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Deepening NAFTA and Signing New Trade Agreements:

A US Trade Strategy to Boost the Economy and Reduce the Trade Deficit

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Brussels, Belgium, 22nd January 2018 - The US Administration needs a new trade policy strategy if it wants to keep economic growth on track and reduce the trade deficit.

- The US trade deficit with countries outside US free trade agreements are nine times larger than the US trade deficit with countries that have trade agreements with the US.
- Killing NAFTA won't bring back jobs to the US. US exports and competitiveness will go down as a result of new trading costs.
- The steel is sector is a case in point. US steel trade with NAFTA partners is in balance, and Canada and Mexico can hit back with protectionism, affecting 90 percent of all US steel exports.

President Trump assumed office with one of the more purposeful trade agendas in modern history: He pulled the US out of the Trans-Pacific Partnership, launched a renegotiation of the US-Korea Free Trade Agreement, and is now threatening to take the US out of NAFTA. He is also considering other measures that would reduce trade activity – most of it supposedly to reduce the US trade deficit.

However, a protectionist trade policy would slow US economic growth and increase the US trade deficit. In the case of NAFTA, US firms are deeply integrated into North American supply and value chains, and there is a large share of US value-added in the country's imports from Canada and Mexico. Cutting access to the imports of intermediaries from NAFTA partners would drive up the cost of US production and cut its global competitiveness. Therefore, leaving NAFTA would reduce US exports, not only to NAFTA partners but to other markets as well. At the same time, increasing the trade costs with NAFTA partners would not lead to much repatriation of jobs to the US: it is more likely that other countries would substitute for production in Canada and Mexico that is now exported to the US.

If the trade balance is your religion, free trade agreements should be your church. In other words, if the US Administration wants to reduce its trade deficit, it should rather deepen NAFTA. The rapid economic growth of India and China has obscured the more pedestrian fact that US-NAFTA trade has grown more than with any other trading partner over the past two decades.

To bring down the US trade deficit by means of trade policy, the US needs to pursue free trade agreements. The US trade deficit with non-FTA partners is nine times higher than its trade deficit with FTA partners, reflecting the simple fact that FTAs help to open foreign markets for more US exports. Contrary to the trade rhetoric of the Administration, the US could directly improve its trade balance through additional FTAs, which would also help to build pressure on countries like China to accelerate reforms to open up its economies.

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