

# IT ALL STARTED WITH NAFTA

## NAFTA, SYMBOL AND SYSTEM:

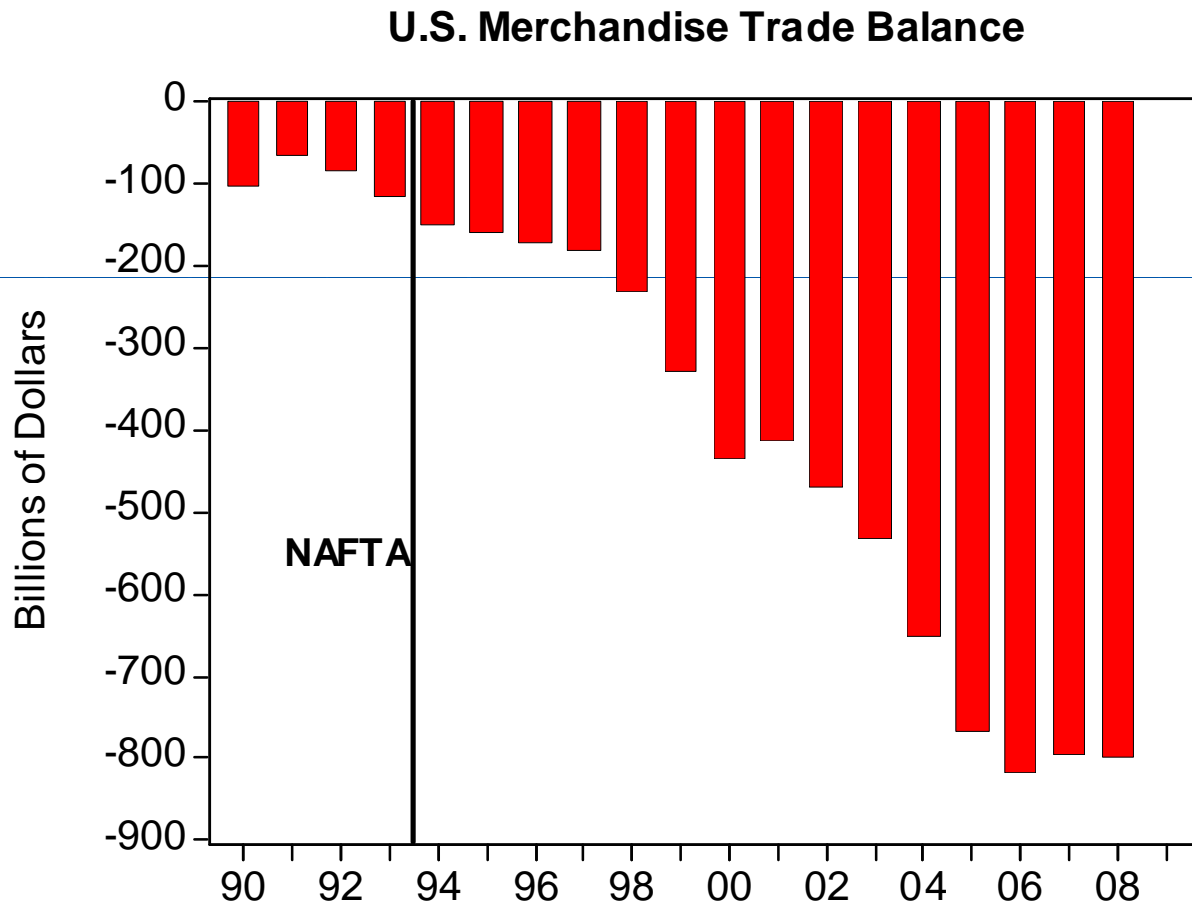
A Look at NAFTA, the U.S. Trade Debate, and  
The Future of the North American Economy

*A Global Business Dialogue Colloquium*

Frank Vargo  
Vice President, International Economic Affairs  
NATIONAL ASSOCIATION OF MANUFACTURERS  
April 23, 2009



# The United States Has a Huge Trade Deficit



Source: Foreign Trade Division, U..S. Census Bureau

**Many Say This is Because of  
U.S. Free Trade Agreements –  
and Especially NAFTA ...**



**“Since NAFTA, the U.S. trade deficit has  
grown to \$800 billion a year!”**

# WHICH THEY ALSO BLAME FOR THE LOSS OF 4 MILLION MANUFACTURING JOBS



**“Since NAFTA, the United States has lost almost four million manufacturing jobs”**

# THE POPULAR PERCEPTION IS THAT U.S. MANUFACTURING HAS BEEN DECIMATED BY NAFTA AND OTHER TRADE AGREEMENTS:

U.S. Manufacturing is **being hollowed out**, and the manufacturing base is being Lost

Imports from NAFTA and other free trade partners cost 4 **million American jobs**

\$800 billion trade deficit because of **free trade agreements and a failed trade policy**

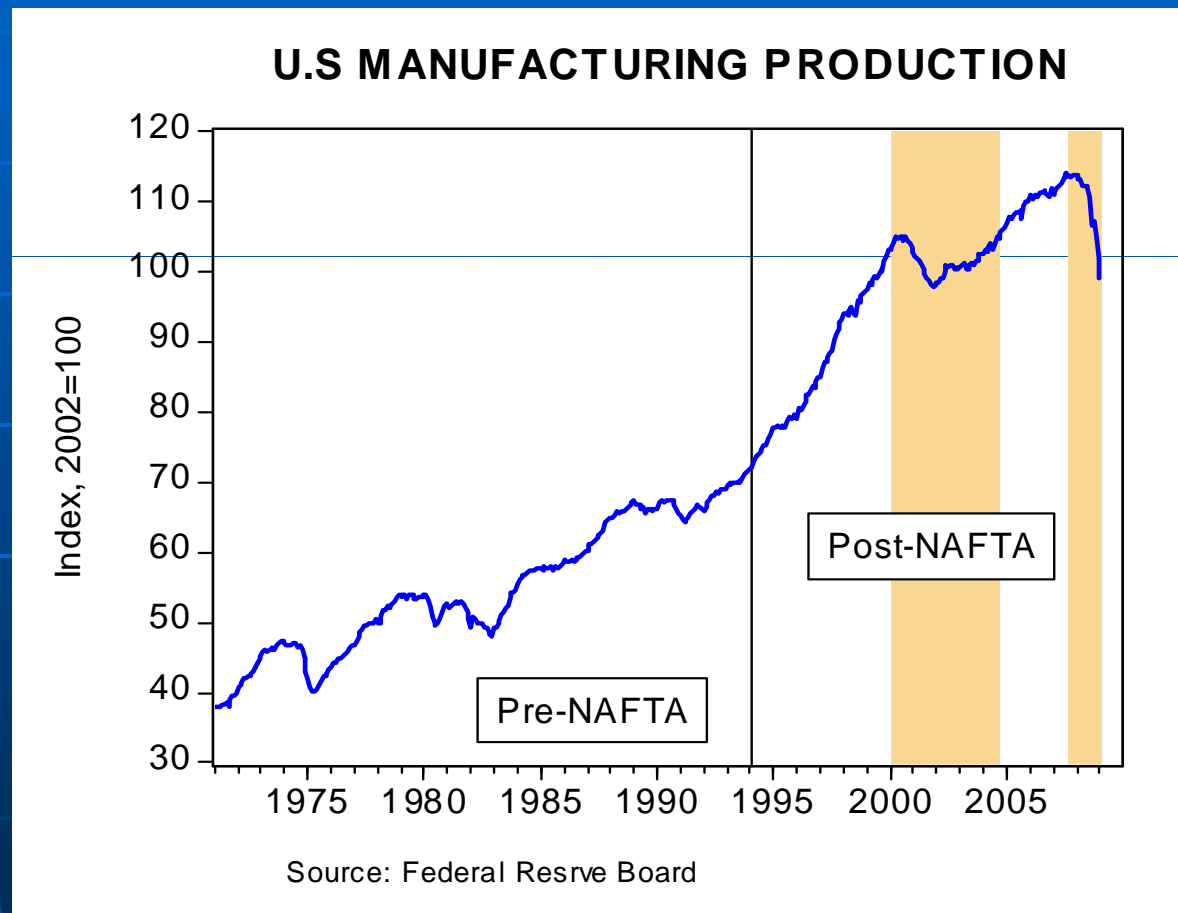
Multinationals in a **race to the bottom** to offshore U.S. jobs to low-wage countries

# A strongly Held View in Congress

- “Like the Peru FTA, an agreement we strongly opposed, the Colombia proposal is based on the flawed NAFTA-CAFTA model which led to the outsourcing of millions of high-paying American jobs and virtually eliminated the U.S. manufacturing industry.”

