



The Daily Dish

Brexit, Nexit

DOUGLAS HOLTZ-EAKIN | NOVEMBER 2, 2017

Eakinomics: Brexit, Nexit

The business community is beginning to contemplate the [consequences](#) of Britain's exit ("Brexit") from the European Union (EU), especially if it fails to secure an agreement with the EU on the conduct of cross-border economics in the aftermath. The outlook is summarized by CNN as "Grounded flights. Massive delays at border crossings. A shortage of parts for nuclear power plants. 75,000 lost finance jobs." Not very pretty to contemplate.

Unfortunately, the specter of a U.S. exit ("Nexit") from the North American Free Trade Agreement (NAFTA) has arisen in recent weeks. In particular, the U.S. negotiating team has put on the table a variety of proposals that have been characterized as "[poison pills](#)." Among them are rules of origin provisions for vehicles. Chamber of Commerce president & CEO Tom Donohue noted that the 23-year-old accord faces an "existential threat" because of these provisions.

Leaving NAFTA would inflict considerable damage. Consider the auto industry. In 2016, car makers manufactured 12.2 million vehicles in the United States—up by 1 million over the year before NAFTA. The efficiencies possible because of NAFTA permitted the auto sector to be the leading export sector, shipping \$137 billion overseas, investing \$8 billion in capital improvements and plowing \$20 billion into R&D. Nexit would badly damage U.S. automakers—exactly the opposite of the impact the United States is seeking.

According to a coalition of agriculture and food industries, "Under NAFTA, American food and agriculture exports to Canada and Mexico grew by 450 percent. In 2015, the United States held a 65 percent market share for agriculture products in the NAFTA region, and in 2016, we exported nearly \$43 billion worth of food and agriculture goods to Canada and Mexico, making our NAFTA partners the largest export consumers of U.S. agriculture. NAFTA also lowered the price of various inputs throughout the supply chain—benefitting

U.S. consumers—and helped eliminate non-tariff barriers, making U.S. agriculture more competitive. Of course, NAFTA also has provided U.S. consumers year-round, reliable access to many forms of produce previously available only on a seasonal basis.

According to a study by ImpactECON, if Canada, Mexico, and the United States return to “most favored nation” (MFN) tariff rates upon withdrawal from NAFTA, the negative impact on the United States will far outweigh any benefits from higher U.S. tariffs, including a net loss of 256,000 U.S. jobs, a net loss of at least 50,000 jobs in the U.S. food and agriculture industry, and a drop in GDP of \$13 billion from the farm sector alone.”

These sectoral results echo the broad findings of the impact of NAFTA on the United States. According to the [Council on Foreign Relations](#): “In the years since NAFTA, U.S. trade with its North American neighbors has more than tripled, growing more rapidly than U.S. trade with the rest of the world. Canada and Mexico are the two largest destinations for U.S. exports, accounting for more than a third of the total. Most estimates [conclude](#) that the deal had a modest but positive impact on U.S. GDP of less than 0.5 percent, or a total addition of up to \$80 billion to the U.S. economy upon full implementation, or several billion dollars of added growth per year.

Such upsides of trade often escape notice, because while the costs are [highly concentrated](#) in specific industries like auto manufacturing, the benefits of a deal like NAFTA are distributed widely across society. Supporters of NAFTA [estimate that](#) some fourteen million jobs rely on trade with Canada and Mexico, while the [nearly two hundred thousand](#) export-related jobs created annually by the pact pay 15 to 20 percent more on average than the jobs that were lost.”

The economic damage of Brexit was easily foreseeable, but may not be avoided. There is no good reason for the United States to incur the costs of Nexit.