Adam Posen: Good afternoon friends and colleagues. It’s my pleasure to reconvene today’s session. We are thrilled to be presenting new work; new work from our colleagues at McKinsey Global Institute, new work from Lindsay Oldenski and Ted Moran on manufacturing in Mexico and the US and now new work by Gary Clyde Hufbauer, Cathleen Cimino and Tyler Moran on NAFTA 20.

As I’ve said many times on this stage in just the year and a half I’ve been President, Gary Hufbauer is a national treasure and I’m very glad we have him. We challenged Gary and some of our brightest young people of whom some of you have seen Cathleen speak from here before and Tyler to go back through some of the exaggerations and myths about NAFTA and not try to make exaggerated claims for the positive but give an honest assessment, a genuine empirical assessment of what really happened and they come out in much the same place on a broader set of issues the way Lindsay does, which is you look at the data and it’s not just theory that tells you that trade is good, it’s practice and reality.

I’m not going to give away the content any more than that but we have available on the website and in print our policy brief NAFTA at 20: Misleading Charges and Positive Achievements. For those of you who have known Gary and his team a long time, you will find him if anything bending over backwards to be restrained on this occasion which of course befits an empirical argument when there’s so much political blood being spilled but it just reinforces the message of today that you look intellectually honestly at North American integration and it is a positive thing.

So I would like to ask Gary and Cathleen and Tyler to come up here and present their work and then I will introduce our discussants shortly.
thereafter. Please feel free to continue partaking of our bounty which no doubt includes food from Mexico. Thank you very much.

Gary Hufbauer: Thanks very much, Adam, and thanks everybody for coming. It’s hard to remember but when Fred and Jeff and I were in the Treasury back in the 1970s, trade deals were really as popular as apple pie and now of course they are much more like—trade agreements are much more like spinach and the change took place with NAFTA but there’s causation in both directions. We know the sound bite from [inaudible 0:03:04] and I think that should fittingly be his epitaph, but you know thanks to US macroeconomic policies over much of the last two decades, the US has run a large and even huge trade deficits and that has been a staple feature in the negative column against trade agreements though there’s probably little or no relationship.

So I should apologize to the Canadians present because there’s really nothing about Canada in this presentation that we’ve done and you know no problems, no attention and that’s the message for Canada. We do have modest problems in trade with Canada, but nothing that sparks the excitement as the relationship with Mexico.

Now our job has been made easier by the preceding presentations by Lindsay and Jaana because they’ve really laid out much of the positive case and then the problems in Mexico. In this policy brief, we deal with four issues which have been very prominent in the criticism of NAFTA over the last couple of decades, the ones that we regard as the misleading charges.

There is another charge about growth in Mexico which we deal with, and that’s already been discussed very ably by Jaana, but it is in our policy brief as well. We do not regard that as a misleading charge. The Mexican growth has been disappointing as already discussed.

Just to run over them, you can see that there’s the agricultural exports story. I’m going to discuss that. That’s the easiest one to rebut, I think intellectually and with diagrams. Then we have the growing trade deficit argument, that is that NAFTA’s fostered, the growing US trade deficit or the very high level of the US trade deficit, then we have the unemployment story, which Lindsay’s work, which came out after our policy brief was completed, pretty well refutes that but we go into some other statistic on that one and then the wages story which is very coupled with the unemployment story but is intellectually distinct from it.

So let me turn now to what I regard as the easiest issue which is the agricultural exports. This has not been in the conversation I would say in the past couple of years, but in the immediate aftermath of NAFTA this
was a big issue and the argument was that US agricultural exports to Mexico, in particular corn, was a proximate cause of immigration from Mexico to the United States. And it is true that US agricultural exports expanded quite sharply. Mainly that was not because of NAFTA but because Mexico for its own reasons, anti-inflation reasons, sharply liberalized corn imports in 1994.

Now, there are a lot of varieties of corn but the two main ones are yellow, which is animal feed or at least that’s the term given to animal feed. I realize the corn we eat looks yellow, but yellow corn technically is the animal feed corn and then white corn, which is the one we eat is for human consumption.

The big US export growth was in yellow corn for animal feed and it just does not line up with the immigration story. What it does line up with and I’m not going to go in—I don’t have a slide on this, but there is a very substantial increase in the average Mexican diet in terms of protein, chicken and beef and of course that’s yellow corn goes into that and a very sharp increase and I would say an improvement of the diet.

But now if we look at this chart which Tyler put together, it’s a great one, you can see the border apprehensions. You know, I read the paper just like everybody in this room and I know it’s a big discussion but the border apprehensions, they’re down, down, down. Now, if you look at the US unemployment rate, you know, it’s not been—well, we know the story. It’s not been great lately. It’s going up.

There’s an inverse relationship and you can tease it out econometrically between the US unemployment rate and the apprehensions, which is the best measure we have of the immigration and that’s a pretty obvious story. You can also see the yellow corn or the corn exports, that’s all corn but it’s mainly yellow corn, has gone up quite sharply over the period of time and it’s not correlated at all with the apprehensions.

If one goes into more detail which we do in the policy brief and the price doesn’t line up with the story, the acreage doesn’t line up very well with the story and of course, US with its ethanol program, which is changing a little bit now, has actually boosted the price of concern pretty substantially over this period.

So now let me ask Cathleen to come up and deal with the next couple of issues. Cathleen.

Cathleen Cimino: So as Gary mentioned, a second charge that we addressed is that NAFTA and other FTAs are the cause of the growing US trade deficit. Of course, there’s the general tendency to measure the success of FTAs in terms of
bilateral trade balances, so under the misguided logic that while exports good, imports are bad. And this despite the fact that the benefits of imports are many. They improve the competitiveness of US firms, productivity and also increased consumer choices just to name a few.

Now that said, the US bilateral trade deficit – and this is nonfuel – with Mexico went from a surplus of about five billion in 1994 when NAFTA was launched to a deficit of about 45 billion in 2013. Now the growth of Mexican exports were in part driven by important internal events and several subsequent economic reforms. And while NAFTA may have helped facilitate a bilateral trade deficit, it’s not true that the global enlargement of the US trade deficit over the past two decades is an outcome of NAFTA or other FTAs and I’ll present some data that supports this conclusion.

So what has driven the trade deficit? Well, the main reason, for the past two decades has been the growing imbalance between income and spending in the United States as the US has become a huge net borrower. So when net national borrowing goes up, so does the trade deficit as money borrowed goes towards foreign goods and services. And at best, we find the FTAs exert a second order impact.

So a few figures, I’ll present a few figures to set the context for this conclusion. First, we’ll take a closer look at how trade has expanded and this figure shows US-Mexican trade over the past 20 years. Again, this is nonfuel trade just for the simple reason that if US wasn’t importing from Mexico, they’d buy fuel from other countries, albeit at higher costs.

Now when NAFTA was launched many including here at the Peterson Institute expected higher increases of US exports since of course average Mexican tariffs are higher than US tariffs, about 12% versus 4%, but the opposite happened and why was this? Well, trade is just one factor. Of course reform policies are another. The financial crisis in Mexico prompted reform. Mexico became a more attractive place to do business, open to investment and of course improved access to US inputs, parts and components, also essentially enabled Mexico to become part of the North American supply chain.

