



dECON

Facultad de Ciencias Sociales
UNIVERSIDAD DE LA REPÚBLICA

A CGE Assessment of Renegotiating NAFTA on Mexico Welfare and Poverty

Carmen Estrades

Departamento de Economía, Universidad de la República

6to Encuentro Regional Análisis de Políticas Públicas con
Modelos de Equilibrio General Computable

Lima, Perú, 7 y 8 de Noviembre 2017

Outline

- Motivation: a story in three tweets
- Background
- Objectives
- Methodology
- Results and perspectives

Motivation

- During the presidential campaign last year, Donald Trump began questioning NAFTA and promised to renegotiate the trade agreement in case he was elected

- During the presidential campaign last year, Donald Trump began questioning NAFTA and promised to renegotiate the trade agreement in case he was elected.



Donald J. Trump ✓

@realDonaldTrump

Seguir



I will renegotiate NAFTA. If I can't make a great deal, we're going to tear it up. We're going to get this economy running again.

[#Debate](#)

 Traducir del inglés

18:45 - 19 oct. 2016

- A few months after Trump took office, in July, the US Trade Representative presented a report on NAFTA negotiating objectives.
- The report has chapters on different issues (trade in goods, services, investment, public procurement, etc).
- First objective: “Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries”.

- A few months after Trump took office, in July, the US Trade Representative presented a report on NAFTA negotiating objectives.
- The report has chapters on different issues (trade in goods, services, investment, public procurement, etc).
- First objective: “Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries”.



Donald J. Trump 

@realDonaldTrump

Seguir



The U.S. has a 60 billion dollar trade deficit with Mexico. It has been a one-sided deal from the beginning of NAFTA with massive numbers...

 Traducir del inglés

5:51 - 26 ene. 2017

- The first round of NAFTA renegotiations took place on August in Washington, and up to today, there has been four rounds.
- Even when some agreements have been reached, negotiations are not advancing very well, and there is a threat of terminating NAFTA.

- The first round of NAFTA renegotiations took place on August in Washington, and up to today, there has been four rounds.
- Even when some agreements have been reached, negotiations are not advancing very well, and there is a threat of terminating NAFTA.



Donald J. Trump 

@realDonaldTrump

Seguir



We are in the NAFTA (worst trade deal ever made) renegotiation process with Mexico & Canada. Both being very difficult, may have to terminate?

 Traducir del inglés

6:51 - 27 ago. 2017

The US is not the only player considering a withdrawal from NAFTA

ECONOMÍA

Mexicanos prefieren quedarse sin acuerdo a uno desfavorable

Más del 50 por ciento de los mexicanos prefiere que el país se retire del TLCAN si las renegociaciones no son favorables, de acuerdo con una encuesta de El Financiero.