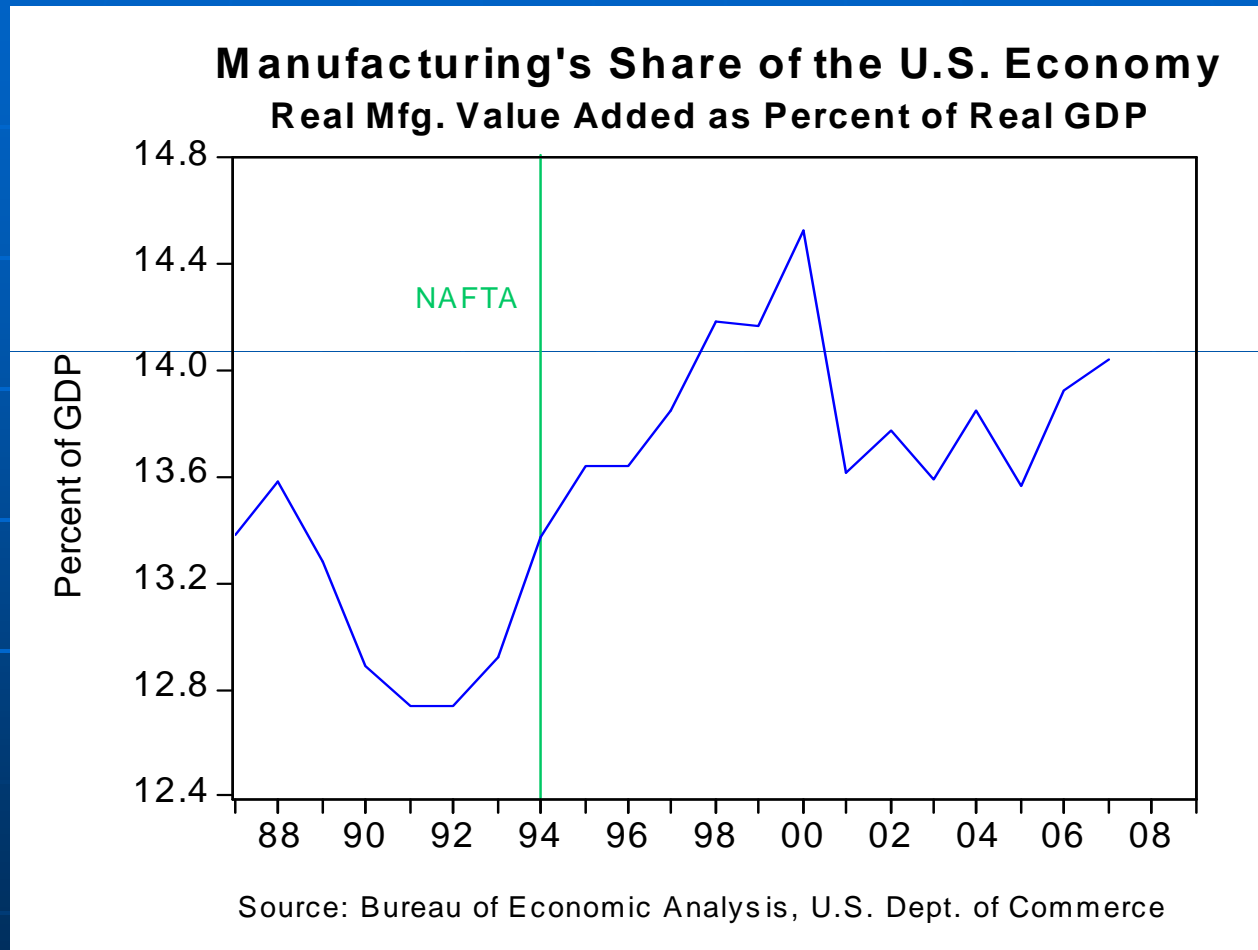
--- Rep. Mike Michaud (D-ME) and Rep. Phil Hare (D-IL), April 8, 2008. (Both are members of the House Trade Working Group.)

# First of All, What About U.S. Manufacturing? Has it Been Virtually Eliminated? **Actually, U.S. Manufacturing Hit an All-Time High in 2007**



**Though in 2008 we entered a very serious recession**

# Manufacturing's Real Share of the U.S. Economy Larger After NAFTA



**Note: In current dollar terms (not adjusted for inflation), manufacturing's share has fallen from 16% in 1990 to 12% -- because inflation is much higher in the services economy than in manufacturing**

# AND THE UNITED STATES IS THE WORLD'S LARGEST MANUFACTURER



AMERICA'S FACTORIES PRODUCE OVER **\$1 IN EVERY \$5** OF  
ALL MANUFACTURED GOODS IN THE WORLD

**“But I Never See any American Products in the Stores.  
How Can America be the World’s Largest Manufacturer?”**

**In 2008, U.S. Factories Produced  
\$5.18 TRILLION of Products, Including:**

•Motor Vehicles	\$577 Billion
•Chemicals	\$516 Billion
•Computing Equipment	\$378 Billion
•Industrial and Other Machinery	\$347 Billion
•Metal Products	\$330 Billion
•Steel and Other Primary Metals	\$256 Billion
•Plastics and Rubber Products	\$211 Billion
•Processed Foods	\$183 Billion
•Pharmaceuticals	\$174 Billion
•Aircraft	\$152 Billion
•Electrical Equipment	\$135 Billion

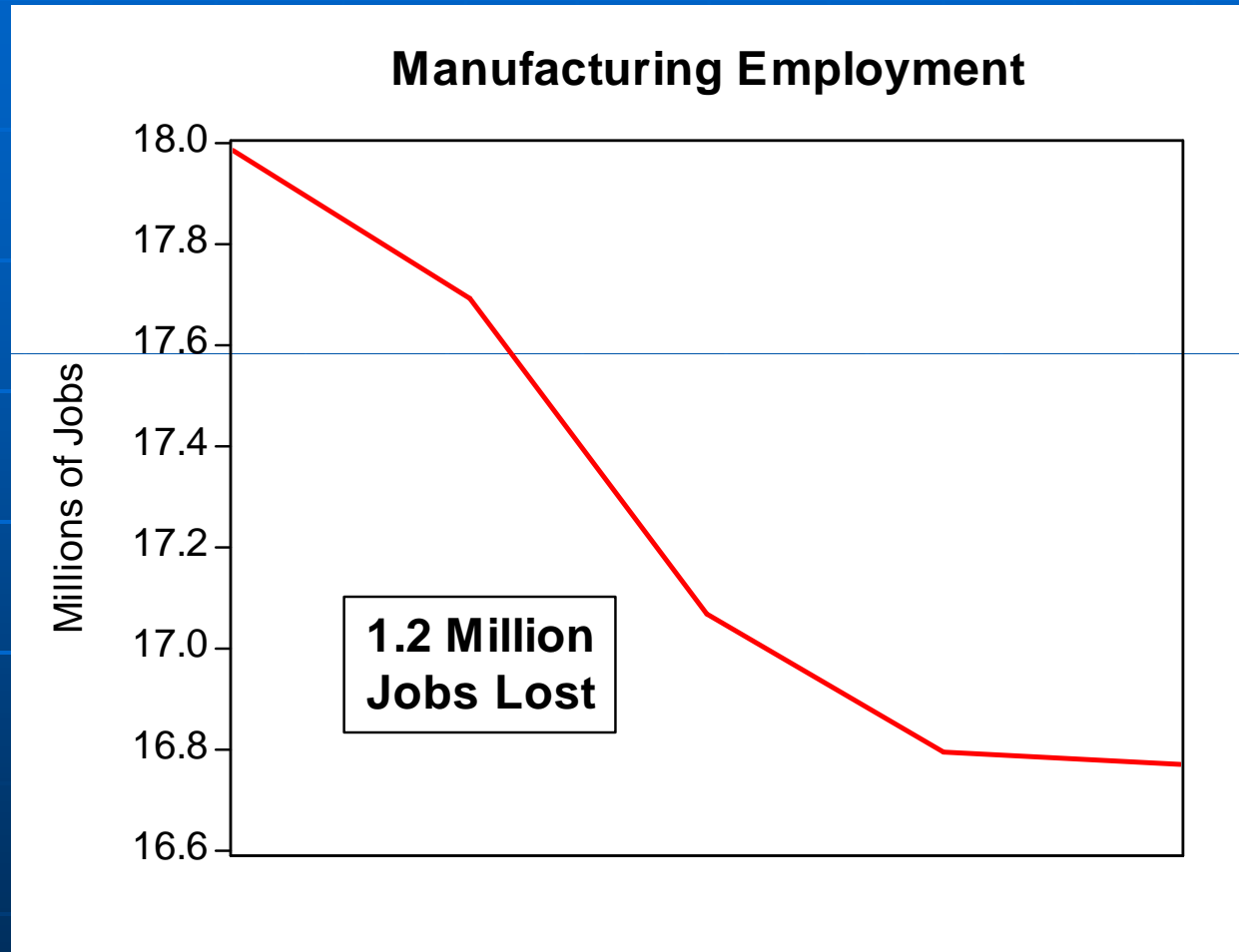
Source: U.S. Census Bureau

**Just Because you don't see it in retail stores, doesn't mean we don't make it.**

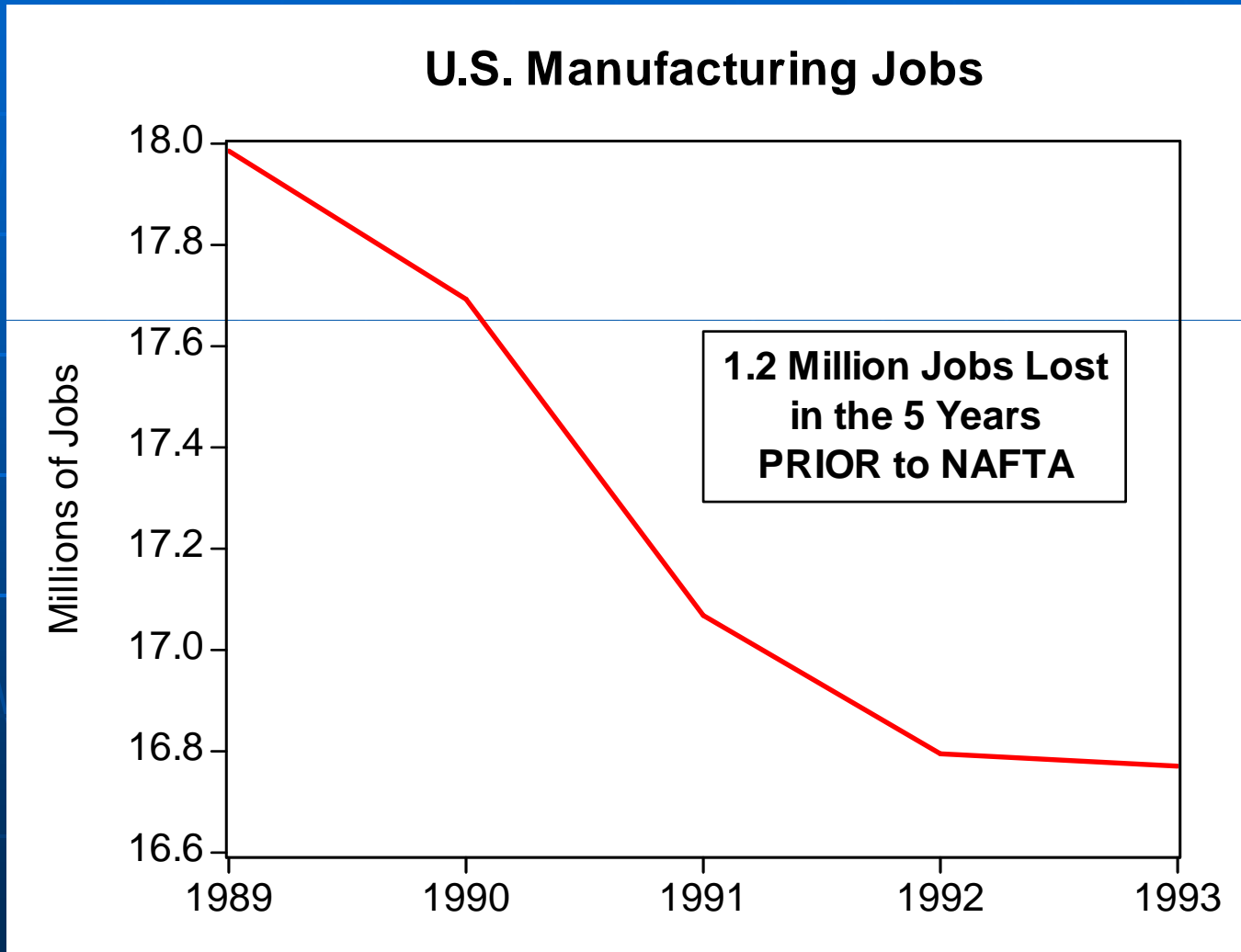
# **What About Outsourcing Millions of Jobs?**

