

Has the North American Free Trade Agreement Been a Success?

Economics Class Project and Document Package prepared by Jessica Berni and Dennis Mooney

In Spring 2002, while teaching at Benjamin Cardozo High School in Queens, New York, Jessica Berni and Dennis Mooney organized an “economics dialogue” on the question, “Has the North American Free Trade Agreement Been a Success?” Jessica and Dennis developed a document package (reprinted below) as a starting point for research, but also encouraged students to examine other sources. Students in Dennis’ classes spent two periods preparing the affirmative case. Students in Jessica’s classes prepared the negative one. On the day of the “economics dialogue,” half of each class went to the room of the other teacher for formal discussion. Another day was spent in evaluation and on the final day each student wrote a document-based essay answering the “economics dialogue” question.

Document 1. An Introduction to NAFTA

(Adapted from *The World & I*, October 1997, www.worldandi.com)

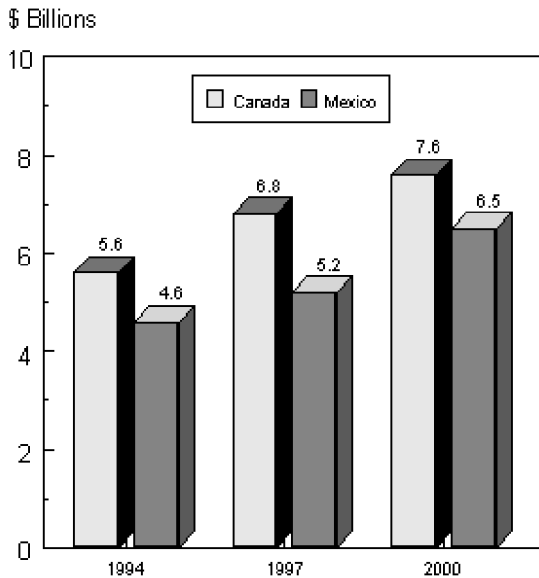
The North American Free Trade Agreement (NAFTA) was signed into law in the fall of 1993. In pressing the case for NAFTA, proponents in the United States raised two major points. The first point was economic: NAFTA would produce real economic benefits, including increased employment in the United States and increased productivity. The second point was political: NAFTA would support the political and economic reforms being made in Mexico and promote further progress in these two domains. These reforms had made Mexico a “better” neighbor; that is, Mexico had taken steps to become more like the United States, and NAFTA would support further change. Both of these two major points reinforced a third claim made on behalf of NAFTA: the improvements in economic and political conditions in Mexico might lead to a reduction in the flows of illegal immigrants and drugs into the United States.

In fighting NAFTA, opponents in the United States argued that freer trade between the United States and Mexico would mean a transfer of work and jobs from the United States to Mexico. Opponents argued that the notion of passing NAFTA as a reward to the Mexican government was premature; the government had not done enough to improve economic and political conditions in Mexico.

Joe Cobb, president of the Trade Policy Institute in Washington, D.C., asserts that NAFTA has been a success. The U.S. manufacturing base remains strong, and hundreds of thousands of jobs have not been lost. Instead, for the overall U.S. economy, exports are up, employment has increased, total trade has expanded, and the average standard of living of American workers has increased. Cobb reports that during NAFTA’s first three years the following has resulted: total North American trade increased by 43 percent, with 39 of the 50 states increasing their exports to Mexico; U.S. market share in Mexico increased from 69 percent to 76 percent; and U.S. exports to Canada increased by 33 percent. He accepts the U.S. Department of Labor’s calculation of 110,000 American workers who qualified for training assistance under NAFTA but offsets this negative effect by stating that at current rates the United States creates more than this number of jobs every two weeks. He also states that U.S. exports to NAFTA countries support 2.3 million U.S. jobs.

Researcher Alan Tonelson negatively assesses NAFTA based on his contentions that the real winners were large U.S. multinational corporations, that median wages in the United States and Mexico have declined, and that the flows of illegal immigrants and drugs into the United States from Mexico are high. Tonelson argues new Mexican production “is simply replacing production in the United States.” Although he is willing to accept the argument that the loss of production to Mexico is better for the United States than the loss of production to the Far East, Tonelson believes that “simply accepting these conditions ultimately condemns American workers and their foreign counterparts to a global race to the bottom in terms of wages and working conditions.”

