Business Roundtable

NAFTA: A Decade of Growth

Prepared by
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Washington, DC

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Table of Contents

Executive Summary

The 10-year anniversary on January 1, 2004, of the implementation of the North American Free Trade Agreement (NAFTA) is a fitting time to assess the progress and benefits that resulted from this trade pact. This landmark Agreement created a huge market for American, Canadian and Mexican consumers, farmers, producers and workers.

NAFTA demonstrates that engagement, not isolation, yields huge dividends to those with the determination to embrace it. NAFTA demonstrates that trade liberalization improves the competitiveness of manufacturing and services firms alike. It benefits consumers, particularly low-income consumers. It benefits workers, particularly those in high-wage jobs. It improves productivity, which supports and enhances national economic growth.

- Since NAFTA went into effect, U.S. trade with NAFTA partners has more than doubled. Today, nearly half of total U.S. exports to the world go to Canada and Mexico. The only "giant sucking sound" we have heard over the last 10 years is the sound of U.S. goods and services headed to Mexico and Canada.

- Raw materials used to produce other goods in the United States represented almost half of U.S. imports from NAFTA partners in 2003. Duty-savings provided by NAFTA contribute to the competitiveness of U.S. manufacturers using these inputs.

- Canada and Mexico now rank among the top export destinations for each of the 50 states.

- NAFTA eliminated a wide range of barriers to U.S. services trade. In 2002, two-way services trade between the United States and its NAFTA partners totaled almost $70 billion, up nearly 60 percent since 1993.

- Trilateral investment flows have increased under NAFTA — including Canadian and Mexican investment in the United States. Increases in direct investment in all three NAFTA partners supports hundreds of thousands of jobs in all three countries.

- As predicted, NAFTA has "locked in" these trade gains to the benefit of U.S. exporters. Mexican policymakers did not respond to the 1994-95 peso crisis as they had in the past — by raising tariffs on imports from the United States and Canada — because NAFTA precluded them from doing so.

- NAFTA has fully lived up to supporters' expectations over the last 10 years, as independent analyses confirm that NAFTA has been a net "plus" for the U.S. economy, in the aggregate as well as at for trade specifically.

- Analysts at the Carnegie Endowment for International Peace suggest that NAFTA may have had a positive net impact on U.S. jobs of as many as 270,000 (job gains less job losses).

- NAFTA's success demonstrates that regional trade agreements remain a realistic approach to free trade and economic growth.

NAFTA was a major step forward for America on the path to supporting economic growth and prosperity through trade liberalization. NAFTA was ambitious and comprehensive. It demonstrates clearly and definitively that the net impact on the U.S. economy of such agreements is positive. America should embrace these opportunities as often as they present themselves.

I. Introduction

More than a decade ago, future-looking policy makers, farmers, ranchers, businesses, workers and consumers across a continent embarked on an ambitious journey to conclude a trade agreement that would provide measurable economic benefits to the 350 million residents of Mexico, Canada and the United States. That journey to negotiate and implement the North American Free Trade Agreement (NAFTA) had rough patches and areas of "smooth sailing." It was, after all, the first effort to meld the economies of three neighbors, two quite developed, one facing a host of economic and political challenges.

We have now reached the 10-year milestone of this journey, and as of January 1, 2004, virtually all of the NAFTA's ambitious provisions are fully in effect. The result is a combined market representing one-third of the world's total GDP, greater than the European Union.

Unfortunately, the controversy attached to NAFTA continues to swirl. Myths about NAFTA have grown more imaginative with 10 years of telling. Many of these myths are based on the incorrect belief that trade is a zero-sum game, that the "pie" is set in size and increasing one person's slice comes at the expense of another person's slice. NAFTA demonstrates that nothing could be further from the truth.

If ever there was a time to celebrate the benefits of trade liberalization embodied in trade agreements like NAFTA, it is now. NAFTA has delivered for its three partners. It has demonstrated its resilience in the face of a host of challenges to implementation deadlines: recessions, exchange rate crises, political changes, and an unwarranted but growing skepticism about the benefits of trade liberalization.

Perhaps the most significant lesson of NAFTA is that engagement through international trade and investment generates economic growth and competitiveness for those who embrace it.

Perhaps the most significant lesson of NAFTA is that engagement through international trade and investment generates economic growth and competitiveness for those who embrace it. Those who run from trade liberalization, who seek to maintain the status quo, lose out in the end. NAFTA was a first, bold step for America, and we should take more equally bold steps in the months and years to come.

II. U.S. Trade and Investment Trends

Since its January 1, 1994, implementation, the North American Free Trade Agreement has helped to increase the economic well being of the United States. Over the past ten years, U.S. exports to NAFTA partners have seen dramatic increases. U.S. businesses have also benefited from imports of lower-cost raw materials, inputs, and finished goods and U.S. consumers have benefited from less expensive consumer goods, many made using U.S. parts and components. Not only has NAFTA lowered tariffs and other barriers limiting access to goods, but it has also reduced, or eliminated, nontariff barriers that hindered trade in services. Today total services trade between the United States and NAFTA partners is large and growing. Finally, NAFTA has helped to spur investment throughout North America that supports hundreds of thousand jobs in the three NAFTA countries. The provisions of NAFTA relating to goods and services trade and investment are described in detail in the Appendix to this report.

U.S. Trade with NAFTA Partners Has Expanded Strongly under NAFTA

Canada and Mexico have always been important trading partners of the United States, and their importance has grown since the implementation of NAFTA. In 1993, Canada and Mexico were the first and third largest U.S. trading partners, respectively (Japan was the

U.S. Merchandise Trade with NAFTA Partners, 1993-2003* (Billions US$)

	1993	1995	2000	2003*
Total Trade with NAFTA Partners (Exports Plus Imports)	$276.1	$357.4	$605.8	$551.5
Exports to NAFTA Partners	132.2	158.2	256.0	230.9
Exports to Canada	91.9	113.3	155.6	148.1
Exports to Mexico	40.3	44.9	100.4	82.8
Imports from NAFTA Partners	143.9	199.2	349.8	320.6
Imports from Canada**	106.5	139.4	219.1	197.2
Imports from Mexico**	37.4	59.8	130.7	123.4

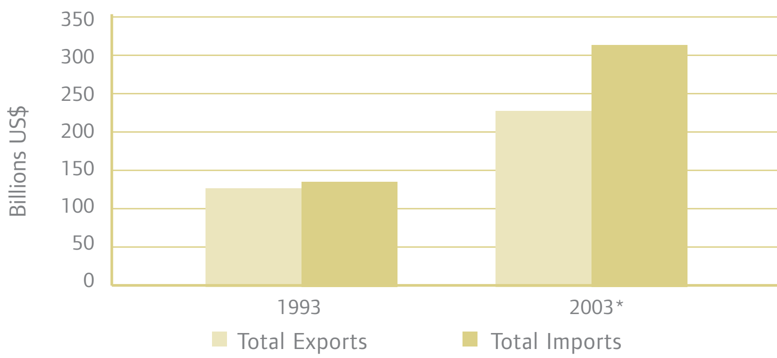
** 2003 data are estimates.*

*** Excludes goods returned or reimported into the United States.*

Source: U.S. Department of Commerce, Bureau of the Census. Exports are domestic, FAS value, Census basis; imports are for consumption, general, customs value.

second largest). Two-way trade with NAFTA partners exceeded $276 billion in 1993, the year before NAFTA took effect. By 2003, Canada and Mexico were America's two largest trading partners, accounting for $551.5 billion in merchandise imports and exports.[1] In short, total two-way merchandise trade between the United States and its NAFTA partners

U.S. Merchandise Trade with NAFTA Partners, 1993 & 2003*



** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Exports are domestic, FAS value, Census basis; imports are for consumption, general, customs value, and do not include goods returned or reimported into the United States.

amounts to an average $1.5 billion *every day.* The U.S. and its NAFTA partners trade the same with each other in one month as the United States and France trade with each other in *a year.*

The pace of trade expansion has been impressive by any measure. In the past ten years, total U.S. trade with NAFTA partners has nearly doubled. U.S. exports to Canada and Mexico have increased by 74.7 percent from 1993 to 2003. Over the same period, U.S. imports from NAFTA partners have grown by 122.8 percent. In the early 1990s, the United States and Canada already had a large, relatively barrier-free trading relationship under the U.S.-Canada Free Trade Agreement (CFTA). Nonetheless, trade between the United States and Canada grew 74.0 percent from 1993 to 2003 with the absorption of the CFTA into NAFTA. Total merchandise trade between the United States and Mexico since 1993 has grown at an even faster rate, rising 165.4 percent.

Two-way trade with NAFTA partners has nearly doubled in the last 10 years, and now averages about $1.5 billion every day.

NAFTA Has Created Stronger Markets for U.S. Exports

Under NAFTA, Canada and Mexico have become the first and second largest destinations for U.S. merchandise exports. In just 10 years, U.S. exports to Canada and Mexico have grown by 74.7 percent, totaling an estimated $230.9 billion in 2003. Today, nearly half of total U.S. exports go to Canada and Mexico.

U.S. Merchandise Exports to NAFTA Partners, 1993-2003* (Billions US$)

	1993	1995	2000	2003*
Automotive vehicles, parts, & engines	$34.2	$39.0	$57.7	$55.5
Non-electrical machinery & parts	18.7	22.1	34.6	30.3
Agricultural, seafood, & food products, & beverages	9.3	9.8	14.8	17.8
Non-metal building materials & products	6.9	7.9	15.3	15.0
Other consumer products	7.8	8.9	13.7	14.1
Metals & metal products	8.2	10.5	16.8	13.8
Electrical machinery & parts	6.7	9.5	16.9	11.8
Chemicals & chemical products	5.4	6.7	10.0	10.1
Semiconductors, computers, & parts	6.9	9.9	17.0	10.1
Other exports	4.8	4.8	7.5	8.2
Energy, fuels, & lubricants	2.6	3.2	7.6	8.0
Furniture, appliances, & household items	4.3	4.3	6.7	6.7
Plastic materials	2.4	3.3	5.9	6.5
Transportation equipment & parts, except automotive	2.8	3.5	5.7	5.4
Paper & paper base stocks	2.8	4.2	5.7	5.2
Textile-related materials	2.7	3.6	5.7	4.7
Telecommunications equipment	3.2	3.7	8.1	3.7
Apparel, footwear, & household textiles	1.8	2.4	3.7	2.6
Television & video equipment	0.7	0.9	2.4	1.4
Total U.S. exports to NAFTA partners	**132.2**	**158.2**	**256.0**	**230.9**

** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Exports are domestic, FAS value, and Census basis (based on 2- and 5-digit end use categories).

Automotive vehicle and auto parts manufacturers in particular have taken full advantage of NAFTA. Automotive vehicles, parts and engines are by far the largest U.S. export to Canada and Mexico. From 1993 to 2003, U.S. exports of those products rose 62.3 percent. Engines, engine parts, miscellaneous auto parts and accessories make up the largest component of total U.S. automotive-related exports to NAFTA partners, totaling an estimated $32.9 billion in 2003, a 39.4 percent increase since 1993.

