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NAFTA at 20

Misleading Charges and Positive Achievements

Gary Hufbauer, Cathleen Cimino, and Tyler Moran

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NAFTA at 20: Four misleading charges

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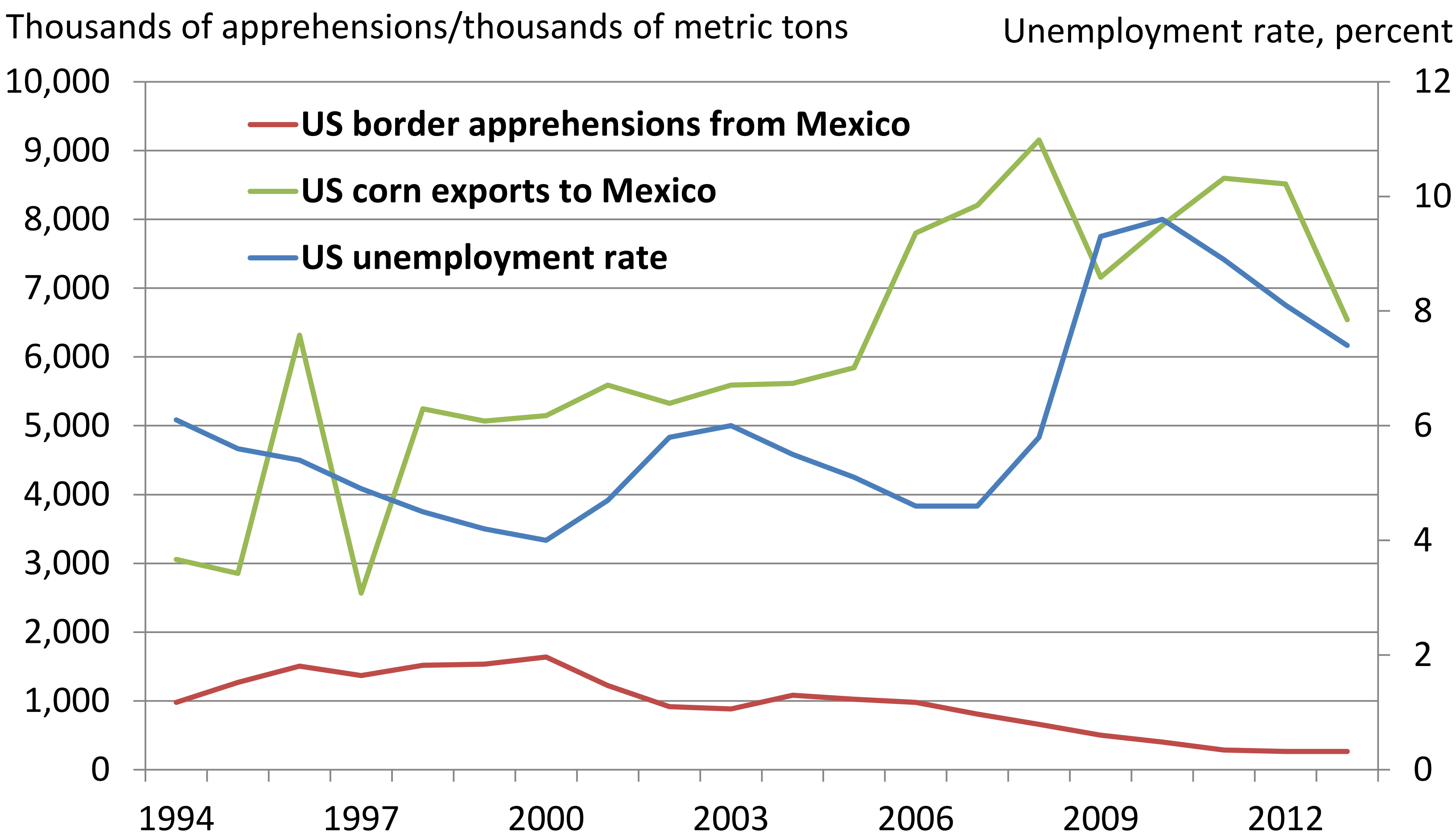
1. The boom in US agricultural exports turned rural Mexicans into illegal emigrants.
2. NAFTA fostered a growing US trade deficit.
3. Trade with Mexico increased US unemployment.
4. Job loss depressed US wages, especially in manufacturing.

