The Daily Dish

Eakinomics: The Economic Value of NAFTA

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The North American Free Trade Agreement (NAFTA) is 23 years old. As such it pre-dates the Internet and the rise of electronic commerce, was negotiated before the North American energy renaissance enabled by hydraulic fracturing and horizontal drilling, and otherwise could use a good dose of modernization. So, the good news is that the United States, Canada, and Mexico are engaged in negotiations to do exactly that. The bad news is that it appears little progress has been made on some of the crucial issues. This has led some to suspect that the Trump Administration is more interested in seeing the negotiations fail and the United States walk away from NAFTA — a position entirely consistent with the president's vociferous campaign rhetoric.

New research from AAF shows that this is hardly an inconsequential outcome. Jackie Varas and Usama Zafar write "NAFTA has generated immense value for American producers and consumers by drastically reducing barriers to U.S. exports, integrating supply chains across North America, and helping to solidify the United States' relationships with Canada and Mexico." The latter is an essential — and difficult to quantify — point. A key objective of NAFTA was to solidify a democratic ally on the U.S. southern border, and it has worked splendidly to do so.

It is easier to quantify some of the raw economic implications of withdrawing from NAFTA. It would affect over $1 trillion of trade. Because of the impacts on consumers and supply chains, leaving NAFTA would put at risk 14 million U.S. jobs. In the absence of the NAFTA-neogitated tariffs, trade would likely revert to Most-Favored Nation (MFN) tariffs – the tariffs which members of the World Trade Organization (WTO) agree to impose on one another when no other trade agreement is present. (They could also be higher in special circumstances.) If so, the United States would have the highest taxes on its exports. The level of MFN tariffs that the United States can impose on other WTO members averages 2.9 percent, while average MFN tariffs in Canada and Mexico are 5.5 percent and 8.3 percent, respectively. Even in this conservative case, the result would be to expose U.S. businesses to $15.5 billion in new tariffs, and could cost consumers at least $7 billion.

As the clock ticks toward the close of 2017, the importance of avoiding the political and economic fallout of failed NAFTA negations becomes ever more clear. One hopes that this motivates all parties to quickly reach agreement on a modernized set of rules for North American commerce.