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By Michael G. Wilson

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As I am sure you know, the Clinton Administration at long last launched its campaign to secure congressional ratification of the North American Free Trade Agreement last September 14. Bill Clinton, flanked by former Presidents Gerald Ford, Jimmy Carter, and NAFTA architect George Bush, used the occasion of the signing of the side accords on environmental and labor standards to kick off his pro-NAFTA drive. Clinton's mission: convince the American people and members of a dubious Congress that the free trade pact with Canada and Mexico will create new U.S. jobs, expand exports, and improve U.S. economic competitiveness.

However, the President and other NAFTA supporters are facing an uphill struggle. In an effort to frustrate the pro-NAFTA enthusiasm generated by the White House ceremony, House Majority Leader Richard Gephardt announced last week that he would vote against the agreement. Moreover, anti-NAFTA forces, led by Ross Perot, Patrick Buchanan, Jesse Jackson, Ralph Nader, and a conglomeration of radical labor and environmental groups, have made the defeat of the NAFTA their top priority.

Despite their anti-NAFTA demagoguery, almost every independent and U.S. government study shows that Perot and the other anti-NAFTA leaders are dead wrong on the free trade pact. For example, it is estimated that there will be a net increase of as many as 200,000 new jobs as a result of increased U.S. exports to Mexico under the NAFTA. Today, trade with Mexico alone sustains at least 700,000 jobs in the U.S. Moreover, the NAFTA will help address many of the other concerns raised by NAFTA critics. The agreement will accelerate the rate of rising Mexican wages, it will address environmental concerns along the border and inside Mexico, it will help lock into place Mexican President Carlos Salinas de Gortari's free market and democratic reform programs, and it will diminish over time the flow of illegal immigrants and drugs crossing the U.S. border.

The bipartisan gathering of NAFTA defenders that convened at the White House two weeks ago demonstrated that backing for the agreement is not divided along party lines, but rather according to two different economic visions. Those who favor the NAFTA view the economy in global terms and believe that U.S. workers can compete and win in the global marketplace. They are also convinced that free and expanded trade benefits all Americans and that the U.S. will greatly profit through agreements like the NAFTA. However, opponents of the free trade accord tend to be inward-looking, favor the status quo, and seem to fear competing with other countries. They believe that opening U.S. markets to foreign goods greatly harms U.S. workers and the economy. They also argue that U.S. sovereignty and security will be threatened if the NAFTA goes through.

The bottom line is that the NAFTA is a win-win agreement for America. Under the NAFTA, the U.S. will be eliminating an average 4 percent tariff on Mexican goods that is less than one-half as high as the average 10 percent Mexican tariff on U.S. goods. In other words, the free

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He addressed the Committee on Canada-U.S. Relations (U.S. Chamber of Commerce), Ottawa, Ontario, on September 27, 1993.

ISSN 0272-1155.

trade pact will make it easier to produce goods and services in the U.S. and sell them to Mexico. As a result, once the NAFTA is passed, there will be less of an incentive for American companies to move south of the border in their effort to penetrate the Mexican market. Moreover, Mexicans today purchase more U.S. imports per capita than do much wealthier Japanese and Europeans, thereby supporting American jobs. As Senator Bill Bradley, the Democrat from New Jersey, stated in a recent editorial in *The Wall Street Journal*: "Defeating NAFTA won't create jobs, control immigration, or clean the environment. Either we address the problems of economic transformation head on, or we bury our heads in the sand, blame NAFTA for situations it did not create, and accept a lower standard of living and a fraying social fabric....NAFTA opens more than a trade door. It will enhance our nation in ways that are absolutely critical to growth, progress, and security in the 21st century."

The NAFTA almost certainly will prove to be President Clinton's most critical foreign policy challenge of his first term. It also will have far-reaching implications on his domestic policy agenda. Unfortunately, the NAFTA's fate probably will not be decided by an honest consideration of its costs and benefits. On that score, the facts surrounding the agreement clearly do not support the myths and allegations advanced by the agreement's opponents. To be sure, NAFTA opponents are playing unfairly upon the fears of the American people. As political commentator and economist Alan L. Keyes recently put it, if the NAFTA is defeated, "It would not be the first time in our history that a coalition of bad motives, bad arguments, and bad feelings defeated a good idea." The fight for the NAFTA, however, has only just begun. If NAFTA supporters and the Clinton Administration challenge Perot with facts and hard data—while taking the message directly to the American people—the agreement will still likely pass the Congress.