Now, if FTA skeptics are right, then greater coverage of a country’s imports by trade agreements should foreshadow larger trade deficits. Now this figure looks into this question. The vertical axis shows each country’s trade balance as a percent of GDP while the horizontal axis shows the percent of a country’s imports that are covered by FTAs.

So if more trade agreements met larger deficits, you would expect to see the dots move downward toward the right of the graph and we see that’s
not the case. More import coverage by FTAs does not de facto mean larger deficits or larger surpluses. Relative to other countries, you’ll see that the United States falls somewhere in the middle. In 2012, US preferential tariffs covered about less than 20% of US imports while the corresponding US trade deficit was about 3.4 of US GDP.

Now, if trade agreements meant larger deficits, we’d also expect the US to be accumulating larger deficits with its 20 FTA partners. Now this figure here also considers this assumption. You’ll see that US nonfuel trade deficits with FTA partners, which is designated by the red line, has been about 50 to 100 billion annually while US deficits with the rest of the world, as designated by the blue line, are much larger and you see they’re continuing to increase quite notably.

Now this is not to say that new agreements like TPP and TTIP will cure or improve trade deficits with these countries but it’s also not accurate to say that NAFTA and other FTAs would have been driving higher US trade deficits over the past two decades.

Now turning to the third issue that Gary went over in the overview, associating trade deficits with unemployment is also another common connection. Of course, it’s widely understood that an expansion of two-way trade will shuffle jobs between sectors of the economy. Import competing sectors will lose some jobs; export-oriented sectors will gain some.

Now there are worker and firm adjustment costs to any FTA that of course cannot be ignored. However, we find that in the overall picture of the involuntary job churn of the US economy, the contribution of Mexican imports is small. Now we use the US labor equivalent of about 7,500 workers for every billion dollars of imports and this is based on our analysis of our colleague, Robert Lawrence and we calculate broadly that the average import increase for Mexico translates to about 200,000 jobs lost while the increase in exports to Mexico translates to about 188,000 new jobs. On net, this is about 15,000 lost annually.

But the job gains from exports really are often lost in the rhetoric here. The point here is that the payoff from trade and NAFTA is not about more jobs but from lower prices, higher productivity and better higher paying jobs. Of course, opponents and proponents of FTA is often focused on the jobs issue but we find it stands on that but the impact of jobs is generally small.

With or without trade every year, some 4 million Americans are separated involuntarily from their jobs for reasons having nothing to do with globalization, technology, consumer demand. We went over a few of these
in earlier sessions and by our count, we calculate under 5% of total dislocated US workers over the past decades can be attributed to rising imports from Mexico.

And this will be my last point here; a separate issue relates not to jobs lost or gained but to the overall unemployment rate. But despite general perceptions, we see actually historically that rising trade deficits are associated with falling unemployment. Now the figure here shows the inverse correspondence between US unemployment rate and US global trade deficit. You’ll see as the trade deficit rises, unemployment follows.

Of course, this is not to oversimplify. There are a lot of macro factors at play here but we do find that in periods of high import growth in the US have generally been associated with tighter labor markets and faster economic growth. I’ll hand it over to Tyler here.

Tyler Moran: So moving on to wages, yes. Ritz analysis has generally found that imports from Mexico do not exert a strong impact on wages in the United States. In particular, a 2013 study found that imports from Mexico did not have a statistically significant relationship with the wages of relevant workers in the US.

On the other hand, that same study found that imports from China were associated with a modest negative impact on wages of competing workers. Both countries have seen rapid growth in their exports to the US but the causes and therefore the results have been relatively different.

Chinese export growth has been largely driven by rapid increases in productivity as the country quickly industrialized. Combined with the lower compensation, this has enabled Chinese workers to increasingly compete with their American counterparts both in the US market and abroad.

On the other hand, Mexico has seen relatively modest gains in its productivity especially when compared to China. Instead, Mexican growth and exports has been largely driven by shifts in US demand. This goes back to the chart that we were just discussing.

When consumption is high, we see both greatly increased demand for domestic labor embodied by a low unemployment rate and for foreign products embodied by a decline in balance of trade. Generally speaking, the tariff schedule is not what’s responsible for keeping US wages high relative to many other countries. Instead, US workers are able to earn higher wages through greater access to capital and of course the education and skills needed to maintain and use that capital, not a 2 to 4% advantage on final price.
Moving on to events in Mexico. Despite high expectations, Mexico’s growth over the past two decades has been relatively slow at the aggregate level. Mexico’s real GDP per capita has grown at some 1.4% annually, notably less than we have seen in several other developing countries as we’ll display in a moment.

But as we discussed earlier in the day on a different panel, some segments of the Mexican economy, particularly large firms which are more globally engaged, have seen productivity growth to a large degree. However, this has not generally spilled over to the smaller and medium sized firms that operate more in the domestic economy. Moreover, the share of resources going to those firms has not increased leading to stagnation at the aggregate level to a large degree.

And then other factors which impacts the ability of the efficiency and competition of the market overall have also held back overall growth. And here we see a chart comparing Mexico to Chile, a group of Southeast Asian countries and several of its fellow members of Latin America. As we can see, Mexico has not been a leader in growth but other countries have still lagged further.

But on a more positive note, we have achievements. Two-way trade in merchandise has grown rapidly over the past two decades due in large part to NAFTA. While the extra trade has caused shifts in the US labor market discussed earlier, the benefits have far outweighed the costs. Export-related jobs created due to the increased trade generally pay substantially better than the import-related jobs that are displaced.

Furthermore, the US also gains through access to cheaper products and better products both in goods for final consumption and in inputs for industry. All things considered, these gains total to roughly $400 per capita or nearly half a million dollars per net manufacturing job lost. And also it’s important to note that while the gains from trade can continue to accrue indefinitely, the losses occur only once when job shifts occur.

NAFTA has also delivered political benefits particularly for the US and Mexico. Forums for cooperation have sprung up such as the North American Leaders’ Summit which facilitates discussion on issues not directly related to trade but they build on the friendly relations that were greatly enhanced by NAFTA.

And in conclusion, we can draw several points from our experience with NAFTA. First, reducing the barriers to trade can deliver large benefits to both trading partners even if they are of greatly different levels of development. Second, a comprehensive trade agreement that is well
executed can do a great deal to bolster trade and direct investment. Third, the cost of job shifts while nonzero are greatly exceeded by the gains from trade and are greatly exaggerated by skeptics. Fourth, net job increases should not be seen as the primary benefit of a trade agreement or trade in general. Instead, trade should be expected to deliver increased efficiency which leads to better products and better jobs. Finally, a developing country cannot expect to grow based solely on getting trade policy right. Trade can complement growth but not assure it. Thank you.

Adam Posen: My thanks to Tyler, to Cathleen and to Gary for getting us the facts and putting them in a comprehensive context. We’re very privileged to have with us today as our first discussant of the keynote, Douglas Bell. Doug is Councilor and Assistant US Trade Rep for Trade Policy in Economics. He’s responsible for a whole bunch of stuff. I’m not going to list it all but he coordinates the market access, customs and rule of origin efforts for the Transpacific Partnership negotiation among other things at the moment.

