Here's What Will Happen if Trump's NAFTA Deal Falls Apart

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One of Donald Trump’s core beliefs, and what sets him apart from most other Republicans, is that he is **resolutely anti-NAFTA** and has insisted that the 24-year-old the free trade agreement between the US, Mexico, and Canada destroys American jobs. (At times, he has **oddly echoed a left-wing critique** of free trade as harming the US.)

So it was actually briefly impressive and heartening for NAFTA supporters **when late last month**,**after five weeks of negotiations**, Trump's administration released plans to renegotiate the deal rather than exit the treaty. But that glow didn't last long—to the eyes of wonks like Philip Levy, a trade expert at the nonpartisan Chicago Council on Global Affairs, the plans were already “generally worse than the original NAFTA.” Also, the new deal was negotiated only with Mexico. Trump’s team is currently trying to bull rush Canada into agreeing to the deal by the end of September so that **Congress can review and approve the deal** before a new Mexican president takes power in December, but that's looking like a tall order.

Pushback against the deal from Canada, and from US pro-trade groups and GOP legislators, who likely won’t accept a deal Ottawa is not party to, seems to have Trump in a rage. **Last weekend**, he made it clear that if he doesn’t get his deal, he still wants to blow up NAFTA. Experts doubt that Trump is 100 percent serious about his threats, and note that the treaty’s provisions would still be enshrined in legislation and regulations that would take time to unravel (if Congress even tried to unwind it). But given the unpredictability of Trump and American politics writ large, the end of NAFTA continues to look like a conceivable possibility. Here’s what that would look like, according to the experts I consulted:

What Would Actually Happen if NAFTA Collapsed?

Simon Lester, of the libertarian-leaning Cato Institute: Suddenly there will be tariffs on trade between Canada, Mexico, and the US. They’ll likely go back to the levels we [and Canada and Mexico] charge to other countries. US tariffs are relatively low, maybe an average of 2 to 3 percent. The Canadians are slightly higher. The Mexicans are higher than that.

Philip Levy: There is a question of what would happen with Canada, since there was a pre-existing free trade agreement with them from 1988 that never went away. With Mexico, absent a new agreement, they would be compelled to raise tariffs on US goods to their non-preferential levels. Mexican average tariffs on the United States were roughly 15 percent.

What Would the Immediate Effects of Increased Tariffs Be?

Geoffrey Gertz, of the Brookings Institution: The direct immediate effects of leaving NAFTA are actually likely to be relatively modest. Consumers purchasing goods that are currently imported from Canada or Mexico, including cars and some food and agricultural products, will pay slightly higher prices. Similarly, US manufacturing companies that rely on imported intermediate goods will also pay higher prices for these imports, and may pass these price increases on to consumers. Farmers and manufacturing companies that sell their goods in Mexico and Canada will also have to pay somewhat higher tariffs, likely hurting their sales. But all of these effects will be pretty small.

Levy: If you're talking a couple percentage points for each product, maybe you don't notice. Maybe with gas prices, you notice. With soup, are you paying attention? But tariffs are higher for some things. For example, [most] pickup trucks famously have a 25 percent tariff [imposed on them when they come into the US]. [Under NAFTA], trucks made in Canada or Mexico come in and we pay a 0 percent tariff. But if we go back to normal tariffs, suddenly those are going to be hit with 25 percent tariffs. That would be noticeable.

The general tariffs, though, are spread throughout the economy. Maybe in your purchases over the year, you're paying $2,000 more. You might not notice it right away, but after a year or two you're saying, *Wait, why am I spending so much more on these things*? Over time people might start to feel it. Inflation might start to pick up. But it will take a little time for that to be noticeable.

Derek Scissors, of the conservative American Enterprise Institute: Plenty of countries want to sell to the US, so it won't be that hard to replace even the $680 billion in goods and services we imported from Canada and Mexico last year [with others that may be cheaper than those from those nations with additional tariff costs].

However, they are our largest export partners. Other countries are not lining up to buy American products. The media is filled with exaggerated complaints about Chinese retaliation against just $50 billion in American exports. A true end to NAFTA would disrupt $620 billion in American exports. Many companies and workers would be harmed.