The U.S. auto sector's experience demonstrates that NAFTA has, as expected, resulted in increased exports of U.S.-produced goods.

Indeed, the U.S. auto sector's experience demonstrates that one purpose of NAFTA — to enable U.S. producers to become internationally-competitive by rationalizing redundant production — has, as expected, resulted in increased exports of U.S.-produced goods. Under NAFTA, U.S. manufacturers export to Canada or Mexico auto parts and components where they are assembled into a finished product. The finished product is then imported into the United States where stronger North American rules of origin ensure that automotive vehicles

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A sign that U.S. and Mexican markets grow further integrated thanks to NAFTA, **Whirlpool** (Benton Harbor, Michigan) announced it was moving some production of top-loading washing machines from Mexico to its plant in Clyde, Ohio. The move is part of a plan to expand seven U.S. facilities. Now, the washers are being made in Ohio for export to Mexico.

- Mark Niquette, "Whirlpool Bring Some Work Back to Ohio from Mexico," *The Columbus Dispatch,* November 11, 2003.

North Central Commodities and the **Johnstown Bean Company,** based in Johnstown, North Dakota, have been exporting dry edible beans for over 25 years. Prior to NAFTA, Johnstown Bean had great difficulty doing business in Mexico. But since the implementation of NAFTA, the company has been able to deal directly with and establish new opportunities with the Mexican private sector. The tariff-rate quota on dry edible beans imported into Mexico has been increasing almost annually under NAFTA and will completely disappear in 2009. According to Bill Thoreson, sales manager for North Central Commodities, Mexico consumes more than 1 million metric tons of dry edible beans each year, but the United States only supplies 7 percent of Mexico's needs. Opportunities to increase exports will grow even further with the elimination of remaining Mexican barriers to U.S. exports.

- Letter from Bill Thoreson, sales manager, North Central Commodities, December 19, 2003.

The elimination of Mexico's agricultural quotas and tariffs has allowed **Cargill, Inc.** (Wayzata, Minnesota) to increase exports to Mexico of a range of products, from grains to meats. Rising Mexican incomes is boosting demand for U.S. beef.

- Art Pine, "Ford, Procter & Gamble Gain Efficiencies, Sales Under NAFTA," *Bloomberg News,* December 2, 2003.

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substantially manufactured within the NAFTA region benefit from the tariff reductions. As a result, today it is not unusual to see a vehicle produced in North America containing some content from all three NAFTA partners. For example, a U.S. auto parts producer may use inputs and components produced in both Canada and Mexico to assemble parts. In turn, the parts are shipped to Mexico, where they are combined with other parts and assembled into a car that is sold in any three of the NAFTA countries.

U.S. Automotive Vehicle, Parts, and Engine Exports to NAFTA Partners, 1993-2003*
(Millions US$)

	1993	1995	2000	2003*
Passenger cars, new & used	$6,529.0	$7,508.4	$11,251.0	$12,673.1
Trucks, buses, & special purpose vehicles	3,366.8	4,975.0	7,792.2	8,668.2
Engines & engine parts	4,425.5	4,385.0	7,632.7	6,820.3
Bodies & chassis for passenger cars	27.8	6.4	3.0	5.7
Automotive tires & tubes	675.1	806.5	1,418.6	1,301.7
Other automotive parts & accessories	19,171.8	21,320.6	29,596.3	26,063.4
Total automotive vehicles, parts & engines	**34,196.0**	**39,001.9**	**57,693.8**	**55,532.4**

** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Exports are domestic, FAS value, and Census basis (based 5-digit end use categories).

The **Ford Motor Co.** uses facilities throughout North America to produce its heavy-duty F-series pickup trucks. The truck engines are produced in Canada, the transmissions in the United States, and the trucks themselves in U.S. and Mexican facilities. Before NAFTA, Mexican tariffs and local-content rules restricted the volume of trucks or parts Ford could export to Mexico. "NAFTA has given us the opportunity to look at these three countries as a single market so we can maximize our efficiencies," said William P. Kelly, Ford's director of international governmental affairs.

- Art Pine, "Ford, Procter & Gamble Gain Efficiencies, Sales Under NAFTA," *Bloomberg News,* December 2, 2003.

According to **General Motors** (GM) chief economist Mustafa Mohatarem. NAFTA opened the Mexican market to U.S. auto exports. In 1993, GM exported 1,600 vehicles. Despite the Mexican peso crisis in 1995, GM's exported 52,000 vehicles to Mexico in 1999 and the company is looking to further integrate its U.S. and Mexican operations.

- Testimony to the U.S. Trade Deficit Review Commission by Dr. Mustafa Mohatarem, chief economist, General Motors Corporation, January 21, 2000, downloaded December 16, 2003 at http://www.ustdrc.gov/hearing/21jan00/p1202100.pdf.

The textile and apparel industries have also taken advantage of the production-sharing opportunities made possible under NAFTA. Most of the apparel imported from Canada and Mexico is sewn from U.S. fabric.[2] According to a report by the Office of the U.S. Trade Representative, U.S. content, such as formed and cut fabrics, comprised two-thirds of the value of U.S. textile and apparel imports from Mexico in 1996.[3] From 1993 to 2003, U.S. exports of textile-related materials (raw cotton, threads, yarns, and fabrics) have grown by 74.4 percent. In 2003, the level of U.S. exports of cotton and other natural fiber threads and fabrics to Canada and Mexico was more than three times greater than it was in 1993. U.S. exports to NAFTA partners of cloth and fabric made from manmade fibers increased 113.6 percent over the same period. Before the economic downturn in the United States began in 2001, those figures were even higher.

U.S. Textile-Related Exports to NAFTA Partners, 1993-2003* (Millions US$)

	1993	1995	2000	2003*
Raw cotton	$249.7	$291.0	$578.1	$563.2
Cotton & other natural fiber cloth & fabric, thread, & cordage	271.3	507.4	1,452.3	1,045.0
Manmade cloth & fabric, thread & cordage	1,069.6	1,278.3	2,791.4	2,284.2
Finished textile supplies (labels, braids, etc.)	1,093.8	1,539.8	905.4	788.5
Total textile-related materials	**2,684.4**	**3,616.5**	**5,727.2**	**4,680.9**

** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Exports are domestic, FAS value, and Census basis (based 5-digit end use categories).

NAFTA has helped **Quaker Fabric** (Fall River, Massachusetts) in a variety of ways. Prior to NAFTA's implementation, Quaker could not export anything to Mexico. Today, it has its own distribution centers in Mexico City and throughout the country. The result: Quaker accounts for one-third of the Mexican textile market. NAFTA has been beneficial for Quaker domestically as well. As a result of the new business, Quaker has hired over 150 new employees from the Fall River area. According to Quaker Fabric president Larry Liebenow, "The continuation of NAFTA and other free trade agreements will continue to pay positive dividends in our area."

- Letter from Larry Liebenow, president, the Quaker Fabric Corporation, January 12, 2004.

Canada and Mexico rank among the top export destinations for each of the 50 states. By 2002, Texas, California, and Michigan were the three largest exporting states to Canada and Mexico.[4] In 1993, Texas exported $24.7 billion worth of goods to Canada and Mexico. By 2002, that figure had more than doubled to $51.6 billion. Several states have also seen impressive export growth to NAFTA partners since 1993. For example, Wyoming saw its exports to Canada and Mexico grow by an impressive 331.2 percent from 1993 to 2002. In all, the exports to NAFTA partners of 18 states doubled, or nearly doubled, from 1993 to 2002.

Elliott Tool Technologies, Ltd. is a small business based in Dayton, Ohio that manufactures and distributes industrial tools. Elliott's tube tool product line consists of tools and equipment used to construct and maintain efficient heat transfer of fluid and gas throughout metal tubes in heat transfer vessels. According to Jim Ireton, vice president for international sales and marketing, "the NAFTA agreement certainly has helped us in marketing and selling Elliott tube tools into Mexico." NAFTA has also helped Elliott compete against its European competitors in the Mexican market and allowed Elliott to continue serving customers who have moved production to Mexico.

- Letter from Elliott Tool Technologies, Ltd, December 17, 2003.

Thanks to NAFTA, **RRB Systems International** of Jacksonville, Florida, a manufacturer and exporter of police equipment used by police around the world, supplies both equipment and services to the Mexican federal government and to 10 Mexican states. According to president and CEO Roy R. Bedard, NAFTA makes it much easier to get goods into Mexico than into other Latin American countries. In addition, NAFTA has helped to edge out competition from countries that do not have free trade agreements with Mexico or Canada.

- Letter from Roy R. Bedard, president and CEO, RRB Systems International, December 15, 2003.

The **Farmers Cooperative Company** (Farnhamville, Iowa), the largest local cooperative grain marketer in Iowa, ships the majority of its grain to feed and processor markets across the western half of the United States and into Mexico. According to grain marketing manager Jon Setterdahl, "Corn consumption in Mexico has been steadily increasing and this is projected to continue." Setterdahl believes supplying that demand in Mexico has greatly benefited the company and its 4,000 producers.

- Letter from Jon Setterdahl, grain marketing manager, Farmers Cooperative Company, December 19, 2003.

Thanks to NAFTA, **The Bob Barker Company** (Fuquay-Varina, North Carolina) now sells several North Carolina-made products to correctional institutions in Canada and Mexico. Those items include bedding and linens, clothing and accessories, drug and alcohol screens, furnishings and storage, kitchen, laundry and janitorial supplies, restraints, shoes, boots and other accessories. According to Bob Barker, chairman and CEO, "Prior to the passage of NAFTA, our business in these countries was nonexistent."

- Letter from Bob Barker, chairman and chief executive officer, The Bob Barker Company, January 10, 2004.