He previously served as Director for Trade and Investment with the National Security Council. Prior to that, he had been Deputy Assistant USTR for Southeast Asia and Pacific. He was actively involved in efforts in the Middle East in the previous Morocco FTA negotiations. He started his public service as a Regional Economic Officer at the US State Department Middle East and is someone who has done a marvelous job throughout his career of combining deep expertise needed to do real trade negotiations with understanding the economics of why trade negotiations are worth doing.

In that spirit, I’d like to ask Doug to offer us his views on NAFTA at 20. Thank you, Doug.

Douglas Bell: I thought I would have some company up there too. So preparing for this discussion presented a little bit of an interesting quandary for me and I’ll tell you why. Both myself and my staff went through the paper that was just reviewed and you know if there was one takeaway, it was that you know if we’re able to conduct the discussion on NAFTA in the kind of thoughtful rational approach that this paper had taken, I think we would all be quite the better for it and be able to devote what is a considerable amount of resources to hopefully productive exercises, the whole idea about trade and reallocation of resources and all that good stuff.

But what I would like to do and I guess that’s a very—to be explicit I think the paper is quite good and I think represents a real contribution to the discussion that I hope will influence how the debate continues on NAFTA and it is a debate.
I’d offer a few thoughts. There are a couple of things that I didn’t see in
the paper that I think maybe in the realm of factoids I think are kind of
important. What I’d like to do is maybe highlight a few of those and then
kind of talk a little bit about in some senses what are the lessons that can
be derived off the work that’s been done at this symposium but also what
we see as trade policy folks looking at NAFTA and what are the lessons
that we can derive for that and how does that influence what we’re trying
to do now with the TPP most prominently but also the other trade
initiatives that the administration has embarked on. So the TTIP with the
Europeans, the services agreement, TISA, ITA, and a number of other
things.

So the first is that it didn’t really talk about services but the US runs a
considerable surplus on the services side with the NAFTA countries
including Mexico and I think what this really highlights is, as that
becomes a more and more important part of the US economy is just the
role that services play and not only just in terms of just trade balances but
as you look at the composition of manufacturing, as you look at the role of
logistics, it is an area of competitive advantage for the United States not
only just in term of NAFTA but more broadly.

And so I think when we assess the gains of these kinds of agreements and
the opportunities that it presents for the United States, I think services is
an important part of that. I’d also offer that I think it also greatly enhances
the productivity of our trade partners where we bring that expertise
whether it’s logistics and UPS and FedEx and how we enhance what is
essentially a North American competition which is something you know
Mexico in particular has been very thoughtful about and has really tried to
champion.

The second is small businesses and the opportunities that have been
presented by NAFTA by both Canada and Mexico. If you look at
essentially 130,000 small businesses export to NAFTA countries, 91,000
of those are to Canada and about 50,000 are to Mexico. A lot of the work
particularly that’s been done by the Department of Commerce and looking
about how do you create a more focused and productive trade culture in
the United States, you really do need to look at the role that small
businesses play.

And here, I think the record is unequivocal that many companies when
they look to expand abroad, they look obviously at their neighbors. I
mean, that’s a little bit self-explanatory but the fact is that you have an
agreement in NAFTA that facilitates that and has been very successful.

The last kind of factoid point that I would raise is that when you look at
imports from Mexico and Canada, over half the value of those imports are
actually comprised of US components. And this is a point I want to kind of ski off on in terms of you know what we’re looking at sort of our new agreements which is I think one of the really distinguishing features particularly when we look at Mexico and the arguments about well, this is a developing country, low wage rates, the nature of the type of manufacturing that was going to be taking place there, I think one of the really critical points is that it offered the opportunity for the United States to become part of an increasingly complex supply chain and in turn has more integrated US companies and has provided huge opportunities.

So when we look back, for example, when we look at the TPP of which Mexico and Canada are also members of, one of the things, the factors that we were considering and why we wanted to do this initiative is how do you place the United States in a more prominent position vis-à-vis supply chains in Asia. Now obviously geography plays an important role here and you wouldn’t expect necessarily to duplicate the kind of experience we’ve had with NAFTA but it’s an important consideration.

And in fact, when you talk to a lot of companies for example—I’m getting a little bit trade technical here, but it’s not necessarily the initial tariff reductions that most grabs their attention. It’s the opportunity for something called cumulation, which is the idea of you cumulating the value across different countries, more complicated supply chains and those products are then—can take advantage of the trade preferences offered in there.

So it’s kind of interesting. And so what we see, one of the things that we’re really trying to build out the opportunity is for again, it’s not just exports from the US to Vietnam or Malaysia but it’s also ensuring that we’re part of that supply chain and we facilitate and make it easier for US multinationals in particular who are extremely adept at this and manage very sophisticated global supply chains, that the US production becomes part of that. And again, that’s a win-win because it’s not only providing those opportunities for the United States but it’s also contributing to the economic efficiencies and the competitiveness of the TPP countries at large and then obviously if you peel the onion a bit, there’s obviously a real important element and opportunities for our NAFTA partners as well.

So I think those would kind of—in a sense of as we talk about trade and manufacturing. The other aspects of course is that the TPP provides an opportunity to update NAFTA in a couple of different areas. There’s the labor and investment – excuse me – labor and environmental provisions that are obviously an important part and an important part of the political debate and certainly it’s something President Obama discussed when he was Candidate Obama. But it really does put on a more solid footing and I would say a kind of a more, in some senses, fair footing some of the
provisions in these areas because what you have is a product of a negotiation at the table. You have, you know, there’s a fairly long history now at this point in these areas, very carefully thought through how these things work and how they can actually contribute to better labor and environmental conditions in all of the economies.

The other piece of it of course is the opportunity to strengthen provisions in intellectual property, which is obviously an important and when you talk about innovation, economies, an extremely important part of that and I think as Mexico in particular moves up the value added chain and the initiatives that it’s taken to provide it more, improve its investment climate, that really becomes important.

And then of course some of the other provisions that we’re looking at like state-owned enterprises and rules of origin, which I’m not a rules of origin expert but that’s where the rubber hits the road on these concepts and where you really take some of these, in some senses, economic abstractions or observations that you can make at the macro level and you translate them into specific trade policies, specific sectors of the economy.

And so that is an area that a lot of effort is being devoted to and it will have I think profound consequences on the quality of the TPP or any of these negotiations that we do. And so it’s something that I think when the time comes that folks will really want to develop as good of an understanding as possible because you know you have the tariff and the market access reduction but the ability to qualify for those preferences is very much a rules of origin game.

So overall, I think that in many regards, the paper that was shared with us kind of shows us a way for thinking about the challenges and I think that there is a way to influence the political debate based on kind of a thoughtful rational discussion of the gains and the challenges and in some senses avoiding excessive exuberance and exaggeration. I think it’s quite valuable.

And then of course again just to close, what are the lessons that we can derive from this taking kind of the observations both at the macro level and the broader trends that we see but then thinking through how that translates into competitiveness, improved innovation, strong labor and environmental standards, et cetera. So I think that’s the point for me to close on and will leave it for our next responder. Thank you.