The NAFTA's Impact on the U.S. Economy

Almost every independent study on the NAFTA predicts that there will be a net gain in the number of U.S. jobs as a result of expanded American exports to Mexico and new foreign investment in the U.S. Since Mexico began to open its economy in 1986, the number of American workers producing merchandise exports to Mexico has risen from 274,000 to an estimated 700,000 last year. With NAFTA, the non-partisan International Trade Commission (ITC) predicts that 200,000 more export-related jobs will be created by 1995. Moreover, it is estimated that for every $1 billion more in exports, 22,800 jobs are created in the U.S. Just since 1986, American exports to Mexico have exploded from $12.6 billion to $40.6 billion last year. As U.S. exports to Mexico increase under the NAFTA, so too will the U.S. job base. Moreover, Americans working in jobs related to exports to Mexico make 12 percent more than the national average.

Even Clyde Prestowitz, the President of the Economic Strategy Institute, a Washington-based think tank that once was strongly against the NAFTA, now says that the pact should be ratified. Last fall, Prestowitz claimed that the NAFTA would cost up to 222,000 U.S. jobs. Today, however, he argues that "NAFTA will be a plus in the long run." His reasoning: Many U.S. companies will likely shut down their operations in Mexico and return home once Mexico lowers its trade barriers. If U.S. companies can penetrate the Mexican market without confronting tariffs, one of the key rationales for locating there in the first place disappears. Moreover, it is likely that many U.S. corporations will move their Asian manufacturing facilities to Mexico once NAFTA is enacted, making it almost certain that they would import components from the U.S., thereby creating new U.S. jobs.

According to Gary Hufbauer and Jeffrey Schott, two well known trade experts and authors of the book *NAFTA: An Assessment*, "If the NAFTA is rejected, the U.S. is likely to experience job losses. Rejection of the NAFTA would probably cause capital to leave Mexico. The resulting slowed Mexican growth and a potential devaluation of its currency would contract Mexico's imports and expand its exports, thereby slashing the U.S. trade surplus with Mexico." While Hufbauer's and Schott's job gains numbers are slightly different from those predicted by the ITC or the Clinton Administration, they still calculate that under the NAFTA, a gross total of 316,000 U.S. jobs will be created, while only a gross total of 145,000 U.S. jobs will be dislocated—leading to a net gain of 171,000 new jobs.

One of the myths that has been promoted by NAFTA opponents like Ross Perot is that lower wages in Mexico will encourage U.S. companies to relocate their plants and factories there. This concern, however, has been greatly exaggerated. Since labor represents only between 10 percent to 20 percent of production costs for most businesses, it is unlikely that a company would relocate to Mexico simply because its wages are lower than those in the United States. If U.S. companies were going to move to Mexico, they would already have done so because there is absolutely nothing stopping them from relocating there today. Mexico has already removed most of its restrictions on foreign investment and ownership of manufacturing facilities. Moreover, wage levels in Mexico are not nearly as low as many people believe and will rise steadily under the NAFTA. Since 1987, it is estimated that Mexican wages have risen by 28.7 percent. Rapidly increasing wage levels in Mexico, combined with lower productivity levels, often erase much of the wage advantage anyway.

U.S. workers earn high wages because they are the most productive workers in the world. Perot, Buchanan, and other NAFTA critics believe that Americans cannot meet the challenge of international competition. Rather than harm it, the NAFTA will enhance U.S. productivity, while increasing U.S. jobs and wages. Meanwhile, a host of problems, ranging from the costs involved with moving factories to Mexico, higher levels of worker absenteeism, a lack of educational institutions, questionable political stability, limited access to raw materials, long distance management, and distance from the primary markets (U.S. cities), also run up operating costs for U.S. firms doing business in Mexico. Consequently, few companies base plant locations on a simple calculation of wage differentials; for most U.S. manufacturers, the cost of labor is less important than such factors as access to technology, the skills of the local work force, and the quality of the transportation network.

Compare Mexico with Puerto Rico, for example. Puerto Rico has enjoyed free trade with the U.S. for decades. While a major gap still separates manufacturing wages in the U.S. and Puerto Rico, American jobs have not been negatively affected as a result of the differential. Between 1970 and 1990, employment in Puerto Rico's manufacturing sector only rose from 132,000 to 160,000 jobs, and those jobs actually fell as a share of the total work force from over 17 percent to under 15 percent. If low wages were such a magnet for manufacturing activity, Puerto Rico should have gained far more new jobs over the past two decades, and the proportion of the labor force engaged in manufacturing activity should have risen, not fallen. If cheap labor were the sole determinant of plant sites, then Mr. Perot and other U.S. industrialists would be relocating their factories to countries like Haiti and Nicaragua.

