[Fitch: Potential NAFTA End Pivotal for U.S. Midwest and Border States.](#)

Fitch Ratings-New York-11 April 2018: A U.S. withdrawal from NAFTA would be a potential economic watershed for several state economies with close exporting ties to America's neighbors, according to a new report from Fitch Ratings.

"Withdrawal from NAFTA would cut economic and job growth along with tax revenue, constrain budgetary flexibility and lead to higher unemployment for states that are less populous and economically diverse, specifically states in the upper Midwest and Southwest border-states," said Michael D'Arcy, Director, Fitch Ratings.

The states that would be most impacted by a U.S. withdrawal, as measured by the percentage of their exports that are sent to Canada and Mexico, include the following: North Dakota (87%), Michigan (65%), South Dakota (62%), Missouri (56%), Ohio (52%), Texas (49%), Arizona (48%) and New Mexico (47%).

"Texas, Arizona, New Mexico and Michigan in particular are more susceptible to economic losses given their close commercial relationship with Mexico and the higher tariffs that Mexico could impose on U.S. goods under World Trade Organization (WTO) rules," said D'Arcy.

While much attention has revolved around the Trump administration's negotiations with Mexico, a significant wild card is the worsening trade relationship between the U.S. and Canada. Canada's recent formal complaint against the U.S. with the WTO earlier this year has raised the temperature of negotiations. The U.S. has also imposed tariffs on 11 classes of Canadian goods.

The economic impact on the U.S. as a whole of a withdrawal from NAFTA would be much less severe than its effect on select state economies, however, as exports of goods and services accounted for only 12% of U.S. GDP in 2016. Exports to Canada and Mexico accounted for 18% of the total or only 1.4% of U.S. GDP in 2016.

Fitch anticipates that the U.S. will ultimately choose to participate in an updated NAFTA. Even if the U.S. were to withdraw, Fitch expects trade flows would adjust rapidly as U.S. importers and exporters find replacement suppliers/buyers in non-NAFTA nations and divert a portion of their trade to those destinations. Fitch expects trading patterns between the three NAFTA member countries and other nations to shift perceptibly even if a new NAFTA agreement is signed, however.

"The experience of renegotiating NAFTA has been something of a watershed for all three participants," D'Arcy said. "The 'near-miss' of a NAFTA cancellation in the past several months has acted as a wake-up call to farmers and businesses in all three nations."

Less amicable trading relationships between the three NAFTA countries have been one result, increasing the likelihood that Mexico and Canadian consumers and business will seek to obtain some of the same goods and services from alternative sources such as China and European and South American countries in the future. U.S. exporters like Midwestern farmers who had grown quite dependent on NAFTA will also seek to broaden their exporting relationships outside of North America in the near term.

The full report, “NAFTA Termination Could Hit Upper Midwest, Border State Economies Hard,” can be found at www.fitchratings.com or by clicking on the link.

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