Document 2. Trade with NAFTA Partners, 1994-2000 (www.worldandi.com)



Document 3. Wages in Mexico 1993-1999 (1990=100%)

Source: Public Citizen (www.citizen.org)

Year	Minimum wage	Contractual wage	Manufacturing wage
1993	67.5%	84.9%	111.4%
1994	65.8%	81.5%	105.2%
1995	81.1%	85.5%	88.7%
1996	66.5%	76.6%	81.2%
1997	58.9%	68.2%	82.9%
1998	56.9%	66.5%	85.7%
1999	55.4%	66.8%	88.4%

Document 4. Benefits of NAFTA

(Source: *FAS BACKGROUNDER*, July 6, 2001
www.fas.usda.gov/itp/policy/nafta/nafta_backgrounder.htm)

The continued strength of North American Free Trade Agreement (NAFTA) markets has been one of the brightest spots for U.S. farmers, agricultural exporters, and the industries that support them. Together, our NAFTA partners, Canada and Mexico, purchase 27 percent of U.S. Agricultural exports. Farmers in the United States, Canada, and Mexico all benefit from NAFTA. Two-way agricultural trade between the United States and Mexico increased more than 55 percent since 1994, reaching more than \$11.6 billion last year. Two-way agricultural trade between the United States and Canada increased more than 50 percent in the same time frame reaching \$16.3 billion in 2000.

Although U.S. imports have grown under NAFTA, so have U.S. exports. Without NAFTA, the United States would have lost these expanded export opportunities. Since implementation of the U.S./Canada Free Trade Agreement, U.S. agricultural exports to Canada have doubled. Canada is the No. 2 market for U.S. agricultural exports, purchasing \$7.6 billion worth last year. Since NAFTA was approved in 1993, U.S. agricultural exports to Mexico have nearly doubled. Mexico imported \$6.5 billion of U.S. agricultural products in 2000, making it our third largest agricultural market.

Canada took record levels of many key U.S. commodities in 2000: fresh vegetables, fresh fruits, snack foods, poultry meat, live animals, pet foods, dairy foods, vegetable oils, planting seeds, breakfast cereals, tree nuts, nursery products, and red meats. Record U.S. exports to Mexico in 2000 included red meats, processed fruits and vegetables, poultry meat, snack foods, fresh fruits and vegetables, juices, tree nuts, pet foods, feeds and fodder, and rice. This broad cross section of commodities suggests the benefits of NAFTA are widely distributed across U.S. agriculture.

Document 5. Mexican Trucking Companies Sue U.S. government

(Source: www.landlinemag.com/Hot_Issues/NAFTA/Mexicans_sue_US.htm)

Eleven Mexican trucking companies filed a \$4 billion class-action lawsuit on Tuesday, claiming the U.S. government illegally denied them access throughout the United States in accordance with the North American Free Trade Agreement. The \$4 billion includes business and profits lost since 1995. The complaint, filed in U.S. District Court in Brownsville, alleges federal agencies - including the U.S. Department of Transportation - violated NAFTA by denying them permits to operate within the U.S. interior and violated the U.S. Constitution by allowing Canadian firms more access than Mexican companies. It also says U.S. officials discriminated against Mexican nationals by denying Mexican truckers the ability to invest in, own or control trucking companies based in the United States.

Document 6. Not Happy After NAFTA: The Accord Remains A Hot-Button Issue

by Ben Wildavsky (Source: U.S. News and World Report, January 11, 1999)

Exactly five years after taking effect, the North American Free Trade Agreement remains as controversial as ever. That could mean trouble for administration officials if they follow through on their plan to once again ask Congress for fast-track trade negotiating authority for the president. Most trade watchers don't expect fast track to go anywhere but down -- fast. Its opponents on Capitol Hill have rallied around the cry of "no more NAFTAs." Their stance reflects the view of many voters, who even in these booming economic times are skeptical of free trade. In a recent NBC/*Wall Street Journal* poll, 58 percent of those surveyed said foreign trade has been bad for America because cheap imports have hurt wages and cost jobs.

NAFTA naysayers still charge that a rise in imports from Mexico has taken a toll on American jobs. "Imports destroy jobs just like exports create them," says economist Robert Scott of the labor-backed Economic Policy Institute. But the doomsday warnings of massive job losses (recall Ross Perot's "giant sucking sound" of jobs being pulled out of this country) are belied by an economy that is running at full employment. The Labor Department says 210,000 workers have suffered NAFTA-related job losses over the past five years -- fewer than the 267,000 new jobs created in the U.S. last November alone.