**Did Imports from NAFTA and other Free  
Trade Agreements Really Result in the  
Outsourcing of Nearly 4 Million  
Manufacturing Jobs?**

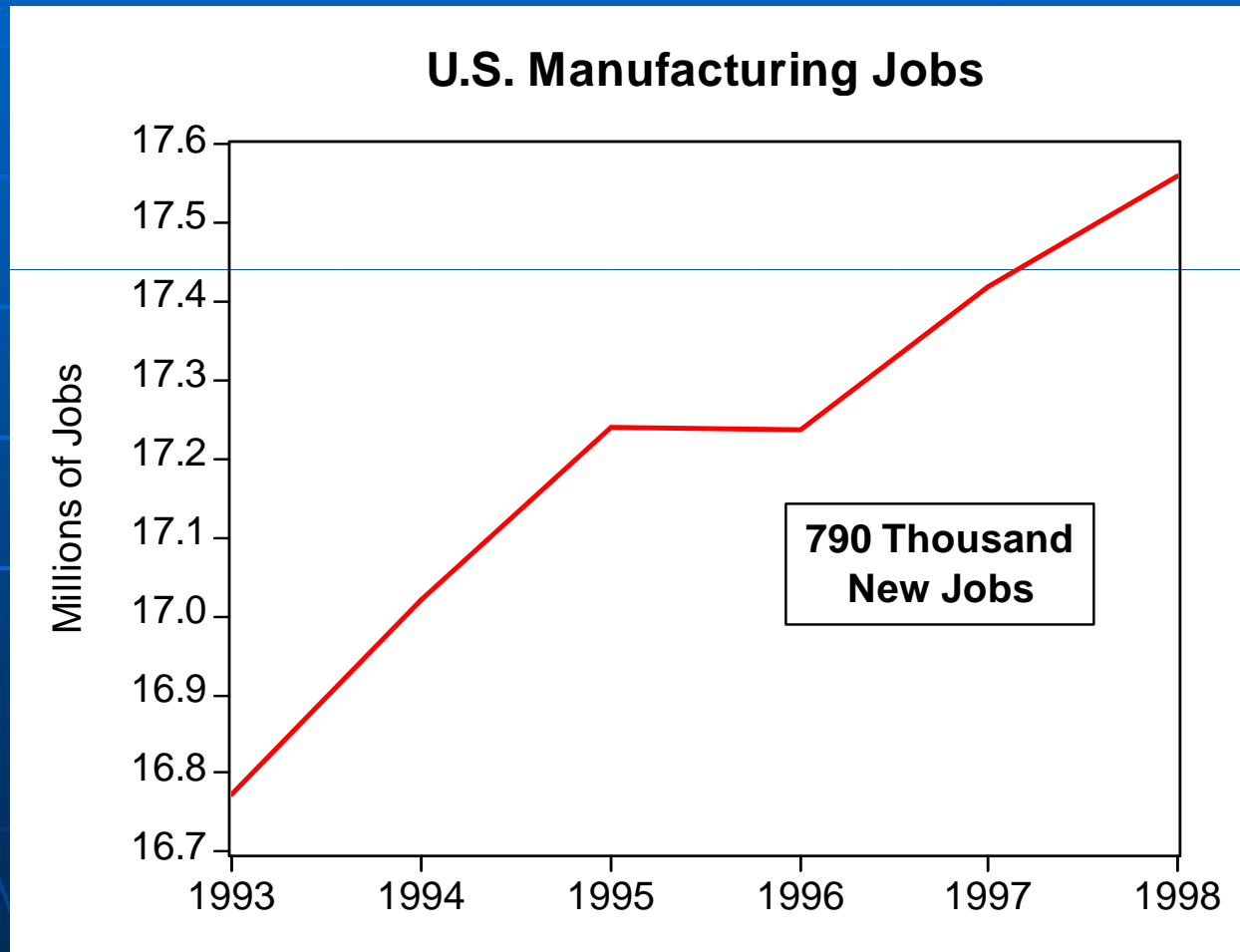
**Sure looks like a lot of jobs lost, doesn't it?**



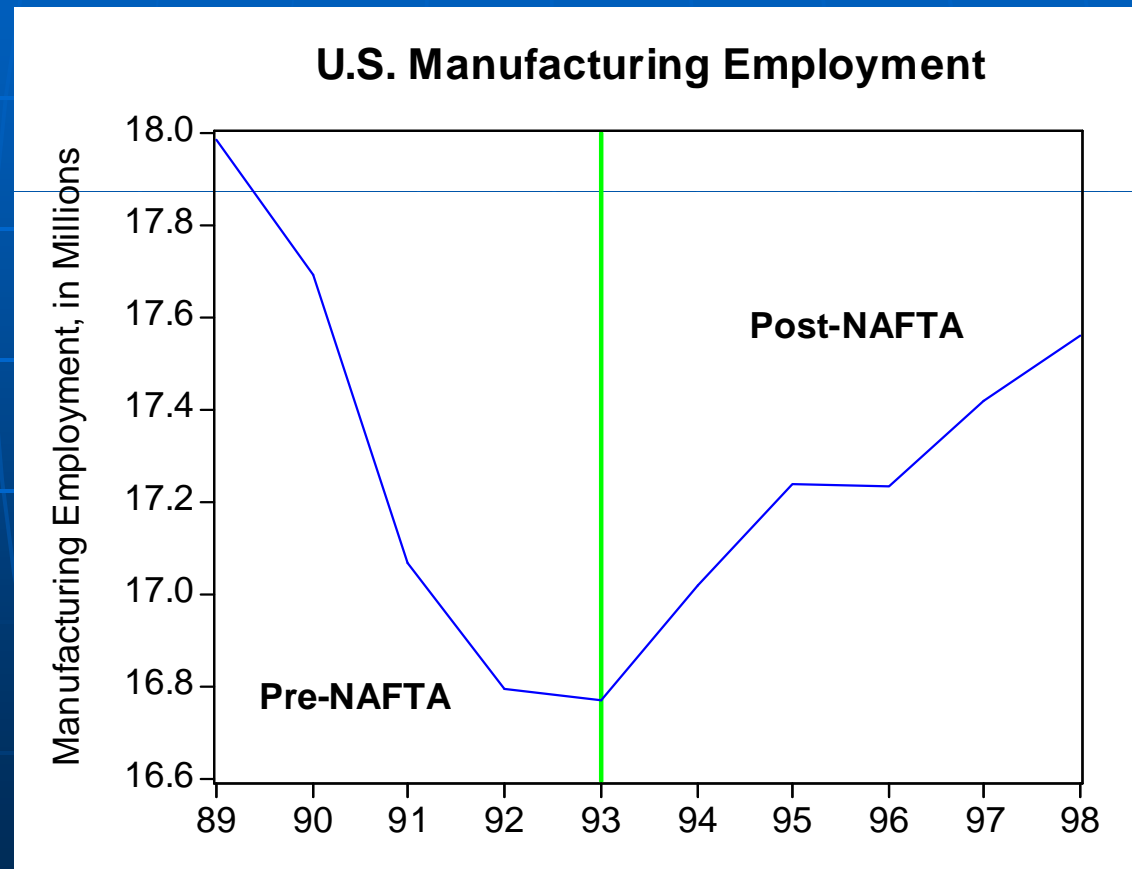
**The Trouble with the Anti-NAFTA Argument is that these jobs were lost in the five years BEFORE NAFTA**



