

A New Era?

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

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IZA

Outline

- 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

- 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)

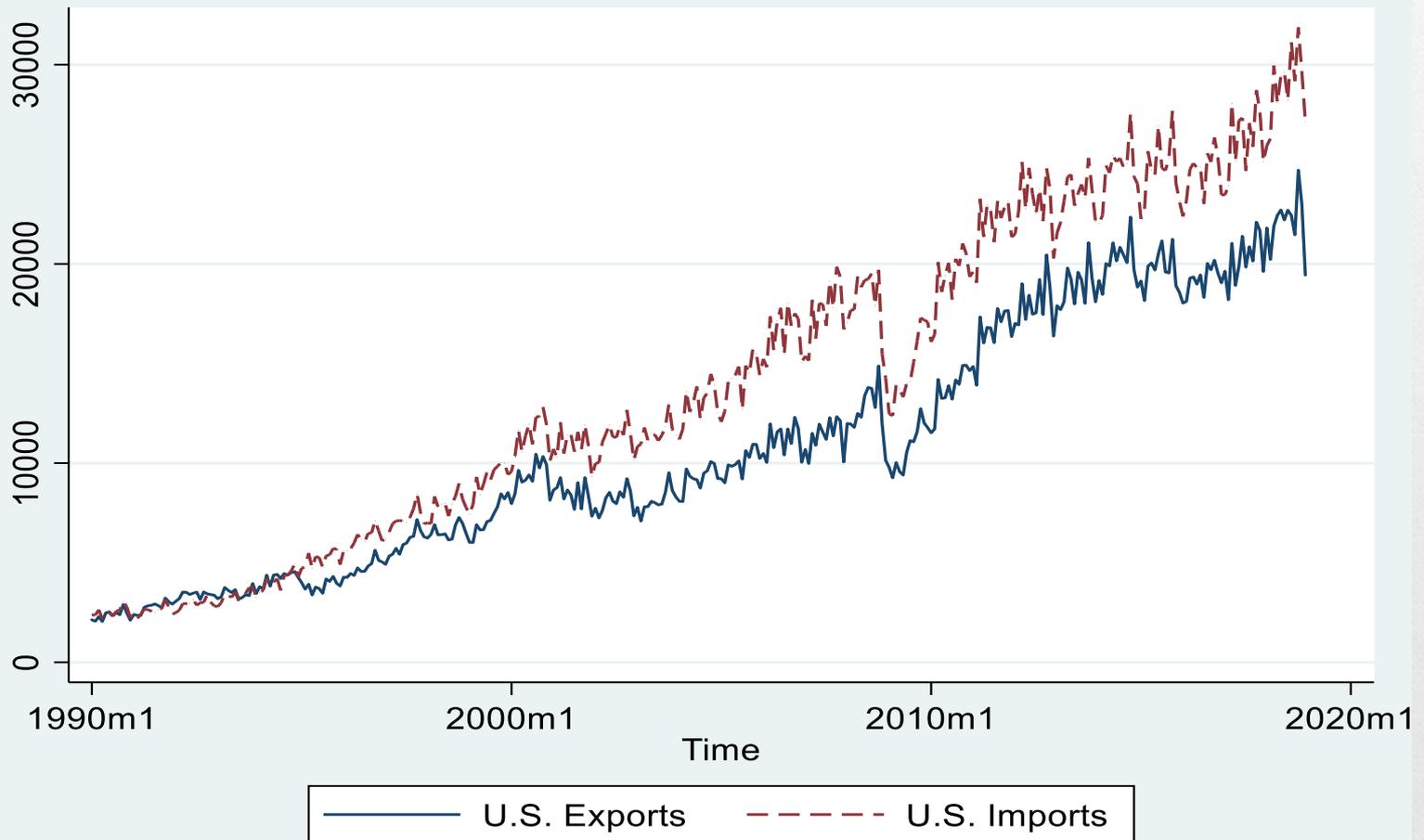
<https://ustr.gov/map/state-benefits/tx>

Integration with Mexico is Key

- 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

- 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

• 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

- 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

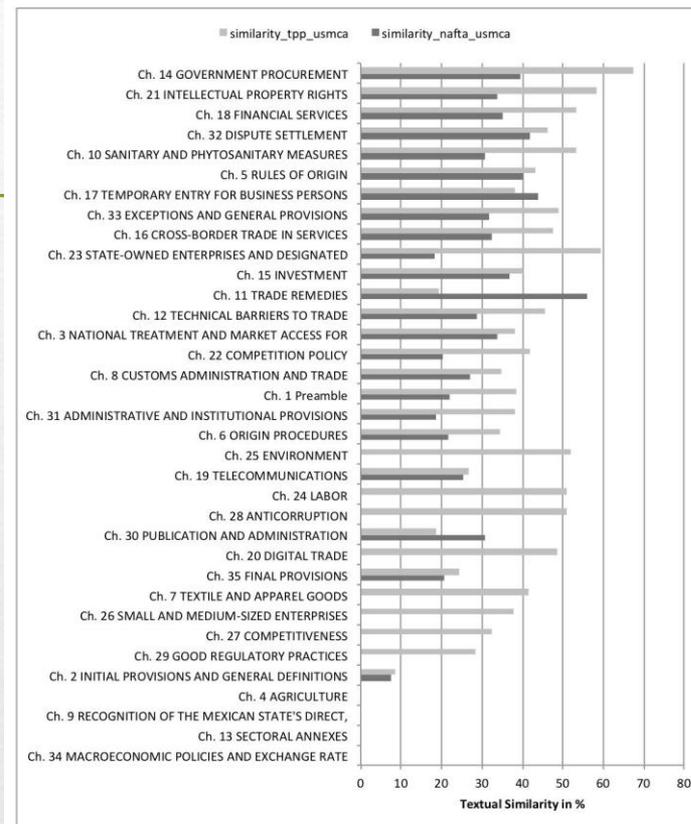
- New provisions include digital trade, anticorruption, textile and apparel, small and medium enterprises, competitiveness.
- Chapter 24, labor, is about 50% similar to TPP, but not at all similar to NAFTA.
- What are the new labor provisions? What effects will these labor provisions have on trade?

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• 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

- 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

- 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

- 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

- 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

- 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

- 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?

- 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

- 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

- 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

- 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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