U.S. Trade Representative Charlene Barshefsky says that the accord has dramatically increased trade among the three North American nations as it was designed to do. She says NAFTA has boosted export-related U.S. economic growth and that trade with Mexico has blunted the blow of economic downturns elsewhere in the world. NAFTA has "served as the most effective export-insurance policy we could have," she says.

Document 7. NAFTA Partners Speed up Elimination of Tariffs on \$25 Billion in Trade (January 9, 2002)

(Source: 0-www.mac.doc.gov.library.csuhayward.edu/nafta/pr.jan09.htm)

WASHINGTON - The United States, Canada, and Mexico have agreed to accelerate the benefits that NAFTA brings to each country's consumers, workers, and businesses by eliminating tariffs on \$25 billion in total trade. The provisions of the North American Free Trade Agreement (NAFTA) allow for this accelerated process and were agreed upon in December. The changes are effective January 1, 2002.

"Speeding up the elimination of tariffs brings NAFTA's benefits to American consumers, workers, and businesses that much faster," said U.S. Trade Representative Robert B. Zoellick. "Over the next few years, this will help our economies sharpen their competitiveness and efficiency. I'm pleased that the three NAFTA partners were able to agree to cut their tariffs even faster than NAFTA's provisions required."

Canada and Mexico are the United States' largest trading partners. With the 2002 reductions, Mexico's average tariff on U.S. goods will fall from the pre-NAFTA average of 10 percent to under one-half of one percent. Each day the NAFTA parties conduct nearly \$1.8 billion in trilateral trade. Zoellick noted that NAFTA has greatly benefited the American economy:

- The longest period of economic growth in U.S. history came in the aftermath of NAFTA.
- Since NAFTA's implementation, U.S. exports to Mexico and Canada now support 2.9 million American jobs -- 900,000 more than in 1993. Such jobs pay wages that are 13 to 18 percent higher than the average American wage.
- When the Congress approved NAFTA in 1993, trade between the United States and Mexico totaled \$81 billion. In 2000, U.S./Mexican trade reached \$247 billion -- nearly half a million dollars per minute.
- U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast. Today the United States exports more to Mexico than to Britain, France, Germany, and Italy combined.

Document 8. NAFTA and Workers Rights and Jobs

(Source: Public Citizen, August 29, 2001, www.citizen.org)

Public Citizen has monitored the promises President Clinton made to Congressional Representatives to push NAFTA passage to determine whether those promises were kept. Many of the commitments that the Clinton Administration made in 1993 in order to get NAFTA passed were never fulfilled. Many of the actions that the Clinton Administration did take proved worthless for the parties they were supposed to help. The outcomes of the deals granted to industries concerned about NAFTA should serve as a warning for those now seeking safeguards for sectors likely to be threatened by future trade agreements.

The central focus of pro-NAFTA campaigning was the issue of U.S. job creation, so it is fair to measure NAFTA's real-life results against its backers' expansive promises of hundreds of thousands of new, high-paying U.S. jobs. Even measured against the more lenient "do no harm" standard, NAFTA has been a failure. Using trade flow data to calculate job loss under NAFTA yields net job destruction numbers in the hundreds of thousands. It is clear that NAFTA has indisputably led to widespread job loss, with over 363,121 U.S. workers certified as NAFTA casualties under just one narrow government program. The fact that job growth totally unrelated to NAFTA has produced a net gain in U.S. employment during this period in no way changes the reality that NAFTA has cost large numbers of individual workers their jobs, most of whom are now unemployed or working at jobs that pay less than the ones they lost.

The U.S. economy created jobs at a fairly rapid rate in the 1990s, but without NAFTA, hundreds of thousands of full time, high wage, benefit-paying manufacturing jobs would not have been lost. It is also important to note that while the U.S. economy is generating substantial numbers of new jobs in absolute terms, the quality of jobs created is often poor. The U.S. Department of Labor projects that the professions with the greatest expected future growth in the U.S. are cashiers, waiters and waitresses, janitors and retail clerks. These and other lower-wage service jobs are the kind that will most likely be available to workers displaced by NAFTA.

Economic surveys of dislocated workers shows that the jobs lost to NAFTA, in many cases high-paying manufacturing jobs, are, in the majority of cases, replaced by lower-paid employment. NAFTA also has had a negative effect on the wages of many Americans whose jobs have not been relocated but whose wage bargaining power with their employers is substantially lessened; NAFTA puts them in direct competition with skilled, educated Mexican workers who work for a dollar or two an hour or less. NAFTA was supposed to ameliorate this problem by raising Mexican living standards and wages. Instead, both have plummeted, harming the economic prospects for workers on both sides of the border.

