# Avoid an American “Brexit” with NAFTA

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The United States, Mexico, and Canada are in the midst of renegotiating the North American Free Trade Agreement (NAFTA), which came into force in 1994. Millions of jobs, massive cross-border production networks, and broader cooperation on fighting transnational crime are at stake.

Today, trade among the three countries has grown almost four times, supporting up to 14 million U.S. jobs and generating $1.3 trillion of commerce each year. The security, political, and economic costs and consequences of a U.S. exit from NAFTA are too high; negotiations must focus on updating the agreement and working toward a constructive outcome.

Since the presidential campaign, President Donald Trump has sought to renegotiate the trade deal, arguing that the U.S. trade deficit with Mexico is to blame for American job losses. In contrast, trade with Mexico today supports about 4.9 million U.S. jobs compared to an estimated 700,000 in 1993. Bilateral trade has grown six fold, and a variety of credible economic studies attribute the vast majority of U.S. manufacturing job losses in this century to productivity improvements (new technology) and competition with China, not NAFTA.

Negotiations among the three countries over NAFTA began in the summer of 2017 and are set to continue in early 2018. The latest rounds have stalled over several U.S. proposals to which Canada, Mexico, and U.S. businesses and farm groups have objected. U.S. governors, legislators, and business leaders have been sharing their concerns directly with the White House and senior Trump administration officials in recent weeks. The CEO of General Motors, CEO of Fiat, and a Ford executive met with Vice President Mike Pence last month to share their thoughts on the negotiations. Just last week, governors from Indiana, Arkansas, Iowa, Michigan, and Tennessee came to Washington to speak with the administration about the need to maintain NAFTA.

As we approach the sixth round of negotiations in Montreal in January, it is the right time to consider the potential geostrategic and economic consequences of a U.S. exit from NAFTA, which President Trump and his team have threatened. It is important to recall that NAFTA was not pursued solely because of trade but also with the strategic vision of building a stronger relationship with Mexico and solidifying cooperation across the North American continent.

A variety of studies are now looking at the potential job and growth costs of pulling out of NAFTA. For the United States, estimates range from a couple hundred thousand jobs up to a million in the worst-case scenarios with higher prices harming consumers as well. Mexico would likely be impacted the most if NAFTA collapses because its economy is much smaller than the United States’ and is much more dependent on trade with its northern neighbor. Close to 1 million low-skilled jobs could be lost in Mexico, while an exit could cost Canada 125,000 jobs or more. In the case of Mexico, a significant number of those 1 million Mexican citizens who lose jobs could be incentivized to leave the country in search of work.

The United States also needs to understand the potential noneconomic costs. The United States and Mexico have significantly deepened cooperation on immigration issues, not only on their common border but also on the flow of undocumented immigrants from Central America, for example. Mexico has sent home hundreds of thousands of undocumented migrants from Central America and elsewhere in recent years. More broadly, the United States works closely with Canada and Mexico to address threats such as terrorism, drug smuggling, and various manifestations of transnational organized crime (e.g., money laundering, arms, and people trafficking).

**Higher Prices at Home and Fewer Sales**

Canada and Mexico are the United States' second-and third-largest trading partners respectively, with China being the largest. Further, Mexico and Canada are the United States' largest clients; the United States sells more to these two countries than to anyone else in the world. In 2016, Canada was the biggest export trading partner for 33 states, while Mexico was the largest or second-largest export market for 28 states. U.S. exporters would lose big if NAFTA collapsed.

Exiting NAFTA will also negatively impact Americans' pocketbooks. The average tariffs under the World Trade Organization's rules would go into effect if the deal collapses, causing tariffs to increase on average by 7.1 percent for Mexico, 3.5 percent for the United States, and 4.2 percent for Canada. American citizens would be forced to pay higher prices for cars and basic groceries as a result. The average tariffs on goods like soap, fireworks, handbags, and articles of clothing then would be between 15 and 20 percent. A quick analysis by the American Action Forum estimated over $7 billion in additional costs for U.S. consumers.

