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NAFTA'S CAUTIONARY TALE

Recent history suggests CAFTA could lead to further U.S. job displacement[1]

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The rise in the U.S. trade deficit with Canada and Mexico through 2004 has caused the displacement of production that supported 1,015,291 U.S. jobs since the North American Free Trade Agreement (NAFTA) was signed in 1993. Jobs were displaced in every state and major industry in the United States. Two thirds of those lost jobs were in manufacturing industries. The proposed Dominican Republic–Central American Free Trade Agreement (DR–CAFTA) duplicates the most important elements of NAFTA, and it will only worsen conditions for workers in the United States and throughout the hemisphere (Faux, Campbell, Salas, and Scott 2001). Since NAFTA took effect, the growth of exports supported approximately 1 million U.S. jobs, but the growth of imports displaced domestic production that would have supported 2 million jobs. Consequently, the growth of the U.S. trade deficit with Mexico and Canada caused a *net* decline in U.S. production that would have supported about 1 million U.S. jobs.

Before adopting an agreement such as DR-CAFTA, it is important to understand the following about NAFTA's effect on U.S. jobs:

- The 1 million job opportunities lost nationwide are distributed among all 50 states and the District of Columbia. Those affected most in terms of total jobs displaced include: California (-123,995), Texas (-72,257), Michigan (-63,148), New York (-51,582), Ohio (-49,886), Illinois (-47,701), Pennsylvania (-44,173), Florida (-39,987), Indiana (-35,157), North Carolina (-34,150), and Georgia (-30,464) (see **Appendix Table A-1**).
- The 10 hardest-hit states, as a share of total state employment, are: Michigan (-63,148, -1.44%), Indiana (-35,157, -1.19%), Mississippi (-11,630, -1.03%), Tennessee (-25,588, -0.94%), Ohio (-49,886, -0.92%), Rhode Island (-4,482, -0.91%), Wisconsin (-25,403, -0.90%), Arkansas (-10,321, -0.89%), North Carolina (-34,150, -0.89%), and New Hampshire (-5,502, -0.87%) (see **Appendix Table A-2**).

NAFTA is a free trade and investment agreement that provided investors with a unique set of guarantees designed to stimulate foreign direct investment and the movement of factories within the hemisphere, especially from the United States to Canada and Mexico. No protections were contained in the core of the agreement to maintain labor or environmental standards. As a result, NAFTA tilted the economic playing field in favor of investors and against workers and the environment, causing a hemispheric "race to the bottom" in wages and environmental quality.

NAFTA has also failed to deliver on its promised benefits to the poorest citizens of the hemisphere, many of them living in Mexico. Real wages of Mexican manufacturing workers have fallen despite a decade of strong GDP growth (Salas 2001). There have been substantial increases in informal sector work such as street vending and unpaid family work in stores and restaurants. One major study has concluded that "NAFTA has not helped the Mexican economy keep pace with the growing demand for jobs…The agricultural sector, where almost a fifth of Mexicans still work, has lost 1.3 million jobs" (Audley, Papademetriou, Polaski, and Vaughan 2003, 5-6).

These experiences raise serious questions about the likely economic impact of the proposed DR–CAFTA agreement on the economies of the United States, and equally important, its neighbors in the Dominican Republic and Central America.

False promises

Proponents of new trade agreements that build on NAFTA, such as the proposed Free Trade Agreement of the Americas (FTAA), have frequently claimed that such deals create jobs and raise incomes in the United States. Similar claims are being made for CAFTA. For example, the Office of the U.S. Trade Representative has cited "estimates that CAFTA could expand U.S. farm exports by $1.5 billion….[and that] manufacturers would also benefit." They also claim that the agreement will support "U.S. exports and jobs" (USTR 2005). These statements echo claims that were made by the administration and many economists more than a decade ago when NAFTA was first proposed. The USTR's office claimed in 1993 that "with NAFTA we anticipate 200,000 more export-related jobs by 1995" and that "wages of U.S. workers in jobs related to exports to Mexico are 12% *higher* than the national average" (USTR 1993, emphasis in the original).

