

# A New Era?

## Potential Implications of the U.S.-Mexico-Canada Agreement

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# Outline

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- A. Effects of trade agreements on trade volume
- B effect of nafta on trade relative to global estimates
- C differences between usmca nafta and tpp, especially wrt labor provisions
- D effects of labor provisions on trade flows
- E speculation about usmca on North American trade and production shifting.

# Trade Key to Texas

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- In 2018:
  - Texas exported \$315.9B, \$248.1B MFG
  - Largest State Exporter of Goods
  - Exports were 17.8% Texas GDP
  - Exports linked to about 910K jobs, 866K in Manufacturing
    - Computer, electronics (\$47.9B)
    - Chemicals (\$46.2B)
    - Transport Equipment (\$25.1B)

<https://ustr.gov/map/state-benefits/tx>

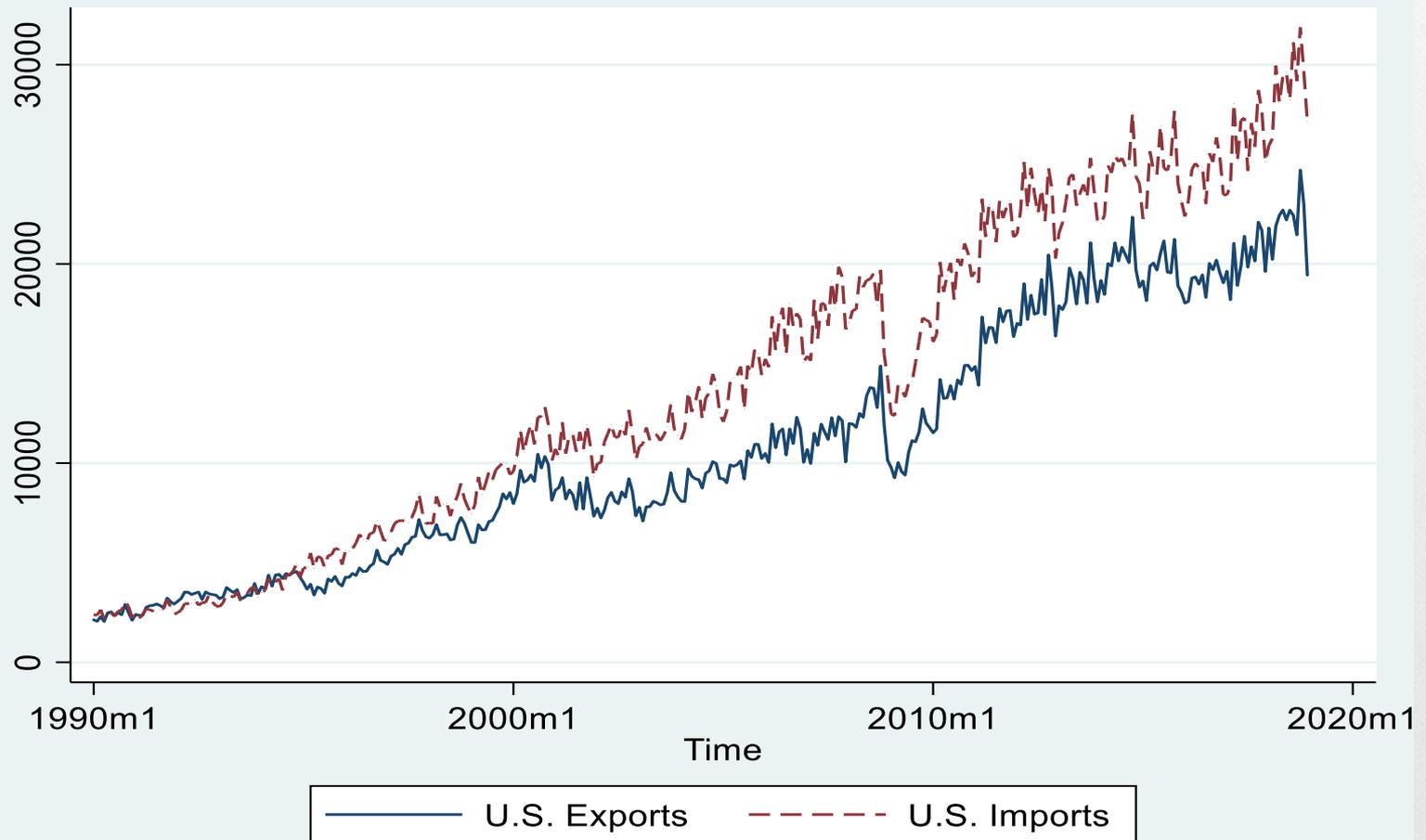
# Integration with Mexico is Key

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- Global Value Chains dominate world trade (70-90% of total trade)
- U.S. Mexican production workers are complements, not substitutes!
- Texas: Main export partner is Mexico
  - \$109.7B exports to Mexico in 2016
  - 35% of Texas exports go to Mexico

<https://ustr.gov/map/state-benefits/tx>

# Strong Growth in U.S.-Mexico Trade



# Effects of NAFTA on trade

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- Most papers find a significant effect on trade
  - Romalis 2005: Goods with lower tariffs (389) increased their share of U.S. imports by 224% (1993-2004). The goods without tariff changes (2663) increased their share 23%.
  - Montenegro and Solaga (2006): NAFTA had no effect
- Revisiting the Evidence: Using a gravity model and comparing the NAFTA with other RTAs suggests that NAFTA was much more trade-increasing than other RTAs.