Gertz: Indirectly, depending on the circumstances under which Trump announces the US is withdrawing, it could send shockwaves through the stock market. So far the stock market hasn't reacted much to Trump's trade policy, so it's difficult to say. It would be more likely to see immediate indirect effects in Mexico, including potentially a sharp fall in the value of the peso.

What Would the Long-Term Effects Be?

Levy: We have to make some strong assumptions. For example, do we assume that cars from Mexico would just pay the [pre-NAFTA] 2.5 percent tariff? Or would we see [new] 25 percent tariffs [instituted by Trump using executive privileges]? Would we have the replacement agreement with [just] Mexico or not? Would the US-Canada FTA survive or not? It becomes difficult to give very precise long-term predictions without a lot of strong assumptions.

Gertz: Over time, North American companies would slowly grow less competitive relative to those in Europe and Asia. To be competitive internationally, companies need access to global supply chains, and leaving NAFTA would make it more difficult to do so.

Levy: Companies would still produce here to serve the domestic market. But the US would be less and less attractive as an export platform [to other countries.]

Lester: If trade goes down, then the flow of economic activity that it generates will also go down. Trade involves trucking, people working in customs warehouses. If there's less of it, then there will be fewer jobs for those people. Spread across the border states, you're going to have a greater number of jobs just because of the trading activity, [which could dwindle post-NAFTA].

Who Would Be the Biggest Losers if America Leaves NAFTA?

Lester: It's going to hurt US consumers broadly a small amount and certain US producers more significantly.

Gertz: Those that would lose the most are the companies that either export to Canada and Mexico or rely on imported intermediate goods from Canada and Mexico in their production processes. It can be difficult to break this up by industry, however, because a lot of the trade among the NAFTA partners happens within industries, i.e. you see both lots of exports and lots of imports.

In autos, auto parts, appliances, and machinery, the US imports and exports both intermediate and final goods to Canada and Mexico. So you'd need to go company by company, looking at their particular supply chain and business model, to see who would win and who would lose.

Lester: Autos is the big one, though, where they've set it up so they're producing parts in Canada, Mexico, the US, and sending them back and forth and assembling them. If suddenly each time you're sending them back and forth across the border you're paying a tariff, it's really going to add up. The auto industry is where they've set up a model that most assumes an integrated North American market. If that doesn't exist, it's really going to disrupt what they do and add to their costs to some extent. [But] I've seen variable estimates about what it would mean.

Gertz: On agriculture, it's a bit more clear-cut: The US exports lots of corn, soybeans, fresh fruit and vegetables, and meat and poultry to Canada and Mexico. So farmers who rely on these export sales would be particularly hurt.

Would There Be Any Winners in the US if NAFTA Ends?

Gertz: The companies that would benefit the most are those that currently compete directly with imports from Canada and Mexico.

Lester: You could see *some* winners in the auto industry. You could have some existing US factories where they start producing more. And there must be some agricultural products in Mexico, maybe tomatoes, where suddenly if Mexican tomatoes are hit with tariffs from the US, then maybe tomato producers in America are going to be happy with that. So there may be some new agricultural jobs, some new auto jobs. A few producers here and there will benefit.

Scissors: US energy firms could gain. We still import a lot of petroleum products from Canada, especially. And now we have a domestic industry that can replace that production.

Lester: There are going to be some winners, but more losers.

Could We Build a New Trade Regimen, Post-NAFTA, to Deal with All This?

Scissors: If we abandon NAFTA, I don't see how we would replace it. The Canadians are irritating trade partners, but also our most important. If we're not motivated to compromise with them, I don't see how we'd be motivated to compromise with multiple large countries to replace them.

Levy: There would be an attempt as soon as the next administration came in to fix things with Canada and Mexico. But the United States is already starting to suffer the effects of withdrawing from its traditional trade leadership role, a broader move of which NAFTA withdrawal would just be a prominent symptom. Europe is striking deals with Canada and Japan and negotiating with South America. In the hemisphere, the Pacific Alliance is taking over as the leader in trade liberalization. These groups will set the new rules of trade and the United States will not be represented in the discussions. Global commerce neither stops nor waits [for] the United States.