Promises about jobs and exports misrepresent the real effects of trade on the U.S. economy: trade both supports and displaces jobs. Increases in U.S. exports tend to create jobs in the United States, but increases in imports tend to displace jobs because the imports supplant goods that otherwise would have been made in the United States by domestic workers.

The impact on employment of changes in trade is estimated here by calculating the labor content of changes in the trade balance—the difference between exports and imports. If the United States exports 1,000 cars to Mexico, many American workers are employed in their production. If, however, the United States imports 1,000 cars from Mexico rather than building them domestically, the Americans who would have otherwise been employed in the auto industry will have to find other work.

Another critically important promise made by the promoters of NAFTA was that the United States would benefit because of increased exports to a large and growing consumer market in Mexico. This market, in turn, was to be based on an expansion of the middle class that, it was claimed, would grow rapidly due to the wealth created in Mexico by NAFTA. However, wages for most workers in Mexico have stagnated or declined in real terms since NAFTA took effect (Salas 2001).

In fact, a large and rapidly growing share of U.S. exports to Mexico are parts and components that are shipped to Mexico and assembled into final products that are then returned to the United States. The number of products that Mexico assembles and exports—such as refrigerators, TVs, automobiles, and computers—has mushroomed under the NAFTA agreement. Many of these products are produced in the Maquiladora export processing zones in Mexico, where parts enter duty-free and are re-exported to the United States in assembled products, with duties paid only on the value added in Mexico. The share of total U.S. exports to Mexico that return to the United States as Maquiladora imports has risen from 39% of U.S. exports in 1993 to 62% in 2004 (U.S. Department of Commerce 2005, Table 56; International Monetary Fund 2005).[2] The number of such plants increased from 2,143 in 1993 to 3,703 in 2000 (Instituto National de Estadística, Geografía e Informática 2005; National Financiera 2005). However, between 2000 and 2004, the number of Maquiladora plants operating in Mexico fell by nearly 900, as Mexico's exports to the United States began to level off, while U.S. imports from China soared.

Growing trade deficits and job losses

In the past, NAFTA's impact in the United States was often obscured by the "boom-and-bust" cycle that drove domestic consumption, investment, and speculation in the mid- and late 1990s. Between 1994 (when NAFTA was implemented) and 2000, total employment rose rapidly in the United States, causing overall unemployment to fall to low levels. But unemployment began to rise early in 2001, and 2.7 million domestic jobs were lost between February 2001 and May 2003 (BLS 2005). Employment began to recover thereafter and finally exceeded the previous peak level of employment in January 2005. Although the national labor market has begun to recover, manufacturing employment absorbed the brunt of the job losses in the recession and has continued to stagnate. Since the beginning of the 2001 recession, 2.8 million manufacturing jobs have been lost, a decline of 16.8%. Growing trade deficits are responsible for 34% to 58% of this decline in manufacturing employment (Bivens 2004). As job growth has stumbled, the underlying problems caused by U.S. trade deficits have become much more apparent, especially in manufacturing.

The United States has experienced steadily growing global trade deficits for nearly three decades, and these deficits accelerated rapidly after NAFTA took effect on January 1, 1994. For the purposes of this analysis, it is necessary to distinguish between exports produced domestically and foreign exports, which are goods produced in other countries, exported to the United States, and then re-exported from the United States. Foreign exports made up 14.9% of total U.S. exports to Mexico and Canada in 2004. However, because only domestically produced exports generate jobs in the United States, this analysis' trade calculations are based only on domestic exports. The measure of the net impact of trade which is used here to calculate the employment content of trade is the difference between domestic exports and total imports. This measure is referred to as "net exports," to distinguish it from the more commonly reported gross trade balance (see, for example, U.S. International Trade Commission 2005). However, both concepts are measures of net trade flows.

