What's up with
US TRADE POLICY?
(and immigration)

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Nafta History

• Implemented January 1994
• Mexico received more investment from the US, was able to import more
• US spent less on manufacturing
• Opened up rest of Mexico for maquiladoras (previously on border)
Nafta Labor Issues

- North American Agreement on Labor Cooperation (NAALC) tacked on
- Mostly symbolic
- Soft punishments didn’t result in change
- NAFTA had underlying goal of acquiring cheap, poorly trained labor
Nafta Impacts on Mexico

• Devaluation of peso and drop in Mexican GDP- no sustainable growth
  • Benefits absorbed by US manufacturers
  • Real wage drop of 22%

• Impact on Mexican farming

• Export manufacturing w/out raw materials sourced in the same country doesn’t create sustainable economic growth

• Cross border investment and trade have grown from 90’s but difficult to separate NAFTA impacts from tech growth impacts
Nafta Impacts on the US

- Loss of manufacturing jobs in the US
- Modest increase in GDP
- Small trade surplus in the 90’s is now a large trade deficit
USMCA
AKA NEW NAFTA
USMCA: Good or Bad?

• 40% of auto manufacturing wages over $16/ hour
  - Mexican auto workers currently make $3.14 per hour
  - 2.5% tariff imposed if wages aren’t high enough
  - Eliminates comparative advantage of production in Mexico- long run may export to China

• Opening of Canadian dairy market
  - Canada imposed tariffs of over 200% on imported dairy (protecting from US subsidies)
  - Now allowing the US to provide 3% of market

• Extended Intellectual Property laws, sec. 232 steel + aluminum exemptions
A Note on Trade Deficits

- The trade balance between all the countries in the world has to equal zero.
- In 2018 the US trade deficit was just over $500 billion.
- Trade deficits reduce GDP and lower the value of a currency.
  - BUT trying to reverse a trade deficit has unintended side effects (like what Trump is doing now).
CHINA TRADE WAR
Causes of China Trade War

- US trade deficit
  - Can devalue currency but reversing has side effects
- Loss of US manufacturing jobs
- Intellectual Property theft
- Piece of larger protectionist policy

US trade deficit with China has soared since 1985

Source: US Census
China’s perspective

- Tariffs are unjustified given steps taken to stop IP theft
  - in a ranking of 50 countries IP enforcement, China ranked 25th given their patent and copyright reforms (The US ranked 1st)
- The US and China are each others largest trading partners and together comprise a supply chain
### Impacts of the Trade War

- If all tariffs announced so far were imposed, it would offset around 44% of the Tax Cuts and Jobs Act.

#### Table 4: Total Impact of Imposed and Announced Tariffs

<table>
<thead>
<tr>
<th>Description</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Revenue (Billions of 2018 Dollars)</td>
<td>$223.71</td>
</tr>
<tr>
<td>Long-run GDP</td>
<td>-0.74%</td>
</tr>
<tr>
<td>GDP (Billions of 2018 Dollars)</td>
<td>-$184.07</td>
</tr>
<tr>
<td>Wages</td>
<td>-0.48%</td>
</tr>
<tr>
<td>FTE Jobs</td>
<td>-570,591</td>
</tr>
</tbody>
</table>

Source: Tax Foundation Taxes and Growth Model, April 2018
Economists agree that trade is good for the economy and allows specialization.

However, trade also puts downward pressure on low income jobs that have to compete with lower labor costs abroad.

Trade with Mexico reduces manufacturing costs and has the added benefit of being geographically close (compared to China).

Tariffs can reduce output through several channels:

- Passing higher prices onto consumers- higher input prices = higher final price
- Alternatively, higher prices can drive up the value of the US dollar which is initially good but then makes it more difficult to export, therefore driving down output.
Where are immigrants coming from?
Immigrants: good or bad?

• Different skill sets = less “job stealing” (Brookings)

• More entrepreneurial
  • 25% of immigrants are entrepreneurs but make up 15% of the population (Brookings)

• Immigration helps account for low birth rate and aging (AEI)

• Undocumented immigrants have lowered wages of Americans w/out high school diploma between 0.4- 7.4% (Nytimes)
  • But increase legal workers pay in complementary jobs by 10%

• Economists agree that immigration (both legal and illegal) is good for the economy
What does good immigration policy look like?

- Allows for cyclical migration
- Allows asylum seekers to stay in the US while applications are processed
- Creates more visas for sectors that have labor shortages
- “open-ish borders” more similar to the EU