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# EPI Issue Brief

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## DISTORTING THE RECORD

### NAFTA's promoters play fast and loose with facts

*by Robert E. Scott*

As has been the case throughout much of the debate over NAFTA, the agreement's advocates often have been selective in the statistics cited when proclaiming it a success. A recent example can be found in National Association of Manufacturers Vice President Franklin Vargo's claim that those who find NAFTA "has not been beneficial to the United States have simply not looked at the facts....NAFTA has been an enormous success."<sup>1</sup> Vargo then goes on to support this contention with a selective, inappropriate use of trade statistics and with a fundamentally flawed critique of EPI's recent report, *NAFTA at Seven* (EPI 2001), which documented the wide-spread damage the agreement has wrought.

The National Association of Manufacturers (NAM) made two basic mistakes in its statements<sup>2</sup> regarding NAFTA and EPI's report:

- NAM claimed that many imports don't compete with U.S. products, including oil, which explains one-third of the U.S. deficit with Mexico. This claim, however, is false—the U.S. balance of trade with Mexico in crude oil and natural gas actually has improved in real terms since NAFTA took effect on January 1, 1994. The reality is that the rapid increase in the import of manufactured goods explains almost all of the growing U.S. deficit with Mexico and Canada.
- NAM also claimed that the auto sector dominates the manufacturing trade deficit with Mexico, and all other industries are in surplus. This, too, is false—motor vehicles and parts explain less than half of the growth in the real U.S. manufacturing trade deficit with NAFTA countries since 1993, and only 10.9% of lost job opportunities are in this industry.

In its promotion of NAFTA, NAM hides the widespread damage caused to most U.S. manufacturing industries by diverting attention to irrelevant statistics and by limiting its discussion of trade with Mexico to only two industries. But only a small number of multinational companies have benefited from NAFTA, while many work-

ers and small businesses in a broad swath of industries based in the United States, Mexico, and Canada have suffered extensive harm from this flawed agreement.

## **NAFTA's effect on trade deficits in various industries**

EPI's analysis of the impact of trade reflects a simple, uncontested accounting rule: exports create demand for domestically produced goods, and imports reduce demand for domestically produced goods (Scott 2000). The EPI model estimates the effects on domestic employment of changes in the imports and exports of goods produced in the United States since NAFTA was implemented on January 1, 1994.<sup>3</sup>

*NAFTA at Seven* found that between 1993 and 2000, U.S. domestic exports<sup>4</sup> to its NAFTA partners increased rapidly—with real growth of 147% to Mexico and 66% to Canada.<sup>5</sup> These increases, however, were overshadowed by the larger growth in imports, which have gone up by 248% from Mexico and 79% from Canada.<sup>6</sup> The \$16.6 billion U.S. trade deficit with these countries in 1993 increased by 378%, or \$62.8 billion, by 2000 (all figures in inflation-adjusted 1992 dollars). As a result, NAFTA has led to the loss of 766,030 jobs and job opportunities in the United States, with losses in all 50 states and the District of Columbia.<sup>7</sup>

NAM's Vargo says that there are two problems with EPI's analysis. First, he claims that “many imports simply don't compete with U.S.-made products....For example, one-third of our deficit with Mexico stems from oil imports.” However, the U.S. trade balance with Mexico in all mining products (including oil) has actually improved, in real, inflation-adjusted dollars, as shown in **Table 1**, which reports changes in U.S. net export deficits with its NAFTA partners between 1993 and 2000.<sup>8</sup>

Vargo is wrong about oil for two reasons. First, NAFTA has only affected trade since 1993. It would be wrong to blame NAFTA for the *total* U.S. trade deficit with Mexico and Canada, so the EPI study carefully focuses on changes in trade since 1993. Second, the EPI study estimated the effects of changes in trade in all industries since NAFTA took effect. In a more balanced trade agreement, deficits in one sector are normally offset with surpluses in another. Mexico has a natural surplus of petroleum, which it sells to the U.S. in exchange for advanced manufactured goods. In fact, the United States had a deficit of \$4.0 billion with Mexico in net exports of oil and gas in 1993, and a deficit of \$3.9 billion in 2000 (an improvement of \$100 million).<sup>9</sup> Thus, by focusing on one sector (natural resources), NAM diverts attention from the core problem: the growing manufacturing trade deficits with Mexico in industries in which the U.S. actually should have a competitive advantage.

NAM further criticized EPI's *NAFTA at Seven* report on the grounds that the “motor vehicles” industry is responsible for most of the U.S. manufacturing trade deficit with Mexico, and that there exists a \$7 billion trade surplus in all other manufacturing industries. This claim is factually wrong. Not only did the U.S. have a \$30.8 billion net export deficit with Mexico in manufactures in 2000,<sup>10</sup> but motor vehicles and parts were responsible for less than half of this total. Other major sectors with large deficits included \$14.2 billion in electronic machinery (including phones and audio and video equipment), \$10.6 billion in computers and office machinery, \$7 billion in nonelectrical machinery, and \$6.7 billion in apparel (EPI 2001).