# ALMOST 800 THOUSAND NEW MANUFACTURING JOBS WERE CREATED IN THE FIVE YEARS AFTER NAFTA WENT INTO EFFECT

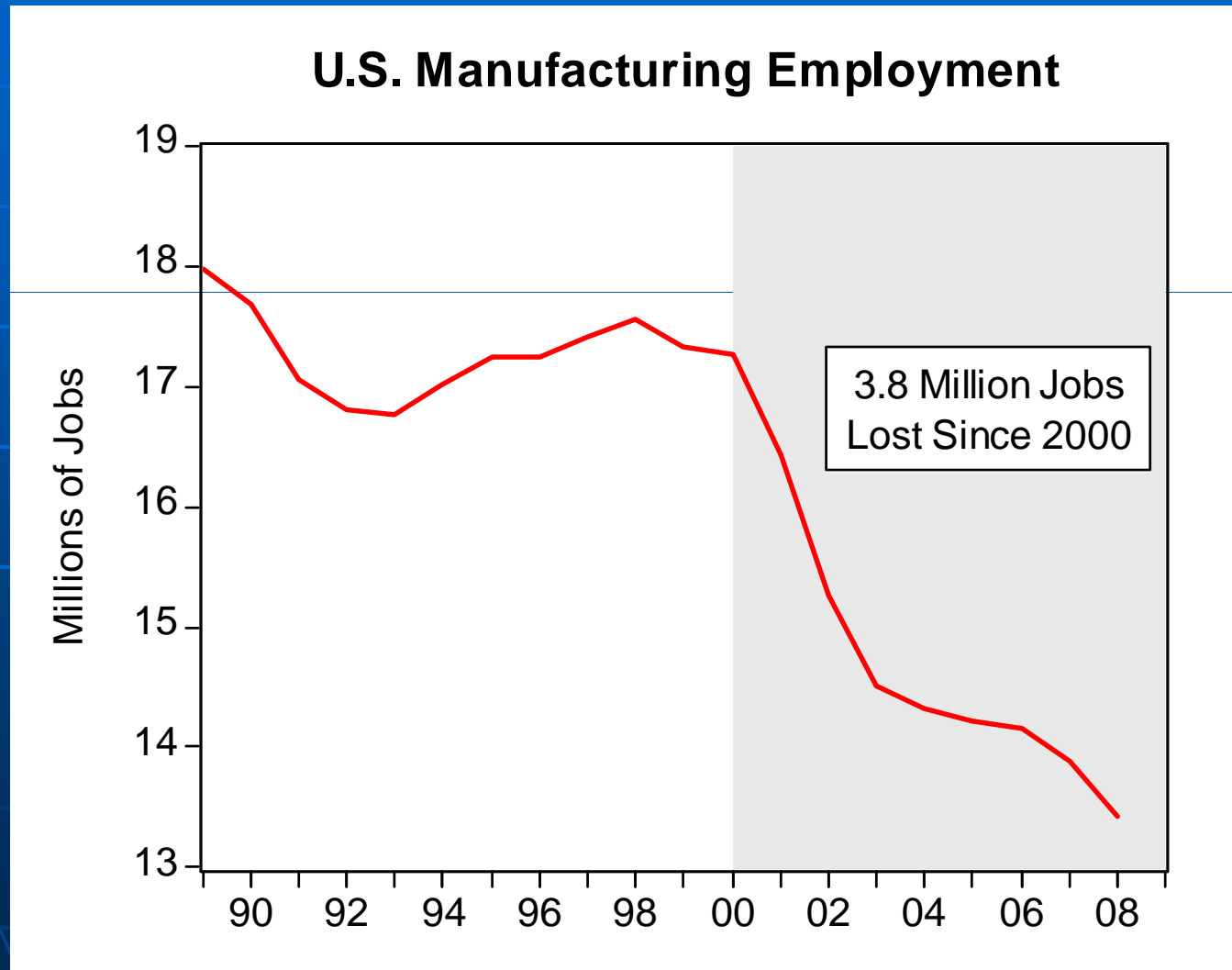


# Comparing Before and after NAFTA, It is plain that there was not a negative jobs effect on manufacturing

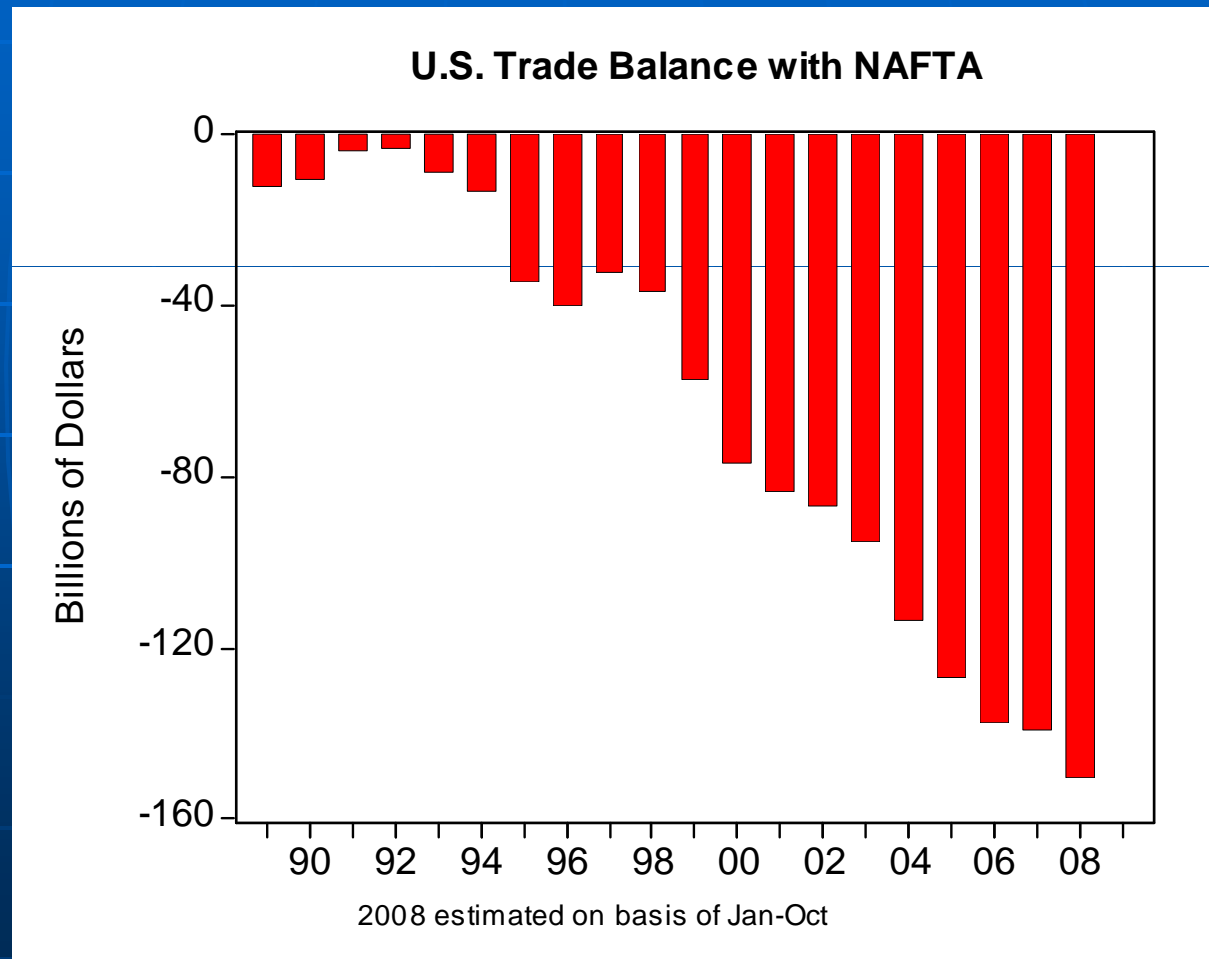


Source: Bureau of Labor Statistics

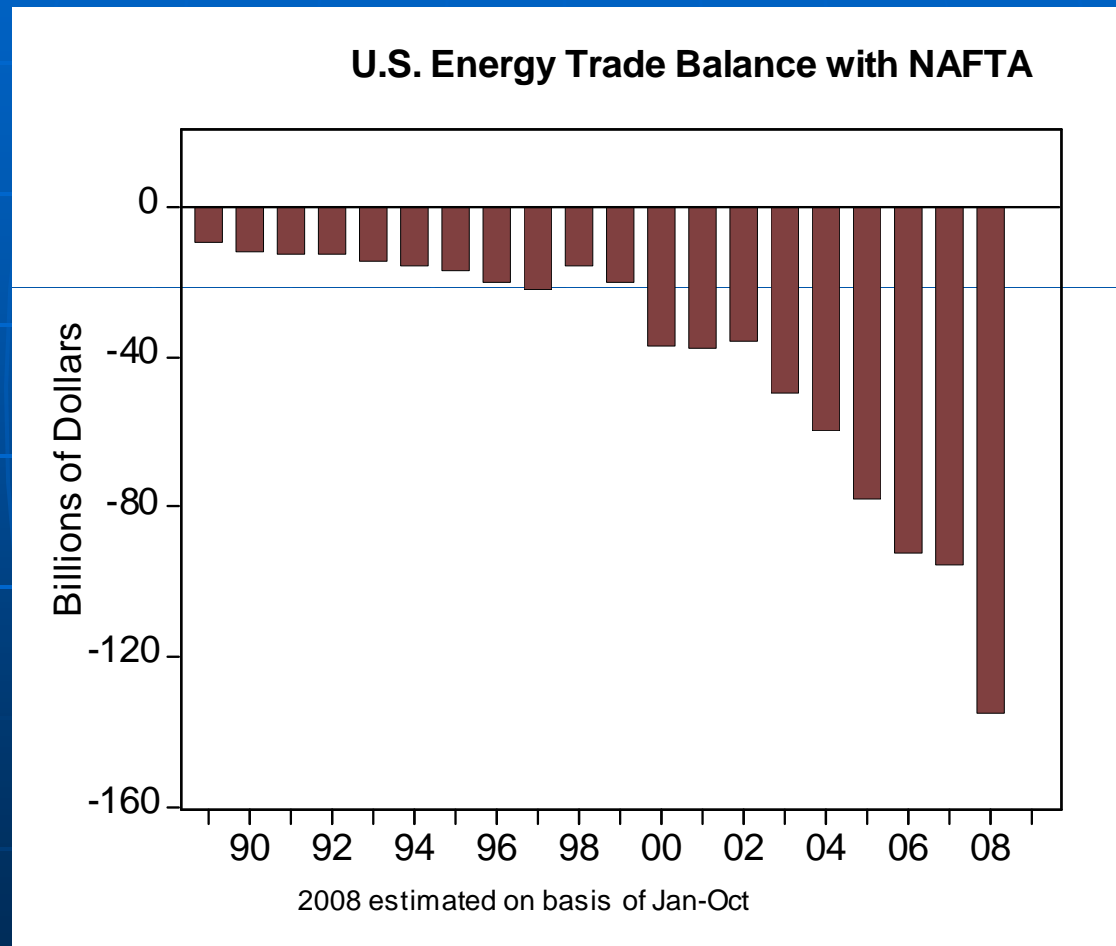
# But What About the Nearly 4 Million Manufacturing Jobs Lost Since 2000? Didn't NAFTA Have a Large Role Here?