Document 9. Mexico to Lift Import Tariffs (April, 2002)

(Source: www.agroenlinea.com/agro/pestado/news/180402a.htm)

MEXICO CITY - Economy Minister Luis Ernesto Derbez said late Thursday that Mexico will lift anti-dumping import duties on high fructose corn syrup from the United States, but will limit tariff-free imports to 163,000 tons (148,000 metric tons) per year. Derbez told a news conference that the import quota matches the amount of Mexican sugar that the United States allows to be imported tariff-free. Any fructose imports over the new quota will pay an import tariff of 210 percent, he said. Derbez said that Mexico is seeking access to the U.S. market for all of its excess sugar production, as stipulated in the North American Free Trade Agreement. A NAFTA panel Monday ordered Mexico to lift the anti-dumping duties because they were incompatible with Mexico's international trade commitments.

Mexico imported about 385,000 tons (350,000 metric tons) of fructose from the United States last year. Derbez said the decision to limit fructose imports seeks to support debt-troubled domestic sugar farmers, without violating the spirit of NAFTA. President Vicente Fox and his government have clashed in recent months with a Congress that has historically supported tariffs to block the importation of U.S. fructose.

The government in February suspended for five months a 20 percent tax on beverages made with fructose instead of sugar, which the Congress passed as it made modifications to Fox's tax reform package late last year. Derbez said the tax hurt Mexico's soft drink industry and was "not the adequate strategy" to resolve the fructose controversy. Derbez said the government will continue to discuss the issue with legislators, and hopes to "show Congress that this is the right path to take."

Document 10. In Corn's Cradle, U.S. Imports Bury Family Farms

by Tim Weiner (Source: *The New York Times*, February 26, 2002)

For many generations, corn has been the sacred center of civilization in Mexico, the place where the grain was first cultivated some 5,000 years ago. Gods and goddesses of corn filled the dreams and visions of the great civilizations that rose and fell here before the Spaniards came five centuries ago. Today the corn tortilla is consumed at almost every meal. Among the poor, sometimes it is the entire meal. But the modern world is closing in on the little patch of maize that has sustained millions of Mexicans through the centuries. The powerful force of American agribusiness, unleashed in Mexico by the North American Free Trade Agreement, may doom the growing of corn as a way of life for family farmers here.

Lorenzo Rebello, a 53-year old dirt farmer, works two and a half acres of corn and beans in Mexico's central highlands. Mr. Rebello is one of about 3 million Mexicans who farm corn and support roughly 15 million family members. His grown sons have left for the United States to make a living. It is the same story all over Mexico: thousands of farmers pulling up stakes every year, heading for Mexico City or the United States.

Roughly a quarter of the corn in Mexico is now imported from the United States. Men like Mr. Rebello cannot compete against the mechanized, subsidized giants of American agriculture. Since NAFTA took effect eight years ago, imports of corn to Mexico from the United States have increased nearly eighteenfold, according to the United States Department of Agriculture. The imports will probably keep growing for the next six years as the final phases of NAFTA take effect.

In the United States, corn growers receive billions of dollars a year in subsidies from Congress, much of it going to huge agribusiness operations. That policy fuels huge surpluses and pushes corn prices down. In Mexico, NAFTA did away with many traditional subsidies and generous price supports. Some contend it is doing away with small farmers. Under a slowly lifting ceiling, the United States will be able to export all the corn it wants to Mexico, duty free, by 2008. NAFTA's drafters told Mexico's farmers that as the ceiling lifted, the price of corn in Mexico would slowly fall toward United States and international prices over the 15-year period. But instead, prices plunged quickly, converging with the free-market price by 1997. This was good news for big companies in Mexico importing corn for animal feed and processed food. But it was hard on the farmers, who have little political clout under the government of President Vicente Fox, an ardent free-trader.

Document 11. NAFTA After 5 Years: "Free" Trade Is Often Costly

by Kathy McCabe (Source: *The Boston Globe*, May 9, 1999, www.bostom.com/globe)

Gleaming with fresh paint and revving up for 200 new workers by fall, Jostens Inc.'s Attleboro plant is set to reclaim its place as the crown jewel of high school ring makers. Two years ago, the company shifted most of the production at its flagship Attleboro (Minnesota) factory to Mexico after the North American Free Trade Agreement was enacted. But it recently moved back, citing high production costs and poor craftsmanship south of the border. Five years after NAFTA created the world's largest free trade zone, the controversial pact hasn't always worked the way it was supposed to. Some employers who moved operations out of the United States have encountered problems with quality and production. Many displaced workers say they are not satisfied with NAFTA's job retraining benefits.