But this simple list of trade deficits still vastly overestimates the importance of autos, and ignores NAFTA's devastating impact on nearly all U.S. manufacturing industries. A much more complete and accurate picture of NAFTA's affect on U.S. trade with Mexico and Canada is provided in Table 1.

The first three columns in Table 1 show the changes since 1993 in U.S. net export deficits with Mexico and Canada for each of the major industrial sectors. Out of a total of 26 manufacturing industries, trade balances

**TABLE 1**  
**U.S. trade with Canada and Mexico, 1993-2000**

| Industry<br>SIC # | Industry   | Change in net exports |                |                | Net job losses  |
|-------------------|--|-----------------------|----------------|----------------|-----------------|
|                   |  | Canada                | Mexico         | NAFTA total    |                 |
|                   | Agriculture, forestry, fisheries                     | -492                  | 277            | -215           | -15,597         |
|                   | Mining   | -724                  | 116            | -608           | -3,858          |
|                   | Construction   | 0                     | 0              | 0              | -3,318          |
|                   | <b>Total, all manufacturing</b>                      | <b>-25,227</b>        | <b>-36,778</b> | <b>-62,005</b> | <b>-554,750</b> |
|                   | <b>Manufacturing industry details</b>                |                       |                |                |                 |
| 20                | Food and kindred products                            | -1,680                | -168           | -1,848         | -9,326          |
| 21                | Tobacco  | 401                   | -15            | 386            | 453             |
| 22                | Textile mill products                                | -199                  | 1,483          | 1,284          | -16,420         |
| 23                | Apparel and related products                         | -1,134                | -5,439         | -6,573         | -66,838         |
| 24                | Lumber and wood products, except furniture           | -3,281                | -106           | -3,387         | -48,306         |
| 25                | Furniture and fixtures                               | -1,585                | -385           | -1,970         | -24,195         |
| 26                | Paper and allied products                            | -1,665                | 828            | -837           | -9,449          |
| 27                | Printing, publishing, and allied products            | -401                  | 702            | 301            | -4,936          |
| 28                | Chemicals and allied products                        | 915                   | 1,599          | 2,514          | 2,017           |
| 29                | Petroleum refining and related products              | -1,260                | 1,892          | 632            | -247            |
| 30                | Rubber and miscellaneous plastics products           | -365                  | 2,497          | 2,132          | -4,820          |
| 31                | Leather and leather products                         | 3                     | -485           | -482           | -4,623          |
| 32                | Stone, clay, glass, and concrete products            | -110                  | -319           | -430           | -7,746          |
| 33                | Primary metal products                               | -56                   | 15             | -42            | -16,107         |
| 331               | Blast furnaces and basic steel products              | 903                   | -314           | 589            | -3,184          |
| 34                | Fabricated metal prod. (excl. machinery & transport) | 504                   | -541           | -36            | -28,942         |
| 35                | Machinery, except electrical                         | 11,943                | -9,902         | 2,041          | -2,838          |
| 357               | Computer and office equipment                        | 10,233                | -11,050        | -818           | -1,789          |
| 36                | Electrical & electronic mach., equip., & supplies    | -6,907                | -11,914        | -18,821        | -108,773        |
| 365               | Household audio and video equipment                  | -313                  | -5,619         | -5,932         | -28,895         |
| 366               | Communications equipment                             | -4,187                | -4,773         | -8,960         | -33,254         |
| 37                | Transportation equipment                             | -11,936               | -13,344        | -25,280        | -97,128         |
| 371               | Motor vehicles, equipment, and parts                 | -10,025               | -12,921        | -22,947        | -83,643         |
| 372;376           | Aerospace  | -1,996                | -137           | -2,133         | -12,278         |
| 38                | Scientific & prof. instr.; photographic & opt. gds.  | 721                   | -2,003         | -1,282         | -10,920         |
| 39                | Miscellaneous manufactured commodities               | -9,135                | -1,173         | -10,308        | -95,606         |
|                   | Transportation                                       | 0                     | 0              | 0              | -29,181         |
|                   | Communications                                       | 0                     | 0              | 0              | -5,009          |
|                   | Utilities  | 0                     | 0              | 0              | -4,022          |
|                   | Trade  | 0                     | 0              | 0              | -14,186         |
|                   | FIRE   | 0                     | 0              | 0              | -16,741         |
|                   | Services   | 0                     | 0              | 0              | -112,499        |
|                   | Government   | 0                     | 0              | 0              | -6,869          |
|                   | Special industries                                   | 0                     | 0              | 0              | 0               |
|                   | <b>TOTAL</b>   | <b>-26,443</b>        | <b>-36,386</b> | <b>-62,828</b> | <b>-766,030</b> |
|                   | Oil and natural gas share of total                   | 4.0%                  | -0.3%          | 1.5%           | 0.2%            |
|                   | Motor vehicles share of total                        | 37.9                  | 35.5           | 36.5           | 10.9            |
|                   | Other manufacturing share of total                   | 57.5                  | 65.6           | 62.2           | 61.5            |
|                   | Manufacturing share of total (including vehicles)    | 95.4                  | 101.1          | 98.7           | 72.4            |

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

declined in 18 industries with Canada and in 19 industries with Mexico. The biggest winners were industrial commodities such as chemicals and plastics. Overall, manufacturing absorbed more than 95% of the growth in net NAFTA imports since 1993, as shown at the bottom of the table. Changes in oil and gas were insignificant. Motor vehicles explained slightly more than one-third of the change in trade flows, and other manufacturing industries absorbed the majority of the growth in NAFTA deficits.