Although U.S. domestic exports to its NAFTA partners have increased dramatically—with real growth of 114% to Mexico and 60% to Canada—growth in imports of 274% from Mexico and 90% from Canada overwhelmingly surpass export growth, as shown in **Table 1**. The resulting $20.6 billion U.S. net export deficit with these countries in 1993 increased by 538% to $110.6 billion in 2004 (all figures in inflation-adjusted 1996 dollars).[3]

TABLE 1
Trade and trade-related job displacement with Canada and Mexico, 1993-2004
Totals for all commodities (billions of constant 1996 dollars)

					Changes after NAFTA			
					Dollars (billions)			% change
	1993	1997*	1997**	2004	1993-97*	1997-2004**	1993-2004	1993-2004
Changes in U.S.–NAFTA trade								
Mexico								
Domestic exports	$41.9	$69.5	$68.7	$89.6	$27.6	$20.9	$48.4	114%
Imports	40.1	85.6	85.3	150.0	45.5	64.7	110.2	274
Net exports	1.8	-16.1	-16.6	-60.5	-17.9	-43.8	-61.8	-3489
Canada								
Domestic exports	$96.7	$135.3	$134.8	$155.1	$38.6	$20.3	$58.8	60%
Imports	119.1	168.5	168.2	226.5	49.4	58.3	107.7	90
Net exports	-22.4	-33.2	-33.4	-71.4	-10.8	-38.0	-48.9	219
NAFTA totals								
Domestic exports	$138.7	$204.8	$203.6	$244.7	$66.1	$41.1	$107.2	77%
Imports	159.2	254.1	253.5	376.5	94.9	123.0	217.9	137
Net exports	-20.6	-49.3	-50.0	-131.9	-28.7	-81.9	-110.6	538

U.S. trade-related jobs supported and displaced *NAFTA totals*	1993	1997*	1997**	2004	1993-97	1997-2004**	1993-2004	*% change* 1993-2004
Jobs supported by domestic exports	1,222,580	1,757,364	1,989,689	2,396,363	534,785	406,675	941,459	77%
Jobs displaced by imports	1,331,327	2,146,394	2,401,488	3,543,171	815,066	1,141,683	1,956,750	147%
Net exports	-108,748	-389,029	-411,799	-1,146,808	-280,282	-735,008	-1,015,290	934%

* SIC–based industry definitions and deflators
** NAICS–based industry definitions and deflators

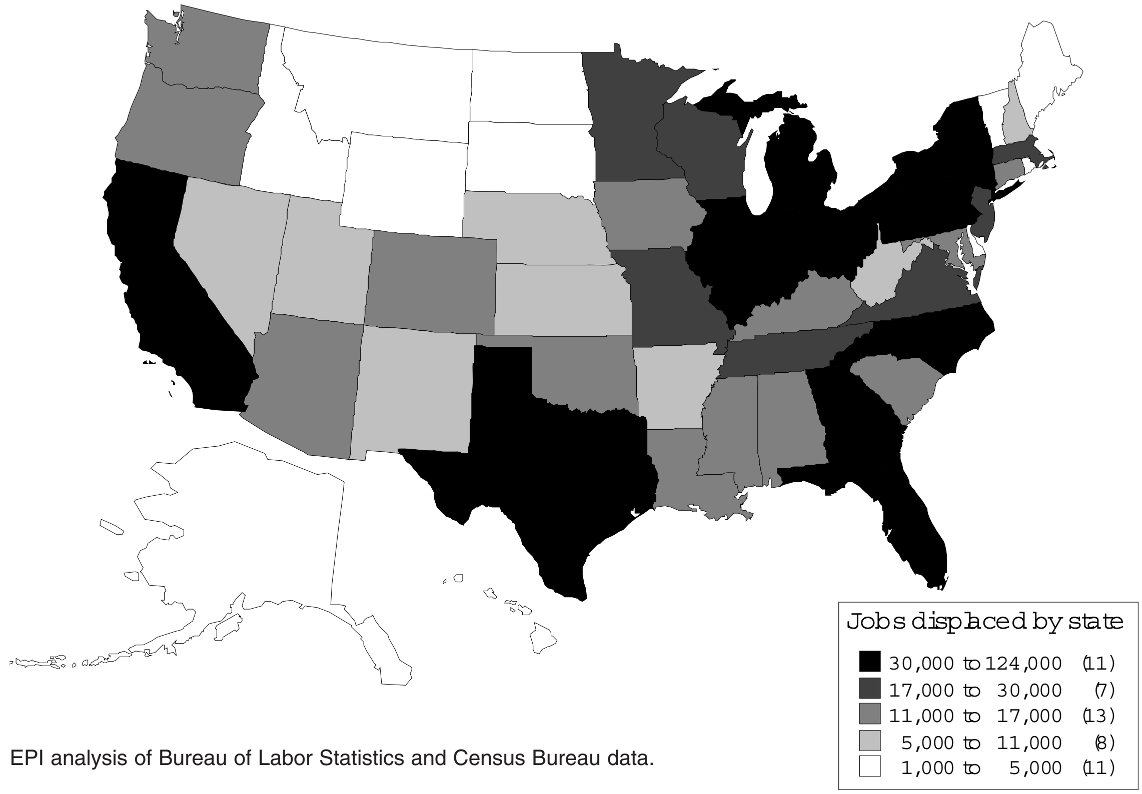
Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data