U.S. Merchandise Exports to NAFTA Partners by State, 1993 and 2002 (Millions US$)

	1993	2002	Change 1993-2002
Alabama	$1,033.8	$2,349.6	127.3 %
Alaska	87.8	218.3	148.6
Arizona	2,474.2	4,211.5	70.2
Arkansas	606.7	1,060.5	74.8
California	14,210.8	26,151.6	84.0
Colorado	822.9	1,795.8	118.2
Connecticut	1,796.	1 1,894.4	5.5
Delaware	954.5	914.6	-4.2
District of Columbia	32.1	38.6	20.2
Florida	2,373.1	3,771.0	58.9
Georgia	2,071.3	4,729.1	128.3
Hawaii	25.3	21.9	-13.4
Idaho	219.0	355.5	62.3
Illinois	6,781.3	10,277.9	51.6
Indiana	4,059.4	8,761.8	115.8
Iowa	1,189.6	2,072.1	74.2
Kansas	962.8	1,935.1	101.0
Kentucky	1,596.6	4,120.7	158.1
Louisiana	946.5	2,668.4	181.9
Maine	412.4	820.3	98.9
Maryland	1,249.2	1,065.7	-14.7
Massachusetts	3,100.9	3,274.3	5.6
Michigan	18,528.6	24,040.3	29.7
Minnesota	2,207.5	3,245.4	47.0
Mississippi	462.4	953.3	106.2
Missouri	2,040.5	3,809.9	86.7
Montana	186.7	250.1	34.0
Nebraska	464.2	1,026.1	121.0
Nevada	166.1	450.9	171.5
New Hampshire	470.4	578.0	22.9
New Jersey	3,159.1	4,567.0	44.6
New Mexico	121.1	214.8	77.4
New York	8,689.6	11,119.0	28.0
North Carolina	3,167.1	5,068.2	60.0
North Dakota	329.4	478.7	45.3
Ohio	9,087.5	17,529.7	92.9
Oklahoma	922.4	1,125.5	22.0
Oregon	1,089.3	1,769.5	62.4
Pennsylvania	4,604.6	6,793.5	47.5
Rhode Island	357.6	449.9	25.8
South Carolina	1,304.5	3,193.0	144.8
South Dakota	136.8	365.0	166.8
Tennessee	2,589.0	5,366.6	107.3
Texas	24,676.0	51,563.0	109.0
Utah	413.4	647.5	56.6
Vermont	2,243.9	1,084.0	-51.7
Virginia	1,341.9	2,288.3	70.5
Washington	2,294.6	3,376.1	47.1
West Virginia	317.3	814.4	156.7
Wisconsin	2,812.2	4,640.2	65.0
Wyoming	45.9	197.9	331.2

Source: 1993 data from the Massachusetts Institute for Social and Economic Research based upon data from the U.S. Bureau of the Census, exports by origin of movement. 2002 data from the U.S. Bureau of the Census, exports by origin of movement.

Imports from NAFTA Partners Feed U.S. Demand

Not only has NAFTA provided increased opportunities for U.S. exporters, but it has also helped to meet the demands of U.S. consumers and businesses for lower-cost raw materials and consumer goods. From 1993 to 2003, U.S. imports from NAFTA partners more than doubled, placing Canada and Mexico among the largest sources of U.S. imports. Today, U.S. imports from its NAFTA partners account for more than one-third of total U.S. imports from the world.

U.S. Merchandise Imports from NAFTA Partners, 1993-2003* (Billions US$)

	1993	1995	2000	2003*
Automotive vehicles, parts, & engines	$48.1	$63.8	$104.2	$94.5
Energy, fuels, & lubricants	16.8	20.5 4	3.6	55.3
Non-electrical machinery & parts	7.7	12.6	22.6	21.4
Agricultural, seafood, & food products, & beverages	9.6	11.9	17.5	18.3
Non-metal building materials & products	9.9	12.2	19.4	17.7
Metals & metal products	10.3	15.0	18.3	15.6
Other consumer products	4.3	6.3	11.8	11.2
Electrical machinery & parts	5.1 7	.1	13.1	10.7
Furniture, appliances, & household items	3.5	4.8	10.4	10.1
Semiconductors, computers, & parts	5.1	8.4	16.3	10.0
Apparel, footwear, & household textiles	2.6	4.7	12.1	9.4
Transportation equipment & parts, except automotive	2.8	4.0	8.2	8.9
Telecommunications equipment	1.8	3.6	16.4	7.6
Paper & paper base stocks	6.7	10.3	10.0	7.2
Television & video equipment	2.3	3.5	7.6	6.0
Other imports	1.7	2.1	6.1	5.5
Chemicals & chemical products	3.3	4.4	5.7	5.1
Plastic materials	1.3	2.4	3.7	3.8
Textile-related materials	1.0	1.6	2.6	2.3
Total imports from NAFTA partners	**143.9**	**199.2**	**349.8**	**320.6**

** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Imports are for consumption, customs value and excludes goods returned or reimported into the United States (based on 2- and 5-digit end use categories).

Duty-savings provided by NAFTA contributed to the competitiveness of U.S. manufacturers using raw material inputs imported from Canada and Mexico. Raw materials used to produce other goods in the United States represented almost half of U.S. imports from NAFTA partners in 2003.

NLP Furniture Industries, based in Chula Vista, California, provides hotels and restaurants nationwide with all of their furniture renovation needs. The company employs 130 people in the United States and Mexico. NLP credits NAFTA in large part for the company's growth. "Given our twin locations in the United States and Mexico, NAFTA has allowed us to remain competitive in the furniture industry and compete in a global marketplace," says company vice president Louis Rodriguez.

- Letter from Louis Rodriguez, vice president and chief operating officer, NLP Furniture Industries, December 17, 2003.

Global Star Enterprises, LLC, based in Tucson, Arizona, imports high altitude coffee from the Chiapas region of Mexico. Before the implementation of NAFTA, the rules, tariffs, and customs procedures made the cost of importing coffee high enough to price it out of the U.S. market, said company co-founder Don Ratcliffe, Jr. Since the implementation of NAFTA, Global Star Enterprises has seen its sales of Mexican coffee grow dramatically and it expects to expand and begin importing other products in 2004. The strong growth in business has allowed Global Star Enterprises to offer benefits, such as insurance and workers compensation, that are vital to attracting and retaining workers.

- Letter from Don Ratcliffe, Jr., co-founder, Global Star Enterprises, LLC, December 19, 2003.

Houston-based **Primis** manufactures standard and custom wood pallets, crates, and spools used by other companies to ship products. When the need for pallets and spools in the technology sector began to decline, Primis found new business supplying companies importing products from Mexico under NAFTA. According to President Louis Carranza, Primis is now looking to supply companies in Mexico and Canada with pallets and other materials to meet their shipping needs.

- Letter from Louis Carranza, president, Primis, December 16, 2003.

The most significant category of raw materials imported from NAFTA partners is energy, fuels, and lubricants. U.S. imports of those goods grew three-fold since 1993 to total $55.3 billion in 2003. Both Canada and Mexico supply the U.S. market with $25.1 billion in crude oil that is then refined in the United States into gasoline, home heating oil, and other petroleum products. In 2003, the United States imported $20.0 billion worth of natural gas, mostly from Canada, over six times greater than the $3.2 billion of natural gas imported from NAFTA partners in 1993.

Even consumer goods imported from NAFTA partners benefit U.S. manufacturers, as large volumes contain U.S. inputs. As already noted, the majority of vehicles imported from Canada and Mexico contain engines, parts, and accessories manufactured in the United States. And the labor-intensive process of sewing and assembling apparel in Mexico that is then imported into the United States takes place using yarns and fabrics produced in the United States.

U.S. Energy, Fuel, and Lubricant Imports from NAFTA Partners, 1993-2003* (Billions US$)

	1993	1995	2000	2003*
Crude oil	$9.2	$11.8	$22.5	$25.1
Fuel oil	1.1	0.7	1.7	2.2
Other petroleum products	1.3	1.7	3.4	4.1
Liquefied petroleum gases	0.8	1.6	2.3	1.9
Coal & related fuels	0.2	0.2	0.3	0.3
Natural gas	3.2	3.2	10.4	20.0
Nuclear fuels	0.3	0.4	0.3	0.2
Electric energy	0.7	0.9	2.7	1.5
Total energy, fuels, and lubricants	**16.8**	**20.5**	**43.6**	**55.3**

** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Imports are for consumption, customs value (based 5-digit end use categories).

U.S. Automotive Vehicle, Parts, and Engine Imports from NAFTA Partners, 1993-2003*
(Billions US$)

	1993	1995	2000	2003*
Passenger cars, new & used	$22.3	$31.0	$49.7	$37.2
Trucks, buses, & special purpose vehicles	9.2	10.9	17.3	16.7
Engines & engine parts	2.4	3.4	6.9	6.0
Bodies & chassis for cars, trucks, & buses	0.3	0.3	0.4	0.3
Automotive tires & tubes	0.8	0.9	1.4	1.2
Other automotive parts & accessories	13.1	17.3	28.5	33.1
Total automotive vehicles, parts & engines	**48.1**	**63.8**	**104.2**	**94.5**

** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Census. Imports are for consumption, customs value (based 5-digit end use categories).

Services Are an Important Component of U.S. Trade with Canada and Mexico

Two-way services trade between the United States and its NAFTA partners totaled an impressive $69.7 billion in 2002, up nearly 60 percent since 1993.[5] In 2002, both Canada and Mexico ranked among the largest purchasers of U.S. services. Since 1993, U.S. services exports to Canada and Mexico grew by 47.3 percent, or $12.9 billion, to reach $40.2 billion in 2002.

U.S. Private Services Trade with NAFTA Partners, 1993-2002[6] (Billions US$)

	1993	1995	2000	2002
Total Trade with NAFTA Partners (Exports Plus Imports)	$43.6	$45.1	$67.3	$69.7
Exports to NAFTA Partners	27.3	26.4	38.7	40.2
Exports to Canada	16.9	17.7	24.4	24.3
Exports to Mexico	10.4	8.7	14.3	15.9
Imports from NAFTA Partners	16.3	18.7	28.6	29.5
Imports from Canada	8.9	10.8	17.6	18.4
Imports from Mexico	7.4	7.9	11.0	11.1

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

U.S. Services Trade with NAFTA Partners, 1993 & 2003*

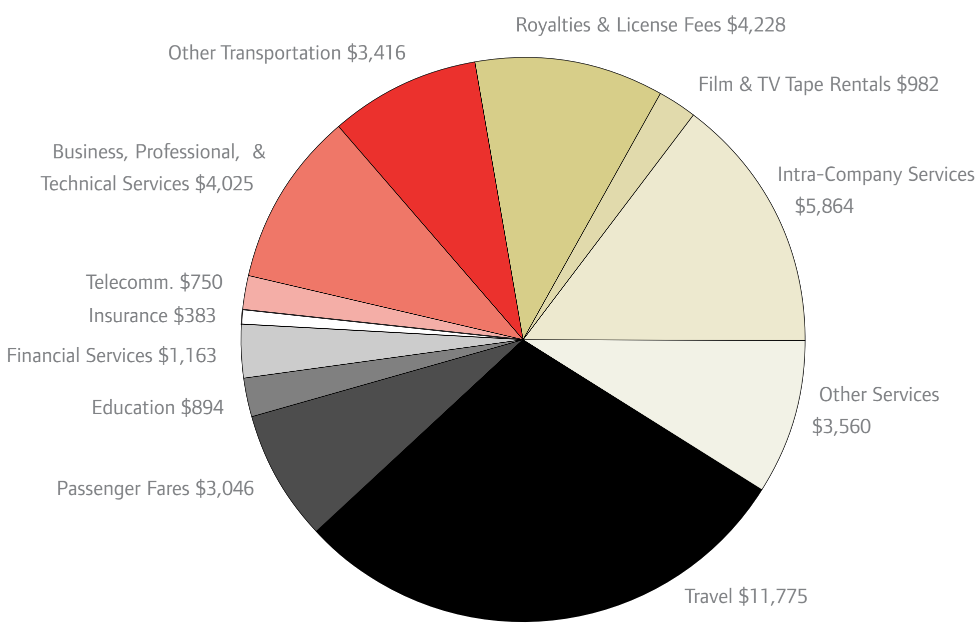
** 2003 data are estimates.*

Source: U.S. Department of Commerce, Bureau of the Analysis.

