

# POLICY BRIEF

## Institutions, Trade & Economic Prosperity: An Examination of the U.S. and Mexican States

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### STATEMENT OF ISSUE

Canada, the U.S. and Mexico, due in large part to the liberal trade environment created through NAFTA, comprise one of the world's largest free trade areas, and contain about one-third of the world's GDP. Nearly all tariffs were eliminated between the three countries as a result of NAFTA. Trade in goods between the U.S. and Mexico has more than tripled since then. We explore what effect institutions have on both interstate trade and cross-border trade, and also what impact the national border has on these trade relationships. We also examine the relationship between trade volume and economic prosperity. Because

the determinants and consequences of trade between the nations. By utilizing state-level data, we are in the unique position of being able to understand both subnational relationships and the micro-determinants of national relationships.

### KEY FINDINGS

- Trade is a more important determinant of prosperity for the importing state than for the exporting state.
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- lie across the U.S.-Mexico border.
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- border, than with states within the U.S.
- Analysis of U.S. and Mexican states indicates the following:
  - States with greater economic freedom tend to engage in more trade with other states.
  - States that engage in more trade with other states tend to have greater economic prosperity.
  - States that have greater economic freedom tend to have greater prosperity.

- Renrī ve greater prosperity.

- While most trade B BTF8hi3> r[det

be reconsidered, such as country-of-origin rules, which will raise the cost of producing automobiles in North America, and the restrictions on negotiating free trade agreements

America.

### SOURCES AND FULL PAPER