The growth of exports to Mexico and Canada since NAFTA took effect stimulated domestic productions that supported 941,459 U.S. jobs, as shown in Table 1. However, the growth of imports displaced domestic production that supported 1,956,750 jobs. Changes in trade led to a net loss of 1,015,290 jobs between 1993 and 2004.

The growth in the net export deficit in this period resulted in a net loss in demand for goods in every region of the United States and has led to job losses in all 50 states and the District of Columbia, as shown in **Figure A** and **Appendix Table A-3**.[4] Through May 2005, the U.S. goods trade deficit with Mexico and Canada has increased 7% over the same period last year (U.S. Census Bureau 2005a). Job losses for the remainder of 2005 are likely to grow at a similar rate.

FIGURE A

NAFTA costs jobs in every state



Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

NAFTA, CAFTA and the U.S. economy

Although NAFTA is not responsible for all U.S. labor market problems, it has made a significant contribution to the state of the U.S. economy, both directly and indirectly. Without major changes in NAFTA to address unequal levels of development and enforcement of labor rights and environmental standards, continued integration of North American markets will threaten the prosperity of a growing share of the U.S. workforce. Expansion of NAFTA–style agreements, such as DR–CAFTA and the proposed Free Trade Agreement of the Americas, will only worsen these problems and displace production that could support more U.S. jobs. Past experience suggests that workers have good reasons to be concerned with expansion of NAFTA as the agreement enters its second decade.

APPENDIX TABLE A-1
NAFTA jobs supported or displaced by state, 1993-2004
(Ranked by total jobs displaced)

	Changes due to growth in:		
	Exports (job supported)	Imports (jobs displaced)	Net exports (net jobs supported or displaced)
California	102,511	226,466	-123,955
Texas	65,229	137,486	-72,257
Michigan	55,157	118,305	-63,148
New York	42,996	94,578	-51,582
Ohio	51,512	101,398	-49,886
Illinois	47,861	95,562	-47,701
Pennsylvania	42,346	86,519	-44,173
Florida	33,488	73,475	-39,987
Indiana	33,973	69,130	-35,157
North Carolina	35,725	69,875	-34,150
Georgia	28,196	58,660	-30,464
Tennessee	21,243	46,831	-25,588
Wisconsin	26,817	52,221	-25,403
New Jersey	22,680	46,971	-24,291
Massachusetts	21,263	44,685	-23,422
Virginia	20,974	43,423	-22,450
Minnesota	20,410	39,689	-19,278
Missouri	19,915	38,481	-18,566
Arizona	13,459	30,075	-16,616
Alabama	16,872	33,470	-16,598
Washington	14,688	31,203	-16,515
Kentucky	16,285	31,083	-14,798
South Carolina	19,376	34,010	-14,634
Oregon	11,740	25,393	-13,653
Colorado	11,497	24,851	-13,354
Louisiana	9,512	22,590	-13,078
Oklahoma	11,548	24,364	-12,817
Maryland	11,386	23,987	-12,601
Mississippi	8,937	20,567	-11,630
Connecticut	11,399	22,947	-11,549
Iowa	11,579	22,989	-11,409
Arkansas	8,907	19,228	-10,321
Kansas	8,431	16,818	-8,387
Utah	7,305	15,327	-8,022
West Virginia	5,933	11,918	-5,984
New Hampshire	5,276	10,778	-5,502
Nevada	4,815	9,931	-5,116
Nebraska	6,423	11,525	-5,101
New Mexico	4,018	9,059	-5,042
Rhode Island	4,387	8,870	-4,482
Maine	3,480	7,545	-4,064
Idaho	4,209	8,054	-3,845
Montana	2,285	4,975	-2,691
South Dakota	2,766	5,445	-2,679
Vermont	2,279	4,547	-2,268
Hawaii	1,935	4,136	-2,200
Delaware	2,906	5,019	-2,113
Wyoming	1,620	3,719	-2,099
Alaska	1,261	3,331	-2,070
North Dakota	1,782	3,320	-1,538
District of Columbia	865	1,919	-1,054
Total U.S.	**941,459**	**1,956,750**	**-1,015,290**