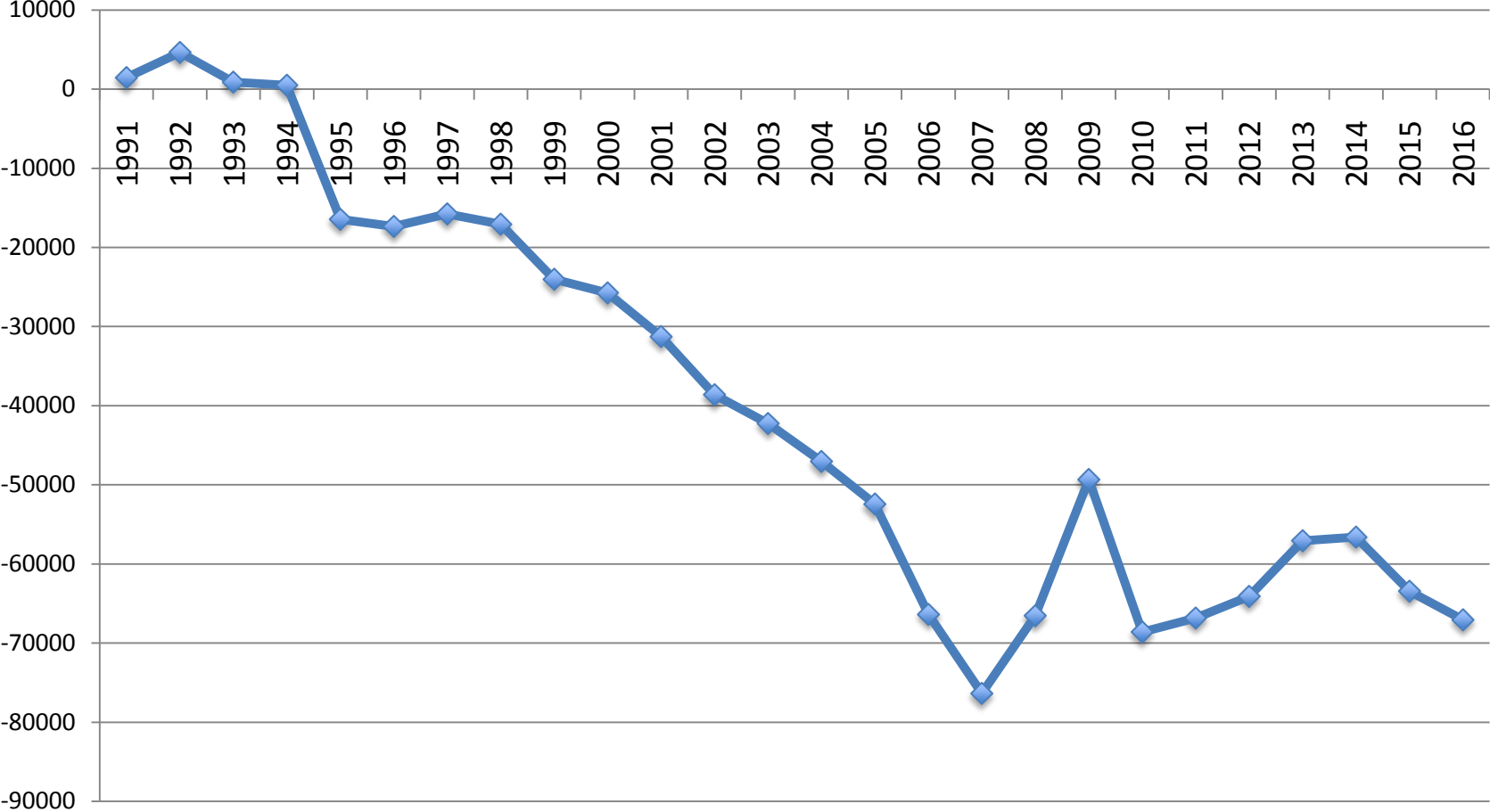
Alejandro Moreno 18.10.2017 Última actualización
19.10.2017
ETIQUETAS: México, TLCAN, TLCAN 2.0,

Fuente: <http://www.elfinanciero.com.mx/economia/mexicanos-prefieren-quedarse-sin-acuerdo-a-uno-desfavorable.html>

After four negotiating rounds

- Some progress on areas such as small and medium sized enterprises, competitiveness, digital trade, services and the environment
- Reducing the trade deficit with Mexico is “the overriding issue for the US”
- Sensitive issues
 - US-specific automotive content requirement
 - Seasonal tariffs on agriculture
 - Expiration provision of NAFTA
 - Labor issues
 - Dispute settlement mechanisms (Chapter 19)

Trade deficit USA-MEX (mill USD)



Trade deficit by goods (mill USD)



Objectives

- To evaluate different scenarios of NAFTA renegotiation and US trade policy
- To assess the impact of the different scenarios on Mexico welfare and poverty.

Methodology

- Global dynamic general equilibrium model: MIRAGE
- Four regions: USA, MEX, CAN, ROW
- GTAP 9 database; MacMap tariff data
- Non-tariff barriers on goods and services, modeled as iceberg trade costs
- Foreign direct investment
- Dynamic setting: 2018-2030

Simulation scenarios

NAFTA_reg_full	Full elimination of remaining tariffs within NAFTA countries. 20% Reduction of NTB
NAFTA_reg_agr	Increase in agriculture protection in the US (tariffs and NTB)
NAFTA_reg_mvh	Increase in protection in Motor vehicles and parts in the US (tariffs and NTB)
NAFTA_diss_USA	USA withdrawal from NAFTA (applies MFN tariffs to imports from MEX and CAN)
NAFTA_diss_full	NAFTA dissolution (the three NAFTA countries apply MFN tariffs)
USA_ROW	No changes in NAFTA. USA increases protection to imports from ROW

Mexico trade

Exports in volume, percentage change wrt baseline, year 2030

	NAFTA_reg_ full	NAFTA_reg_ agr	NAFTA_reg_ mvh	NAFTA_diss_ USA	NAFTA_diss_ full	USA_ROW
Agric.	22.5	-26.4	4.3	-14.7	-23.0	0.3
Mining & oil	18.6	0.1	0.1	0.0	-3.5	0.0
Manuf	25.5	1.2	7.1	-3.2	-14.2	0.5
Manuf to USA	9.5	0.9	-19.0	-1.6	-13.1	-0.1
Services	-7.9	0.6	4.8	4.5	-0.2	-0.4