## **NAFTA's effect on U.S. employment**

The impact of NAFTA on employment is much more evenly spread across all manufacturing sectors, as shown in the last column of Table 1. Only two manufacturing industries experienced a net gain in jobs or job opportunities as a result of changes in NAFTA trade: chemicals and tobacco. But less than 3,000 jobs were gained in these industries, while the manufacturing sector as a whole lost more than half a million jobs and job opportunities as a result of growing NAFTA deficits between 1993 and 2000.

Contrary to NAM's claims, only 10.9% of the jobs and job opportunities lost were in motor vehicles (see Table 1). Auto and truck imports had much larger effects on employment in other industries than they did in the auto sector itself. About two-and-a-half jobs are created in other industries for every one job created in motor vehicles and parts.<sup>11</sup> Although U.S. motor vehicle employment has grown since 1993, it would have grown faster if Mexico's share of the U.S. auto market had not grown so rapidly.

Overall, the U.S. manufacturing sector lost 1.1 million jobs between April 1998 and June 2001. Although the U.S. has created more than 23 million jobs since 1992, the vast majority of these were in low-wage service sectors such as retail trade and home health care. NAFTA—combined with large, growing trade deficits with Asia and Western Europe—has shifted domestic employment away from high-wage manufacturing jobs and into low-pay industries. Thus, job losses due to NAFTA are symptoms of globalization's much larger problems: falling real wages and rising fear of joblessness for most U.S. production workers.

## **NAFTA and foreign direct investment trends**

Rapidly growing foreign direct investment (FDI) in Canada and Mexico has played a key role in disrupting the balance in trade relations between NAFTA's participants. The number of factories in Mexico's maquiladora zones has increased more than 79% since 1993, and employment in these plants increased 139% in this period.<sup>12</sup> More than 1.3 million workers were employed in more than 3,700 maquiladora plants in 2000.<sup>13</sup> The mere threat that a U.S. company could open such a plant has been used to bully workers into accepting cuts in pay, benefits, and working conditions in many U.S. factories, as shown in several recent reports.<sup>14</sup>

NAM claims that there has been only a *modest* increase in U.S. direct manufacturing investment in Mexico. Such a statement once again attempts to divert attention from the much more important effects of the global flood of manufacturing investment in Mexico and Canada. U.S. companies such as General Electric and Daimler-Chrysler finance new construction from sources all over the world. While the sources of new FDI financing in Mexico and Canada are quite diverse, the new plants all target one market: the United States, which now absorbs more than 85% of both countries' exports.

## Endnotes

1. Testimony of Franklin J. Vargo, on behalf of the National Association of Manufacturers, House Committee on Ways and Means Subcommittee on Trade, U.S. House of Representatives on *The Outcome of the Quebec Summit of the Americas and the Prospects for Free Trade in the Hemisphere*, May 8, 2001, pp. 4-5.
2. NAM affiliate USTrade released *NAFTA and Jobs Fact Watch* on June 21, 2001, which specifically criticizes the EPI estimate that NAFTA has eliminated “766,030 jobs,” as cited in an AFL-CIO congressional briefing on May 31, 2001. The USTrade critique repeats and elaborates Vargo’s attack on the EPI estimates. < [http://www.nam.org/Docs/InternationalTradeandInvestmentAffairsIssues/23172\\_nafta\\_jobs.pdf](http://www.nam.org/Docs/InternationalTradeandInvestmentAffairsIssues/23172_nafta_jobs.pdf)>
3. See EPI (2001, 10-11) for a detailed discussion of the methodology and data used in this model.
4. Domestic exports are goods produced in the U.S. and exported to other countries. Foreign exports (goods imported into the U.S. and then re-exported) to Mexico and Canada have grown rapidly since 1993. Total exports are equal to the sum of domestic plus foreign exports (Bureau of the Census 1996, 1-6).
5. See EPI (2001, 3).
6. See EPI (2001, 3).
7. See EPI (2001, 3).
8. The term “net exports” is defined in *NAFTA at Seven* as the difference between domestic exports and imports for consumption. This formula is designed to exclude foreign exports, which do not influence domestic demand for goods or labor.
9. Details not shown in Table 1—unpublished data available on request.
10. EPI (2001)—unpublished data available on request.
11. Bureau of Labor Statistics (2001a).
12. The source for this data is INEGI, Banco de Información Económica. < <http://dgcnesyp.inegi.gob.mx/BDINE/J15/J150003.htm> >
13. The source for this data is INEGI, Banco de Información Económica. < <http://dgcnesyp.inegi.gob.mx/BDINE/J15/J150003.htm> >
14. Bronfenbrenner (1997a; 1997b; 1999; 2000).

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