The North American Free Trade Agreement (NAFTA) came into force on January 1, 1994. NAFTA removed trade barriers between the United States, Mexico, and Canada and put in place new rules governing trade, investment, and immigration. Public opinion was divided ten years ago on whether NAFTA would live up to its promise; public opinion is divided today on whether it has been a success or a failure. In the short essays below, three economists give their very different perspectives on the successes and failures of NAFTA.

In the view of the American labor movement, NAFTA has been a dismal failure. Workers in all three NAFTA countries have seen disappointing wage growth, while job insecurity and inequality have grown. At the same time, NAFTA rules have disadvantaged North American family farmers, consumers, and the environment relative to multinational corporations.

While it is true that trade and investment flows between the three North American countries have grown rapidly since NAFTA was implemented in 1994, total trade and investment flows are hardly the best measure of overall welfare. Rather than encouraging sustainable and equitable growth, NAFTA has contributed to the loss of jobs and incomes of workers, while enriching the very few. NAFTA’s main outcome has been to strengthen the clout and bargaining power of multinational corporations, to limit the scope of governments to regulate in the public interest, and to force workers into more direct competition with each other, while undermining their basic rights and protections. The increased capital mobility afforded by NAFTA has hurt workers, the environment, and communities in all three NAFTA countries.

Loss of American Jobs

NAFTA was sold to the American public as a surefire jobs program. It would cut high Mexican tariffs on American goods, opening up a market of 90 million consumers on our southern border. Yet in ten years of NAFTA, our combined trade deficit with Mexico and Canada has ballooned from $9 billion to $95 billion, meaning that we now import $95 billion more worth of goods from those countries than we export, which displaces American jobs. The Labor Department has certified that more than half a million U.S. workers have lost their jobs due to NAFTA, while the Economic Policy Institute puts trade-related job losses at almost 900,000.

Even workers who have kept their jobs have seen wages, benefits, and bargaining power eroded under NAFTA.

Professor Kate Bronfenbrenner at Cornell University found that since NAFTA was put in place, employers have increasingly used the threat of shifting production to stifle union organizing drives or to block first contracts.

Benefits for Mexico?

One of the main advantages of NAFTA was supposed to be that it would alleviate poverty and low wages in Mexico, helping bring the United States and Mexico closer together. However, on this front, it has also fallen short. Real wages in Mexico are actually 7 percent lower today than before NAFTA was put in place, and the number of people in poverty has grown from 62 million to 69 million. The number of people crossing the border illegally is estimated to have doubled, contrary to predictions of NAFTA boosters, including then-President Salinas.

Furthermore, Mexico now faces difficult transitions in its farm sector, as the last round of NAFTA’s agricultural tariffs are phased out. And the rapid maquiladora employment growth of the 1990s is fading fast, as multinational corporations shift more production to China and other low-wage locations, where workers’ rights are severely repressed. These are the logical consequences of a free trade agreement that relied solely on lowering trade barriers and protecting corporate interests and did not have an adequate social dimension.
The NAFTA Model

NAFTA undermines our laws by allowing corporations to sue governments and challenge statutes protecting the environment, public health, and consumers (see Methanex case study, page 24). Legislators and ordinary citizens have no effective voice in the dispute resolution process, even though it is the laws they have voted for that are under attack.

NAFTA restricts the ability of governments to regulate services delivered across borders and by foreign investors. Recent NAFTA challenges have disturbing implications for our governments’ ability to regulate and support essential public services.

NAFTA doesn’t allow governments in Canada, Mexico, and the United States to include local preferences or workers’ rights criteria in making purchasing decisions. In fact, when the U.S. government decided to stop procuring goods made with the worst forms of child labor in 1999, it had to exclude Canada and Mexico from the order.

Finally, the NAFTA labor side agreement has utterly failed to protect workers’ rights. None of the twenty-eight cases filed under the side agreement has progressed beyond the initial stage of cooperative consultations, and no labor rights violators have had to face any penalties under the accord.

The AFL-CIO believes that increased international trade and investment can yield broad and substantial benefits, both to American working families and to our brothers and sisters around the world—if done right. Trade agreements must include enforceable protections for core workers’ rights and must preserve our ability to use our domestic trade laws effectively. They must protect our government’s ability to regulate in the public interest, to use procurement dollars to promote economic development and other legitimate social goals, and to provide high-quality public services. Finally, it is essential that workers, their unions, and other civil society organizations be able to participate meaningfully in our government’s trade policy process, on an equal footing with corporate interests.