Another smokescreen that NAFTA opponents often use is that the agreement will destroy America's manufacturing base. If Mr. Perot really believes this, then he should become an honorary member of the Flat Earth Society!

To be sure, the NAFTA benefits the U.S. economy and manufacturing base because it levels the playing field with Mexico in terms of trade. As far as imports from Mexico are concerned, the U.S. already practices free trade. The NAFTA will only make it more of a two-way proposition. Mexico's average tariff barriers against U.S. exports are 2.5 times higher than the equivalent U.S. tariff against imports from Mexico. By contrast, over 50 percent of U.S. imports from Mexico already enter duty-free. Moreover, complex Mexican domestic licensing requirements further impede U.S. exports to the Mexican market. The NAFTA, however, will eliminate these tariff and non-tariff barriers.

Mexico is currently the America's third largest and fastest growing export market. Only Canada and Japan purchase more U.S. goods and services. In terms of manufactured exports, only Canada buys more U.S. goods than Mexico. Since 1986, U.S. exports to Mexico have increased by 228 percent to $40.6 billion—2.3 times faster than U.S. exports to the rest of the world. It is estimated that 70 cents of every dollar that Mexico spends on foreign products is spent on U.S. goods.

The free trade agreement, therefore, is not part of the problem, instead it is part of the solution of bolstering the U.S. manufacturing base and the U.S. economy as a whole. The NAFTA will create the world's largest market. By increasing export opportunities, the free trade accord will enable the U.S. to take advantage of its economic strengths, which include high-wage, high-technology manufacturing. According to the September 10, 1993, issue of *The Kiplinger Washington Newsletter*, "Under the NAFTA, U.S. exports to Mexico will jump by 46 percent by 1995, reaching $60 billion, compared with $41 billion last year. Six years ago the figure stood at only $14.5 billion." This increase in trade, much of which is in U.S. manufactured goods, undoubtedly will help fortify—not damage—the U.S. economy.

As Mexico's economic growth accelerates as a result of NAFTA, its demand for U.S. machinery, capital goods, consumer items, and services will expand, thereby generating new American jobs. The NAFTA will be the best possible vehicle to guarantee that U.S. firms are in an opportune position to compete in Mexico's growing market. Otherwise, countries like Japan and Germany will fill the need. Mexico, for example, needs to buy billions of dollars worth of equipment for its transportation, computer, and telecommunications systems. Since over two-thirds of Mexico's imports come from the United States, American industries that produce these products and services will be the first beneficiaries of a NAFTA.

The U.S. economy also will benefit from the NAFTA by integrating high technology with Mexico's low-cost labor. Japan is already doing this with China, Malaysia, the Philippines, and Singapore. Western Europe is beginning to do it in the Czech Republic, Hungary, Poland, and other Eastern European countries. U.S. companies, including Zenith, General Electric, the Ford Motor Company, Rockwell International Corp., AT&T, and many others have been doing it to a limited extent in Mexico, even without the NAFTA.

In the long run, the NAFTA will help the United States compete economically against European and Pacific Rim countries. U.S. "co-production" arrangements with companies in Mexico—in which U.S. firms combine low labor costs, access to capital, and technology—allow American firms to produce low-cost, quality products. And isn't that the key to competitiveness?

About 84 percent of America's economic growth last year resulted from an increase in U.S. exports. We simply cannot boost our exports without freer trade. America can revive its economy and remain the world's leading economic power only if it begins to use the resources of its neighbors as well as its own.

Another fallacy about the free trade pact is that only certain states will benefit from increased trade with Mexico. However, a June 1993 study by The Heritage Foundation demonstrates that the NAFTA will benefit the country as a whole, not just one or two particular regions. According to the study, at least 40 of the country's 50 governors support the agreement, with the others remaining undecided. Their confidence in NAFTA stems from the fact that most states have already seen sharp increases in exports to Mexico over the last five years. The U.S. Department of Commerce estimates that virtually every state in the nation has benefited from increased trade with Mexico, with every region in the U.S. posting large increases in exports to Mexico last