Potential Employment Impacts of Mexican Retaliation on U.S. Trucking Restrictions

Dermot Hayes
Iowa State University

Under the North American Free Trade Agreement (NAFTA) signed by the United States, Mexican motor carriers by now should have been allowed to transport international cargo inside the United States. (The agreement does not allow them to transport domestic U.S. cargo.) To date, the Mexican trucking industry has been prohibited from hauling cargo past the 25-mile commercial zone along the U.S. border. The only exception to this restriction is a limited cross border truck demonstration program. In February 2001, a NAFTA dispute-settlement panel unanimously ruled that the blanket exclusion of Mexican trucking companies violated U.S. obligations under NAFTA, giving Mexico the right to retaliate against an equivalent amount of U.S. trade, which Mexico estimates to be as much as $2 billion per year. The purpose of this report is to calculate the likely employment impacts of Mexican trucking retaliation.

Reliable confidential sources inside Mexico indicate that while some Mexican policy-makers view a retaliation list as a way to satisfy key constituent groups, the majority prefer to construct a retaliation list that will increase the probability that the United States will live up to its NAFTA commitments. This latter group has worked to construct a retaliation list that hits industrial sectors in key U.S states. The list contains goods that are produced in 17 states. These products are almost all finished products that are available from other countries. Mexico does not wish to harm its own industrial sector by restricting products used as inputs by that sector. Moreover, it does not wish to harm Mexican consumers, and therefore, the list typically includes products that are readily available from other countries.

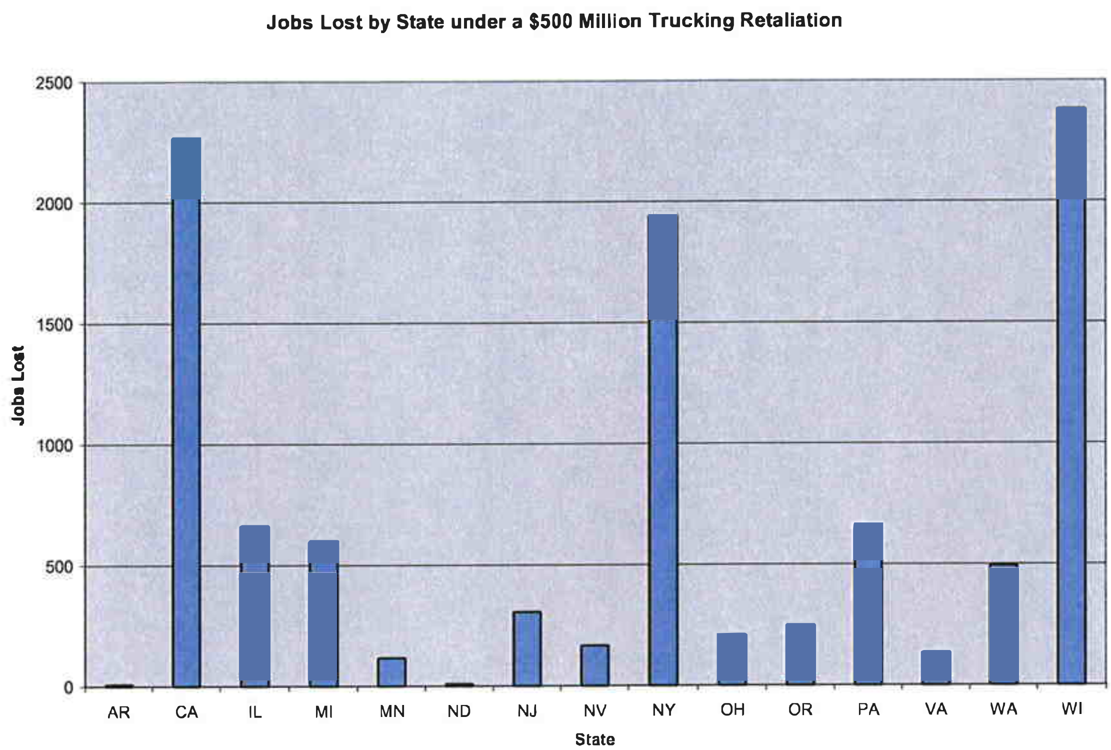
Examples of items on the list include: "almonds, fresh or dried, shelled," with a current export value of $23.5 million, along with 10 other California-specific products; shampoos and sunglasses and three other product lines to target Illinois; coin-/token-operated games, excluding bowling alley equipment, to target Nevada; and printed books, brochures, etc. to target New York. The list was made available to the author, but the confidential source in Mexico did not wish to distribute the list to the media or to anyone else.

The mechanisms by which these products will be restricted have not yet been fully worked out, and it is not clear whether Mexico will retaliate for the full $2 billion in U.S. trade. In what follows, two scenarios are presented. The first assumes that Mexico uses trade restrictions to eliminate $500 million of U.S. exports, and the second assumes that it utilizes trade restrictions to eliminate the full $2 billion.

To determine the employment impacts of Mexican retaliation by state, the proportion of the total export value by state was first calculated. These proportions were then multiplied by $500 million in the first scenario and $2 billion in the second to calculate the lost value-added in each state. The state-by-state reductions in value-added were then divided by the U.S. average per capita GDP of $46,000 to arrive at an employment impact. The results are shown below.

Key states under the current list include California, New York and Wisconsin, all of which lose approximately 2,000 jobs under the $500 million scenario and 8,000 jobs under the $2 billion scenario. Wisconsin stands out on this list because one product -- the "waste and scrap of batteries, spent batteries and cells" -- that is located in the state currently has an enormous export volume and value.

In conclusion, based on a draft retaliation list, the potential impact of Mexican retaliation on the U.S. economy could be 10,227 U.S. jobs for the $500 million scenario and up to 40,909 U.S. jobs assuming the $2 billion scenario. Job losses may be felt in 17 states as a result of the failure of the United States to honor its commitments on the NAFTA trucking provisions.



Jobs Lost by State Under a $2 Billion Trucking Retaliation