# Many Say NAFTA and Other FTAs Caused the Deficit and Job Loss

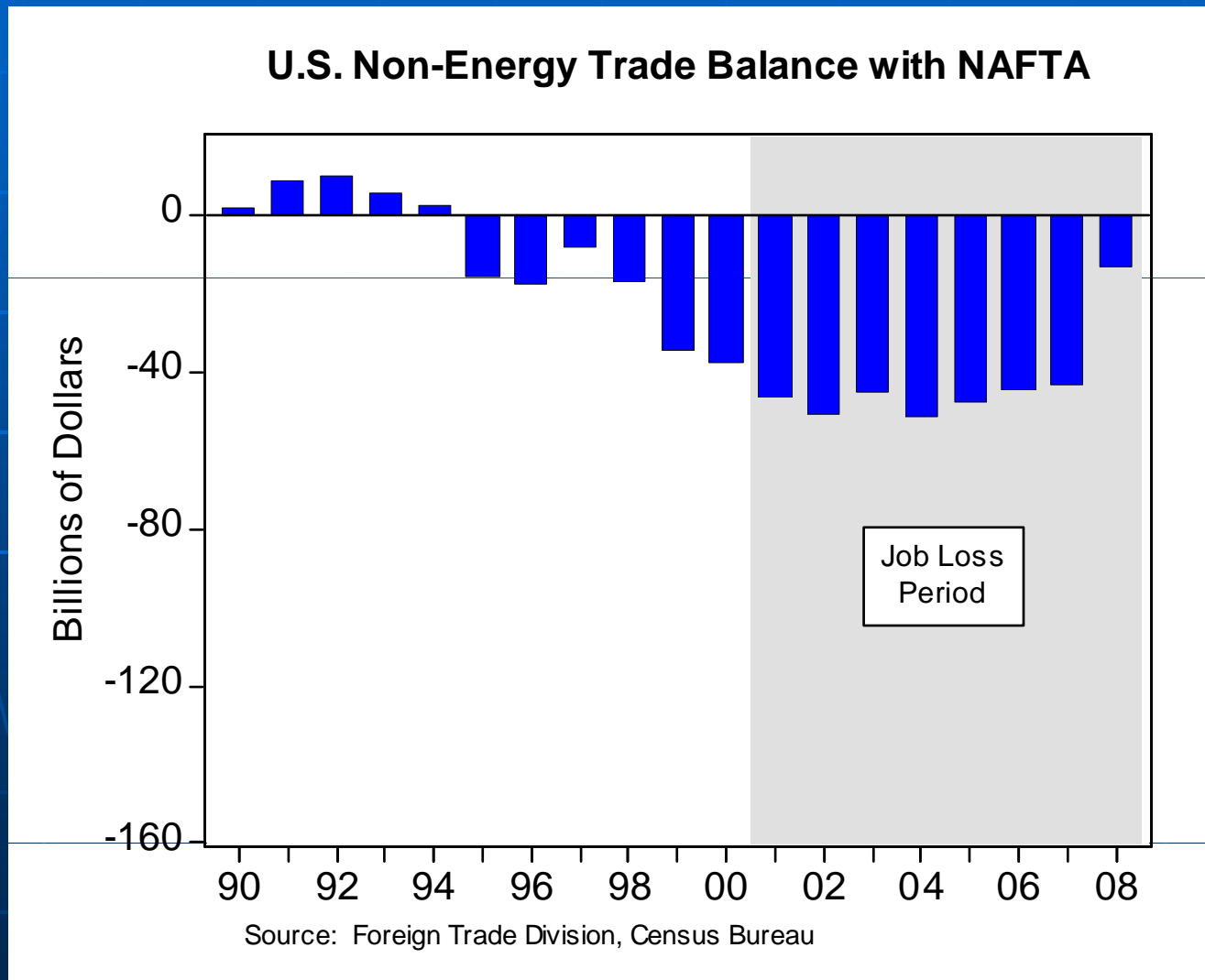


# But They Are Unaware that the NAFTA Deficit is Mostly in Oil

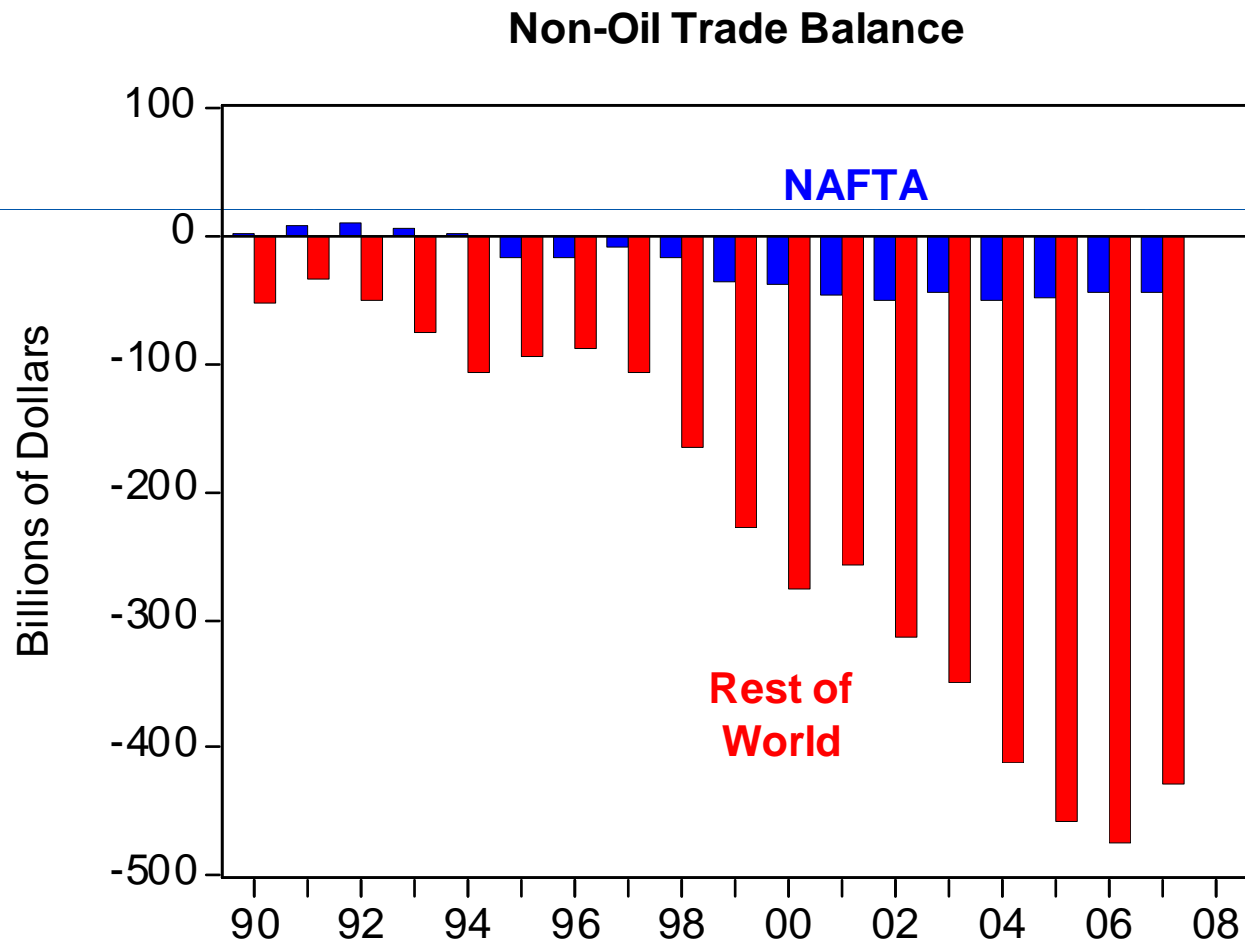


**1/3 of U.S. Energy Imports Come From NAFTA**

# And the Non-Oil Deficit with NAFTA Hasn't Grown Since we Started Losing Jobs

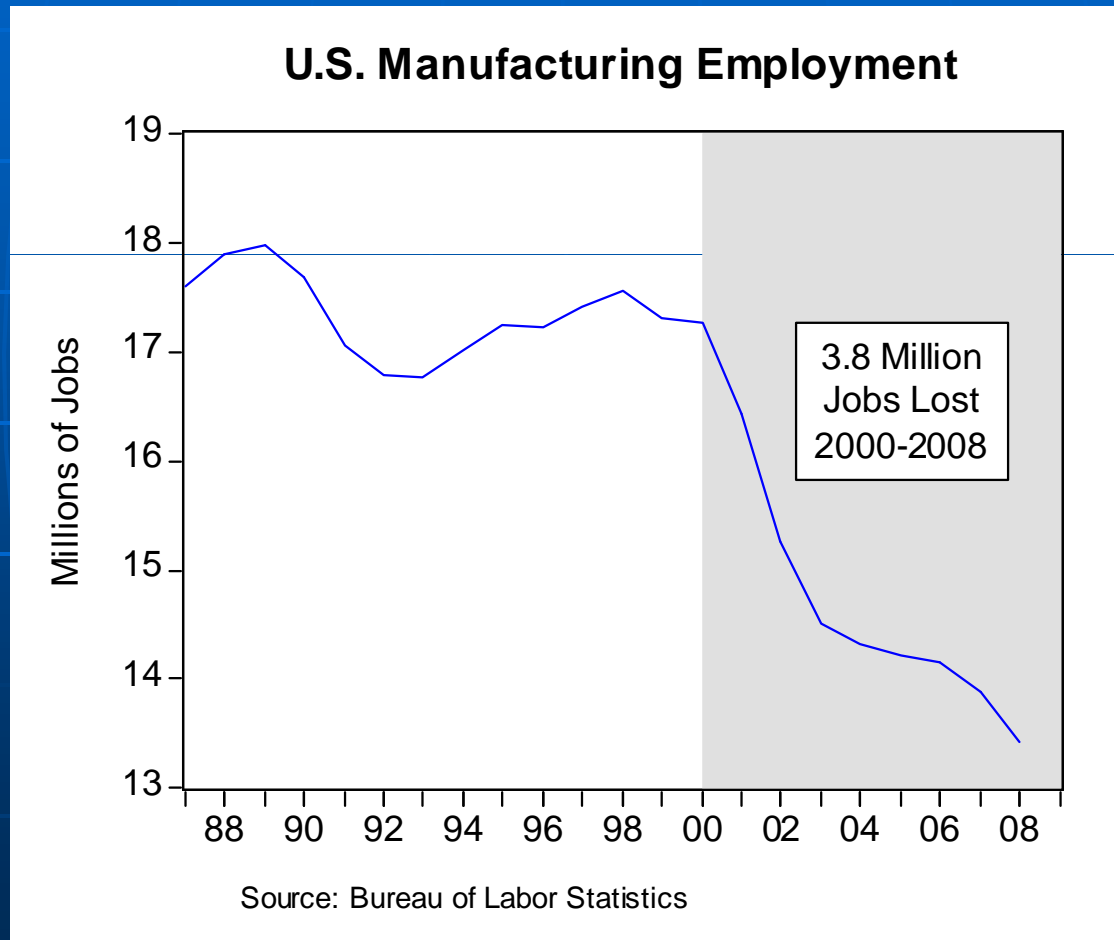


# The NAFTA Non-Oil Deficit is a Small Fraction of our Global Deficit



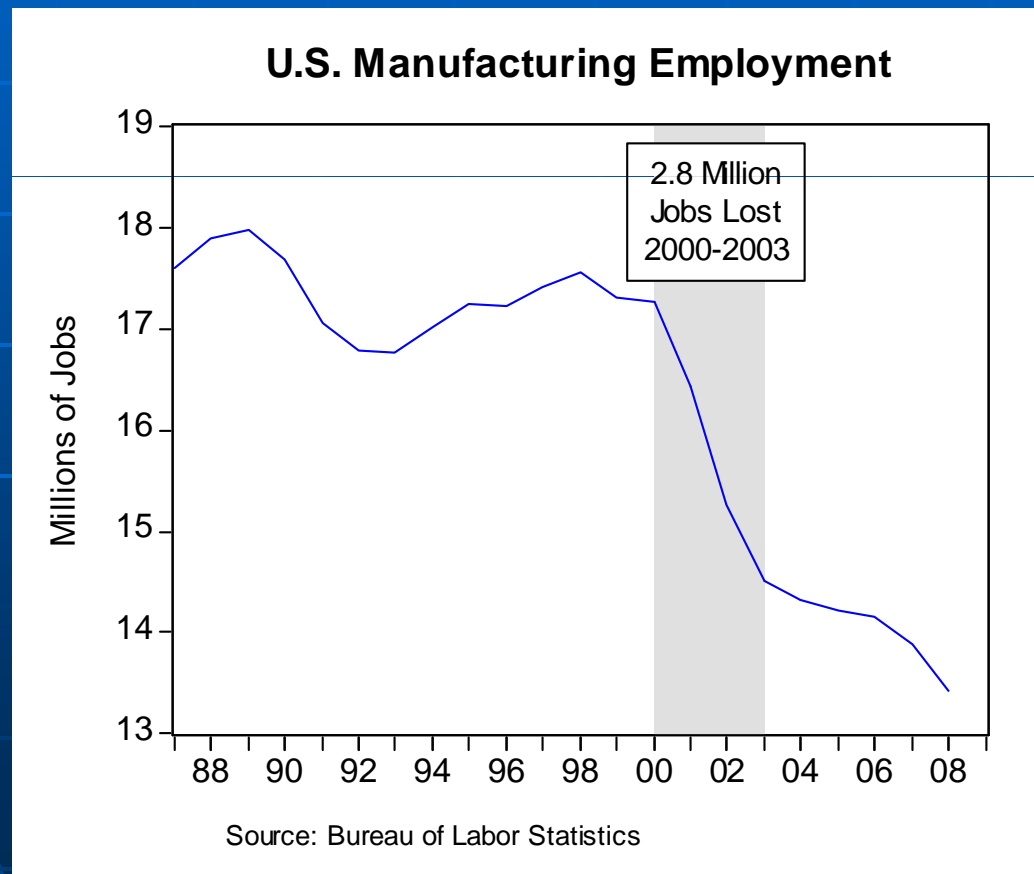