The U.S. agricultural sector would suffer greatly from a decision to leave the agreement. Exports to Mexico would face a 15 percent tariff on wheat, 25 percent tariff on beef, and 75 percent tariff on chicken and potatoes. U.S. agricultural exports to Mexico were worth $17.9 billion in 2016, making it the third-largest U.S. agricultural export market, only behind China and Canada. The United States supplies three-quarters of Mexico's agri-food imports. In 2016, U.S. dairy exports to Mexico accounted for 30,000 American jobs, and pork exports to Mexico and Canada supported 25,000 American jobs. A letter from the U.S. food and agriculture industry to the U.S. secretary of commerce argued that NAFTA withdrawal would produce a net loss of at least 50,000 U.S. jobs and a drop in gross domestic product of $13 billion from the farm sector alone.

**Weaker Ties with Neighbors**

Cooperation among the three countries could be significantly damaged by a U.S. withdrawal from NAFTA. Anti-American sentiment would increase, especially in Mexico where views of the United States have already turned decidedly negative. In the 1980s, the United States and

Mexico were characterized as "distant neighbors" because of the strained relationship and limited cooperation between them. After NAFTA came into effect and the United States supported Mexico during its peso crisis in the 1990s, the relationship gradually developed into one of mutual trust and cooperation on a widening range of issues, from fighting crime, energy and the environment, to defense and foreign policy. However, more Mexicans view the United States unfavorably today than at any time in the past decade and a half, with nearly 65 percent of Mexicans expressing a negative opinion of the United States.

Mexico will hold presidential and congressional elections in July 2018. If the United States decides to terminate NAFTA as the Trump administration has threatened, trade and overall relations with the United States would be thrust onto the Mexican election agenda. It is very likely that candidates would be encouraged to take anti-American positions. As former Mexican ambassador the United States Arturo Sarukhan puts it, "The Mexican election will not be won or lost based off of the NAFTA negotiations, but it will have a tremendous impact on attitudes and opinions." Mexican voters are currently focused on fighting corruption, reducing violence, improving the economy, but if the United States announces its intention to withdraw from NAFTA, the debate would certainly include how to adjust to the negative economic effects for Mexico. In this situation, it is highly unlikely that any presidential candidate would be championing increased collaboration with the United States, and many would adopt a very critical rhetoric about their northern neighbor.

**Less Border Security?**

Although it is too early to say, remarks from Canadian and Mexican officials suggest that if the United States withdraws from NAFTA, then these two countries could continue with a bilateral trade agreement without the United States. A NAFTA agreement excluding the United States would be a logistical nightmare, however, as supply and transportation chains would be disrupted and would have to cross two U.S. borders for any ground shipments.

A great deal of work has been put into deepening cooperation along the U.S.-Canada and U.S.-Mexico borders in recent years to improve efficiency of transit for goods and people, while improving security and the management of risk. Canada, for example, just passed legislation in December 2017 that expanded the authority of U.S. customs and border officers working at Canadian airports to carry firearms, conduct strip searches, and detain Canadians who withdraw from preclearance procedures. 400,000 people cross the U.S. and Canada border every day, and controlling this movement would be incredibly more difficult if tensions boil over between the two countries.

In regard to the U.S.-Mexico border, Mexicopassed a law in 2015 allowing for expanded cooperation among customs agents including inside Mexico. Both countries have agreed to develop shared customs facilities and just last week to sharecriminal history information including biometrics. It seems unlikely that cooperation would cease if the United States exits NAFTA as it is in the interests of both U.S. neighbors to facilitate trade, but Canadian and Mexican officials may be pressured by public opinion to reduce or slow collaboration.

**Combatting the Illicit Drug Trade and Gang Violence**

In recent years, more illegal immigrants have come to the United States fromCentral America than Mexico. Mexico and the United States had teamed up to reduce this flow and to help the Guatemala, El Salvador, and Honduras deal with the criminal gang and economic problems that generate the exodus. Mexico will be far less incentivized to be an active partner on these difficult issues if the U.S. abandons NAFTA. Nongovernment organization and others have consistently criticized the Mexican government for “doing the United States’ dirty work,” for example.

