Texas Border Cities Illustrate Benefits and Challenges of Trade

U.S.–Mexico Ties in the 21st Century:
Trade and Immigration in a New Era

Centro de Investigación y Docencia Económicas (CIDE)
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Outline

- Brief discussion about NAFTA
  - In terms of trade and Growth
- Texas and NAFTA
- Border cities
  - Have they progressed?
  - How?
- Summary
A Historic Agreement

- Canada and U.S. already had an agreement
  - Adding Mexico broke the mold
- NAFTA’s stated objectives
  - Eliminate barriers to trade & investment
    - Remove tariffs and non-tariff barriers
    - Facilitate cross border movement
    - Resolve disputes
- U.S. fears: Massive job losses, falling wages
- Fears unrealized, but so were aspirations
  - Elusive Mexican economic development
## U.S. Trade with NAFTA Partners More than Doubled Since 1993

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>166.9</td>
<td>266.8</td>
<td>59.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>69.1</td>
<td>231.0</td>
<td>234.4</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>184.8</td>
<td>278.1</td>
<td>50.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>66.3</td>
<td>294.2</td>
<td>343.6</td>
</tr>
</tbody>
</table>

NOTE: Data is in billions of 2016 U.S. dollars.
SOURCE: U.S. Census Bureau.
Foreign Direct Investment Higher After NAFTA

SOURCE: Bureau of Economic Analysis.
## Trade, Wage Effects of NAFTA Tariff Reductions

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume of Trade</th>
<th>Terms of Trade</th>
<th>Real Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>++</td>
<td>-</td>
<td>++</td>
</tr>
<tr>
<td>Canada</td>
<td>+</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>United States</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

Trade, Wage Effects of NAFTA Tariff Reductions

- On the other hand, recent research suggests:
  - Blue-collar workers, whose industries have been most affected by Mexican imports—including along the border—experienced substantially lower wage growth than their counterparts in other industries.
  - Limitations on the mobility of workers both geographically and across industries appear to be very important.

U.S. manufacturing has been able to mitigate some of the impact of economic shocks

- China’s entry to the World Trade Organization in 2002
- Labor displacement resulting from increased automation
- Great Recession

Still Unequal Trading Partners

GDP per capita

2005 U.S. $, PPP adjusted

Canada

Mexico

U.S.

SOURCE: OECD.

Federal Reserve Bank of Dallas
U.S. and Mexico Business Cycle Synchronicity Grows post NAFTA

NOTE: Monthly changes in manufacturing component of industrial production.

SOURCES: INEGI; Federal Reserve Board.
NAFTA and Texas
Texas Exports Grow Faster in Post-NAFTA Period

Index, 1988 = 100; real values

 SOURCES: WISERTrade; Census Bureau.
NAFTA and Texas

- Texas exports reached $247 billion in 2015
  - California at $163 billion
  - Washington state $86 billion
- Manufactured goods exports supported an estimated 990,000 jobs in Texas in 2015
  - Equal to 8.2 of the total
- 75 percent of U.S.–Mexico land trade (some $343 billion in 2015) crosses via a Texas port of entry
Texas Exports to Mexico Quite Diverse

- Computers and electronics, 26%
- Transportation equipment, 12%
- Petroleum & coal products, 11%
- Chemicals, 10%
- Electrical equipment, 8%
- Machinery, ex. electrical, 6%
- Plastics & rubber products, 4%
- Fabricated metal products, 4%
- Primary metal mfg., 4%
- Food & kindred products, 3%
- Misc. manufactured goods, 2%
- Other, 7%

NOTES: Data from 2015. "Other" includes all categories under 2 percent.
SOURCE: U.S. Trade Database, Census Bureau.
Texas Border Cities

More than 45 percent of an estimated 49,652 Texas job losses due to NAFTA were concentrated along the Texas–Mexico border
Foreign Firms’ Hiring Offsets Job Lost

Workers Displaced by NAFTA

Foreign-Owned Enterprise Employment
(As share of total metropolitan statistical area employment, 2011)

Sources: Public Citizen; Bureau of Labor Statistics.

Source: Brookings Institution.
Texas Exports Mainly go to Northern States

SOURCE: Bureau of Transportation Statistics.
Texas Trades with the Rich and Industrialized North

Northern
Per capita income: $12,627
Informal labor: 43% of LF
Poverty rate: 30%

North-central
Per capita income: $8,777
Informal labor: 57% of LF
Poverty rate: 43%

Central
Per capita income: $10,415
Informal labor: 63% of LF
Poverty rate: 49%

Southern
Per capita income: $6,597
Informal labor: 69% of LF
Poverty rate: 57%
## Maquiladoras Drive Employment Growth In Texas Border Cities

<table>
<thead>
<tr>
<th>Estimation method: IV</th>
<th>El Paso</th>
<th>Laredo</th>
<th>McAllen</th>
<th>Brownsville</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Level</td>
<td>2.77*</td>
<td>4.62</td>
<td>6.58*</td>
<td>2.21</td>
</tr>
<tr>
<td>Construction</td>
<td>0.20</td>
<td>3.19</td>
<td>4.04*</td>
<td>1.29*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-1.28</td>
<td>1.02</td>
<td>1.64</td>
<td>0.66</td>
</tr>
<tr>
<td>Transportation</td>
<td>5.30*</td>
<td>7.21*</td>
<td>6.63*</td>
<td>4.6*</td>
</tr>
<tr>
<td>Wholesale</td>
<td>0.43</td>
<td>1.96</td>
<td>4.01*</td>
<td>0.84</td>
</tr>
<tr>
<td>Retail</td>
<td>1.31</td>
<td>0.66</td>
<td>3.21*</td>
<td>1.34*</td>
</tr>
<tr>
<td>FIRE</td>
<td>2.12*</td>
<td>8.23*</td>
<td>4.63*</td>
<td>0.64</td>
</tr>
<tr>
<td>Services</td>
<td>1.84*</td>
<td>5.93*</td>
<td>7.38*</td>
<td>3.89*</td>
</tr>
</tbody>
</table>

NOTES: This table shows elasticity estimates. That is the table shows the percentage increase in local employment from a 10 percent increase in maquiladora production for each Texas Border Cities. * indicates significant at the 10% level.

Average Unemployment Rate Declined Along The Texas–Mexico Border After NAFTA

Texas Border Cities Narrowing the Income Gap With Nation
(income as a share of U.S. total)

<table>
<thead>
<tr>
<th>City</th>
<th>1990</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Paso</td>
<td>64.6</td>
<td>67.8</td>
</tr>
<tr>
<td>Laredo</td>
<td>49.3</td>
<td>61.9</td>
</tr>
<tr>
<td>McAllen</td>
<td>48.1</td>
<td>51.1</td>
</tr>
<tr>
<td>Brownsville</td>
<td>51.2</td>
<td>55.8</td>
</tr>
</tbody>
</table>

SOURCE: Bureau of Economic Analysis.
Texas More Competitive Domestically (RCAs)

Summary

- More trade and investment
  - NAFTA record on growth mixed
- The Texas economy has been transitioning toward a service-based economy
  - Lean and increasingly productive manufacturing sector
  - 4 million jobs gained in Texas between 1994 and 2015
  - Per capita real income up from $30,000 to $47,000
- Texas border cities have adjusted to trade
  - taking advantage of geographic location
  - growth in northern Mexico
  - supplying business services
- Useful case study to help trade-impacted communities transition to the next level of economic development