**NAFTA’s Impact on the U.S. Economy: What Are the Facts?**

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When President Bill Clinton signed the North American Trade Agreement (NAFTA) in December 1993, he predicted that “NAFTA will tear down trade barriers between our three nations, create the world’s largest trade zone, and create 200,000 jobs in [the U.S.] by 1995 alone. The environmental and labor side agreements negotiated by our administration will make this agreement a force for social progress as well as economic growth.” Twenty-three years later, scholars and policy makers often disagree about the impact that NAFTA has had on economic growth and job generation in the U.S. That impact, they say, is not always easy to disentangle from other economic, social and political factors that have influenced U.S. growth.

On the positive side, overall trade between the three NAFTA partners — the U.S., Canada and Mexico — has increased sharply over the pact’s history, from roughly $290 billion in 1993 to more than $1.1 trillion in 2016. Cross-border investment has also surged during those years, as the stock of U.S. foreign direct investment (FDI) in Mexico rose from $15 billion to more than $107.8 billion in 2014. As for job growth, according to the U.S. Chamber of Commerce, six million U.S. jobs depend on U.S. trade with Mexico, a flow that has been greatly facilitated by NAFTA, which has helped eliminate costly tariff and non-tariff barriers. NAFTA has also facilitated a multi-layered integration of the U.S., Mexican and Canadian supply chains. According to the Wilson Center, twenty-five cents out of every dollar of goods that are imported from Canada to the U.S. is actually “Made in USA” content, as are 40 cents out of every dollar for goods imported into the U.S. from Mexico.

Geronimo Gutierrez, managing director of the North American Development Bank (NADB), notes that trade between the United States and Mexico reached over $500 billion in 2015, a five-fold increase since 1992, when NAFTA negotiations concluded. Thus, he explains, Mexico imports more from the U.S. these days than do all of the so-called BRIC nations combined – Brazil, Russia, India and China. (The NADB acts as a binational catalyst in helping communities along the U.S.-Mexico border develop affordable, long-term infrastructure.)

Gutierrez adds that there are lesser-known benefits of NAFTA. By promoting the tight integration of North American industrial supply chains, “NAFTA is creating partners and not competitors among its member countries. As for Mexico’s interest in this bilateral relationship, it can be summarized in two facts: about 80% of Mexico’s exports go to the U.S., while 50% of the accumulated foreign direct investment received between 2000 and 2011 comes from the U.S. Moreover, NAFTA has been the fundamental anchor for reforms that make Mexico a more modern economy and open society.”

**A Modest Impact**

For all that, most studies conclude that NAFTA has had only a modest positive impact on U.S. GDP. For example, according to a 2014 report by the Peterson Institute for International Economics (PIIE), the United States has been $127 billion richer each year thanks to “extra” trade growth fostered by NAFTA. For the United States, with its population of 320 million at the time of that study, the pure economic payoff was thus only $400 per person, while per capita GDP was close to $50,000. And while the costs of NAFTA are highly concentrated in specific industries like auto manufacturing — where job losses may be significant for specific firms — the benefits of the trade pact (such as lower prices for imported electronics or clothing) are distributed widely across the U.S., as they are in the case of any trade pact worldwide.

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Supporters of NAFTA estimate that some 14 million jobs rely on trade with Canada and Mexico combined, and the nearly 200,000 export-related jobs created annually by NAFTA pay an average salary of 15% to 20% more than the jobs that were lost, according to a PIIE study. Furthermore, the study found that only about 15,000 jobs on net are lost each year due to NAFTA. “On our reckoning, since NAFTA’s enactment, fewer than 5% of U.S. workers who have lost jobs from sizable layoffs (such as when large plants close down) can be attributed to rising imports from Mexico,” wrote its authors, PIIE senior fellow Gary Clyde Hufbauer and research analyst Cathleen Cimino-Isaacs. For the roughly 200,000 out of 4 million people who lose their jobs annually under these circumstances, the job losses can be attributed to rising imports from Mexico, they wrote, but “almost the same number of new jobs has been created annually by rising U.S. exports to Mexico.” Moreover, “For every net job lost in this definition, the gains to the U.S. economy were about $450,000, owing to enhanced productivity of the workforce, a broader range of goods and services, and lower prices at the checkout counter for households.”