Imports in volume, percentage change wrt baseline, year 2030

	NAFTA_reg_ full	NAFTA_reg_ agr	NAFTA_reg_ mvh	NAFTA_diss_ USA	NAFTA_diss_ full	USA_ROW
Agric.	29.4	-4.2	-3.1	-5.4	-29.3	0.2
Mining & oil	27.5	-0.3	-0.5	-1.5	-7.8	0.1
Manuf	18.3	-0.3	-3.2	-3.6	-12.0	0.2
Manuf to USA	12.9	-0.1	-7.7	-3.4	-13.7	0.1
Services	8.6	-0.6	-4.0	-3.8	-0.3	0.3

US trade deficit with NAFTA partners

USA trade deficit, in current USD, percentage change wrt baseline, year 2030

	NAFTA_reg_full	NAFTA_reg_agr	NAFTA_reg_mvh	NAFTA_diss_USA	NAFTA_diss_full	USA_ROW
USA-MEX	12.7	-3.2	-13.8	-91.7	10.9	-11.4
USA-CAN	8.4	0.7	4.1	-84.9	-7.6	-16.2

GDP and welfare

Medium term GDP growth rate, percentage change wrt baseline, 2018-2030

	NAFTA_reg _full	NAFTA_reg _agr	NAFTA_reg _mvh	NAFTA_dis s_USA	NAFTA_dis s_full	USA_ROW
MEX	6.02	-0.06	-0.97	-0.89	-1.82	0.07
USA	1.01	0.01	-0.08	0.02	-0.10	0.01
CAN	3.72	0.01	0.05	-0.26	-0.35	0.00

Welfare, percentage change wrt baseline, year 2030

	NAFTA_reg _full	NAFTA_reg _agr	NAFTA_reg _mvh	NAFTA_diss _USA	NAFTA_diss _full	USA_ROW
MEX	2.11	-0.17	-0.54	-0.58	-0.28	0.04
USA	0.25	-0.01	-0.05	0.04	-0.07	0.01
CAN	1.35	0.00	0.02	-0.22	-0.15	0.00

Mexico's strategy

Scenario 1: USA increases protection in agriculture

Scenario 2: USA increases protection in
automotive sector

Scenario 3: USA withdraws and applies MFN tariffs
to MEX

Mexico's strategy

Scenario 1: USA increases protection in agriculture

Mexico accepts

Mexico accepts and negotiates a deepening of NAFTA

Mexico does not accept and withdraws

Mexico's strategy

Scenario 1: USA increases protection in agriculture

Mexico accepts: -0.17

Mexico accepts and negotiates a deepening of NAFTA:
-0.07

Mexico does not accept and withdraws: -0.28

Mexico's strategy

Scenario 1: USA increases protection in agriculture

Mexico accepts: **-0.17**

**Mexico accepts and negotiates a deepening of
NAFTA: -0.07**

Mexico does not accept and withdraws: **-0.28**

Mexico's strategy

Scenario 1: USA increases protection in agriculture

Mexico accepts: **-0.17** (-0.01)

**Mexico accepts and negotiates a deepening of
NAFTA: -0.07 (0.0)**

Mexico does not accept and withdraws: **-0.28** (0.07)

Mexico's strategy

Scenario 2: USA increases protection in automotive sector

Mexico accepts: -0.54

Mexico accepts and negotiates a deepening of NAFTA: -0.56

Mexico does not accept and withdraws: -0.28

Mexico's strategy

Scenario 2: USA increases protection in automotive sector

Mexico accepts: **-0.54**

Mexico accepts and negotiates a deepening of NAFTA:
-0.56

Mexico does not accept and withdraws: -0.28

Mexico's strategy

Option 2: USA increases protection in automotive sector

Mexico accepts: **-0.54** (-0.05)

Mexico accepts and negotiates a deepening of NAFTA: **-0.56** (-0.03)

Mexico does not accept and withdraws: -0.28 (0.07)