NAFTA is a model that has utterly failed to deliver the promised benefits to ordinary citizens in any of the three North American countries. Future trade and investment agreements must appropriately address all of the social, economic, and political dimensions of trade and investment, not just those of concern to corporations. Unfortunately, NAFTA is precisely the wrong starting point.

Thea M. Lee is chief international economist at the AFL-CIO, where she oversees research on international trade and investment. She is co-author of Field Guide to the Global Economy and has testified frequently in the U.S. Congress on trade issues. She can be contacted at tlee@aflcio.org.

Daniel T. Griswold

January 1, 2004, marked the 10th anniversary of the controversial North American Free Trade Agreement. And by any objective measure, NAFTA has been a great public-policy success.

For one thing, it has delivered on its principal promise of increasing trade. Since 1993, the year before the pact took effect, two-way commerce between the United States and Mexico roughly tripled, from $81 billion to $232 billion. For another, NAFTA has helped speed Mexico’s dramatic economic and political transformation. The trade agreement marks a major milestone in Mexico’s turn away from a closed, centrally directed economic system under the authority of a one-party state to an open and dynamic market democracy.

NAFTA helped to break the grip of the once-dominant PRI party over the daily life of Mexicans. It set the stage for the election of Vicente Fox in 2000 as the first opposition-party candidate to be elected president in 71 years. NAFTA has also encouraged higher regulatory standards in Mexico and more cross-border cooperation on sensitive environmental issues. A stable, democratic, and modernizing Mexico is profoundly in America’s national interest, and the pact has helped to make that a reality.
Nevertheless, ill-informed domestic critics continue to assert that NAFTA has cost hundreds of thousands of American jobs and, further, is somehow responsible for the lingering recession in U.S. manufacturing. They use NAFTA as an argument against proposed trade agreements with Central American and other Latin American countries. But an objective look at the record shows that none of the dire warnings about the agreement have come true.

There has been no “giant sucking sound” of jobs and investment heading south. In the past decade, the U.S. economy has added a net 18 million new jobs. America’s unemployment rate is actually lower today than it was in the year before NAFTA went into effect. Since NAFTA, about 400,000 Americans have qualified for trade adjustment assistance under a special program for workers displaced by imports from Mexico, but that is a small number when spread over a decade and when compared to the millions of jobs being eliminated and created every quarter in the U.S. economy.

Though U.S. investment in Mexico has increased, American cash hasn’t exactly been gushing southward. In the past four years, America’s direct manufacturing investment in Mexico has averaged $1.9 billion a year, a fraction of the $200 billion invested annually in our domestic manufacturing capacity. In fact, U.S. companies invest far more each year in other high-wage, high-standard economies, such as those of Western Europe and Canada, than they do in such developing countries as Mexico.

NAFTA has been a blessing for many U.S. manufacturers. Our domestic automobile industry, for example, now produces about the same number of cars and light trucks in the United States as it did before the agreement, but it assembles those vehicles more cost-effectively by spreading out its sourcing among the three NAFTA countries—the United States, Mexico, and Canada. Total manufacturing output in the United States has risen 41 percent during the past ten years, compared to 34 percent in the preceding ten years. In the first five years of NAFTA, the U.S. economy added a net half million manufacturing jobs. By allowing American manufacturers to more efficiently allocate their production, NAFTA deserves a share of the credit for the healthy uptick in U.S. worker productivity since the mid-1990s.

The recession in the manufacturing sector that began in 2000 cannot be reasonably blamed on NAFTA. It began years after the agreement took effect and for reasons unrelated to NAFTA, such as the East Asian financial crisis, the bursting of the dot com and telecom bubbles, a collapse of business investment and demand, corporate scandals, and uncertainty caused by the war on terrorism. In fact, since 2000, imports from and exports to Mexico have both declined. The problem for U.S. manufacturers is not too much trade with Mexico, but not enough.

After ten years, NAFTA has proven its enduring worth to the United States and to Mexico. It has made Americans more productive and more secure by deepening relations with our southern neighbor.

Daniel T. Griswold is associate director of the Center for Trade Policy Studies at the CATO Institute. This article first appeared on the Web site of the CATO Institute and is reprinted by permission of the author.

Free trade creates both winners and losers by removing barriers to voluntary commerce between firms and individuals. As a result, consumers get lower prices, and workers find employment where their talents have the highest value to society. But in the process, some firms go out of business and some workers lose their jobs.

In the NAFTA debate, which started in 1992 and continues today, some voices have been heard more loudly than others. Consumers—including firms that purchase industrial inputs—are foremost among the winners; many workers and shareholders have also gained. The winners constitute a silent majority; NAFTA’s losers are less numerous, but far more vocal. Losers include both workers displaced by imports and workers whose wages are suppressed by potential import competition.