Passenger travel is the single most significant service traded between the United States and its NAFTA partners. In fact, travel made up more than one-third of total U.S. private services trade to and from Canada and Mexico in 2002. During that year, U.S. international travelers to Canada and Mexico spent $13.6 billion—over one-fifth the total spent by all U.S. international travelers. Likewise, Canadian and Mexican travelers to the United States spent $11.8 billion and accounted for 17.7 percent of all money spent by foreign visitors in the United States in 2002. In addition, Canadian and Mexican travelers regularly choose to fly on U.S. airlines for their travels to the United States and elsewhere, spending $3.0 billion on passenger fares in 2002.[7]

Business, professional, and technical services also make up a significant part of services trade between the United States and Canada and Mexico. These services include, among other things, advertising, data processing, research and development, legal services, and engineering services. Since 1993, U.S. exports of business, professional, and technical services to Canada and Mexico have risen 150.0 percent, from $1.6 billion in 1993[8] to $4.0 billion in 2002.[9]

U.S. Services Exports to NAFTA Partners, 2002 (Millions US$)

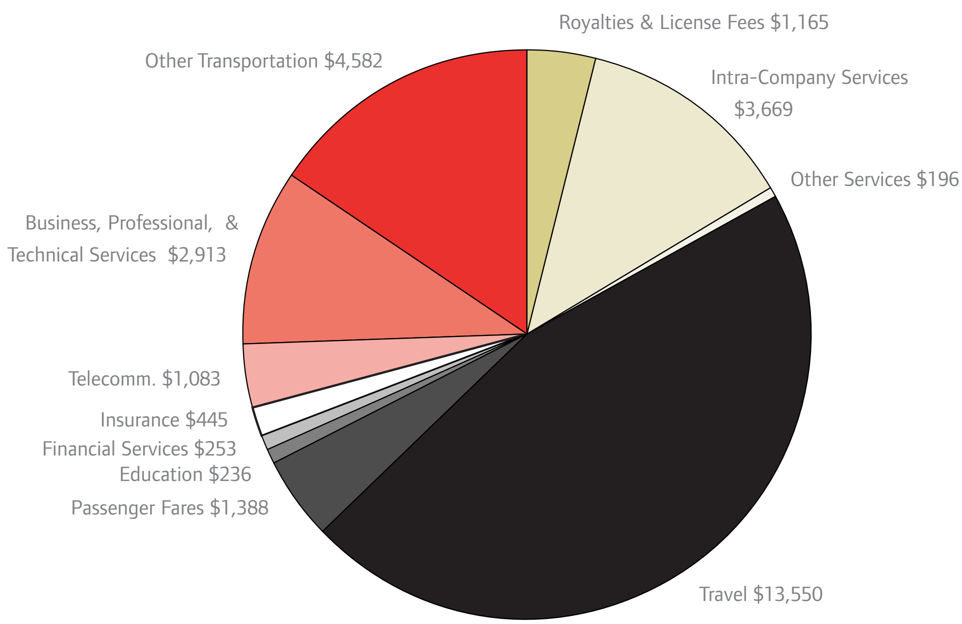


Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Keystone Dedicated Logistics (KDL) of Pittsburgh, Pennsylvania, offers customers complete transportation services, including management of the entire supply chain process. According to Don Varshine, KDL's president and CEO, NAFTA has simplified cargo border crossings with Mexico. Varshine said, "As it becomes easier to trade with Mexico, cross border traffic will grow and KDL's business will benefit even more."

- Letter from Don Varshine, president and chief executive officer, Keystone Dedicated Logistics, December 17, 2003.

U.S. Services Imports from NAFTA Partners, 2002 (Millions US$)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Investment Among NAFTA Partners Has Grown but Remains Modest

NAFTA not only liberalized trade in goods and services throughout North America, it also liberalized investment between the NAFTA partners. Today, hundreds of billions of dollars flow between the United States, Canada, and Mexico. In 2002, U.S. direct investment in Canada and Mexico totaled $210.6 billion, up 147.5 percent since 1993.[10] Nearly three-fourths (72.4 percent) of U.S. direct investment in NAFTA partners went to Canada. U.S. direct investment in Mexico has almost quadrupled since 1993, rising 282.2 percent to $58.1 million in 2002.

This growth, however, needs to be put into perspective. U.S. investment flows to Mexico are small relative to investment flows into the United States. The growth is far from an exodus of U.S. manufacturing to Mexico:

> In the eight years after the implementation of NAFTA, from 1994 to 2001, U.S. manufacturing companies invested an average of $2.2 billion a year in factories in Mexico, a fraction of the $200 billion invested in manufacturing each year in the domestic U.S. economy. The small outflow of direct manufacturing investment to Mexico has been overwhelmed by the net inflow of such investment from the rest of the world — an average of $16 billion a year since 1994.[11]

U.S. Direct Investment Position with NAFTA Partners, Historical Cost Basis 1993-2002
(Billions US$)

	1993	1995	2000	2002
Value of U.S. Investment in				
NAFTA Partners	$85.1	$100.4	$171.9	$210.6
Canada	69.9	83.5	132.5	152.5
Mexico	15.2	16.9	39.4	58.1
Value of Foreign Investment in the U.S. from				
NAFTA Partners	41.6	47.5	121.8	99.9
Canada	40.4	45.6	114.3	92.0
Mexico	1.2	1.9	7.5	7.9

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Caterpillar, Inc., headquartered in Peoria, Illinois, transferred assembly work for components of wheel loaders and bulldozers back to the United States while moving to Mexico the fabrication of steel frames for construction equipment. By 2003, the company had tripled its exports to Mexico over what they were when NAFTA went into effect.

- James. W. Owens, group vice president, Caterpillar, Inc., quoted in Art Pine, "Ford, Procter & Gamble Gain Efficiencies, Sales under NAFTA," *Bloomberg News,* December 2, 2003.

Before, NAFTA, the business units of **Procter & Gamble** (Cincinnati, Ohio) in the United States, Mexico and Canada were separate, with most sales of consumer products made in the United States. After NAFTA, P&G merged the three national units into one. Sales in Mexico doubled and sales in Canada rose 50 percent. "Before NAFTA, we had to deal with smaller markets and servicing them as separate markets was more costly," according to R. Scott Miller, P&G's director of national government relations. Today, the company makes Olay and Pepto-Bismol products in Mexico, for sale in all three countries, feminine hygiene products in Canada, and potato chips, men's cologne and diapers in the United States, again for sale in all three countries.

- Art Pine, "Ford, Procter & Gamble Gain Efficiencies, Sales Under NAFTA," *Bloomberg News,* December 2, 2003.

Nevertheless, NAFTA opponents continue to assert incorrectly that this investment has a negative impact on Canada, Mexico, and the United States. Ten years later, the facts are clearer. Trilateral investment supports thousands of jobs in all three countries, particularly in Mexico where job growth was so badly needed. In 2001 (the last year for which data are available), U.S. non-bank companies supported 1.8 million jobs in Canada and Mexico.[12]

Trilateral investment supports thousands of jobs in all three countries, particularly in Mexico where job growth was so badly needed.

NAFTA has also helped to generate significant foreign direct investment in the United States. Since 1993, Canadian and Mexican direct investment in the United States has more than doubled to reach nearly $100 billion in 2002. The vast majority of that investment comes from Canada; however, Mexican direct investment in the United States has increased more than six-fold since 1993.

Canadian and Mexican direct investments in the United States employ thousands of workers. In 2001, non-bank U.S. affiliates of Canadian and Mexican companies employed 706,000 workers in the United States.[13]

NAFTA has benefited financial services provider **UBS PaineWebber** (Scottsdale, Arizona). According to William Demlong, vice president for investments, "NAFTA has allowed us to expand our business in several ways." By marketing new factories and Maquiladoras in Mexico as investment opportunities, UBS PaineWebber has increased its revenue as well as improved its clients portfolios. In addition, clients who own or operate businesses that import from Mexico since NAFTA, can do so more affordably which creates more profits for them - more wealth for them - which in turn allows them to utilize more of UBS PaineWebber's services.

- Letter from William Demlong, vice president for investments, UBS PaineWebber, January 10, 2004.

III. The Impact: What NAFTA Means for America

A lot happened to the U.S. economy in the 10 years since NAFTA went into effect. The economic boom that ran from the mid-1990s into early 2001 fueled U.S. exports as well as imports. U.S. job growth during that period was stellar: between 1993 and March 2001, total U.S. employment increased by more than 21.5 million jobs. In the 10 years before NAFTA, manufacturing employment *fell* by 357,000 jobs, but from 1993 until the beginning of the recession in March 2001, manufacturing employment *increased* by 122,000 jobs.[14] Similarly, real hourly wages in the private sector *declined* by 5.1 percent in the 10 years before NAFTA was implemented, but *increased* 7.7 percent from 1993 to March 2001.[15] In addition to NAFTA, the United States implemented other trade-liberalizing agreements over the last 10 years, agreements that joined with NAFTA to support U.S. economic growth and affect trade flows to other countries as well as Mexico and Canada independent of NAFTA.

NAFTA has contributed positively to U.S. economic growth over the last 10 years. America is better off today because of NAFTA than it would have been without implementation of the Agreement.

While not all of this growth can be attributed to trade agreements generally and NAFTA specifically, the view from 30,000 feet is clear: NAFTA has contributed positively to U.S. economic growth over the last 10 years. A comparison of the early studies on projections of NAFTA's impact on trade and employment with current, independent economic evaluations shows that NAFTA in fact has realized the early predictions of its supporters.

The bottom line is that, as predicted, on the whole NAFTA has proven to be a net "plus" for the U.S. economy.[16] Analysts may differ over the size of the gain, but the key point is that America is better off today because of NAFTA than it would have been without implementation of the Agreement.

As expected, NAFTA has had a net positive impact on U.S. output of goods and services.

Prior to its implementation, several studies projected NAFTA would be a net, but modest, "winner" for the U.S. economy. Studies that most closely modeled the final Agreement's tariff reductions estimated net U.S. gains as a share of real GDP would increase by less than 0.1 percent.[17] The latest independent assessment of the impact of NAFTA on the U.S. economy confirms these earlier projections. In August 2003, the U.S. International Trade Commission (ITC) concluded that, through 2001, NAFTA had increased U.S. real GDP by a net of $14 billion, or 0.15 percent of real GDP in that year.[18] While this may seem small at the national level, at the household level it is important: that $14 billion translates into a benefit for the average family of four of $264 a year (largely by lowering prices of the goods and services the family consumes).

One should not be surprised at the overall small, but positive, impact of NAFTA on the U.S. economy. The U.S.-Canada Free Trade Agreement rendered duty-free virtually all trade between the United States and Canada by the time the three countries implemented NAFTA, so measures of the U.S. economy in the mid-1990s already reflected the impact of that trade liberalization. The added impact of moving to duty-free treatment for trade between the United States and Mexico under NAFTA was also likely to be relatively small for two reasons. First, merchandise trade with Mexico amounted to only 1.2 percent of total U.S. GDP in 1993, just before NAFTA went into effect. Second, NAFTA eliminated, over 10 years, tariffs on this trade of 2.1 percent for U.S. imports from Mexico in 1993 and about 10 percent on U.S. exports into Mexico in that year.