Trade specialists agree that it has proven difficult to separate the deal’s direct effects on trade and investment from other factors, including rapid improvements in technology, expanded trade with other countries such as China and unrelated domestic developments in each of the countries.

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Walter Kemmsies, managing director, economist and chief strategist at JLL Ports Airports and Global Infrastructure, notes that that many of the job losses that are popularly blamed on NAFTA would likely have taken place even in the absence of NAFTA, in part because of growing competition from China-based manufacturers, many of which have taken advantage of currency manipulation by the Chinese government that has rendered China-made products more price-competitive in the U.S. Likewise, [Mauro Guillen](http://knowledge.wharton.upenn.edu/faculty/guillen/), head of Wharton’s Lauder Institute, agrees that without NAFTA, many American jobs that were lost over this period would probably have gone to China or elsewhere. “Perhaps NAFTA accelerated the process, but it did not make a huge difference.”

“A lot of instant experts on NAFTA don’t really understand trade and what drives trade,” said Kemmsies. “And so they get confused between NAFTA and the globalization of the world’s economy. The fact is, with or without NAFTA, we would have done a lot more trade with Mexico anyway. I’m not sure that NAFTA has even fostered any growth of trade between the U.S. and Mexico. Look at Mexico and forget about everything else for a second: What is the single-biggest trade-flow corridor in the world? It’s East-West — Asia to Europe to North America. Mexico happens to sit right smack in the middle of the East-West trade flow…. Here is Mexico, with 120 million people, and all of these abilities to draw raw materials…. You have a cheap labor force, a global geographic advantage, a rising middle class. It’s a good place to make stuff.”

For a long time, because of a lack of investment, Mexico’s infrastructure was well below par, including its ports, which were made to process raw materials, rather than handle industrial goods. In that respect, NAFTA has had a positive impact on Mexico’s economic development, and it has encouraged foreign investors to trust that Mexico, whose governments were long protectionist and populist, would follow the rule of international law. International trade specialists M. Angeles Villarreal and Ian F. Fergusson of the Congressional Research Service wrote in a recent report: “While Mexico’s unilateral trade and investment liberalization measures in the 1980s and early 1990s contributed to the increase of U.S. Foreign Direct Investment (FDI) in Mexico, NAFTA provisions on foreign investment may have helped to lock in Mexico’s reforms and increase investor confidence [in Mexico.]” Nearly half of total FDI investment in Mexico is in its booming manufacturing sector.

**Job Losses and Lower Wages**

Some critics argue that NAFTA is to blame for job losses and wage stagnation in the U.S., because competition from Mexican firms has forced many U.S. firms to relocate to Mexico. Between 1993 and 2014, the U.S.-Mexico trade balance swung from a $1.7 billion U.S. surplus to a $54 billion deficit. Economists such as Dean Baker of the Center for Economic and Policy Research and Robert Scott, chief economist at the Economic Policy Institute, argue that the consequent surge of imports from Mexico into the U.S. coincided with the loss of up to 600,000 U.S. jobs over two decades, although they admit that some of that import growth would likely have happened even without NAFTA.

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While conceding that many U.S. high-wage manufacturing jobs were relocated to Mexico, China and other foreign locations as a result of NAFTA, Morris Cohen, Wharton professor of operations and information management, argues that NAFTA has, on balance, been a good thing for the U.S. economy and U.S. corporations. “The sucking sound that Ross Perot predicted did not occur; many jobs were created in Canada and Mexico, and [the resulting] economic activity created a somewhat seamless supply chain — a North American supply chain that allowed North American auto companies to be more profitable and more competitive.”

