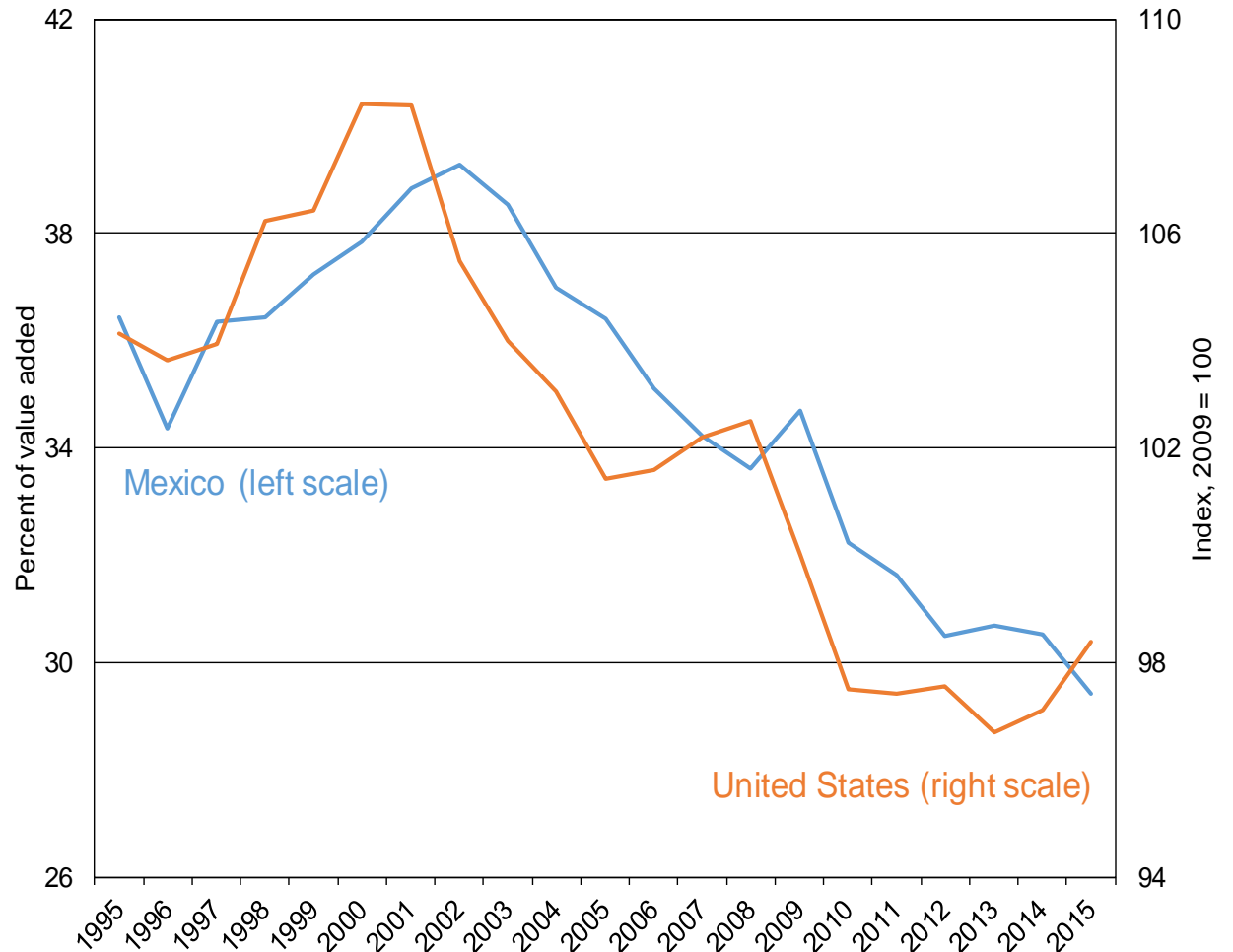
Source: Esquivel, Oxfam Report (2015); the Mexican percentage is his estimate.

Hourly compensation of Mexican production workers, in real terms and as a percentage of the US level, 1994 - 2016



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