Adam Posen: I don’t quite recognize this word ‘challenges’ but I’ll let that go for now. I’d like to turn now to our dear colleague, José De Gregorio. Many of you know him as a distinguished central banker and the Governor of Central Bank of Chile from 2007 to 2011, having worked there a decade. He’s of
course the author of the Institute book that came out about six months ago, *How Latin America Weathered the Global Financial Crisis*.

But José has also been a senior official at the Ministry of Finance in Chile. He has worked at the IMF and obtained his PhD in economics from MIT in 1990 I think as part of the [inaudible 00:36:26] crowd that has so dominated and contributed to international economic policymaking in the last 25 years and it’s our great privilege that he spends time here as a nonresident senior fellow as well as teaching at the University down in Chile. José, please.

José De Gregorio: Thanks for the introduction. It’s quite important to talk about NAFTA after 20 years. I remember like it was yesterday that we were talking—I was living here so there was a lot of talk about NAFTA and many friends involved in that. But I basically would like to talk about two issues. First, I would like to talk about the effects of NAFTA briefly and then about the state of the Mexican economy which also has a lot of challenges and things that are going on in all Latin America.

So regarding the effect of NAFTA, the direct effect of NAFTA, in the US we just heard from the presentation of the policy brief, for the US, the effects are small positive. I would say that’s a—Mexico is 10% the US economy. It has not created a big convulsion. As many people—this always happened with public policy. Whenever you propose something new, they say well it’s the collapse or it is the silver bullet for progress and it’s neither. So usually it helps but at least moderate and this is what—when we do calculations, we get to triangles and things that are not that big and...

But there is reallocation and this is what we would expect, reallocation with trade liberalization. So not all sectors will benefit. And this is just reallocation that happens in the business cycle. We know that there is a lot of flaws in the labor market. Now, there are new flaws coming from reallocation, but overall its welfare improving so I think that the case for the US is quite relatively clear.

For Mexico, there is a mix. One could say, "Well, it was not the engine of growth." And we saw this morning and Mexico hasn’t done that well. So Mexico has not grown. It grew from the 1960s to the ‘70s then it came the debt crisis then it has been growing but kind of moderately. Even I was looking at the numbers, if you don’t look just at Mexico with respect to the US, if you took Mexico with respect to Latin America, which is not a great comparator, Mexico in 1980 was 37% non-Mexican Latin American. So if you take 37%. In 1990 after the debt crisis, Mexico did a little bit worse than the rest, was 33% of non-Mexico Latin America. Then in 2008, just before the crisis, it was about the same 34%. That has been the
Brazil. This is all comparison of Brazil-Mexico so it’s kind of tricky because there is a lot of fluctuation in exchange rate so these are normal years. And now, it is expected for this year will be 26%. So it hasn’t been that well. It’s close to what it was during the debt crisis with respect to the region.

So now the issue is not just to compare performance. It’s the contrafactual. What would happen with Mexico without NAFTA? And I think that that’s where the case comes. First NAFTA was central for Mexico to recover from the Tequila crisis. So that was the best year. Indeed, Mexico is in a way a little bit different from the rest of Latin America because they’re relatively better than the region during the Asian crisis because it was coming out from this crisis. It was joining NAFTA. It was improving macroeconomic policy.

But then, and the rest of Latin America has much more rigidities and several crises and [inaudible 00:40:43], but then it came the 2000s which were very good for Latin American economies, especially commodity exporters because we had a boom in commodity prices. For Mexico, it was not such a big boom, first because they are not as important in commodities. They are much more important in manufacturing because of NAFTA. Because of NAFTA, Mexico is importing much more manufacture which is what we all would like to do in the long run.

So they have much more manufactures. They suffered. They suffered from China’s succession to WTO and competition with China. So they didn’t do that well and they had been following the business cycle. They are much closer to the business cycle of the US, which in general is good except for the recent years.

But the issue is how would Mexico have done without; it’s difficult to say but just not having manufactures, not having implemented sound and well integration to the world economy and good macroeconomic policy, I think that would have been much more difficult. So I wouldn’t say that Mexico could have done better and I think that one of the good things in Mexico is NAFTA and it will follow Mexico, Mexican products, they never are associated with NAFTA. They are associated we have been talking about corruption, informality, drugs and nothing to do with NAFTA. I don’t know what’s NAFTA drugs, well, it could be.

Now, but there is also benefit for the world economy and for the world economy is that this is a template for other free trade agreements and the way to proceed for many counties has been with free trade agreements. In the case of Chile, we have more than 20 free trade agreements. The US has 20 free trade agreements. First was Mexico, ten years after Mexico was Chile, was Costa, Dominican Republic then was Australia. So there
has been a lot of free trade agreements which is a way of having more free trade around the world and better rules for conducting free trade.

So I think that this has been quite important, quite important for emerging markets, for developing countries, for reviewing their institutions, how because this is not an issue about tariff. It’s an issue about the institutions and I think that that’s extremely important. Emerging markets today, Latin America is much more open and contrary what we thought during the times of the import substitutions, emerging markets, Latin America are much more resilient and much less vulnerable to the global economy despite being much more integrated.

So I think that now we have this discussion that we just heard the TPP so of course we have new agreements. We have more countries involved in agreements. I want to just put a note of skepticism about this because I like free trade. I love free trade, but too many agreements sometimes it’s like Basel. It’s like I was very much involved in all the discussions in Basel about banking and whenever when there was a discussion, well, this minister or this central bank is talking and saying, "Which are the banks that are behind this discussion?" So we start discussing labor [inaudible 00:44:02] and all day and you see that all around there is a lot of vested interest.

And I like and I think that is very straightforward free trade on goods but services becomes somewhat a bit complicated in terms of intellectual property. In Latin America, piracy is awful. It’s really bad. Fortunately I published my book with the Peterson here in the US otherwise in Latin America, it would be sold on the streets, just a photocopy without cover, so...

That’s bad but we always have the problems with pharmaceuticals, with monopoly power, with patent, so it’s quite complicated. You see, it could be even worse with financial services. In the Chilean free trade agreement, we limit our ability to apply capital controls. There is an annex and there was a lot of discussion in the central bank to limit this annex and the agreement almost failed because of this discussion. Between the central bank and the government, the central bank is saying, “We don’t worry. We don’t plan to have capital controls. We have reduce capital controls but that has to be our decision, not a decision in an agreement,” and I think that this is quite important because when policies, when the sovereignty in policies where you are the owner of your policy and you decide your policy, you are responsible and accountable.

It will be much easier for Chile to have a crisis and to say it’s because the free trade agreement does not allow us all the economic tools that we could use, especially now that the US has not the best reputation in
financial markets. So it would be much more easier to say what countries can do. There are rules of the game around the world but I think that is a very tricky issue and I think that that’s what—it’s where the skepticism remains in emerging markets and in the partners of TPP.

I’ve been outside of this regard but as I follow, there is a sort of a skepticism. It could be much easier but then I just hear you, the labor and environment clauses and rules on these agreements, we have so many problems with labor and environment that having more problems because it could be—we have the [inaudible 00:46:23] agreements and we have to sign them and then at the end, we tie so much our hands but we do not time them because we decided, it’s because it’s necessary because we tie our hands when we decide autonomous central banks and that’s a great way to run monetary policy.