Moreover, in their 2015 study published by Congressional Research Service, Villarreal and Fergusson noted, “The overall economic impact of NAFTA is difficult to measure since trade and investment trends are influenced by numerous other economic variables, such as economic growth, inflation, and currency fluctuations. The agreement may have accelerated the trade liberalization that was already taking place, but many of these changes may have taken place with or without an agreement.”

Some of its harshest critics concede that NAFTA should not be held entirely responsible for the recent loss of U.S. industrial jobs. According to Scott of the Economic Policy Institute, “Over the past two decades, currency manipulation by about 20 countries, led by China, has inflated U.S. trade deficits, which [in combination with the lingering effects of the Great Recession] is largely responsible for the loss of more than five million U.S. manufacturing jobs.” Scott argues that while NAFTA and other trade deals such as the Trans-Pacific Partnership are bad for American workers, the fundamental problem is not that they are “free trade” pacts, but that they “are designed to create a separate, global set of rules to protect foreign investors and encourage the outsourcing of production from the United States to other countries.”

Unlike the earliest generation of “free-trade agreements” – which focused on reducing or eliminating tariffs and duties that stifled trade — these newer pacts are more comprehensive. As Scott explains, they “contain 30 or more chapters providing special protections for foreign investors; extending patents and copyrights; privatizing markets for public services such as education, health, and public utilities; and ‘harmonizing’ regulations in ways that limit or prevent governments from protecting the public health or environment.” When critics of the TPP conflate their criticism of that pact with their criticism of “free trade,” they miss an essential element of the TPP that has disaffected many otherwise loyal supporters of earlier-generation agreements that truly focus on deregulation of “trade” per se, he notes.

**The Role of China**

Two decades ago, when NAFTA was born, China had only a faint presence in the global economy, and was not yet even a member of the World Trade Organization. However, the share of U.S. spending on Chinese goods rose nearly eight-fold between 1991 and 2007. By 2015, U.S. trade in goods and services with China totaled $659 billion— with the U.S. importing $336 billion more than it exported. China has become the U.S.’s top trading partner for goods — a development never anticipated at the signing of NAFTA. And yet, NAFTA continues to attract the lion’s share of the blame among U.S. critics of globalization, despite the fact that the U.S. and China have yet to sign any bilateral free-trade treaty.

“NAFTA did foster greater U.S.-Mexican integration and helped transform Mexico into a major exporter of manufactured goods.” –Robert Blecker

How is that possible? In a recent study that de-emphasized the impact of NAFTA on the U.S. economy, economists David Autor (MIT), David Dorn (University of Zurich) and Gordon Hanson (University of California, San Diego) stress the role of China’s emergence on job growth and wages in the U.S. In the study, published by the National Bureau of Economic Research, they write: “China’s emergence as a great economic power has induced an epochal shift in patterns of world trade. Simultaneously, it has challenged much of the received empirical wisdom about how labor markets adjust to trade shocks. Alongside the heralded consumer benefits of expanded trade are substantial adjustment costs and distributional consequences…. Exposed workers experience greater job churning and reduced lifetime income. At the national level, employment has fallen in U.S. industries more exposed to import competition, as expected, but offsetting employment gains in other industries have yet to materialize. Better understanding when and where trade is costly, and how and why it may be beneficial, are key items on the research agenda for trade and labor economists.”

As Robert Blecker, an economist at American University, notes, “Contrary to the promises of the leaders who promoted it, NAFTA did not make Mexico converge to the United States in per capita income, nor did it solve Mexico’s employment problems or stem the flow of migration.” However, “NAFTA did foster greater U.S.-Mexican integration and helped transform Mexico into a major exporter of manufactured goods.”

The benefits for the Mexican economy were attenuated, however, by heavy dependence on imported intermediate inputs in export production, as well as by Chinese competition in the U.S. market and domestically. The long-run increase in manufacturing employment in Mexico (about 400,000 jobs) was small and disappointing, while U.S. manufacturing plummeted by 5 million — but more because of Chinese imports than imports from Mexico. In both Mexico and the United States, real wages have stagnated while productivity has continued to increase, leading to higher profit shares and a tendency toward greater inequality.”