# New NAFTA Estimates

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• Assembled a dataset of annual pairwise trade		(1)	(2)
• Estimated the effects of regional trade agreements controlling for economic size, distance, GATT membership, and common currency with PPML	RTA (Not NAFTA)	0.194*** (0.0596)	0.149** (0.0695)
• Generate comparison of NAFTA and all other RTAs	NAFTA	0.664*** (0.132)	0.597*** (0.223)
• Selection?	Observations	906,060	906,060
	R-squared	0.860	0.861

# USMCA

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- Negotiations concluded in September 2018
- Implementing Legislation
  - Introduced in the House: December 13, 2019
  - Introduced in the Senate: December 19, 2019
- Approved in the House 385 to 41 (84% of Dems)
- Approved January 15, 2020 in Senate 89 to 10
- Signed January 29, 2020

# Comparing USMCA with NAFTA and TPP

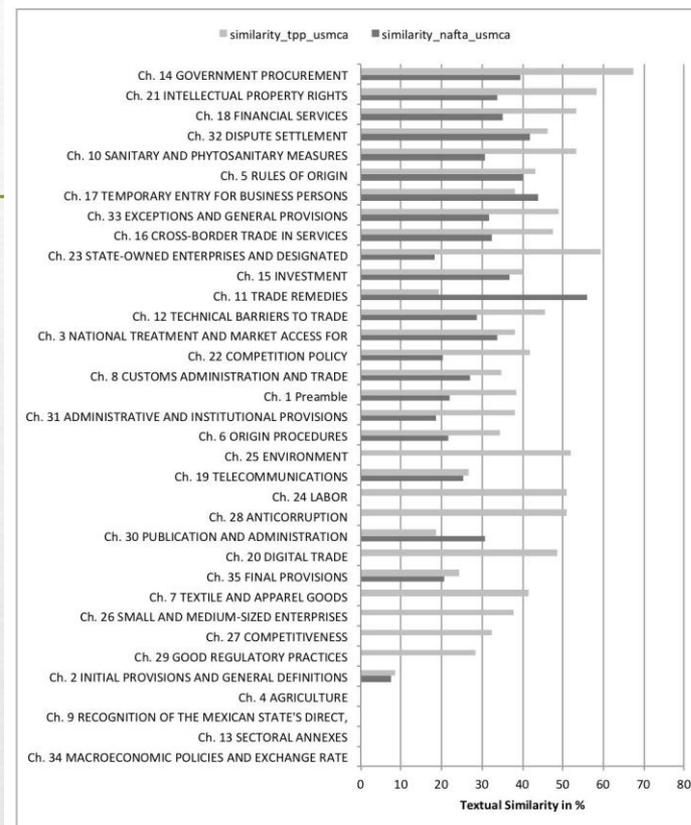
- New provisions include digital trade, anticorruption, textile and apparel, small and medium enterprises, competitiveness.
- Chapter 24, labor, is about 50% similar to TPP, but not at all similar to NAFTA.
- What are the new labor provisions? What effects will these labor provisions have on trade?

[Wolfgang Alschner @w\\_alschner](#)

• Quick first attempt of textual comparison between [USMCA](#), [NAFTA](#), [TPP](#). Hope to do more fine-grained, article-based analysis in coming weeks.

- Alschner, Wolfgang and Panford-Walsh, Rama, How Much of the Transpacific Partnership is in the United States-Mexico-Canada Agreement? (June 26, 2019). Ottawa Faculty of Law Working Paper No. 2019-28. Available at SSRN: <https://ssrn.com/abstract=3410658> or <http://dx.doi.org/10.2139/ssrn.3410658>

Textual Similarity of USMCA Chapters with NAFTA and TPP equivalents. Similarity is calculated as share of overlapping 5-character components between chapter full texts (*Jaccard distance*)\*. Note that not every USMCA chapter has an equivalent in NAFTA or TPP and that some chapters in the former result from a consolidation of chapters of the latter (e.g. Ch. 11 of USMCA). Chapter-based matching is therefore only tentative.



\*For data: see <https://www.rtaexchange.org/AgreementTextSearch> or <https://github.com/mappingtreaties/tota>;

For background on methodology, see: Alschner, Wolfgang, and Dmitriy Skougarevskiy. "Mapping the Universe of International Investment Agreements." *Journal of International Economic Law* 19, no. 8 (2016).