The net benefits of NAFTA to the economy amount to a savings of $264 a year for the average family of four.

As expected, NAFTA has increased U.S. exports to Canada and Mexico.

A pre-NAFTA study by the ITC estimated that real U.S. exports to Canada and Mexico would increase by up to 5.2 percent to 27.1 percent.[19] In a study conducted after NAFTA had been in effect for eight years, Coughlin and Wall found that NAFTA increased total U.S. merchandise exports by close to 8 percent.[20]

As expected, NAFTA has not appreciably increased U.S. imports from Canada and Mexico.

Early assessments predicted that NAFTA would increase real U.S. imports from Mexico and Canada by 3.4 to 15.4 percent.[21] In its most recent evaluation, the ITC concluded that NAFTA had increased real U.S. imports from Mexico and Canada by only 2.5 percent through 2001.

As expected, NAFTA's impact on employment has been positive.

Prior to its implementation, estimates of the potential job impact of NAFTA ranged from 64,000 *net* jobs over 10 years[22] to 200,000 *net* jobs.[23] (A study by the Institute for International Economics projected *net* U.S. job gains of 130,000 after 10 years.[24]) [*Net* jobs means the difference between jobs created and jobs lost. A positive net estimate means that a greater number of jobs are created than lost.]

Independent analyses confirm that NAFTA's net impact on U.S. jobs has been positive. The 2003 ITC analysis did not estimate the impact of NAFTA on the number of U.S. jobs because it assumed a full-employment economy so that, at the national level, all of the impact on labor would occur in the form of higher wages, rather than more jobs. But a recent report by the Carnegie Endowment for International Peace concluded that if one instead assumed that wages were rigid and the full adjustment occurred through increases in the number of jobs rather than increases in the wages, the ITC's recent analysis suggests that NAFTA triggered a *net* gain of 270,000 U.S. jobs.[25] So a reasonable conclusion given the full employment/less-than-full employment variations in U.S. labor markets over the last 10 years is that NAFTA has created *on net* (job gains less job losses) up to 270,000 U.S. jobs.[26]

Independent analyses confirm that NAFTA's net impact on U.S. jobs has been positive.

NAFTA opponents make two particularly flawed assumptions when touting massive job losses from NAFTA. First, they assume that imports from Canada and Mexico always cost U.S. jobs. They completely ignore the hard fact that imports help many U.S. manufacturers stay internationally competitive. For example, lower prices of imported inputs into U.S.-made goods increases demand for these goods, and consequently for U.S. labor to make the finished goods. In addition, millions of U.S. jobs are directly and indirectly tied to importing, including jobs in manufacturing, wholesaling, transportation (in particular at U.S. ports), finance and insurance, and advertising.[27] U.S. trade barriers negatively affect these good, high-paying U.S. jobs typically accompanied by benefits. Assertions that American workers lost jobs to Mexico or Canada because of imports from those countries ignore the large number of U.S. jobs maintained, even expanded, *because of* the imports.

Second, NAFTA detractors claiming large U.S. jobs losses assume that if a good is not imported from Mexico or Canada, the same quantity of that good would be made in the United States and consumers would pay whatever U.S. producers need to charge for that good, even if it can be imported at a lower cost from, for example, Asian suppliers. This unrealistic assumption contributes importantly to their huge estimates. In reality, imported products do not substitute perfectly for U.S.-made products.[28] If U.S. consumers could not buy Mexican beer, they would not necessarily buy an equal quantity of U.S. beer. And some imported products (tequila) are not "made" in the United States at all. This flawed assumption underpins all of the estimates of job

Millions of U.S. jobs are directly and indirectly tied to importing, including jobs in manufacturing, wholesaling, transportation (in particular at U.S. ports), finance and insurance, and advertising.

losses emanating from the Economic Policy Institute, for example, the source of the only estimates NAFTA opponents cite to support their allegations of net job losses caused by NAFTA.[29]

NAFTA critics also argue that workers who lose their jobs to NAFTA (or any trade agreement for that matter) have great difficulty finding new jobs at pay and benefits comparable to those in the jobs they lost. They commonly cite the experience of apparel workers. But a study of the transition experience of textile and apparel workers in North Carolina found that workers laid off by textile and apparel firms were rehired approximately as quickly as workers in other industries, and were generally paid higher wages in their new jobs.[30] Apparel workers remained unemployed for an average of 2.3 quarters; textile workers, 2.1 quarters; workers in other manufacturing sectors, 1.9 quarters; and non-manufacturing workers, 2.5 quarters. Apparel workers re-employed by another apparel firm received an average wage increase of 5 percent, and apparel workers who found jobs in other industries got an average boost in wages of 34 percent.

The most extreme estimates of job losses due to NAFTA represented no more than 0.5 percent of total U.S. layoffs as of mid-2001.

Even if one were inclined to accept job losses attributable to NAFTA by NAFTA critics or even the NAFTA-Trade Adjustment Assistance (TAA) program as a measure of the negative impact of NAFTA on jobs, one must put those estimates in context. U.S. Labor Department officials administering the NAFTA trade adjustment assistance program emphasize that a NAFTA-TAA certification does not imply that job losses were necessarily due to NAFTA. Workers certified under NAFTA-TAA are often adversely affected by increased imports from many countries, including Mexico or Canada; certification does not require that files prove that imports from Mexico and Canada alone were the cause of job losses. Moreover, one ITC economist has noted that the most extreme estimates of job losses due to NAFTA represented no more than 0.5 percent of total U.S. layoffs as of mid-2001.[31]

Finally, NAFTA critics suggest that the Agreement has failed to stem the tide of immigration from Mexico to the United States. But the continued influx of Mexican workers to the United States is not the "fault" of NAFTA. According to the Carnegie report, higher-wage job opportunities draw Mexicans to the United States because the peso crisis of 1994-1995 — not NAFTA — continues to suppress Mexican wages.[32] In addition, traditional migration patterns and the refusal of many Americans to take jobs willingly filled by Mexican immigrants (e.g., in agriculture, in apparel production, in personal services sectors) "provide better explanations for the increase in migration than NAFTA itself."[33]

NAFTA's impact on the gap between U.S. skilled and unskilled wages has been small.

Some have attempted to argue that NAFTA has widened the disparity between wages paid to skilled workers relative to non-skilled workers. While it is true that there has been a steady rise in the wages of more-skilled U.S. workers relative to less-skilled workers, this increase has been occurring since the 1970s — well before the implementation of NAFTA. The consensus of a wide range of studies, using a variety of methods of analysis, is that at least 80 to 90 percent of the growth in the "skilled wage premium" can be attributed to non-trade events — most notably, technological change increasing the demand for skilled labor.[34] Trade accounts for at most 10-20 percent, and arises from trade increases generally. U.S. trade liberalization broadly contributes only a small portion of that 10-20 percent of wage disparity growth. Moreover, the portion attributable to NAFTA specifically is likely quite small, because trade liberalization offered by NAFTA pales in comparison to trade liberalization implemented as a result of Tokyo Round and Uruguay Round commitments.[35]

At least 80 to 90 percent of the growth in the "skilled wage premium" can be attributed to non-trade events – most notably, technological change increasing the demand for skilled labor.

As predicted, NAFTA has "locked in" trade gains to the benefit of U.S. exporters.

One widely accepted benefit of NAFTA was the way that Mexico reacted to the financial and economic crisis that followed the 1994 peso devaluation. In the wake of another financial and economic crisis in 1982, Mexican policy makers imposed quotas and duties of up to 100 percent on U.S. products. NAFTA precluded them from reacting in the same way in 1995; instead, the Mexican government raised tariffs on imports from non-NAFTA countries, but not tariffs affecting imports from the United States and Canada.

* * *

It should come as no surprise that the impact of any trade agreement would differ between sectors and between regions of the country. Some sectors are better prepared to compete in the international economy than others. Some regions of the country have greater concentrations of less competitive production than others. "Winners" and "losers" will even be found within a sector, as some firms are better placed to compete internationally than others.

Had NAFTA not been implemented, the "losers" may not have lost, but the "winners" certainly would not have won! And as we know, on balance the "winners" outweighed the "losers."

Who, then, are some of the "winners"? Sectors NAFTA opponents thought would be particularly hurt by trade liberalization with Canada and Mexico in fact have benefited. We focus on three — agriculture, automotive equipment and parts, and textile and apparel products — that best illustrate how NAFTA has accomplished what its supporters had hoped to accomplish. For all sectors, policy makers must be careful not to attribute to NAFTA sectoral changes caused by recessions, technology changes, shifts in consumer demand, and a host of other variables that naturally affect production and employment over time.

Had NAFTA not been implemented, the "losers" may not have lost, but the "winners" certainly would not have won!

Agriculture

A recent ITC review of the impact of NAFTA on U.S. agriculture concluded that "many of the concerns expressed prior to the agreement about the loss of agricultural employment and environmental degradation never materialized."[36] A 2002 U.S. Department of Agriculture analysis agrees.[37] Both concluded that, while for most commodities NAFTA's impact mirrors the experience of the U.S. economy generally — small and positive — for some, the impact was significantly positive (i.e., trade volume increased 15 percent or more because of NAFTA). U.S. commodities that have seen increases in exports to Canada directly attributable to NAFTA include beef and veal, wheat products (e.g., flour, bulgur wheat, starch, gluten and uncooked pasta), cotton, and processed tomatoes. Commodities that have seen increases in exports to Mexico directly attributable to NAFTA include rice, dairy products, cotton, processed potatoes, fresh apples, fresh pears, corn, oilseeds, beef and veal.[38]

The USDA study also concluded that, at least through 2000, NAFTA had a small positive effect on U.S. agricultural employment by increasing opportunities for U.S. exports and encouraging a more efficient allocation of resources.[39] To the extent that some sectors have experienced substantial changes in their employment levels since NAFTA's implementation, "many of these changes are driven by factors other than the agreement"[40] including technological change, drought, changes in consumer preferences and the economy generally.

NAFTA had a small positive effect on U.S. agricultural employment by increasing opportunities for U.S. exports and encouraging a more efficient allocation of resources.

Automotive Equipment and Parts

NAFTA, the U.S.-Canada Free Trade Agreement and the U.S.-Canada Automotive Products Trade Agreement before that contributed importantly to the competitiveness of a North American automotive industry. As noted in Chapter II, the U.S. automotive equipment and parts industry makes extensive use of production-sharing operations and today the entire North American industry is highly integrated.

Contrary to predictions of NAFTA opponents, the further integration of the U.S., Canadian and Mexican motor vehicle and parts industries encouraged by NAFTA has not resulted in a flood of U.S. job losses or wage suppression. Employment of production workers in the auto, light trucks and parts sectors increased between 1994, when NAFTA was implemented, and the beginning of the U.S. recession in 2001. Declines in this sector beginning in 2001 are largely attributable to the recession. Indeed, during most of the 10 years NAFTA has been in effect, employment of U.S. workers in these sectors has been on average 17 percent higher than it was in 1993. NAFTA has also clearly not resulted in wage suppression in these industries; in fact, hourly earnings of production workers in the auto, light truck and parts sectors have increased steadily and by 2003 stood 32 percent higher than hourly wage rates in 1993.

