

Abstract

The North American Free Trade Agreement came into force in 1994 after long and emotive discussions. When Donald Trump became the US president in 2016, its future became uncertain, which motivates this paper to attempt to quantify the impact of its repeal. To do that, it uses a standard GTAP general equilibrium model and models an increase of intra-NAFTA tariffs to the derived MFN rates. It finds that NAFTA repeal would notably reduce intra-NAFTA trade and have a modest but negative impact on countries' welfare. NAFTA repeal is estimated to decrease Canadian GDP by 0.48%, US GDP by 0.39% and Mexican GDP by 0.06%. It would severely damage US-Mexico value chains and increase income inequality in Mexico by hurting unskilled workers more. Additional simulations are performed to control for variation in sectoral MFN rates and to observe the sensitivity of results to the choice of closure. The only positive of NAFTA repeal is that it might mitigate regional economic disparities in Mexico by damaging sectors concentrating their production near the US-Mexico border.