US agricultural exports did not cause a spike in migration.

- US agricultural exports to Mexico expanded after NAFTA, but did not cause increased migration.
- Mexico liberalized corn imports unilaterally in 1994
- US corn exports is primarily used for animal feed ("yellow corn") while Mexican "white corn" is primarily used for human consumption.
- The rapid growth of US corn exports does not line up with the rise of illegal immigration. But illegal immigration does respond to US unemployment.

Illegal immigration, US unemployment, and US-Mexico corn trade



Sources: US BLS; US Border Patrol; USDA Foreign Agricultural Service.

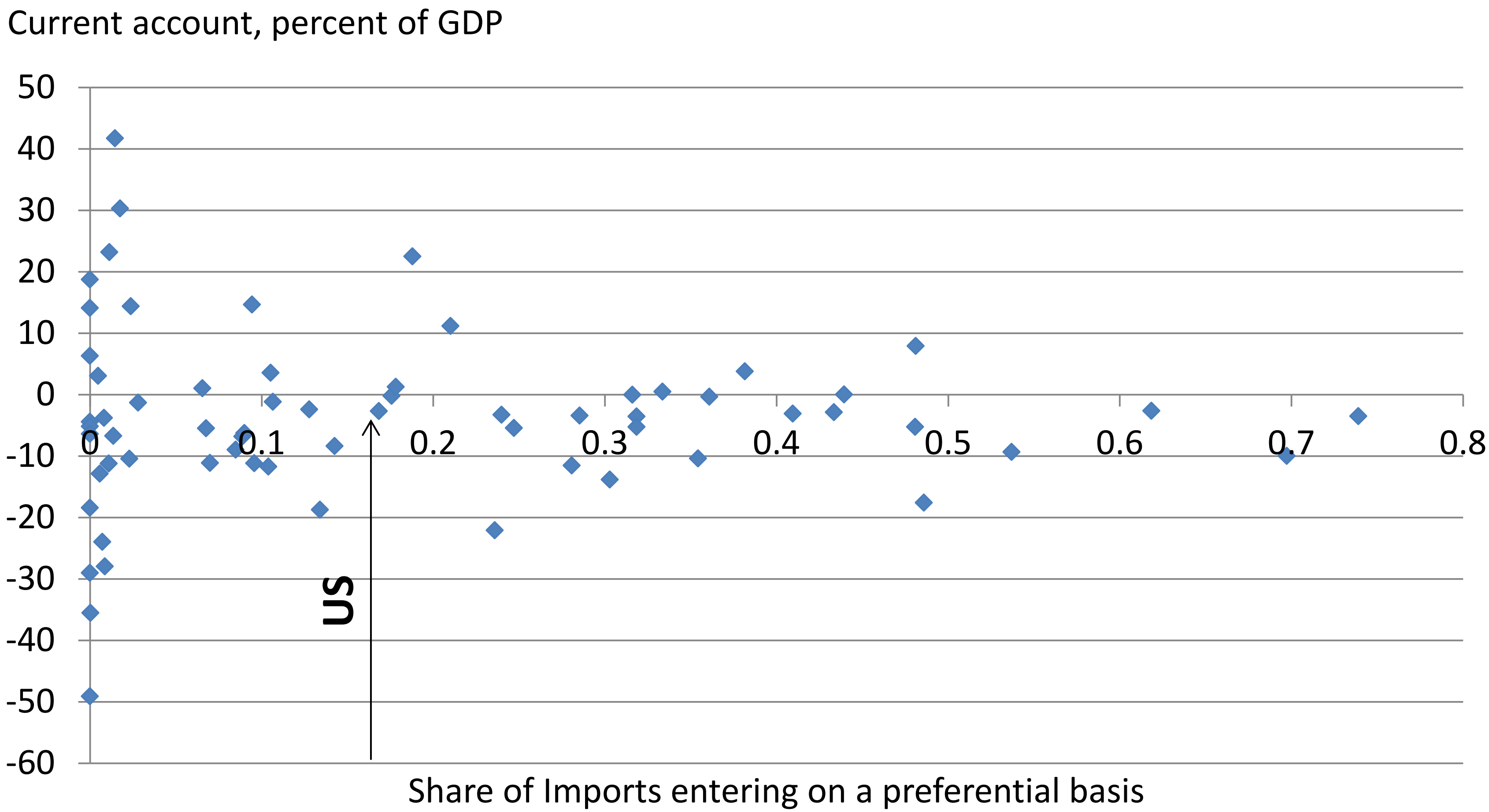
NAFTA and other FTAs do not foster a growing US trade deficit