But we tie our hands in order to reach an agreement and this is the part that I found is a little bit tricky. If tomorrow because of environmental rules in an agreement, not decided by us, in an agreement, we cannot build some type of energy and we’ll have problems of energy, we have a problem. So I think that that’s why we have to be extremely careful and perhaps a bit more pragmatic.

Let me just a couple of minutes about Mexico today which I said that this is a disappointment. It has nothing to do with NAFTA but we hear this morning a very interesting discussion. I think that Mexico today we hope this time will be different and we say this every ten years I think or every 15 years, we say, “This time it’s different.”

One thing that I think is a necessary condition to grow is a bias, personal bias, but is also an educated bias is macro is okay. They have good macro policy and this I think that is the—it’s a necessary condition to grow and they could have capital inflows. I, in principle, I don’t want to exaggerate. I couldn’t say that being a central banker, I don’t work at running four years 5% of deficit in the current account. The current account deficit is not the problem as long as they let the exchange rate float.

If the exchange rate needs to adjust 50%, they have to let the exchange rate to adjust and the problem of Latin America with running 4, 5% current account deficit is that when it came the decline in terms of trade, it came the sudden stop or all those awful stories, we avoided any depreciation, we avoided an exchange rate adjustment and the crisis was multiplied and we magnified the crisis. So I think that macro is okay and I think that in that regard, Mexico has this basis.

There are two things and just to close. First is the lack of competition. This is a problem all around Latin America, very low competition in many
important markets and Mexico is trying to address very seriously the competition monopolies, regulation and which has cost and this is the part I think that is—in Chile, we had a similar problem but it’s a similar economic problem for a different reason, which is we had a tax reform to finance education.

Tax reforms are quite costly. In the short run, the benefits of the education takes time. The same happens here. In Mexico today, there is a lot of uncertainty how the regulation will be applied, how this goes to the court, how actually end up being this regulation which will be better for the country to have more competition, to have more free markets but the transition creates a lot of uncertainty and I think that here is where it comes the risk for all the region is that when the region does not grow for a time, this could happen in Brazil, this could have happen when the region slows down that is the best time for [inaudible 00:49:51] and for bad policy.

Finally is what I would call the SMEs dilemma. We have the same—the typical problem. We have to facilitate their life but we don’t want to make them the way of life. They have to—and we saw this morning also all the problems that you have with a strong regulation. They have real problems, real financial problems, bureaucracy and they are also great political goal. They have 80% of employment. Most of the people link to SMEs, but the issue is how to do and to do policies that do not incentive firms to remain and to stay because of tax and regulation resources rather than competitive reasons. Thank you.

Adam Posen: Thank you, José. We’ve now heard from a US trade official, from a Latin American scholar and former trade official and now I’d like to turn to one of our great network of academic Advisers, Raymond Robertson. Raymond is a professor of economics at Macalester College. His research has notably focused on the intersection between labor and international economics. He serves on the advisory board of our sister institute, the Center for Global Development with Jeff on the US State Department’s Advisory Committee in International Economic Policy.

But I think perhaps most importantly two things; he’s currently the Chair of the US Department of Labor’s National Advisory Committee on the labor provisions of free trade agreement which would be another terrible acronym but says he is really trying to put his money where his mouth is about the impact of trade on US workers and knows the data. And secondly, he has a PhD from the University of Texas so he’s been deeply personally involved in the notion of the border issues and labor for most of his career. So Raymond, thank you so much for joining us.
Raymond Robertson: So thank you very much, Adam, for both the introduction and the invitation. It’s always great for me to be in Washington. I never get to be here enough and I always have good times seeing friends and making new friends and it’s great to be at the Peterson Institute which I’ve been a fan of since long before it was the Peterson Institute so long before then.

But it’s fun for me to talk about NAFTA because I’ve also been a fan of free trade between Mexico and the United States since Sidney Weintraub’s book in 1984, right, which was ten years even before NAFTA, who just passed away actually this year.

But this has really been an important piece of work that I’m discussing today by Gary and Cathleen and Tyler who did a great job presenting it. I’m just reminded of a quote by Paul Krugman, who I know many of you have heard of but he went on this tirade about the importance of international education because most, he said, of what you hear about international economics is nonsense. And I think what Gary’s work and Cathleen and Tyler’s work has gone a long way to try and address some of the things we hear in the media which are exactly the opposite of the things I teach in my Introduction to International Economics course. So it makes me feel like I have deep sense of purpose and mission by teaching the right things in my classes so thank you very much for that sense.

But as Adam said, I’m also involved with labor issues at the Labor Department so I’m going to be mentioning a little bit about some of the labor market effects which surprisingly I think we have not heard a lot about today. So I’d like to go through that by just talking about NAFTA. Obviously, this is going to be somewhat redundant. I’d like to say outright at the beginning I’m a fan as I said of NAFTA and I talk about the benefits of NAFTA and I think it’s important, a very important agreement and it’s been incredibly successful.

Overall, I think, as we’ve already seen, the trade has increased dramatically. So there’s been dramatic increase in trade and for a trade agreement, that’s a very important thing. We see that US exports to Mexico have been increasing and the value of Mexican exports to the United States has been increasing. So just on the trade grounds, it’s a trade agreement, for a trade grounds, it’s been incredibly successful.

And just in overall, right, this has just been incredibly beneficial from that point of view. We also have seen that the GDP per capita in both of the countries has been increasing dramatically, right? So for the critics who are out there saying NAFTA has been really bad, it’s hard to argue with that argument, argue with the increase in GDP per capita. And in terms of constant GDP per capita, we’ve already seen some of the graphs. I realize that this first slide is a little bit redundant. I didn’t get to see the other
presentations before I made my slides. So this is a little bit redundant but it’s also something that we already know.

But here’s something else that we have not talked about yet. So there is something I am adding new to the conversation. And Mexico is largely considered and well known to be one the most unequal countries in the world and there’s been a dramatic decline in wage and equality in Mexico ever since NAFTA and this is completely consistent with our neoclassical trade theory in terms of if you know the [inaudible 00:54:52] theorem or the [inaudible 00:54:53] theorem, which would predict that the restructuring in Mexico, which we’ve heard a lot about today, would increase the demand for less skilled workers and thus increase the wages of those less skilled workers and thus close the wage gap and we’ve seen exactly that happen in Mexico.

And this has been something that I think Gary’s suggestion – as a discussant I’m supposed to be making suggestions – this would be another great point that we should mention as a benefit to NAFTA in the sense that there’s been a big increase in demand for these skilled workers when we’re addressing wage and equality. It’s a 16-city Gini coefficient but it’s normalized, that’s why the Gini coefficient is off, in Mexico. Right, so this is just wage and equality in Mexico.

Now, I’m not talking about the United States because we know that in the United States, wage and equality has been increasing but you addressed that specifically in the brief which I really appreciated, right, reviewing a lot of the recent research about the contribution to NAFTA and wage and equality in the United States which people have been very skeptical of, largely because of the differences in sizes. But in Mexico, you’d expect a much larger effect on wage and equality and we do see a very significant drop in wage and equality that has not been receiving enough attention, I don’t think. I think this is a very, very significant result.