During most of the 10 years NAFTA has been in effect, employment of U.S. auto and parts workers has been higher than it was before NAFTA, and hourly earnings have increased steadily since 1993.

U.S. Auto, Light Truck, and Parts: Trends in Employment and Wages, 1993-2003

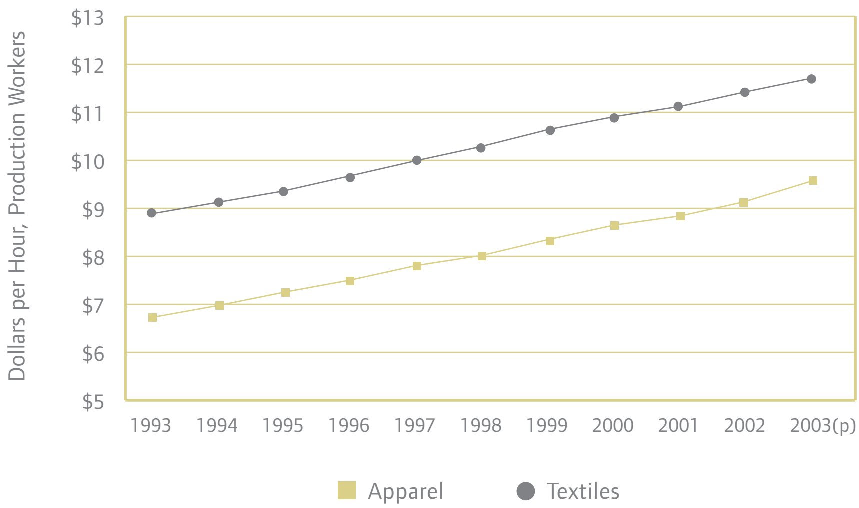
p = preliminary, based on data through October 2003.
Source: Bureau of Labor Statistics.

Textile and Apparel Products

Like the automotive and parts industry, NAFTA contributed to the further integration of the North American textile and apparel industries. Although in recent years competition from Caribbean and Chinese suppliers has been a distraction, NAFTA directly boosted U.S.

textile sector exports, and kept at least partially in the United States apparel production that would otherwise have shifted completely abroad. Because NAFTA requires that apparel receiving benefits under the trade agreement (zero tariffs, zero quotas) be made with U.S., Canadian or Mexican yarn or fabric, an official from the American Textile

Trends in U.S. Textile, Apparel Hourly Earnings, 1993-2003



p = preliminary, based on data through November 2003.
Source: Bureau of Labor Statistics.

Manufacturers Institute stated: "Simply put, apparel imports from Mexico help our industry and our workers; apparel imports from the Far East hurt us… [I]f we didn't have NAFTA, job losses in the textile industry would have been far more drastic because U.S. garment-making would have continued to move to the Far East and we would not have nearby markets for our textiles."[41]

NAFTA directly boosted U.S. textile sector exports, and kept at least partially in the United States apparel production that would otherwise have shifted completely abroad.

NAFTA opponents frequently point to the U.S. apparel industry as a "big loser" from NAFTA. In fact, as Moore correctly notes, without NAFTA, production and job losses in the industry would have been much greater. In addition, one researcher has noted that, "While an estimated 20,000 North Carolinians reportedly have lost jobs as their employers relocated factories south of the border since NAFTA went into effect in 1994, unemployment rates in the state remain [as of 2000] at a record low 3 percent, fueled in part by the creation of new jobs to assist with the record level of [textile] exports to Mexico."[42]

He also reports that, "contrary to popular opinion, the competitiveness and wage levels in the U.S. textile and apparel industries have actually improved since NAFTA went into effect.[43] U.S. Government data back up this statement. Wages of production workers in the U.S. apparel industry in 2003 were 42 percent higher than in 1993. Wages of production workers in the U.S. textile industry were 32 percent higher over the same period. Wages of workers in both industries have increased steadily since NAFTA has been in effect.

IV. Conclusion

NAFTA has had a measurable positive impact on the American economy and remains a solid model for future trade agreements.

NAFTA demonstrates that trade liberalization offers all economies involved greater benefits than costs. But trade agreements do not exist in isolation — they must exert their positive influence on economies in conjunction with unforeseen changes: wars, recessions, surges in oil prices, currency shocks. Frequently, these events obscure the benefits of trade liberalization.

NAFTA has been a solid contributor to economic growth, a firm foundation for prosperity. It is a solution to be pursued more broadly, and an appropriate model for other trade agreements.

If policy makers successfully manage the negative impacts of other events that obscure the benefits of trade liberalization — through effective monetary policies that keep inflation low and employment high, or education policies that increase worker skill levels, for example — it will be easier for the public to better observe the benefits of trade liberalization.

Alan Greenspan, Chairman of the Federal Reserve Bank, warned recently against "creeping protectionism." Greenspan correctly noted that trade liberalization permits economies to respond with the least amount of disruption to imbalances, such as a growing trade deficit:

> Should globalization be allowed to proceed and thereby create an ever more flexible international financial system, history suggests that current imbalances will be defused with little disruption. …
>
> I say this with one major caveat. Some clouds of emerging protectionism have become increasingly visible on today's horizon. Over the years, protected interests have often endeavored to stop in its tracks the process of unsettling economic change. Pitted against the powerful forces of market competition, virtually all such efforts have failed. The costs of any new such protectionist initiatives, in the context of wide current account imbalances, could significantly erode the flexibility of the global economy. Consequently, it is imperative that creeping protectionism be thwarted and reversed.[44]

By eliminating protectionist barriers to the flexibility the U.S., Mexican and Canadian economies need to respond to global trade imbalances, NAFTA has been a solid contributor to economic growth, a firm foundation for prosperity. It is a solution to be pursued more broadly, and an appropriate model for other trade agreements.

Appendix

What Has NAFTA Done Over the Past Ten Years?

This Appendix reviews many of the key provisions of NAFTA that have been so instrumental in gradually liberalizing trade between the NAFTA parties.

Manufactured Goods

Because U.S.-Canada trade was already largely barrier-free at the time NAFTA was implemented on January 1, 1994, NAFTA primarily provided for the phased elimination of U.S. tariffs and quotas applied to imports from Mexico, and Mexican tariffs and non-tariff barriers applied to imports from the United States and Canada. NAFTA established rules of origin for specific products to ensure that the trade benefits would accrue to North American producers. In 1993, the average effective tariff applied by the United States to imports from Mexico was 2.1 percent,[45] and to imports from Canada, 0.4 percent. As of January 1, 2004, those rates were each nearly zero (0.1 percent for imports from Mexico; 0.08 percent for imports from Canada). NAFTA reduced the average tariff applied to U.S. exports to Mexico from 10 percent in 1993 to 0.5 percent in 2004.

Automotive Vehicles and Parts

Before the implementation of NAFTA, U.S.-Canadian automotive trade was largely duty-free as a result of the U.S.-Canada Free Trade Agreement (CFTA), and U.S. imports from Mexico generally entered duty-free or at low rates. In 1993, the United States assessed nominal tariffs of 2.5 percent *ad valorem* on imported automobiles, 25 percent on light-duty trucks, and a trade-weighted average of 3.1 percent for automotive parts from Mexico. However, since U.S. automotive imports from Mexico largely entered under special production-sharing provisions, the effective duty rates were much lower (2.2 percent for automobiles and light-duty trucks, and 0.4 percent for auto parts).[46]

Upon NAFTA's January 1, 1994, implementation, the United States immediately eliminated tariffs on automobiles imported from Mexico. It reduced tariffs on light duty trucks immediately to 10 percent and then phased them out completely by 1999. Tariffs on some auto parts were eliminated immediately and others were phased out over five or ten years. As of January 1, 2004, U.S. duties have been entirely eliminated on imported Mexican and Canadian autos and parts.

Before the implementation of NAFTA, Mexico imposed tariffs of 20 percent *ad valorem* on automobiles and light trucks. Duties on automotive parts ranged between 10 and 20 percent, with a trade-weighted average of 13.1 percent.[47]

Mexico reduced its tariffs on automobiles and light-duty trucks by 50 percent upon implementation of NAFTA. The remaining tariffs were phased out over five years. Mexico's tariffs on 75 percent (by value) of U.S. automotive parts were eliminated over five years; the remaining tariffs were phased out over ten years. Today, U.S. autos (except used) and parts may enter Mexico duty-free.

NAFTA removed several non-tariff barriers affecting the automotive sector. Upon implementation, Mexico immediately eliminated or reduced significant trade restrictions that were intended to spur investment in Mexico. Mexico eliminated its trade balancing requirement, lowered its local content requirement, and eliminated import quotas on new cars and light-duty trucks. Quotas on heavy trucks and buses were eliminated in January 1998.[48]

Computers and Consumer Electronic Products

According to the U.S. International Trade Commission, before NAFTA, U.S. tariffs on electronic products averaged 2.4 percent *ad valorem*. Much of the computers and consumer electronic products imported from Mexico entered at reduced duties under production sharing operations or duty-free under the Generalized System of Preferences program. Under the CFTA, tariffs on computers and electronic products traded between Canada and the United States were completely eliminated on January 1, 1994.[49]

U.S. tariffs on Mexican electronic products were immediately eliminated upon NAFTA's implementation, with only a few exceptions. Tariffs for certain switches and capacitors were phased out over five or ten years. At the time, those switches and capacitors accounted for a negligible portion of U.S. imports from Canada and Mexico.

Before NAFTA's implementation, Mexican tariffs on U.S. computers and electronic products had a trade-weighted effective duty of 2.6 percent *ad valorem*. This relatively low rate was due to the fact that a large percentage of U.S. exports of electronic products entered Mexico duty-free under the maquiladora program to be assembled into finished products that were then exported back to the United States.

Upon NAFTA's implementation, Mexico immediately eliminated tariffs on about 40 percent of U.S. dutiable exports of electronic equipment. Mexico phased out another 50 percent over five years, and the remainder over ten years. The items on which Mexico immediately eliminated tariffs included computer storage units, magnetic tapes and discs, and photocopier parts. Mostly televisions, computers, and telephone equipment were included in the five-year phase out, and the ten-year phase out period consisted almost exclusively of switches.[50]

Prior to NAFTA, Mexican regulations prohibited the maquiladoras from selling products produced there into the Mexican market. Instead, all goods produced in the maquiladoras, such as completed television sets made from U.S. components, had to be exported. NAFTA required Mexico to phase out this non-tariff barrier by 2001. In addition to selling finished products to the Mexican market, this also allowed a greater share of maquiladora output to be sold directly to electronic product manufacturers in Mexico, helping to spur sales of U.S. electronic components and increasing the competitiveness of both U.S. and Mexican producers.[51]

As for computers, specifically, NAFTA contained a number of provisions designed to lift non-tariff barriers and help U.S. computer and software suppliers gain access to the Mexican market and compete against products from third countries. Improvements in the areas of customs harmonization, government procurement, and standards provided immediate benefits to U.S. computer businesses by reducing costs, and making their products more competitive in the Mexican market.[52]

It should be noted, however, that the Information Technology Agreement, which Mexico did not sign (but China did), eventually eroded some of the advantages provided by NAFTA to Mexico's electronics industry.