# **Let's Take A Closer Look at the U.S. Manufacturing Job Loss**

# 3.8 Million Jobs Were Lost After 2000 – One out of Every Five Jobs



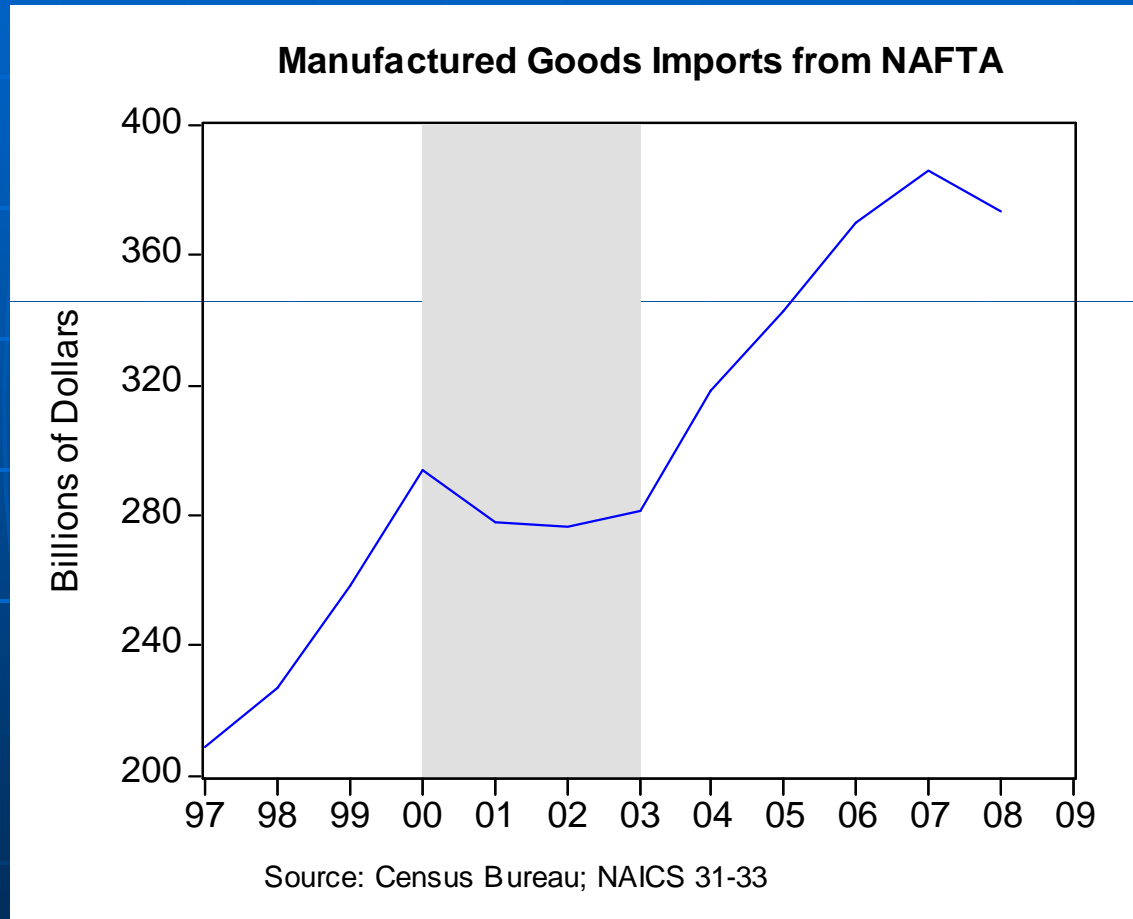
# Three Quarters of Those Jobs – 2.8 Million – Were Lost in Only Three Years – 2000-2003

## What happened in those three years?



**Was There a Surge of Imports  
from NAFTA?**

# No Surge. In fact, Manufactured Goods Imports From NAFTA Fell



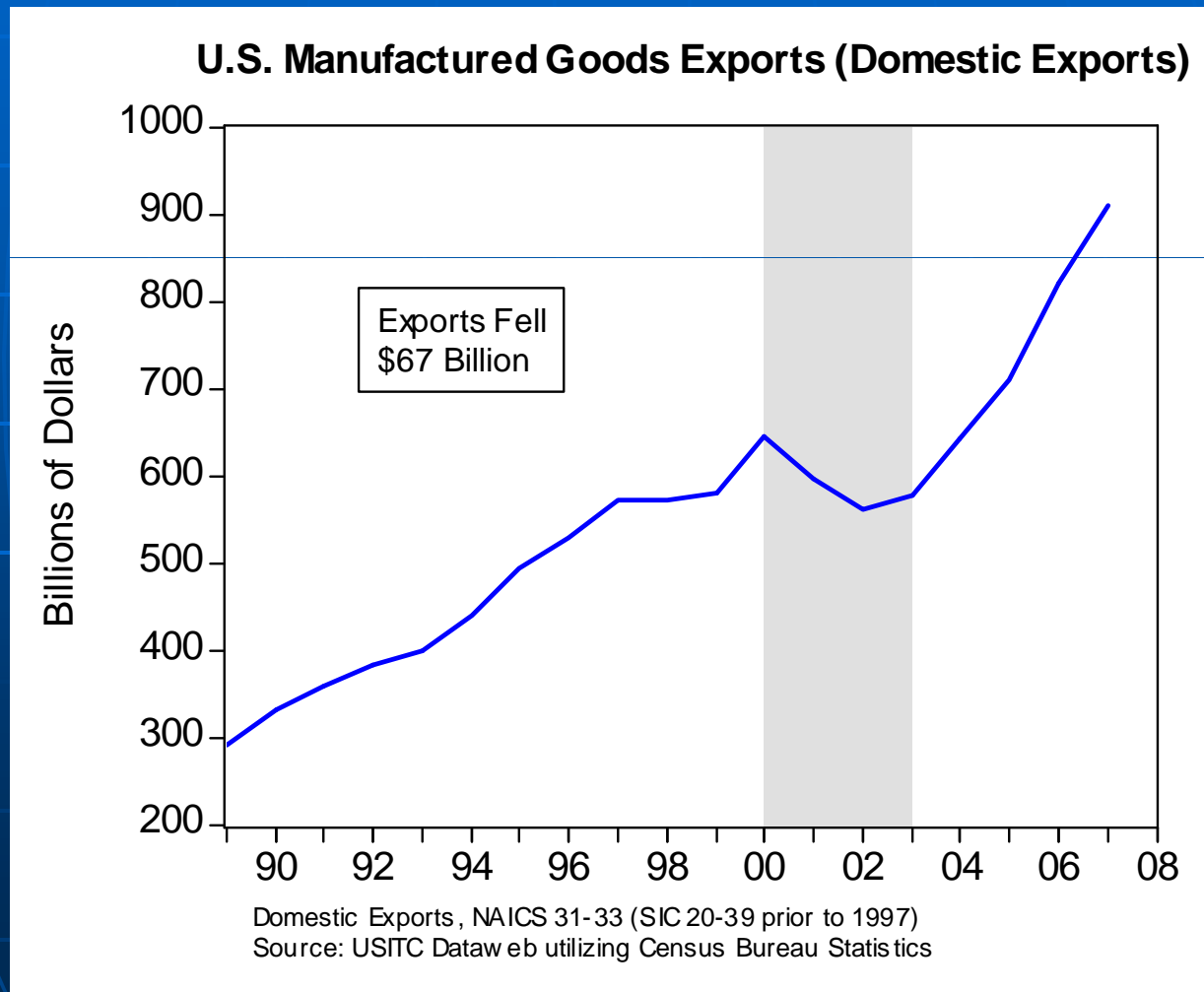
**The United States Imported Fewer Manufactured Goods From NAFTA in 2003 than in 2000.**