- US bilateral trade with Mexico went from a surplus of $5 billion in 1994 to a deficit of $45 billion in 2013.
- Internal Mexican events -- the Peso Crisis and Mexican reforms -- were important contributors.
- But the main reason was the growing imbalance between income and spending within the United States.
- The global enlargement of trade deficit is not an outcome of NAFTA or other free trade agreements.
- If NAFTA had never been agreed, the US global trade deficit would not have been $45 billion lower in 2013.

Bilateral US-Mexico Trade (non-fuel)

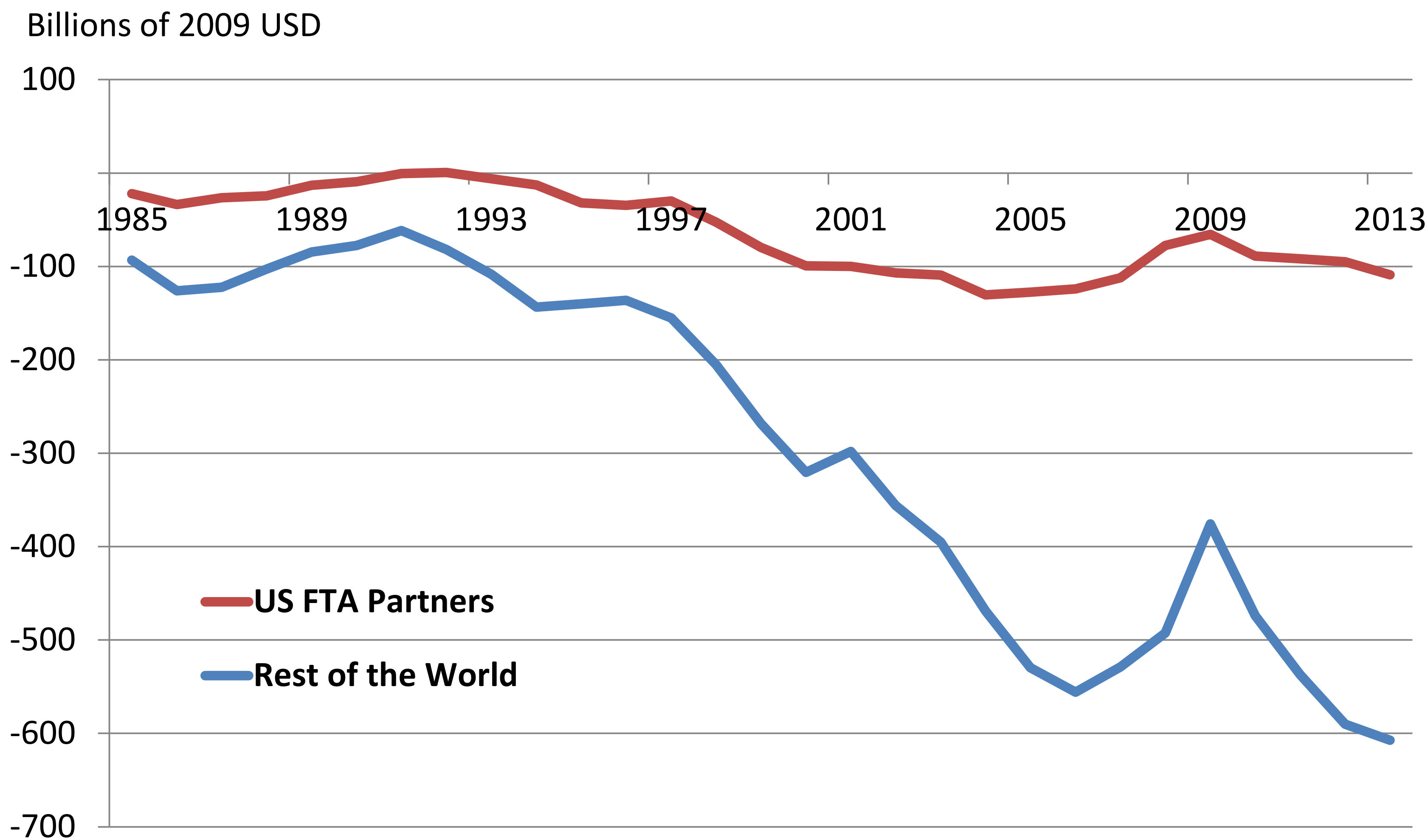
Source: WITS database.