Household Appliances

NAFTA has been particularly significant for the U.S. household appliance industry because Canada and Mexico are the top export destinations for U.S. household appliances.[53] Prior to NAFTA, U.S. exports of appliances faced Mexican tariffs that ranged from 5 to 20 percent *ad valorem*, with the majority at 20 percent. By contrast, approximately 80 percent of appliance imports from Mexico entered the United States duty free under the GSP program. Prior to NAFTA, the majority of U.S. appliance imports from Canada entered the United States at reduced duty-rates under the CFTA.[54]

Upon NAFTA's implementation, Mexico immediately eliminated tariffs on about 17 percent of U.S. appliances. Mexico phased out tariffs on another 17 percent of U.S. appliances by 1998, and all remaining tariffs by 2003. The NAFTA tariff preference gives U.S. appliances a substantial price advantage in the Mexican market over non-NAFTA appliances, which still face high tariffs.[55]

Furthermore, U.S. appliances benefited from the elimination of non-tariff barriers to appliance trade in the NAFTA region. In 1997, Mexico implemented provisions that enable companies to obtain certifications from accredited, local testing laboratories that their goods satisfy government-mandated product standards in all three NAFTA countries. This change was possible because laboratories in the United States can apply for accreditation in Mexico on the same basis as Mexican laboratories. Once a U.S. laboratory is accredited, it is able to test and certify a product for sale in all three NAFTA countries, significantly reducing certification costs and time to market for U.S. manufacturers.[56]

In addition, NAFTA improved intellectual property rights protection in Mexico. This is especially important for the U.S. appliance industry that relies on patent, trademark, and trade secret protection to protect key technologies. The elimination of Mexican domestic sales restrictions means that U.S. appliance manufacturers operating maquiladora plants are now able to sell directly to the Mexican market.[57]

Textiles and Apparel

Given the similarities in their cost structures, NAFTA was not expected to affect textile and apparel trade between the United States and Canada to any great degree. Instead, NAFTA was designed to encourage the growing textile and apparel trade between the United States and Mexico. U.S. apparel companies had already been assembling apparel in Mexico prior to NAFTA, thanks to the U.S. "Special Regime" (SR) program which encouraged assembly of apparel in Mexico from U.S. made and cut components. In 1993, 65 percent of U.S. apparel imported from Mexico entered the United States duty-free and quota-free under the SR; however, tariffs applied to the other 35 percent of apparel imports averaged 17.9 percent. In addition, non-SR apparel products from Mexico faced quotas when entering the United States.

Under NAFTA, the United States agreed to phase out tariffs by January 1, 2003, for products that met strict rules of origin — for apparel, the so-called "yarn forward" rule (apparel made in Canada or Mexico had to be made with North American yarn and fabric to qualify for benefits). NAFTA immediately removed U.S. quotas on imports of Mexican textiles and apparel that met the rules of origin. NAFTA permitted specified quantities of Canadian and Mexican apparel, fabric and yarns that did not meet the rule of origin to receive duty-free and quota phase-out benefits if entered under so-called "tariff preference levels." As of January 1, 2004, U.S. quotas applied to goods imported under TPLs are eliminated. The TPLs do not expire for tariff benefits.

Mexico's average tariff on U.S. textile and apparel products was 16 percent prior to NAFTA, with duties as high as 20 percent on some products. Immediately upon NAFTA's implementation, Mexico eliminated tariffs on about $250 million of U.S. textile and apparel exports. By the start of 1998, Mexico eliminated tariffs on 93 percent of U.S. yarn and thread exports, 89 percent of U.S. fabric exports, 60 percent of U.S. made-up textile exports, and 97 percent of U.S. apparel exports. Mexico removed the remaining tariffs by 2003.[58]

Initially, the elimination of tariffs and quotas combined with NAFTA's strict "yarnforward" rules of origin encouraged a shift in production towards NAFTA-made textiles and apparel with U.S. content and away from products with little or no U.S. content imported from Asia.[59] However, limits on duty-drawback combined with more attractive production options in the Caribbean Basin (NAFTA's provisions could not compete) eventually shifted interest in apparel sourcing to other regions with more flexibility. While NAFTA's provisions were initially attractive, in time they lost some of their luster.

Agricultural Products

Canada and the United States began in 1989 to phase out tariffs on agricultural products traded between them under the CFTA. NAFTA required that all tariffs affecting agricultural trade between the United States and Canada be eliminated by 1998, with only a few exceptions for items covered by tariff-rate quotas.[60] Therefore, the tariff and non-tariff barrier eliminations called for under NAFTA largely affected agricultural trade between the United States and Mexico and Canada and Mexico.

On average, most tariffs and other barriers to agricultural trade between the United States and Mexico were fairly low before the implementation of NAFTA. However, some U.S. exports did face high tariffs in Mexico. For example, animal and vegetable oils, farm animals and meat products faced Mexican tariffs of 12.0 and 6.5 percent *ad valorem*, respectively, compared to U.S. tariffs of only 2.5 and 0.7 percent, respectively. Both the United States and Mexico agreed to eliminate most tariffs in their bilateral agricultural trade by 2004, except for a few products to be phased out by 2008. The United States scheduled a 15-year phase out of its tariffs on sensitive items such as vegetables and melons. A special NAFTA agricultural safeguard that protects against import surges also protects products such as these.[61]

Immediately upon its implementation, NAFTA also eliminated several non-tariff barriers that affected U.S.-Mexican agricultural trade. Prior to NAFTA, about one-fourth of U.S. agricultural exports to Mexico (by value) were subjected to restrictive import licensing requirements. Mexico immediately converted the licensing regime into tariffs and tariff-rate quotas that were phased out over several years. Likewise, the United States agreed to convert its import quotas for Mexican products into tariff-rate quotas that will eventually be eliminated by 2004 or 2008, depending on the product.

NAFTA also established rules regarding the application of laws and regulations covering sanitary and phytosanitary (SPS) measures. NAFTA requires the SPS measures to be based on scientific principles, risk assessments, and relevant international standards. This ensures that SPS measures are not used as disguised trade restrictions. But, NAFTA does permit each government to set the degree of risk it will tolerate, including by setting protection levels higher than international standards.[62]

Services

NAFTA established the principal of "national treatment" for services trade: governments must treat services firms within the NAFTA network the same as local firms. NAFTA also prohibited local presence requirements and removed quantitative restrictions on the number of service providers or the operations of a service provider.

NAFTA required each partner to provide transparent licensing and certification processes for service providers. These processes had to be based on objective criteria such as competence and the ability to provide the service. NAFTA also eliminated citizenship and permanent residency requirements for "professional service providers" (e.g. accountants, lawyers, doctors) of another NAFTA partner.

Since the United States and Canada have relatively open and nondiscriminatory services markets, very few changes were made to existing U.S. and Canadian federal laws. Mexico, on the other hand, had to make significant changes to its laws to afford national treatment to U.S. and Canadian service providers. These included liberalizing the licensing and certification of service providers as well as the elimination of laws and regulations restricting or limiting foreign participation in the Mexican services market.[63]

Banking and Insurance

NAFTA allowed for greater integration among the banking and insurance sectors of Canada, Mexico, and the United States. Prior to the implementation of NAFTA, the CFTA liberalized trade in banking and insurance services between the U.S. and Canada. Therefore, much of the language in NAFTA focused on incorporating Mexico into those provisions.

NAFTA provided a transition period of 10 years for the elimination of barriers in the banking sector. During that period, Mexico agreed to allow foreign banks (U.S., Canadian, and non-NAFTA countries) to increase their share of the Mexican banking market from 8 percent to 15 percent by 2000, with all market share limitations eliminated by 2004.

NAFTA also permits U.S. and Canadian investors to participate in the Mexican banking system either through acquisition of certain existing banks or by establishing subsidiaries owned and controlled by U.S. or Canadian investors. In addition, U.S. and Canadian investors are permitted to establish certain special financial institutions that have no counterparts in Mexico, such as mortgage lending institutions and credit card companies.[64]

Prior to NAFTA, Mexico limited foreign investment in a particular Mexican insurance company to less than 50 percent of all paid-in capital. NAFTA permitted U.S. and Canadian investors to become majority owners of Mexican insurance companies. U.S. and Canadian investors can now participate in the Mexican insurance market though acquisitions of existing insurance companies in which they have ownership interests, through new joint ventures, or by establishing subsidiaries under Mexican law. In addition, Mexico lifted restrictions prohibiting its citizens from purchasing U.S. and Canadian life and health insurance when in the United States. Mexico also removed a requirement that insurance of cargo moving between NAFTA partners be placed in Mexico.[65]

Finally, NAFTA established a timeline by which Mexico would eliminate individual and aggregate market share limits on U.S. and Canadian investment. Immediately upon NAFTA's implementation, Mexico limited a foreign insurance firm's investment to 6 percent of the total capitalization of the Mexican insurance sector. The limit rose to 8 percent in 1995, 12 percent in 1999, and disappeared completely in 2000.[66]

Investment

Prior to NAFTA, investment trade between the United States and Canada was substantially open as a result of the CFTA. However, Canada is permitted to screen potential U.S. investments in companies worth CA$150 million or more. Moreover, Canada will continue to restrict or forbid investment in its publishing, broadcasting, and other similar "cultural industries," as well as in securities and real estate markets.

Prior to NAFTA's implementation, Mexico limited all foreign firms investing in Mexico with performance requirements, such as import-export ratios, technology transfer rules, and other requirements as a precondition of locating operations there. Other Mexican rules limited U.S. or foreign controlling interest or ownership of Mexican firms, and the Mexican constitution prohibited investment in the production or exploration of oil and other natural resources.[67]

Under NAFTA, Mexico agreed to permit NAFTA-based investors (this includes foreign-owned subsidiaries based in North America) to establish in Mexico, transfer their profits overseas, and take over Mexican firms more easily than before. Mexico also agreed to eliminate its performance requirements, such as export promotion programs, trade-balancing rules, technology transfer, and duty drawback (phased out by 2001). All three NAFTA partners agreed to grant national treatment to NAFTA investors down to the state and local level.

NAFTA prohibited direct or indirect expropriation, except for certain cases, such as eminent domain. It also created a binding international arbitration panel allowing investors to take complaints directly to other governments and possibly receive monetary rewards from the arbitration panels.

However, several the NAFTA investment provisions allowed for several exceptions. Mexico continues to forbid foreign takeover or control of most natural resources, including energy. Mexico did, however, open its mining sector and phased out screening of "greenfield" investments after five years. ("Greenfield" investments are investments in new projects that must be built from the ground up, like a new factory.) All three NAFTA partners continue equity limitations in their maritime, civil aircraft, nuclear, airline, fishing, and broadcasting sectors. As previously mentioned, Mexico maintained some market share caps on the participation of U.S. and Canadian banking, securities, and insurance firms up to 2004.[68]

Finally, both Canada and Mexico reserved the rights to screen certain foreign investors before they can purchase firms. For Mexico, the screening threshold increased from $25 million to $150 million or more after ten years, indexed for inflation. Canada maintained its CA$150 million threshold requirement from the CFTA.