# DID AN OVERALL IMPORT SURGE CAUSE THE JOB LOSS?

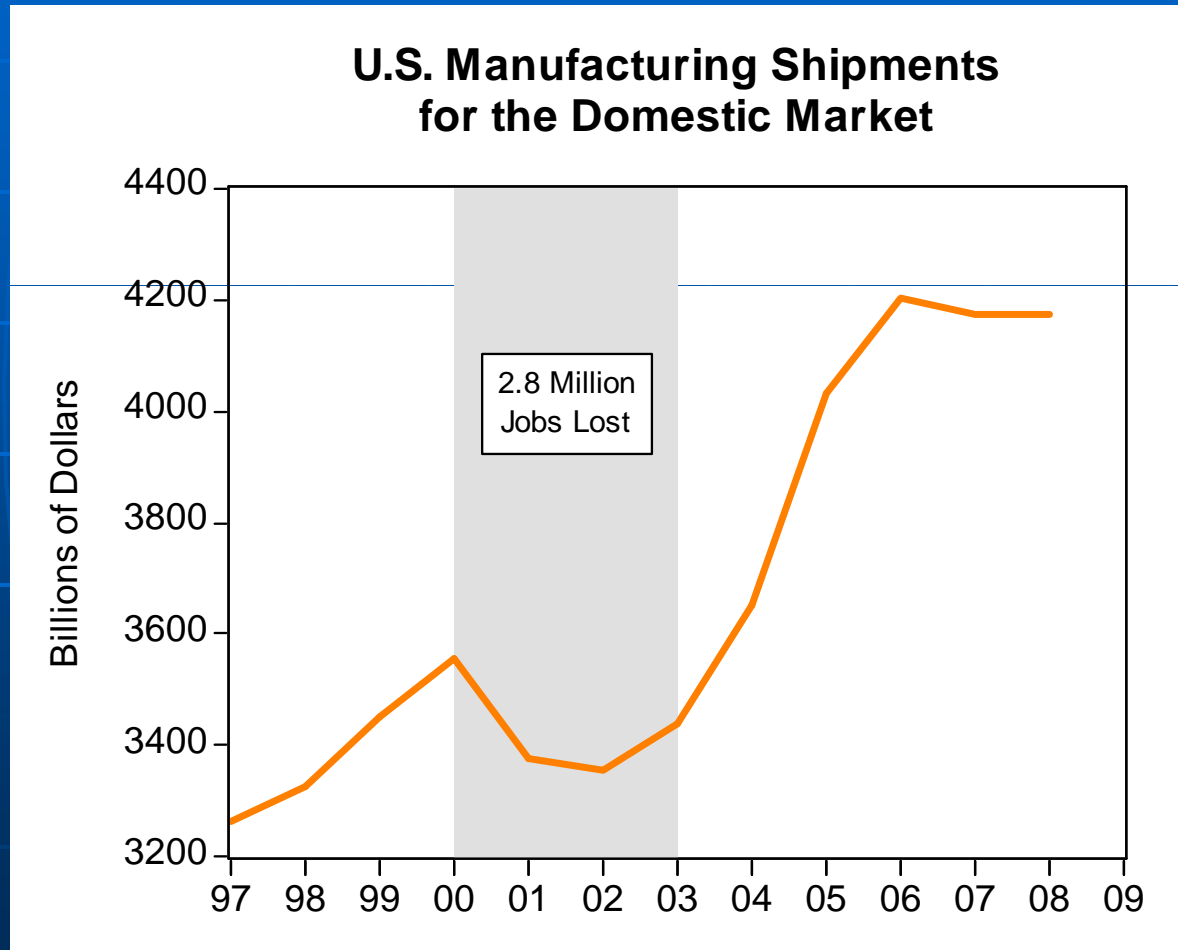


**No. Imports Hardly Grew – up \$18 billion,  
Only 1.8% over Three Years**

# But Exports Collapsed – Falling More than 10% During Those Three Years



# And There Was a Huge Domestic Manufacturing Recession During 2000-2003



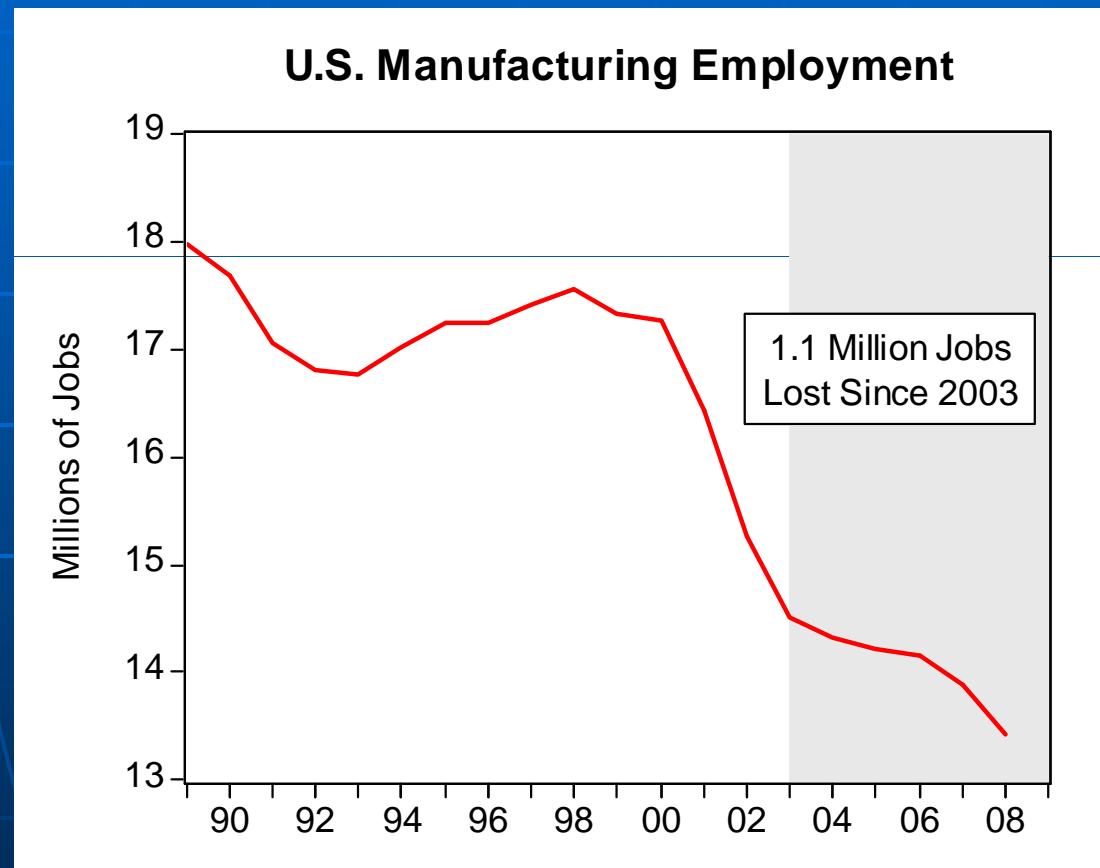
## The Domestic Manufacturing Recession Was the Dominant Cause of the 2000-03 Job Loss

	Production Change (\$Billions)	Percent of Total	Jobs Equivalent (000)
Total	-\$212	100%	2,753
Domestic	-\$126	59%	1,636
Exports	- \$67	32%	875
Imports*	- \$18	9%	239

***Moreover, Mfg Imports from NAFTA fell during those three years, from \$295 Bill. In 2000 to \$281 Bill. In 2003 – i.e., No Outsourcing Surge to NAFTA***

\* If import increase is assumed to displace domestic production. May or may not be the case, depending on product and circumstances.