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

APPENDIX TABLE A-2
NAFTA jobs supported and displaced by state, 1993-2004
(Ranked by share of total state jobs displaced in 2004)

	Changes due to growth in:			
			Net exports	
	Exports (job supported)	Imports (jobs displaced)	(net jobs supported or displaced)	(net jobs as a share of total state employment in December 2004)
Michigan	55,157	118,305	-63,148	-1.44%
Indiana	33,973	69,130	-35,157	-1.19
Mississippi	8,937	20,567	-11,630	-1.03
Tennessee	21,243	46,831	-25,588	-0.94
Ohio	51,512	101,398	-49,886	-0.92
Rhode Island	4,387	8,870	-4,482	-0.91
Wisconsin	26,817	52,221	-25,403	-0.90
Arkansas	8,907	19,228	-10,321	-0.89
North Carolina	35,725	69,875	-34,150	-0.89
New Hampshire	5,276	10,778	-5,502	-0.87
Alabama	16,872	33,470	-16,598	-0.87
Oklahoma	11,548	24,364	-12,817	-0.86
California	102,511	226,466	-123,955	-0.85
Oregon	11,740	25,393	-13,653	-0.84
Kentucky	16,285	31,083	-14,798	-0.82
Illinois	47,861	95,562	-47,701	-0.82
Wyoming	1,620	3,719	-2,099	-0.81
West Virginia	5,933	11,918	-5,984	-0.81
South Carolina	19,376	34,010	-14,634	-0.80
Iowa	11,579	22,989	-11,409	-0.78
Georgia	28,196	58,660	-30,464	-0.78
Pennsylvania	42,346	86,519	-44,173	-0.78
Texas	65,229	137,486	-72,257	-0.76
Vermont	2,279	4,547	-2,268	-0.74
Massachusetts	21,263	44,685	-23,422	-0.73
Utah	7,305	15,327	-8,022	-0.72
Minnesota	20,410	39,689	-19,278	-0.71
South Dakota	2,766	5,445	-2,679	-0.70
Connecticut	11,399	22,947	-11,549	-0.69
Arizona	13,459	30,075	-16,616	-0.69
Missouri	19,915	38,481	-18,566	-0.69
Louisiana	9,512	22,590	-13,078	-0.68
Alaska	1,261	3,331	-2,070	-0.68
Maine	3,480	7,545	-4,064	-0.66
Idaho	4,209	8,054	-3,845	-0.65
Montana	2,285	4,975	-2,691	-0.64
New Mexico	4,018	9,059	-5,042	-0.63
Kansas	8,431	16,818	-8,387	-0.63
Virginia	20,974	43,423	-22,450	-0.62
New York	42,996	94,578	-51,582	-0.61
Washington	14,688	31,203	-16,515	-0.61
Colorado	11,497	24,851	-13,354	-0.61
New Jersey	22,680	46,971	-24,291	-0.60
Nebraska	6,423	11,525	-5,101	-0.55
Florida	33,488	73,475	-39,987	-0.53
Maryland	11,386	23,987	-12,601	-0.50
Delaware	2,906	5,019	-2,113	-0.49
North Dakota	1,782	3,320	-1,538	-0.46
Nevada	4,815	9,931	-5,116	-0.43
Hawaii	1,935	4,136	-2,200	-0.37
District of Columbia	865	1,919	-1,054	-0.16
Total U.S.	**941,459**	**1,956,750**	**-1,015,290**	**-0.77%**

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

APPENDIX TABLE A-3
NAFTA Jobs supported and displaced by state, 1993-2004
(Ranked alphabetically)