So we’ve seen falling wage and equality. So this is another benefit which we’ve not heard today. Having said that and having heard Gary and Cathleen and Tyler’s presentation and we know here that we’re celebrating NAFTA in a way. I’m really kind of surprised we didn’t see a cake with some candles. I was expecting that for this party. But there obviously are some concerns, right? So people definitely do have concerns about NAFTA and why is that?

So in other research that I’m working on right now with Tim Halliday from the University of Hawaii is we looked at wage differentials, the wage gap between Mexico and the United States and we took very high frequency wage labor force surveys and we compared people who are basically demographically identical, so like 18- to 25-year-olds with nine
to ten years of education who are males or whatever. So we have these very, very close cells and each one of these multicolored lines represents a different cell and what you can see here though that I think is rather stunning is that there was obviously some macroeconomic effects but if you look at the way this graph reads is this is the gap between the United States and Mexico.

So when it’s falling, that means that the wages of Mexico and the United States are converging and when it’s rising, it means that gap is getting bigger, okay? So just make sure everyone understands it. And we saw that prior to NAFTA when there was this big boom in investment after Mexico joined what was then the GATT, there was investment coming in and the gap was falling and then the peso crisis hit. And then we have the recovery which we just heard about which important where that gap was falling again, but basically since then it’s been basically flat.

So we haven’t seen this big convergence and from a trade economist point of view, this is kind of surprising because as I said, there’s been a huge increase in trade. There’s been a huge increase in investment and all of our other trade models would predict factory price equalization that there would be some sort of convergence in wages between the two countries and we just have not seen that.

And so I think it is fair, again, as a comment towards your brief is to acknowledge that yeah, a lot of what is being said out there isn’t consistent with what we teach in our Introduction to International Economics course and we need to address this by doing a better job at PR. NAFTA definitely needs a lot better PR and you’re doing a great job at doing that. I really applaud that, but it also might help to acknowledge, right, so why are the people on the streets still so concerned? And I think this is part of it that it was oversold.

I mean, I really like movies and one of the secrets I’ve found to enjoying movies is to keep your expectations really low. And Jeff, you’ve mentioned this too is that one of the problems with NAFTA was that it was really oversold and like we just heard in the comments that there was this idea that it was going to be a silver bullet and I remember being in Mexico in 1992 and interviewing people from Sacofi and they were, in their office, they’re telling me, “This is it. We’re finally going to be in the first world. We’re going to be a developed country just because of this trade agreement.” I’m like, “If you say so. You know, I hope so. That’d be great.”

But it didn’t work out that way and now people are really, really frustrated about it. So I think it’s really great to have this kind of brief that hearing Cathleen and Tyler present it because it does address what some of the
negative side is but I think we also need to acknowledge some of the other concerns.

So why haven’t we seen this convergence? There’s been a lot of ideas today that we’ve promoted but most of them of course are non-NAFTA, the most of them don’t have anything to do and I would argue and I don’t think we’ve heard enough about this today is this expansion of China. So what I built with Daniel Lederman at the World Bank, he and I are working on a model that looks at this falling wage and equality and we’re building what’s called Melitz model because if you’re into trade economics, now everything has to be a Melitz model which is great. I love them.

But what we looked at was just the change in the real exchange rate in terms of the relative price of tradable goods and once you plug that into a really simple two-sector Melitz model, it attracts the falling inequality really, really well. So what we’ve found is that this introduction of China into the global markets right around 2000, 2001 which they really came online corresponded with Mexico’s real recovery and their entry and their restructuring that was due to NAFTA and it drove China’s entrance, drives down the output prices in a way that would then slow Mexico’s growth to some degree. So this competition with China really played a big role.

Now I think it’s really important to note that again, as you mentioned earlier, as José mentioned earlier is the counterfactual, right? What would have happened had we not had NAFTA and I think what was very clear as a result of NAFTA which we’ve also heard today is that NAFTA probably contributed to a very significant restructuring of the Mexican economy.

So before, when Mexico had a closed economy, they were producing the entire value chain and once NAFTA came into play, they had to restructure to integrate themselves into the North American value chain which was really important and necessary and we believe that that was good, but it’s really easy to do the destructive part of the adjustment which is the move into informality which has very low cost but the move back into the formal structure, back into the formal economy, as we heard from Santiago Levy earlier this morning, is much more difficult.

So we want to think about what policies can we enact to try and ease, to complete the transition. We haven’t completed the transition that NAFTA initiated in order to fully realize the gains from NAFTA. And that’s exactly this point here, this restructuring of the North American value chain, but I would suggest – I am still an optimist about Mexico. I think that we have a government in place – I say we as part of Mexico – Mexican government, has a government in place that’s identified what the key barriers and they’re addressing them with very bold reforms and
they’re doing an excellent job at trying to remove the barriers to a more complete restructuring of the Mexican economy. So I think the long-run prognosis is extremely positive.

So just to close, right, what would be the two main policy recommendations that I think come out of today’s discussion. First one is identifying and removing those barriers to formalization in Mexico but I’d also like to submit and I realize I’m the first person to probably suggest this today and I’m looking at the crowd and you’re looking a little skeptical, what’s he going to say, but this idea of trying to spread the gains.

So Ambassador Medina-Mora pointed out earlier as I think one of our big challenges is how do we spread the gains of NAFTA more widely? And if these estimates that we heard earlier from Cathleen I think that the gains from NAFTA are $450,000 per job lost, then this idea, which is a neoclassical trade idea of compensating the losers, suddenly becomes much more feasible, right? It seems like it would then be feasible to spread around, capture some of those gains, compensate the losers and maybe that would help us address at least the political problem that we’re facing with NAFTA today.

So I’d like to just leave you with that and again, thank you very much for the invitation. I look forward to your comments.

Adam Posen: Thanks so much, Raymond. I’d like to invite our—we can’t have everybody, but Gary and our three discussants up to the panel and since we had such a full discussion, I will immediately open it up for questions from the floor unless Gary feels a deep desire to respond to something. Okay, the gentleman in the back, if you want to head to the mic. There’s, yeah, I’m pointing at you, Barry. There’s a mic there but this time, try to make it a question.

Barry: I’ll try to make it a question.

Adam Posen: I’ll settle for concise if it’s a comment.

Barry: Thank you. Well, let’s try to turn it into a question. Is there a conflict between the point made by the last speaker which is in looking at the net benefits of NAFTA, you need to put it in a wider context in particular taking into account the effects of the rise of China. Is there a conflict between that point and the point of previous speakers which is that in looking at the net benefits of NAFTA, you’ve got to not just look at whether jobs have been lost, 15,000 a year, but you need to look at the supposed fact that there are better jobs that are being created? Well, I don’t know that there’s a conflict between those two.
I’d throw it up to the panelists but one comment I have to make, Adam, is that if this is the way, and I’m saying this as a supporter of NAFTA, if this is the way that we’re going to improve the PR for NAFTA, which I think is very important to do, that is that we’re getting better jobs as a result of NAFTA, I think you’re going to have to prove that that is in fact the case because the common wisdom is that in recent years, wages have been depressed and we’re not necessarily getting better jobs in this economy. I’d argue it’s not because of NAFTA but that’s another story.

