



U.S. SHOULD SEEK TO MAINTAIN COMPETITIVENESS THROUGH REDUCTIONS IN TARIFFS, MODERNIZED TRADE AGREEMENTS

Border Trade Alliance urges Congress and administration to seek to modernize North American Free Trade Agreement, maintain strong-cross border ties

The issue

The North American Free Trade Agreement was implemented in 1994. In the subsequent 20-plus years, the NAFTA region has become the world's foremost trade bloc, powered by an agreement that has reduced tariffs, created jobs, promoted prosperity and ensured the stability of the governments on the United States' northern and southern borders. The BTA believes that the U.S., Canada and Mexico should seek to preserve NAFTA and modernize it to reflect today's economy, while resisting calls to implement anti-competitive tariffs, especially those intended to be targeted or punitive toward one country.

Decreased tariffs and access to imports improves Americans' buying power, quality of life

At the time of NAFTA's negotiation and its implementation, few could have imagined things like e-commerce, a liberalized Mexican energy market, the growth of just-in-time manufacturing, hydraulic fracturing (fracking), or a truly competitive political system in Mexico.

In the ensuing decades, however, the North American economy and the region's manufacturing supply chain has been revolutionized and has become highly integrated. Over five million jobs in the U.S. alone can be attributed to NAFTA.¹ The agreement has proven central to the entire region's competitiveness.

¹ <http://naftamexico.net/mapa/newmap.pdf>

While the BTA would acknowledge that some sectors of the economy have faced real challenges during the agreement's life, a pivot to higher tariffs and protectionist policies would reduce access to new markets for U.S.-made goods and limit competition on store shelves here at home, resulting in a spike in the cost of living. Reducing consumer purchasing power also drives down demand for U.S. goods.

A reduction in tariffs and access to imports makes a real difference in American families' lives, saving the average household \$10,000 annually.²

And trade's benefits aren't just enjoyed by manufacturers. U.S. services exports to Canada and Mexico have tripled during NAFTA's existence, rising from \$27 billion pre-NAFTA to \$92 billion in 2014.³

We should seek to modernize NAFTA to reflect today's economy, not dismantle it

While we strongly oppose the dismantling of a trade agreement that is so integral to our entire nation's economic health, we are not dismissive of revisiting NAFTA with an eye towards modernizing it to ensure it reflects today's economy.

² <https://piie.com/commentary/op-eds/payoff-globalization?ResearchID=524>

³ https://www.uschamber.com/sites/default/files/the_facts_on_nafta_-_2017.pdf



The BTA agrees with the views on NAFTA expressed by border senators:

Sen. John Cornyn, Texas

“Trade with our southern neighbor supports hundreds of thousands of jobs in my state and provides more goods at a better price for Texas families. More than a third of all Texas merchandise is exported to Mexico – meaning our farmers, ranchers and small businesses have found no shortage of customers south of the border too.

“But like anything that’s dated, there’s room for NAFTA to be improved. It’s now more than 20 years old.

“Consider the nation’s energy landscape. It has changed dramatically since the trade deal was hammered out in the 1990s. With the recent lifting of the U.S. crude oil export ban and Mexico’s energy reforms, a renegotiated deal should account for regulatory cooperation and capacity-building provisions that promote investment and the free flow of American energy, particularly a streamlined approval process for LNG exports. There’s room to bring the services trade into the 21st century, strengthen intellectual property rights and eliminate non-science barriers to trade, too.”⁴

Sen. John McCain and Sen. Jeff Flake, Arizona

“While renegotiations could strengthen and modernize NAFTA, any effort to impose new restrictions or barriers on our ability to trade with Mexico and Canada will have serious consequences for Arizona, including massive job losses for workers and dramatically higher costs for consumers.

“The free flow of trade has been the foundation of U.S. economic policy for decades, and a major factor in our prosperity and greatness. We should not have to relearn the lessons of history. Retreating from NAFTA and imposing new restrictions on free trade will harm our ability to compete in today’s global economy, threaten jobs and undermine our relations with our closest neighbors.”⁵

Dramatically higher tariffs targeting Mexico are counter to spirit of cross-border cooperation

The BTA opposes a dramatically higher tariff schedule on Mexican imports and would urge policymakers to do the same.

A tariff regime – especially one intended to fund the construction of a border wall – that targets our southern neighbor and one of our nation’s most important trading partners, is unwise economically, politically, and diplomatically.

⁴ <http://www.politico.com/magazine/story/2017/03/nafta-john-cornyn-trade-214852>

⁵ <http://www.azcentral.com/story/opinion/op-ed/2017/01/31/nafta-mccain-flake/97285506/>

An increase in tariffs on Mexican imports runs counter to the spirit of NAFTA’s tariff-reducing intent; would likely be met in kind by Mexico, sparking an unnecessary and unwelcome trade war; would strain relations with a neighbor that is central to U.S. border security efforts; and could result in action by the World Trade Organization.^{6,7}

Border adjustment tax policy discussions should include broad stakeholder representation

The establishment of a border adjustment tax, or BAT, figures prominently in an overall effort to reform the U.S. corporate tax code.

While the BTA acknowledges that the current corporate tax code is a drag on investment and growth, we would strongly encourage lawmakers and the administration to ensure that the views of both net exporters and net importers are reflected in whatever tax reforms emerge.

The establishment of BAT represents a major shift in U.S. trade policy and should be approached with all due diligence, taking into account the effect such a tax change could have on the conduct of trade and the 38 million U.S. jobs that are trade-dependent.⁸

For more information

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⁶ <https://www.theguardian.com/world/2017/jan/26/trump-calls-for-20-tax-on-mexican-imports-to-pay-for-border-wall>

⁷ <http://www.freep.com/story/money/cars/2017/01/26/trump-mexican-border-auto-industry/97105754/>

⁸ <https://www.tradebenefitsamerica.org/resources/more-one-five-us-jobs-depend-trade>