Since 2008 under the Merida program, the United States and Mexico have been working hard to build cooperation to tackle drug trafficking and transnational crime. That collaboration has flourished in recent years, but it is still not as effective as it needs to be to stop the drug flows, violence in Mexico, and overdose deaths in the United States. After discussions in March and last week, the United States and Mexico have forged a renewed strategy to tackle the entire chain that transnational criminal organizations use to produce, transport, sell, and profit from the drug sales.

The United States needs such cooperation to help cope with its opioid epidemic. Most of the heroin entering the United States today comes from Mexico. More than 59,000 Americans died of drug overdoses in 2016, which is more than the number of soldiers that died during the Vietnam War. President Trump recently declared the opioid crisis a “heath emergency” signaling that combatting the illegal drug trade may be one of his administration’s main priorities in the coming months.

In Mexico, crime-related homicides have skyrocketed. The United States cannot successfully counter the opioid epidemic without Mexican cooperation, and Mexico would greatly benefit from U.S. cooperation against the violent criminal groups trafficking in drugs and other illegal commerce. The United States needs to carefully consider the cost of reduced cooperation in these areas when thinking of withdrawing from NAFTA. Such a move could undermine the trust and confidence of Mexican authorities and reduce the Mexican political support needed for cooperative efforts to take down the vicious and violent transnational criminal organizations that dominate the drug trade in both countries. Already, a leading Mexican presidential contender has discussed offering amnesty to drug cartel leaders.

**A Reduced North American Market?**

An exit by the United States from NAFTA will also push Mexico and Canada into the arms of other trading partners like the European Union and China. Mexico and the European Union are rushing to finish updating their bilateral trade agreement, while Canada recently concluded a new EU trade agreement. Both Mexico and Canada are pursuing a Trans-Pacific Partnership 11 agreement without the United States that would link them to key Asian partners. Canada and Mexico are clearly considering expanding trade and other economic ties with China, as they face the prospect of NAFTA ending. Today, China is the second- or third-largest trading partner for Canada (depending on whether one counts the European Union as a whole) and third-largest partner for Mexico. The United States needs to seriously consider the threat to U.S. exports posed by new trade between its neighbors and China, especially as President Trump just identified China as one of the two principal rivals of the United States in his new National Security Strategy.

Reduced collaboration among the three countries could also cause the United States to lose ground in its quest for long-term energy security in North America. In recent years, the combination of new U.S. oil shale technology and production, Canadian energy resources, and major reform of the energy sector in Mexico has opened the doors for much closer regulatory cooperation and more investment in energy markets across North America. The United States now runs an energy surplus with Mexico. The three energy ministers now regularly meet to discuss a robust policy agenda. U.S. companies have invested many billions of dollars in Mexican energy fields, pipelines, and even retail facilities, with Exxon Mobil now owning and supplying retail stations in Mexico. It remains unclear what ending NAFTA might do to energy cooperation, investment, and trade in North America, but U.S. oil companies are privately stressing the importance of investor protections in NAFTA, and energy experts are warning of benefits that could be lost.

**What Should be Fixed? Modernizing not Exiting NAFTA**

There is widespread agreement that NAFTA needs to be updated to tackle the challenges and opportunities that were not foreseen when the agreement went into effect in 1994, including the new digital industries and best practices that have emerged since then. There are many areas for improvement and adjustments where the United States, Canada, and Mexico can certainly reach agreement. U.S. proposals for rules of origin and sunset clauses, among other key issues, have brought the negotiations to a standstill because Canada, Mexico, major U.S. businesses, and stakeholders from the agriculture sector do not support them.

Negotiations should be based on data analysis of trade and production chains and informed by industry input, for example, focusing on viable ways of increasing U.S. and North American content. A key goal of these discussions should be to help North America compete more effectively with major world economic powers, especially China, and in the process create more and better jobs in all three countries. The United States has much to lose economically, politically, and from a security perspective over the long run if it handles the NAFTA negotiations poorly, particularly if U.S. behavior returns U.S.-Mexico ties to the “distant” relationship of the pre-NAFTA era. In the January negotiations, the three partners should focus on constructive ways to modernize the 23-year-old agreement that can benefit each of the countries and create economic opportunities in and for North America. Discussions need to move away from the exit route and get in the fast lane to better compete with global superpowers.

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