Adam Posen: No, that is indeed helpful, Barry, and let me very clear about what we’re trying to do and what we’re not trying to do. I take the spirit of some of my own comments have echoed some things that Barry and Raymond and others have said about PR but we’re not in the making stuff up business. We believe and we advocate for things that actually are good and true. I know you didn’t mean it that way. I just want to be very clear and if we did the work and we decided that despite our best instincts and hopes, it turns out NAFTA weren’t good for jobs then we would say so and we wouldn’t advocate it quite as strongly.

But I appreciate your putting out there the fact that as an example of the kind of thing that we do want research to address the sense that NAFTA or other trade does get scapegoated for broader economic developments in the US economy I think is part of what we’re hoping to address. So thank you for that. I don’t know if Raymond or Gary or anyone else in the panel would like to talk about the spreading the benefits and quality of jobs issue.

Gary Hufbauer: Thanks, Adam. Let me just make two comments to what Barry has said. I think that what’s needed for public awareness is companies which are expanding their jobs here in the United States actually being willing to tell the story. This is a big, big deficit because when jobs are lost, when they’re dislocated, which has a technical meaning of a large number being laid off at once, that is well-known. They go to the press and they’ll blame it on imports whether it’s not, I mean, you know it’s the good thing to blame it on.

When jobs are created, US companies are very unwilling to put out a press release or when pay goes up or whatever, they’re not willing to tell it. There’s one exception, Caterpillar. Caterpillar has tried to get other companies to do this so far without success and I think there’s a big problem in the whole trade debate. The winners, the winning companies are just very shy. They are afraid of the blowback and whatever.

The second point I would make is in response to what Raymond said at the last and here at the Institute, we’ve been very much in favor of more
generous treatment for the losers for the reasons that Raymond said and you emphasized, Barry. We don’t believe in safety nets in this country and that hurts us a lot let’s say compared to Germany which you mentioned earlier and the amount we spend for a certified loser is like between 4,000, 6,000. I mean, it’s nothing. I bet more than half the people in this room have that much income a month and it’s just ridiculous and so it hits us on the trade policy.

Adam Posen: And does anyone else want to comment on this point? No? Yeah, Fred.

Fred Bergsten: Two questions, one for Doug, one for Raymond. Doug, you talked about drawing lessons from NAFTA for current trade policy debates. You stressed the economics of it. What about the politics of it? You’re in the middle of this. What have you guys picked up from your assessment of the NAFTA debate and what succeeded it the last 20 years as you now try to sell TPP, TTIP, your other agreements to the Congress? What have you learned? What new strategies are you pursuing? How do you think they’ll go?

To Raymond, just to pick up on his last point about compensating the losers particularly thinking of your role at the Labor Department, what’s your assessment of trade adjustment assistance? Do you think it works? Do you think a significant expansion of it would be helpful in both economic terms dealing with the real dislocations but also in the political terms of using some of those national economic benefits from these agreements to compensate the losers?

Douglas Bell: Well, I think a point that’s been made here several times about not overpromising is probably the biggest factor that needs to be a lesson learned and to really inform how we think about this. And so I think that as we’ve been not only talking about the NAFTA 20 and responses that USTR and the USG has made is to kind of be fact-based. We have a historical record to draw from.

I think going forward, I think we want to avoid some of those traps of overpromising. I think that it’s also—the public discourse is different now. You have different tools, social media, all these kind of things and I think we’ve really tried to think about it as the need to be responsive as quickly as possible to get the facts out on the table.

I think we find that Congress and such is very receptive when you can show them again in a fact-based sort of way what you’re trying to accomplish and what the record is. But there’s a lot of mythology out there and so there’s no substitution for boots on the ground, getting out there, telling the story.
I think we find USTR that it needs to be a USG exercise. We need to have all of our other economic agency colleagues involved and I think that the other TPP countries or TTIP also need to play an important role because really these are gains that accrue to both sides of the negotiation. And so it’s not something you can let sit. It’s corrosive. You have to be responsive real time to inaccuracies and make sure the record is very clear.

Adam Posen: Just one second, Doug. Leaving aside different perceptions of well or how much USTR has done that recently. In your reply, you very pointedly did not either throw specifically the Peterson Institute a bone or more broadly speak about either the role of business or of NGOs and think thanks to make the case. You framed it solely in terms of governments. Does that mean that you feel those other actors should not be exercising their voice or you’re not looking to have a coalition or is it just your sticking with your bailiwick?

Douglas Bell: No, I didn’t mean to suggest in any sort of way that organizations like this, the business coalitions, although many of the traditional players that you know ramp up to support these agreements shouldn’t play a role and I think it’s actually hugely important. There are different constituencies, just to use the Hill which has to vote on these things, different constituencies on the Hill listening to different people and different types of organizations.

And so that’s an extremely important part of it. I just hesitate to make pronouncements on what others should be doing and just focused a little bit on what USTR needs to do, but I think any kind of political and economic analysis would clearly—is very clear about the importance of an engaged populous. And it’s getting the story outside of Washington too. It’s really getting out on the road and all companies and NGOs all have an important role to play and that’s for sure.

Adam Posen: And then Fred’s second question picking up on the issue of trade adjustment.

Raymond Robertson: Sure, thanks for the question, Fred. I probably should clarify first of all that I’m not speaking for Secretary Perez or the Department of Labor or the ILAB or even the NAG necessarily so you’re just getting my own personal opinions. I don’t want to be implicated later on yelled at by Greg Schoepfle who’s in the back of the room from ILAB.

But I do applaud the stance that the Peterson Institute has taken on developing more robust trade adjustment assistance. Just like I don’t think NAFTA has reached the full potential that it’s capable of, I don’t think trade adjustment assistance has been reaching its full potential of what it’s
capable of either and I think that there’s a lot of resistance to using trade adjustment assistance in the population.

If I ask a bunch of my students, “Should people be compensated for losing their job due to trade,” and they’ll be like, "I don’t lose my job when someone invents a computer and I’m making typewriters. Why should trade people, people that lose their job from trade get compensation?” But I like to give the example of our soldiers. I mean, I believe that our soldiers who serve our country and make sacrifices deserve to be taken care of and should be compensated for their sacrifice.

If the United States government makes a policy change that’s going to result in someone losing their jobs, it’s a sacrifice for their country which is exactly what it is and they should be compensated for it and the fact that we’re not sufficiently compensating those people now I think is something that we should look into and try to promote much more and I think that would probably go a long way if it was spun correctly by the government to really alleviate a lot of the concerns that people have.

People wouldn’t be so worried and anxious about trade if they realize that there was compensation for them if they were to lose their job because of trade. That’s my opinion, not that of the Labor Department or Secretary Perez or the Peterson Institute or anyone else.

Adam Posen: But it is yours and we will proudly post it on our website. At the back please, if you could identify yourself.

Chris Sands: Sure. Chris Sands with the Hudson Institute. And Gary was very careful to say that Canada was left out of the analysis that he worked on with his colleagues and I appreciate that, but I was wondering if Professor Robertson, you’ve looked at Canada-US wage gaps, job losses because they’ve been less controversial in a NAFTA context but they do provide an obvious point of comparison. Is there something going on there that’s interesting or have you looked at it at all?