Preferential imports and deficits



Source: WITS database.

US nonfuel merchandise trade balance, 1985–2013



Source: WITS database.

NAFTA did not raise US unemployment

- Growing trade downsizes less efficient firms and upsizes more efficient firms --“sifting and sorting”.
- Job displacement is painful for the losers, but it pays off for a country as a whole.
- Recently, imports from Mexico, increase by an average of $27 billion annually, displacing about 203,000 jobs annually. Many workers voluntarily find new jobs.
- But US exports to Mexico increase by an average of $25 billion annually, adding about 188,000 new US jobs annually.
- The payoff from trade is lower prices, higher productivity and better jobs, not more jobs.

FTAs in general do not have large net employment effects

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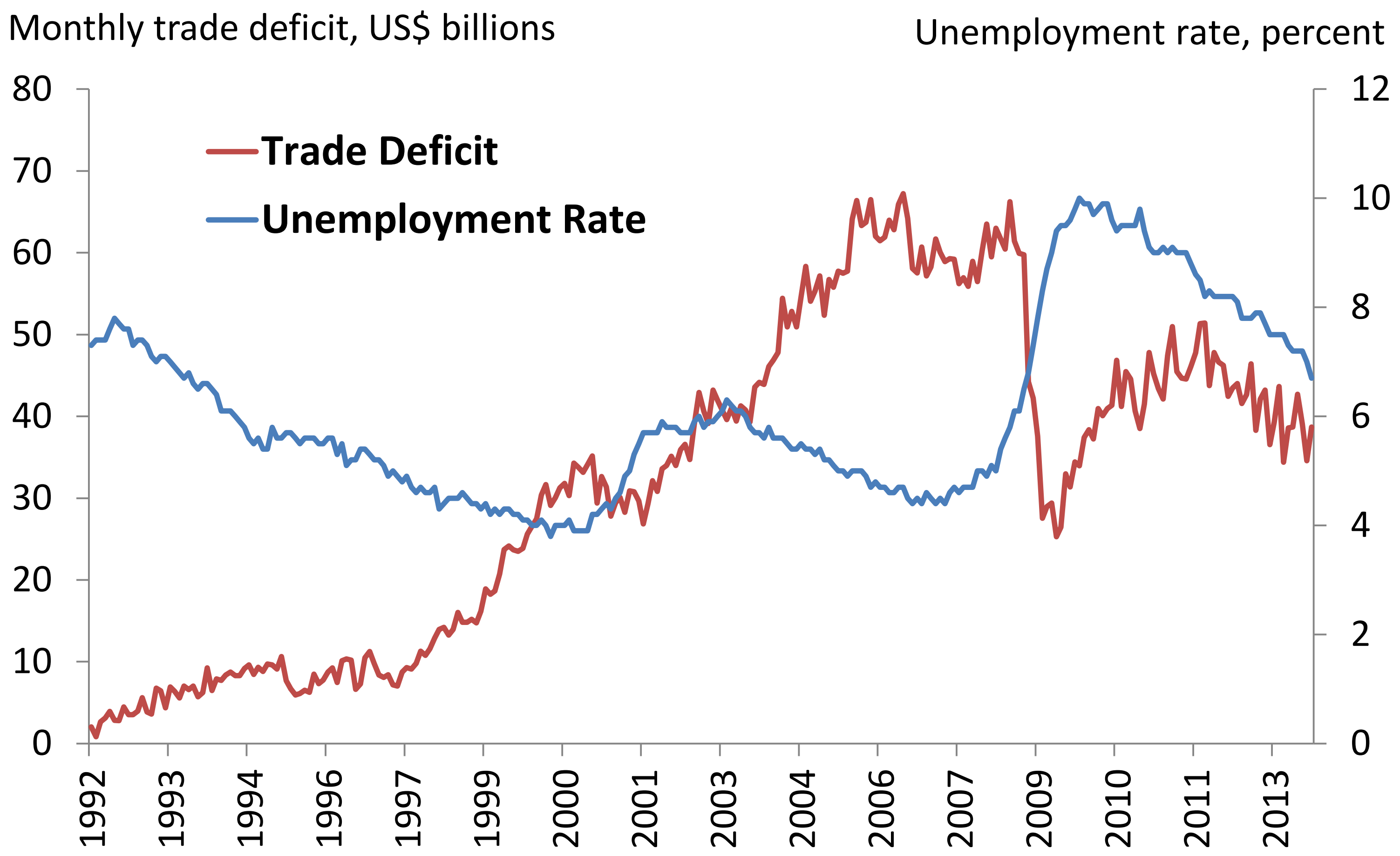
- Opponents and proponents of FTAs often focus on the jobs issue, but the impact on net jobs is generally small.
- Under 5% of “dislocated” US workers over past decades can be attributed to rising imports from Mexico (about 200,000 out of 4 million).
- Demand for both domestic labor and foreign goods are dominated by local economic conditions, not trade policy.
- Historically, rising trade deficits are associated with falling unemployment.

US trade deficit and unemployment rate, 1992-2013



Source: Federal Reserve Bank of St. Louis.