Mexico's strategy

Scenario 3: USA withdraws and applies MFN tariffs to MEX

Mexico remains in NAFTA

Canada and Mexico remain in NAFTA

Mexico withdraws and NAFTA terminates

Mexico's strategy

Scenario 3: USA withdraws and applies MFN tariffs to MEX

Mexico remains in NAFTA: -0.58

Canada and Mexico remain in NAFTA: -0.27

Mexico withdraws and NAFTA terminates: -0.28

Mexico's strategy

Scenario 3: USA withdraws and applies MFN tariffs to MEX

Mexico remains in NAFTA: -0.58

Canada and Mexico remain in NAFTA: -0.27

Mexico withdraws and NAFTA terminates: -0.28

Mexico's strategy

Scenario 3: USA withdraws and applies MFN tariffs to MEX

Mexico remains in NAFTA: **-0.58**

Canada and Mexico remain in NAFTA: -0.27

Mexico withdraws and NAFTA terminates: -0.28

Mexico's strategy

Scenario 3: USA withdraws and applies MFN tariffs to MEX

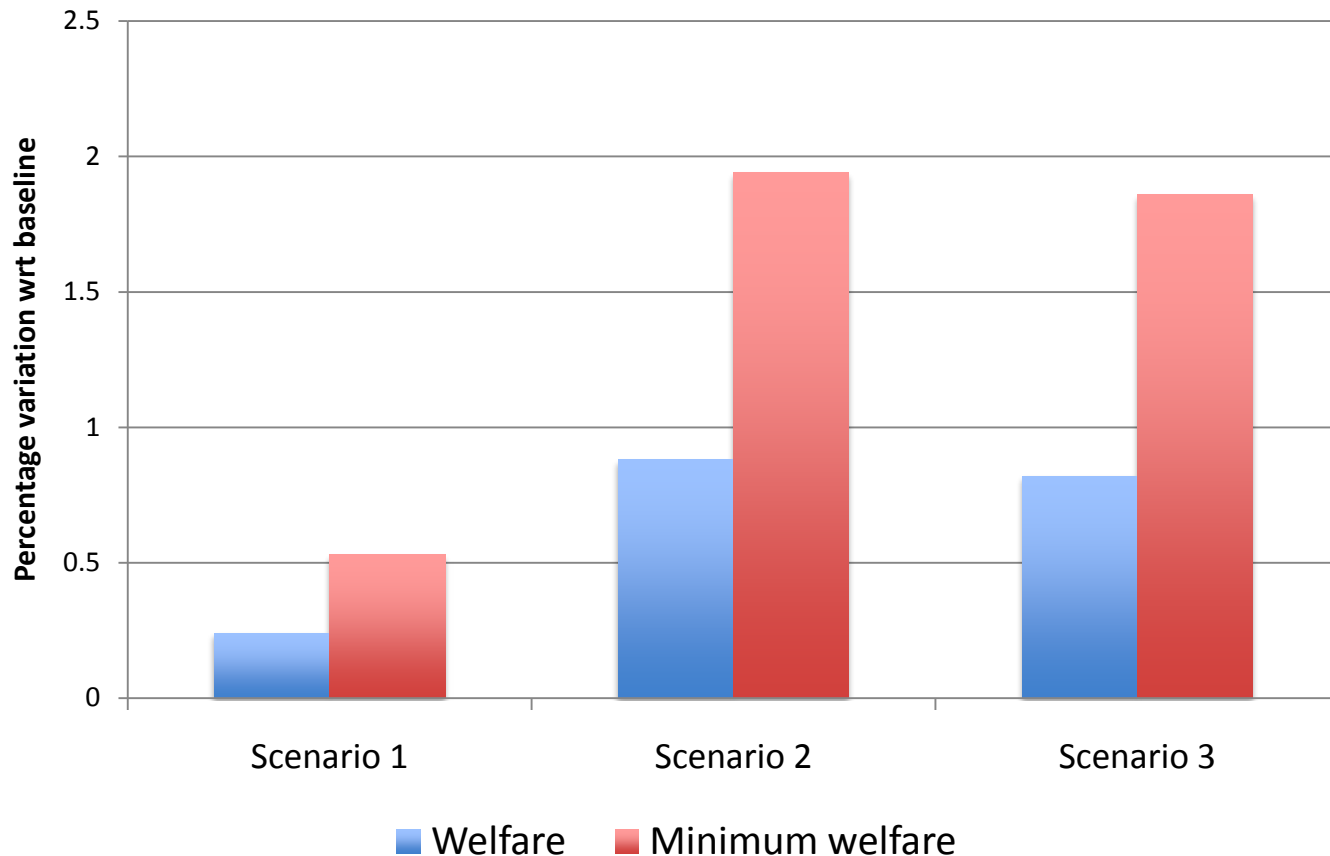
Mexico remains in NAFTA: **-0.58** (0.04)

Canada and Mexico remain in NAFTA: -0.27 (-0.07)

Mexico withdraws and NAFTA terminates: -0.28 (-0.07)

Poverty in Mexico

Short term impact of strategic scenarios through a micro-accounting technique



Perspectives

- Analyzing some of Mexico's strategies in renegotiating NAFTA, the scenario of NAFTA withdrawal appears as a plausible one.
- Mexico and Canada could maintain a FTA among them, with little welfare gains.
- In scenarios in which USA pushes for a reduction in the trade deficit (through an increase in protection in key sectors), Mexico could minimize negative impacts by negotiating a deepening of NAFTA in other sectors.

Further analysis

- Refine scenarios
- Relate the global CGE results with a single country CGE model for Mexico, with a SAM for year 2012 with disaggregated households
- Run microsimulations to get medium term impact on poverty