	Changes due to growth in:		
	Exports (job supported)	Imports (jobs displaced)	Net exports (net jobs supported or displaced)
Alabama	16,872	33,470	-16,598
Alaska	1,261	3,331	-2,070
Arizona	13,459	30,075	-16,616
Arkansas	8,907	19,228	-10,321
California	102,511	226,466	-123,955
Colorado	11,497	24,851	-13,354
Connecticut	11,399	22,947	-11,549
Delaware	2,906	5,019	-2,113
District of Columbia	865	1,919	-1,054
Florida	33,488	73,475	-39,987
Georgia	28,196	58,660	-30,464
Hawaii	1,935	4,136	-2,200
Idaho	4,209	8,054	-3,845
Illinois	47,861	95,562	-47,701
Indiana	33,973	69,130	-35,157
Iowa	11,579	22,989	-11,409
Kansas	8,431	16,818	-8,387
Kentucky	16,285	31,083	-14,798
Louisiana	9,512	22,590	-13,078
Maine	3,480	7,545	-4,064
Maryland	11,386	23,987	-12,601
Massachusetts	21,263	44,685	-23,422
Michigan	55,157	118,305	-63,148
Minnesota	20,410	39,689	-19,278
Mississippi	8,937	20,567	-11,630
Missouri	19,915	38,481	-18,566
Montana	2,285	4,975	-2,691
Nebraska	6,423	11,525	-5,101
Nevada	4,815	9,931	-5,116
New Hampshire	5,276	10,778	-5,502
New Jersey	22,680	46,971	-24,291
New Mexico	4,018	9,059	-5,042
New York	42,996	94,578	-51,582
North Carolina	35,725	69,875	-34,150
North Dakota	1,782	3,320	-1,538
Ohio	51,512	101,398	-49,886
Oklahoma	11,548	24,364	-12,817
Oregon	11,740	25,393	-13,653
Pennsylvania	42,346	86,519	-44,173
Rhode Island	4,387	8,870	-4,482
South Carolina	19,376	34,010	-14,634
South Dakota	2,766	5,445	-2,679
Tennessee	21,243	46,831	-25,588
Texas	65,229	137,486	-72,257
Utah	7,305	15,327	-8,022
Vermont	2,279	4,547	-2,268
Virginia	20,974	43,423	-22,450
Washington	14,688	31,203	-16,515
West Virginia	5,933	11,918	-5,984
Wisconsin	26,817	52,221	-25,403
Wyoming	1,620	3,719	-2,099
Total U.S.	**941,459**	**1,956,750**	**-1,015,290**

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

Endnotes

1. This report updates Scott (2003).

2. This calculation compares total U.S. exports to Mexico, as reported by the U.S., with total imports into the Maquiladora plants, as reported by Mexico.

3. The analysis presented in Table 1 is based on a detailed, industry-based study of the relationships between changes in trade flows and employment for each of approximately 200 sectors of the U.S. economy. The definitions of industries used by the Bureau of Economic Analysis in the U.S. Department of Commerce changed during the period of this study. The Standard Industrial Classification system was developed and used by the U.S. Census Bureau to categorize different sectors of the economy. The definition of these sectors was derived from the Census of Manufactures (the most recent SIC code definitions were based on the 1987 Census). Between 1989 and 1997, SIC-based industry definitions are used in this study. The North American Industry Classification System (NAICS) was developed jointly by the United States, Canada, and Mexico to provide new comparability in statistics about business activity across North America. It was first used in the release of Census data for 1999. The most recent revisions, based on the 2002 Census of Manufactures, were used in this analysis. Between 1997 and 2003, NAICS-based industry definitions had to be used.

   As a result of the two, slightly different definitions of industries used in this analysis, the total impact of NAFTA on U.S. trade flows and employment represents the sum of the impacts of NAFTA in the two time periods of 1993 to 1997 and 1997 to 2004, as shown in Table 1.

4. The trade and employment relationships estimated in this study are based on input-output and employment requirements analysis based on data from the Bureau of Labor Statistics (2004). For further explanation of the methodology used in this report, see Scott (2005, especially 18, 21-23).

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