In the bigger picture, NAFTA has not lived up to its goal of narrowing the U.S. trade imbalance and expanding the American economy by spurring American exports, some economists and critics say. Last year, the U.S. trade deficit hit a record \$230 billion, compared to \$150 billion in 1994, the year NAFTA took effect. The trade gap has grown wider with Mexico and Canada, too. A \$1.3 billion surplus with Mexico in 1994 turned into a \$15.7 billion deficit last year. The deficit with Canada grew from \$13.9 billion to \$18.5 billion last year. Commerce Secretary William Daley attributes the surging deficit more to the global financial crisis and the strength of the U.S. economy than to trade pacts such as NAFTA.

NAFTA has not proven to be a magic bullet. And for employers and employees alike, the trade agreement has brought hidden costs and unexpected challenges. Jostens, the nation's largest maker of high school rings, aimed for big profits and lower labor costs when it packed up most of its Attleboro plant two years ago and shifted production to a subcontractor's factory in Mexico. Jostens aimed to save \$5 million to \$10 million annually. But it didn't work out that way for the Minnesota-based company. It discovered that cheaper labor -- its Mexican work force earned about \$4 per hour -- came at a high cost. The company was forced to spend more money to train low-skilled

workers who struggled to master stone setting, enameling, toolmaking, and other skills. Also, most of its work force didn't return after a Christmas shutdown, a problem Jostens attributes to severe instability in the labor force. In February, Jostens buttoned up its contract facility in Nuevo Laredo and hauled its equipment back to Attleboro, a nationally known jewelry making center, where Jostens has operated for 31 years. Since returning to Attleboro, Jostens has invested \$500,000 to retool the plant and is now looking to hire up to 200 full-time and seasonal workers by October. Some of the 30 employees it has hired so far are the same workers it had previously laid off. The jobs pay from \$7 to \$10 per hour, with benefits.

Document 12. Bills Aim To Ease Impact (1997)

(Source: Public Citizen, www.citizen.org)

Two separate pieces of legislation in Congress aim to soften the impact of free trade on workers. One bill seeks to consolidate the worker retraining programs included in NAFTA and the Trade Adjustment Act to make them more helpful to workers, said a spokesman for U.S. Representative Robert Matsui, a Democrat from California and the chief sponsor of the bill. The bill, now before the House Ways and Means subcommittee on trade, would create a single program to provide training and economic assistance for workers who lose their jobs because of imports or manufacturing shifts in production to foreign countries.

A second measure, the NAFTA Accountability Act, calls for the government to reassess the trade pact and renegotiate any provision not found to be working. In the Republican-controlled House, the bill has languished in committee. But the bill's chief sponsor, Representative Marcy Kaptur, an Ohio Democrat, plans to reintroduce the legislation this year and push for its main provisions, such as improved worker and environmental benefits. "NAFTA really shifted the playing field for trade," Kaptur said. "We need a monitoring system. This (act) is a good recipe for what needs to be done in order to make a trade agreement successful."

While aggressively defending free trade policies, Commerce Secretary William Daley said the government and employers should do more to help workers hurt by global trade. "It's easy for us who have jobs to talk about (free trade) and not sound sensitive to someone who has just lost their job because the company's owner has just said he's moving to Mexico," said Daley. "People have to have skills, and companies have to keep workers trained for the jobs of today."

Document 13. Impact of NAFTA on New York (Source: Public Citizen, www.citizen.org)

By 1997, the United States Department of Labor had certified 10,785 New York workers as having lost their jobs due to NAFTA. Companies which laid-off over 200 employees are listed on this chart.

Company	Product	Lay-Offs	Cause	Town
Al Tech Specialty Steel	steel manufacturing	1100	Moved to Canada	Watervliet
Fisher-Price	toys	520	Mexican imports	Medina
Fulton Brewery	beer	900	NAFTA imports	Fulton
Lockheed	circuit boards	384	Moved to Mexico	Utica
Mallinckrodt	airway products	400	Moved to Mexico	Argyle
Mallinckrodt	medical devices	450	Moved to Mexico	Argyle
Niagara Mohawk	electric (hydro) power	2600	Canadian imports	Syracuse
Smith Corona	typewriters/ wordprocessors	874	Moved to Canada	Cortland
Standard Products	auto body side molding	264	Canadian imports	Schenectady
TRW	switches	420	Moved to Mexico	Union Springs