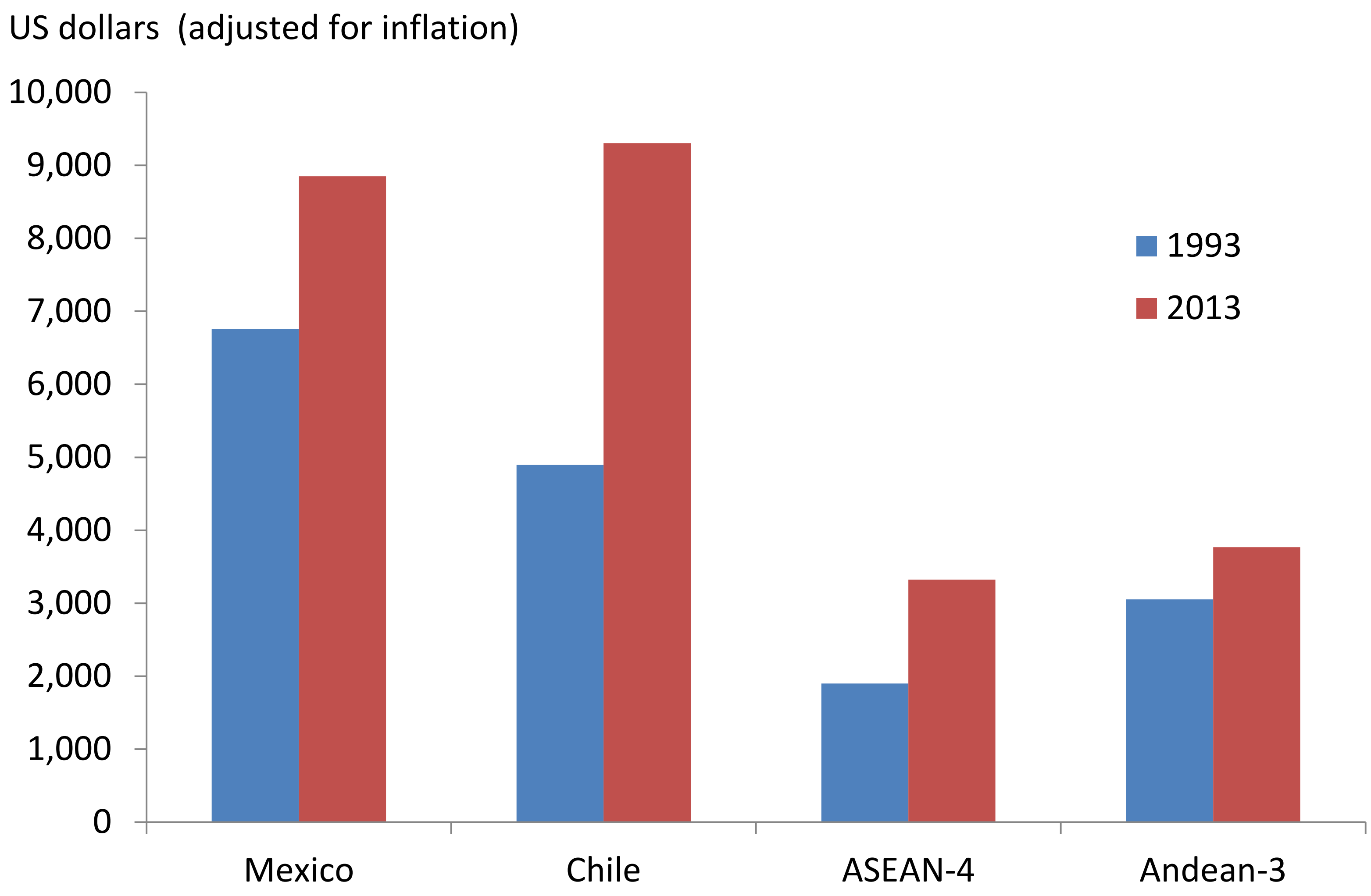
NAFTA’s impact on manufacturing wages was limited

- Autor et al. (2013) found that imports from Mexico and CAFTA did not depress US wages, while imports from China had a modest negative effect over 15 years (3% of base wages).
- China’s impact was driven by its explosive productivity growth, while Mexico and Central America did not have a comparable impact despite trade preferences.
- US workers command higher wages through high productivity, not trade protection.

Mexico’s growth has been slow

- Mexico has not grown as quickly as generally predicted following NAFTA.
- On average, Mexico’s real per capita GDP growth has been below 1.4% annually over the past two decades.
- Widespread drug-related violence has caused tens of thousands of deaths and slowed growth.
- Poor infrastructure in cities has dampened the rate of urbanization.
- Corruption and the monopolization of key sectors have undermined competition and productivity growth.

GDP per capita over two decades



Source: ERS baseline dataset, USDA.

What did NAFTA achieve?

- **Economic Payoff**
    - Benefits flow <u>both</u> from larger exports and larger imports of goods and services. US two-way trade is $635 billion larger on account of NAFTA.
    - A $1 billion increase in trade generates GDP gains of $200 million for countries like Canada and US; for Mexico it generates GDP gains of $500 million.
    - For a US household of 3 persons, the payoff is about $1,200.
    - For each net manufacturing job lost, the national payoff is about $450,000 annually for an indefinite period.
- **Political Payoff**
    - A new foundation for US-Mexican relations.
    - Mexico’s transition from a one- party system of state capitalism to a multiparty, market-oriented system.

NAFTA teaches several lessons

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- The US benefits from freer trade and investment with both rich and poor countries.
- A good FTA can double two-way trade from its baseline, and spark direct investment.
- Adjustment burdens are wildly exaggerated in the public debate.
- The big payoff is ***better*** jobs, not more jobs.
- Trade policy can compliment a growth strategy, but internal factors will dominate the result.