# USMCA Expected Benefits

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- International Trade Commission predicted that USMCA
  - Add \$68.2B to US Economy
  - (2016 Texas GDP \$1.4 Trillion, CA \$2.6 Trillion)
  - Add 176K Jobs
  - 76K automotive jobs (BLS: 986 thousand jobs in automobile mfg Dec 2019, 7.7% increase)

# NAFTA's Labor Provisions

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- NAFTA's labor provisions were in a side agreement that established a labor secretariat (in Dallas) and guiding principles for labor rights.
- Provided for technical assistance, capacity building, dispute resolution, and cooperation.
- Enforceability was main issue. There were no successful cases brought within the NAFTA framework.

# USMCA Labor Provisions

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- Include requirements to enforce ILO's 1998 declaration for Fundamental Principles and Rights at Work
- Requires governments to take action to promote compliance with labor laws through inspections and investigations
- Prohibits trade in goods produced with forced labor
- Adds commitments to address violence against workers, discrimination, migrants worker protections, and workplace discrimination

# Amendments to the USMCA

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- Remove ability to block dispute settlement panels
- Sets presumption that labor violations affect trade and investment.
- Adds a “rapid response” mechanism that focuses on individual factories (“covered facilities”)
- Adds reporting requirements and a new interagency committee
- Adds rules to clarify dispute settlement, forced labor, and violence against workers

# Mexican Labor Reforms

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- Annex 23-A of USMCA commits Mexico to additional reforms
- Constitutional reforms in 2017
- Additional reforms signed into Mexican law by Andres Manuel Lopez Obrador on May 1, 2019.
  - Allows Mexican workers ability to join union of choice
  - Creates independent labor court
  - Allows Mexican workers to vote for union representatives by secret ballot

# Key Articles in Mexico's Federal Labor Law

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- Article 47.2: Protects workers from violence or forced labor
- Article 133: prohibits retaliation or harassment by the government, union leadership or companies
- Article 386: Protects workers' rights to vote for independent unions through a secret ballot process, allowing workers to form their own unions and pick their own representatives
- Article 387: Imposes legal obligations on firms to recognize workers' right to strike
- Article 604: Replaces existing conciliation and arbitration labor boards that currently deal with employment law altercations with independent labor courts to resolve disputes and register contracts to ensure worker representation in unions.

# How do Labor Provisions Affect Trade?

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- Debate over whether they are “protectionism in disguise”
- US ITC estimates that “if implemented, the collective bargaining commitments made by Mexico in USMCA would increase Mexican union wages and help reduce wage disparity.”\*
- Do labor provisions raise trade costs and reduce trade?

\*Villarreal , M. Angeles and Cathleen D. Cimino-Isaacs (2020) “USMCA: Labor Provisions” Congressional Research Service In Focus Report Updated January 10, 2020. <https://crsreports.congress.gov>

# Classification of Labor Provisions

Clause	Description
Labor	Indicates that if countries i and j are involved in an RTA with provisions that refer to labor. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
Labor Standards	Indicates that if countries i and j are involved in an RTA there are labor standards included in the agreement. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
Core Agreement	Indicates that if countries i and j are involved in an RTA. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
ILO	Indicates that if countries i and j are involved in an RTA, there are provisions that refer to the international labor organization. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
ILO Conventions	Indicates that if countries i and j are involved in an RTA, there are provisions that refer to the International Labor Organization conventions. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
Legally Binding	Indicates that if countries i and j are involved in an RTA, the labor provisions are legally binding for both countries. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
Cooperative Activities	Indicates that if countries i and j are involved in an RTA, there are cooperative activities with regards to labor matters. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
Dialogue	Indicates that if countries i and j are involved in an RTA, there is a labor dialogue mechanism in the RTA. Represented by a zero if the RTA does not contain the specific provision and a one if it does.
Sanctions	Indicates that if countries i and j are involved in an RTA, a portion of the labor provisions are linked to sanctions. Represented by a zero if the RTA does not contain the specific provision and a one if it does.

# Estimates of Labor Provisions

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- Based on nearly 1 million data points of annual country-pair trade flows in a gravity model
- Different provisions have different results, but most are positive
- Overall effects (sum) are positively associated with trade flows. Little evidence that they are protectionism in disguise.
- Possible exception is whether they are legally binding

# Implications for USMCA

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- Change in trade flows will probably be modest
- Less trade possible if labor costs rise in Mexico, which would require that
  - Provisions are the kind that will raise wages
  - The provisions are enforced
  - Rising labor costs get passed through to trade costs
- Overall, effects on trade are likely to be quite modest

# More Relevant Factors

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- Trade war with China
- Coronavirus in China
- Shifting production to Texas, especially to the border region (resurgence of the Twin Plants)
- New forms of manufacturing (M2, micro manufacturing)
- Skills gap along the border and in Texas

# Thank you!

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- Additional questions or comments?

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