Blaming NAFTA for all of these disturbing problems may make some NAFTA critics feel good, but as trade researchers have learned in recent years, the growing complexity of today’s economic challenges defies any simplistic explanations.

**Are trade agreements good for the U.S. economy?**

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The Congressional Budget Office isn’t exactly offering a ringing endorsement of trade agreements like NAFTA.

Such pacts have “had relatively small positive effects” on American trade and its economy, according to a [report](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51924-TradeAgreements.pdf) from the federal agency, which analyzes economic and budget issues on behalf of lawmakers. The downside? Workers in industries facing tougher competition can end up out of work, sometimes permanently, CBO notes.

Trade agreements have become a lightning rod in the presidential election, with Republican candidate Donald Trump declaring that the 1994 North America Free Trade Agreement “has destroyed our country,” and suggesting that if elected he would either have the U.S. withdraw from the pact or renegotiate it. His antipathy toward trade deals is reverberating in parts of the country that have lost millions of manufacturing jobs, although to be sure not all of those job losses are casualties of trade deals.

“In the United States, trade-displaced workers tend to work in industries subject to more competition from imports (such as the textile industry), relatively less productive businesses, or occupations involving easily automated or routine tasks (such as data entry or customer service),” the CBO noted. “Those workers also are typically less educated, older or longer tenured at their previous positions.”

In [Monday’s first debate](http://www.cbsnews.com/news/hillary-clinton-donald-trump-face-off-in-first-general-election-debate/) between Trump and Democratic nominee Hillary Clinton, he pointed to Ohio as an example of an American state that’s been hurt by trade deals, losing “so many of their jobs.” (The Cincinnati Enquirer [pointed out](http://www.cincinnati.com/story/news/politics/elections/2016/09/26/debate-fact-check-devastation-ohio-donald-trump-says/91147300/)​ that while manufacturing jobs in Ohio have declined from 1 million in 2000 to 700,000 today, the economic reality of Ohio “is far more nuanced.”)

With polls showing heightened public concern about globalization, Clinton has also bucked the Obama administration and vowed to block the Trans-Pacific Partnership, a proposed trade deal that would [link the U.S. with 11 Pacific Rim](http://www.cbsnews.com/news/5-things-to-know-about-obamas-trans-pacific-partnership/)​ countries.

The trade picture projected by the CBO is also nuanced, given that the agency points out that export-oriented industries or highly skilled workers are helped by greater trade. Yet measuring the positive impact on job creation or higher wages isn’t easy to pin down.

“Researchers also have been unable to precisely estimate how many jobs have been created or how many workers have seen their wages rise as a result of international trade,” the report acknowledged.

It’s also difficult to estimate how many jobs have been lost due to trade agreements. A range of factors can result in the loss of manufacturing jobs, for instance, such as greater automation and productivity, which reduces the need for workers, or changing consumer tastes.

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While those laid-off workers may find find other jobs, they usually can’t find the same pay they enjoyed in manufacturing.

One thing seems likely -- the manufacturing jobs aren’t likely to return to pre-NAFTA levels. New factories in the U.S. tend to rely more on automation, which means they don’t need as many workers as in past decades. U.S. manufacturing output has increased 20 percent since 2009, but manufacturing employment [has inched up just 5 percent](http://fivethirtyeight.com/features/manufacturing-jobs-are-never-coming-back/)​, according to Fivethirtyeight.com.

Yet there are some clear benefits to trade agreements, according to the CBO. For one, they tend to strengthen consumer purchasing power by lowering the cost of goods and services. NAFTA is credited with raising U.S. consumption by 0.4 percent from 1992 to 1998, the report noted.

“By lowering consumer prices (primarily through their effects on prices of imported goods) and increasing the productivity of workers (from greater competition), those agreements have probably increased average real wages for U.S. workers, albeit only slightly,” the report noted. “If that slight increase occurred, it would have induced more people to work, increasing the U.S. labor supply to a small degree.”

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