Endnotes

[1] Data for full-year 2003 have been estimated by The Trade Partnership based upon actual January-November 2003 import and export data and data for December 2000, provided by the U.S. Bureau of the Census, accessed from the U.S. International Trade Commission's DataWeb (http://dataweb.usitc.gov).

[2] Ralph Watkins, U.S. International Trade Commission, "Production Sharing Update: Developments in 2001," *Industry Trade and Technology Review*, July 2002, p. 37.

[3] Office of the U.S. Trade Representative (USTR), *Study on the Operation and Effects of the North American Free Trade Agreement*, 1997, p. 82.

[4] Unlike merchandise trade for the United States as a whole, part-year export data, by state, for 2003 are not available, so The Trade Partnership was unable to calculate a credible estimate for full-year 2003 data.

[5] Unlike merchandise trade, part-year services data for 2003 are not available, so The Trade Partnership was unable to calculate credible estimates for full-year 2003 data.

[6] Because banks report most of their information to other U.S. Government agencies, the Bureau of Economic Analysis collects only limited data on sales through bank affiliates. The absence of information on services provided through bank affiliates causes a potentially significant gap in the coverage of financial services. Therefore, it is likely that these data on services trade are understated.

[7] Maria Borga and Michael Mann, U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Services: Cross-Border Trade in 2002 and Sales Through Affiliates in 2001," *Survey of Current Business*, Table 1, October 2003.

[8] U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Services: Cross-Border Trade and Sales Through Affiliates, 1996-2002," Table 7.8, downloaded December 10, 2003 at http://www.bea.gov/bea/di/1001serv/intlserv.htm.

[9] Maria Borga and Michael Mann, op. *cit.*, Table 7.4.

[10] Unlike merchandise trade, part-year investment data for 2003 are not available, so The Trade Partnership was unable to calculate a credible estimate for full-year 2003 data.

[11] Dan T. Griswold, "NAFTA at 10: An Economic and Foreign Policy Success," The Cato Institute, December 23, 2002, downloaded December 19, 2003 at http://www.cato.org/dailys/12-23-02-2.html.

[12] Raymond J. Mataloni, Jr., U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. Multinational Companies: Operations in 2001," *Survey of Current Business*, Table 14.2, November 2003.

[13] William J. Zeile, U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. Affiliates of Foreign Companies: Operations in 2001," *Survey of Current Business*, Table 11.2, August 2003.

[14] U.S. Department of Labor, Bureau of Labor Statistics, in Council of Economic Advisers, *Economic Report of the President* (Washington, DC: U.S. Government Printing Office, February 2003), Table B-46.

[15] *Ibid.*

[16] Recent credible analyses of the *ex post* impact of NAFTA include Mary E. Burfisher, Sherman Robinson and Karen Thierfelder, "The Impact of NAFTA on the United States," *Journal of Economic Perspectives*, 15(1), Winter 2001, pp. 125-144;

Anne O. Krueger, "Trade Creation and Trade Diversion Under NAFTA," NBER Working Paper No. 7429, December 1999; U.S. International Trade Commission, *The Impact of Trade Agreements: Effect of the Tokyo Round, U.S.-Israel FTA, U.S.-Canada FTA, NAFTA, and the Uruguay Round on the U.S. Economy,* Inv. No. TA-2111-1, Pub. No. 3621, August 2003 (hereafter, "ITC 2003"); Laurie-Ann Agama and Christine A. McDaniel, "The NAFTA Preference and U.S.-Mexico Trade: Aggregate Level Analysis," *The World Economy*, Vol. 26, No. 7, July 2003, pp. 939-955.

[17] For example, an analysis conducted by KPMG Peat Marwick, *The Effects of a Free Trade Agreement Between the U.S. and Mexico* (1991) predicted (conservatively, as it turns out) that NAFTA would increase U.S. real income by 0.04 percent. In its report to Congress in early 1993, the U.S. International Trade Commission predicted NAFTA would increase U.S. real GDP by 0.02 percent to 0.50 percent (see *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC Pub. 2596, January 1993, hereafter "ITC 1993").

[18] ITC 2003, Table 2-1.

[19] ITC 2003, p. 2-4.

[20] Cletus C. Coughlin and Howard J. Wall, "NAFTA and the Changing Pattern of State Exports," unpublished paper, Federal Reserve Bank of St. Louis, March 2001. The ITC found in August 2003 that NAFTA had increased real U.S. exports by $40 billion in 2001, or by about 2.9 percent. While this positive estimate is more modest than its pre-NAFTA study, in part it results from a comparison of 1993 to 2001, a recession year in both the United States and Mexico.

[21] ITC 2003, p. 2-4.

[22] Clopper Almon, *Industrial Effects of a Free Trade Agreement between Mexico and the USA*, University of Maryland (INFORM) and the University of Guanajuato, Mexico (CIMAT), September 1990, commissioned by the U.S. Department of Labor and cited in an Administration report to Congress, "Response of the Administration to Issues Raised in Connection with the Negotiation of a North American Free Trade Agreement," May 1, 1991.

[23] "The NAFTA: Expanding U.S. Exports, Jobs and Growth," Clinton Administration Statement on the North American Free Trade Agreement, July 1993.

[24] Gary Clyde Hufbauer, Jeffrey J. Schott, *North American Free Trade: Issues and Recommendations* (Washington, DC: Institute for International Economics, 1992).

[25] John J. Audley, Demetrios G. Papademetriou, Sandra Polaski, and Scott Vaughn, *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere* (Washington, DC: Carnegie Endowment for International Peace, 2004), p. 28.

[26] *Ibid.*, p. 28.

[27] The Trade Partnership, *Imports and America: The Rest of the Story*, prepared for the National Retail Institute and the Council of the Americas, August 1998.

[28] A large body of economic research demonstrates that most imported products are not perfectly substitutable for domestically-produced goods. Estimated substitution elasticities for very detailed products typically fall under 1 (if goods are not substitutes at all, the elasticity will have a value of zero; if they are perfect substitutes, the elasticity will have a value of infinity). See, for example,

Michael P. Gallaway, Christine A. McDaniel, and Sandra A. Rivera, "Short-Run and Long-Run Industry-Level Estimates of U.S. Armington Elasticities," *The North American Journal of Economics and Finance*, Vol. 14, 2003, pp. 49-68.

[29] See for example: Robert E. Scott, "The High Price of 'Free Trade'," Economic Policy Institute Briefing Paper No. 147, November 17, 2003, Appendix I, http://www.epinet.org/content.cfm/briefing papers_bp147, downloaded December 15, 2003. It must be noted that eight of EPI's 21 board members are officials of labor unions and it receives funding from 28 labor unions.

[30] Alfred J. Field and Edward M. Graham, "Is There a Special Case for Import Protection for the Textile and Apparel Sectors Based on Labour Adjustment?," *The World Economy*, March 1997, pp. 137-157. The data used in this study covered the experiences of approximately 35,000 workers, including 7,500 textile and apparel workers, who lost their jobs as a result of mass lay-off or plant closings between the third quarter of 1986 and the fourth quarter of 1991 and, if re-employed, found new jobs by the first quarter of 1992 [Note: during the latter periods, the U.S. economy was in recession, so it is likely that the results are biased in the direction of longer times to new employment].

[31] Michael J. Ferrantino, "Evidence of Trade, Income, and Employment Effects of NAFTA," *Industry Trade and Technology Review*, USITC Pub. No. 3483, December 2001, p. 4.

[32] Audley *et al*, *op. cit.*, p. 6.

[33] *Ibid.*, p. 7.

[34] ITC 2003, p. 67.

[35] ITC 2003, pp. xxiii-xxiv, and p. 125: "While growing trade volumes appear to have had an impact on the wage distribution, there is little evidence that trade policy changes have been responsible for significant changes in the wage distribution."

[36] ITC 2003, p. 177.

[37] Steven Zahniser and John Link, editors, "Effects of North American Free Trade Agreement on Agriculture and the Rural Economy," U.S. Department of Agriculture, Economic Research Services, ERS Agriculture and Trade Report No. WR0201, July 2002.

[38] *Ibid.*, Table A-1, p. vii. The body of the study provides considerable detail for each of the many products surveyed.

[39] *Ibid.*

[40] *Ibid.*

[41] Carlos Moore, "NAFTA: A Good Deal or Not?," *Greensboro News & Record*, Greensboro, NC, February 21, 1999.

[42] Gary Gereffi, "The Transformation of the North American Apparel Industry: Is NAFTA a Curse or a Blessing?," *Integration and Trade* (Inter-American Development Bank, Integration and Regional Programs Department, Institute for the Integration of Latin America and the Caribbean), Vol. 4, No. 11, May-August 2000, p. 50.

[43] *Ibid.*, p. 66.

[44] Alan Greenspan, Chairman, The Federal Reserve Board, Remarks at the 21st Annual Monetary Conference, cosponsored by the Cato Institute and *The Economist*, Washington, DC, November 20,

2003, downloaded December 15, 2003 at http://www.federalreserve.gov/boarddocs/speeches/2003/20031120/default.htm.

[45] The effective tariff rate is the value of all duties collected divided by the value of all imports. A large share of U.S. imports from Mexico in 1993 already entered the United States duty-free as a result of the U.S. Generalized System of Preferences program. Thus, the resulting effective tariff rate was a relatively low 2.1 percent.

[46] U.S. International Trade Commission (ITC), *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC Publication 2596, January 1993, p. 4-3, hereafter "ITC 1993."

[47] *Ibid.*

[48] USTR, *op. cit.*, p. 48.

[49] ITC 1993, p. 5-2.

[50] *Ibid.*

[51] USTR, *op. cit.*, p. 71.

[52] *Ibid.*, p. 57.

[53] *Ibid.*, p. 61.

[54] ITC 1993, p. 16-2.

[55] USTR, *op. cit.*, p. 61.

[56] *Ibid.*, p. 62.

[57] *Ibid.*

[58] *Ibid.*

[59] *Ibid.*

[60] U.S. Department of Agriculture (USDA), Foreign Agriculture Service (FAS), "FAS Backgrounder: Benefits of NAFTA," downloaded December 19, 2003 at http://www.fas.usda.gov/itp/Policy/NAFTA/naftabackgrounder.htm.

[61] USTR, *op. cit.*, p. 89.

[62] *Ibid.*

[63] ITC 1993, p. 38-2.

[64] *Ibid.*, pp. 42-1, 42-2.

[65] *Ibid.*, p. 43-2.

[66] *Ibid.*

[67] U.S. Chamber of Commerce, *A Guide to the North American Free Trade Agreement: What It Means for U.S. Businesses*, 1992, p. 22.

[68] *Ibid.*, p. 24.

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