Adam Posen: Before Raymond or anyone else answers, just let me take responsibility that it was my call not to push Canada today because I think we’re all aware that most of the political contentiousness, as you indicated, has been over the US-Mexico thing. It’s not to slight Canada but just to be clear. It was my call to do that.

Chris Sands: And just to echo your earlier comment, I salute the work of the Peterson Institute on Canada when you do do it so...

Raymond Robertson: So I would refer you to Daniel [inaudible 01:17:21] work and he’s done some work with several other really excellent economists who have
looked at Canada specifically and most of my work has been focused on Mexico and I don’t want to take up a lot more time but I will but on a plug. Can I tease you very gently? I’d like to tease the Canadians. I really wanted to work on Canada when I got started and I had the hardest time getting data from Canada. It was really hard. So I tried to go up there and be like, "I’d like your household surveys." Like, “We don’t make them available,” right, and you go to Mexico and they’re like, "Please, take our data. Take our data. We have all this great data." So I’d like to put in a plug in response for trying to make Canadian data much more widely available. That would really help us a lot. Thank you.

Adam Posen: Spoken like a true academic but brilliantly so. Does anyone else want to say anything about Canada? Okay, gentleman at the back or are you coming to the mic and then the gentleman—sorry, the one who’s getting up, you’ll be next. Sorry.

Doug Palmer: Hi, my name is Doug Palmer. I work for POLITICO. I had a question for Mr. Bell sort of following up on Fred’s question about selling the agreement. You know lately, republicans have been making this argument that you can’t close TPP unless you have TPA and then but then also President Obama recently talked about getting a preliminary deal on TPP when he goes to Asia in November.

So one, how do you answer the argument that you can’t get a good TPP unless you have TPA. Does the administration agree with that? And then I guess my second question is when President Obama talks about having a preliminary agreement in November, is the administration envisaging some sort of TPP summit that takes place say separate from like the APEC Summit or the G20 Summit or the East Asia Summit that are all happening that month?

Douglas Bell: Well, I certainly applaud your asking the questions. We don’t necessarily have a position to answer some of those questions at this stage. I think with respect to TPA, Ambassador Froman has been very clear that the United States is attempting to negotiate a high standard agreement. He’s worked very closely with Congress. I think there’s been over 1,300 consultations that the TPP team has made with Congress on these issues.

So I think we’re very much working towards closing out this agreement and trying to do that in a timely fashion. I’m really not in a position to comment on what kind of structure could be envisioned for November but I’m sure at the appropriate time, we’ll be happy to share that with you.

Adam Posen: Gentleman right here.
Daniel Vasquez: Thank you. My name is Daniel Vasquez with [inaudible 01:20:31] Summit and this is a question for Professor Robertson. One of the things that I think hasn’t been fully utilized of NAFTA is labor mobility and people not using a lot the famous NAFTA visas that were created on the agreement. I was wondering whether you have researched that topic and whether you think the lack of full labor mobility within the agreement had a significant impact in reaching the potential of NAFTA.

Raymond Robertson: So the short answer is I haven’t spent a lot of time looking specifically at the labor provisions of the mobility issues but I’ve looked a lot at migration and I’ve looked at migration’s effect on integrating the labor markets. One of the things that I’ve learned is that even prior to NAFTA, the US and Mexican labor markets were actually extremely closely integrated. There’s a lot of migration now that really effectively links the two labor markets.

Furthermore when I was in Mexico, you can talk to people who are managing businesses and they will say that the managers and the leaders of the organizations are basically paid at the world class. So they’re already being paid the same way as—on an international scale, right? So that’s evidence of further international mobility.

Now should we have more mobility? Should we be taking more advantage of the visas? I think that there has been some evidence that suggests that the migration is actually net welfare enhancing to the United States. I don’t want to say that complete labor mobility would generate net positive welfare gains, but the evidence that I’ve looked at is that by looking at border enforcement and wages and a whole bunch of different ways to look at it that immigration is actually generating net positive gains for the United States. And one of the reasons for that is that the immigration from the United States is complementary to US skills, just like US and Mexican workers are complements rather than substitutes which is another kind of finding. So migration just reinforces that.

So trying to facilitate and ease migration between the two countries has been suggested that would be net beneficial for the United States. Does that answer your question enough? Good.

Adam Posen: Yes, you with the bow tie. The microphone is making its way to you.

Male Speaker: Yeah, I’m [inaudible 01:23:04]. I’m also a reporter. When you talked about TTIP being an opportunity to update NAFTA, you talked about that in the context of labor and the environment, I’d just like to ask you what is sort of the baseline. Is the May 10th agreement the starting point and will you be trying to move up from there or is that malleable? Where do we stand?
Douglas Bell: Well, I think you can go back to the record and you can see where the US put forward its initial negotiating position. Obviously what comes out of the agreement will be a product of the negotiation with other countries, but we’ve been pretty clear that we’ve been trying to negotiate to the highest possible standards on those. And again coming back to the idea of what I mentioned about consulting with Congress obviously ensuring that what we negotiate is a bipartisan outcome.

Adam Posen: Yeah, I’m going to let Gary come in, but I also want—I thought José’s remarks, particularly coming from someone with as much free trade and pro-market credentials as he has, about the not wanting to give up sovereignty and some of these issues was very powerful and I was wondering if he could also in addition to Gary give some response to the US government’s high standards position on this.

Gary Hufbauer: Well, let me just make one comment before José comes in. I think part of the indigestible aspect of the labor and environmental text that the US is putting forward are the dispute settlement provisions, which Chile did not have to subscribe to, that came with Peru and then Colombia and I suppose as being advocated for TPP, but the dispute settlement that is kind of an arbitration fairly quick so forth, that’s pretty tough and I would guess that as the TPP goes forward, there’ll be a more consultative approach to dispute settlement for labor and environment, possibly some other issues as well.

José De Gregorio: I don’t know the details about labor and environmental, however, my view is [inaudible 01:25:41] countries is that all countries have a lot of distortions and they have arrived to them for different reasons. Now if we try to put all of them together or if we try to put to all countries the US distortions, we will end up in a too distorted world. I think that that’s my concern is that we have a lot of for example labor market distortions in Latin America. It’s very difficult to say that we have more flexible labor markets than the US but if what we did is sort of the things that have come from the US, I think that that could make things worse and that’s where I see the concerns.

In environmental, there is a very legitimate problem with the environment, but again, it’s not always clear whether they—because if we take a very cynical view that policies that countries have, these regulations are the result of vested interest in the countries. If we impose them to the other countries, we will end up imposing policies from the vested interest of some countries. So it’s very complicated the political equilibrium, but so for that reason, I would be very skeptical about pushing too far because that will create also tensions in finalizing these agreements.
Adam Posen: Thank you. We’ve come to the end of this session. Before moving on, I would just note that we are segueing perfectly into the next session in which Jeff Schott is going to be talking about the updating of NAFTA and TPP and Barbara Kotschwar will be talking about the general trade impetus from the Pacific Alliance and I’d like to call upon the person for whom this room is named, Fred Bergsten, to chair the next session. Thanks very much to Gary, to Cathleen and Tyler, to Doug, José, and Raymond for a fantastic session. Thank you very much.