**NAFTA Winners: Gains through Liberalization**

Consumers have gained from NAFTA—liberalization has brought greater choice and reduced prices. For example, the variety of Mexican foods and beverages on most U.S. grocery shelves is far larger today than in the early 1990s. Also, autos are cheaper because they are assembled from components purchased from specialized factories across North America, rather than each assembly plant purchasing only native parts. The value of U.S. merchandise exports grew...
by 69 percent to Canada and 134 percent to Mexico between 1993 (the year before NAFTA came into force) and 2003. In the same period U.S. merchandise imports increased 102 and 226 percent with Canada and Mexico, respectively.¹

Not all the increase in North American trade results from NAFTA; how much can be attributed is a matter of intense debate. However, we estimate that increased North American trade since NAFTA has boosted U.S. national income (GDP, or Gross Domestic Product) by 0.27 percent, about $29 billion annually.² There is no official estimate on how many jobs were created in the United States as a result of NAFTA. Based on value added per worker in U.S. manufacturing, we estimate that the increase in North American trade between 1993 and 2003 may have increased the number of jobs supported by exports to Canada and Mexico by an average of over 100,000 per year.³

**NAFTA Losers: Adjustment Costs**

However, NAFTA has inflicted painful adjustments on some. The U.S. Department of Labor has certified that increased U.S. trade and investment with Mexico and Canada contributed to the loss of roughly 58,000 jobs per year between 1994 and 2002. Consid-
ering that U.S. employment is over 135 million, and that on average more than 7.6 percent of all jobs (10.5 million) are destroyed per quarter, this number seems fairly small.⁴ Nonetheless, far more could be done—in the form of wage insurance, retraining, and job placement—to assist displaced workers, whether the cause is NAFTA, globalization, or productivity growth.

In Mexico, the adjustment problem is potentially more severe, and the government has fewer resources to cope. In the process of industrialization, many Mexicans will leave their farms for urban life. By eliminating agricultural tariffs and quotas, NAFTA will speed up this natural process. The transition is necessary, since the agriculture sector employs about a fifth of the Mexican labor force but produces only 5 percent of national output. Still, the government could do more to assist families as they move from farm to city.

**Challenges Ahead**

NAFTA did not bring free trade and investment to all sectors of the vast North American economy. For example, Mexico “opted out” of the energy chapter of NAFTA. PEMEX, the state-run oil company, is a symbol of national sovereignty. But lacking money to invest, PEMEX cannot afford new exploration or produce oil at Mexico’s full potential, and because of Mexico’s opt-out, no other companies are allowed to enter the market to compete with PEMEX. Mexico has only 15.7 billion barrels of proven oil reserves, but experts believe that Mexico’s “ultimate potential” reserves are about 40.6 billion barrels.⁵ Meanwhile, energy shortages are often cited as disincentives to foreign investment in Mexico.⁶ “Rules of origin” determine whether a good is treated as a NAFTA or non-NAFTA import based on what percentage of the good was created within North America. The rules enable individual NAFTA countries to impose higher tariff rates on non-NAFTA products.⁷ In effect, these rules create barriers to trade. They restrict the use of parts from non-NAFTA countries and force NAFTA producers to maintain a paper trail on the origin of each part when they want to export an assembled product. Some producers find this so cumbersome that they choose to pay non-NAFTA tariff rates rather than prove NAFTA origin.

After ten years, it is clear that the agreement has succeeded in promoting trade and investment. Still, the losers of NAFTA deserve more public attention. Meanwhile, many important challenges remain on the North American agenda: a fair deal for migrant workers, freeing up agricultural trade not only between Mexico and the United States, but also between the United States and Canada; better regulation of financial markets; stronger partnership in the energy industry; and applying the same common external tariff on all non-NAFTA imports so as to eliminate the rationale for rules of origin.

Gary Clyde Hufbauer is Reginald Jones Senior Fellow at the Institute of International Economics. He is co-author of NAFTA: A Ten-Year Appraisal (forthcoming). His co-author, Paul Grieco, is a research assistant at the Institute.

---

⁵ The difference is not “proven” because there is no plan to explore these reserves in the short term. Energy Information Administration (EIA), Country Analysis Briefs: Mexico, http://www.eia.doc.gov/emenu/cabs/mexico.html (accessed April 12, 2004).
⁷ The rationale for rules of origin is to prevent non-NAFTA imports from entering one partner country by shipment through another partner country with a lower external tariff.