# Now, What About After 2003? Why Didn't Those Jobs Come Back?



**1.1 Million Manufacturing Jobs Lost Since 2003**

# Slower Domestic Growth and Rising Imports Were a Factor

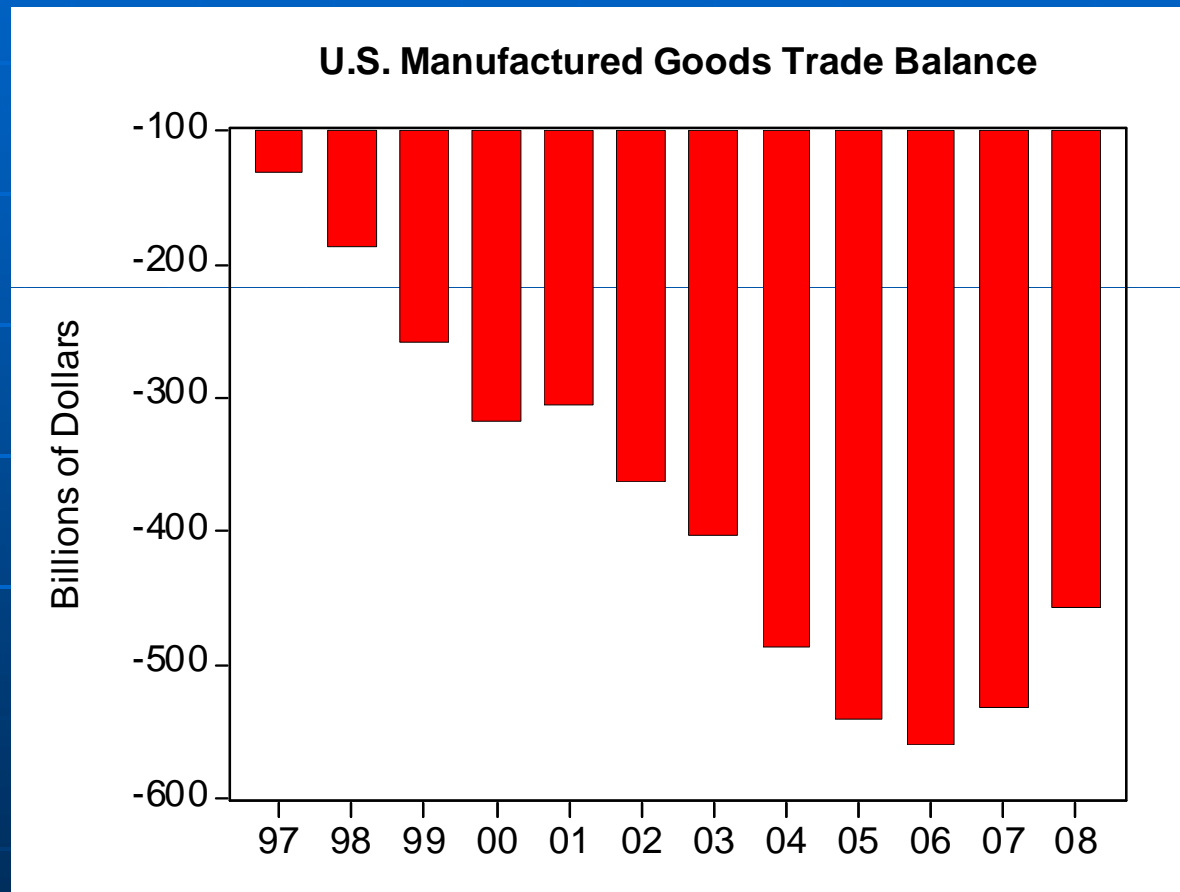


# BUT EXPORTS HAVE BEEN GROWING STRONGLY AS WELL

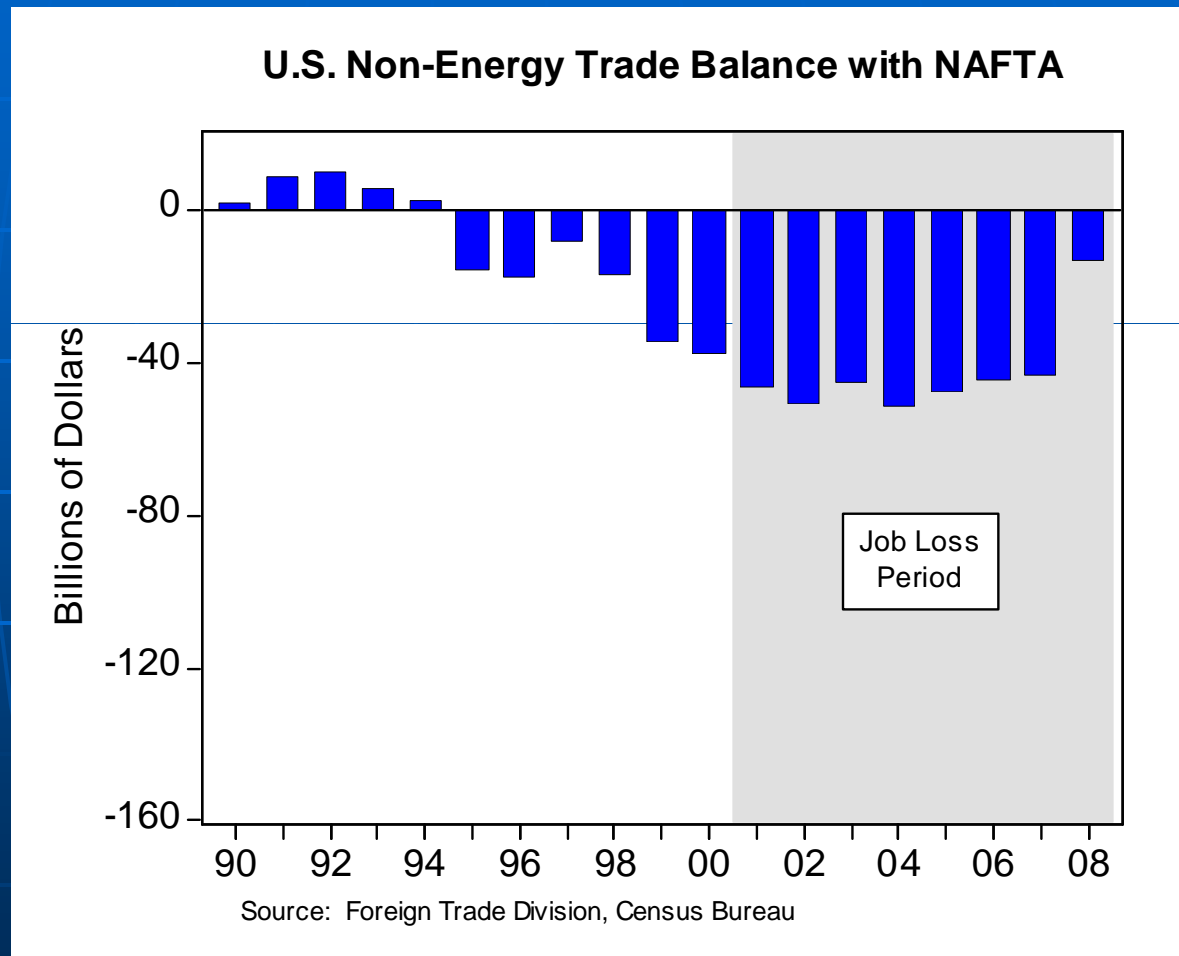


**Exports Have Accounted for the Bulk of Economic Growth  
in the Last Couple of Years**

# Nevertheless, the trade deficit grew sharply from 2003-2006

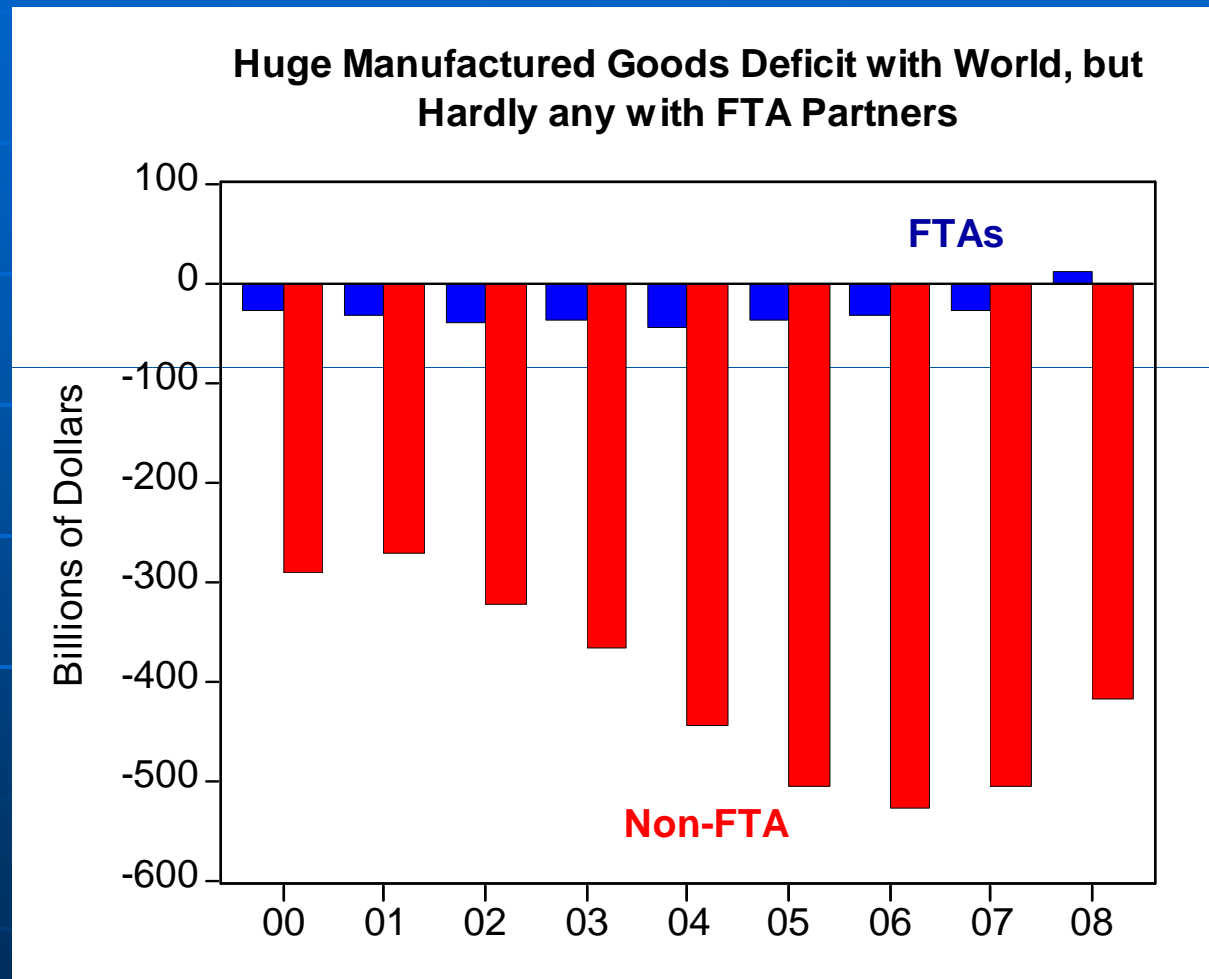


# But Not with NAFTA ...



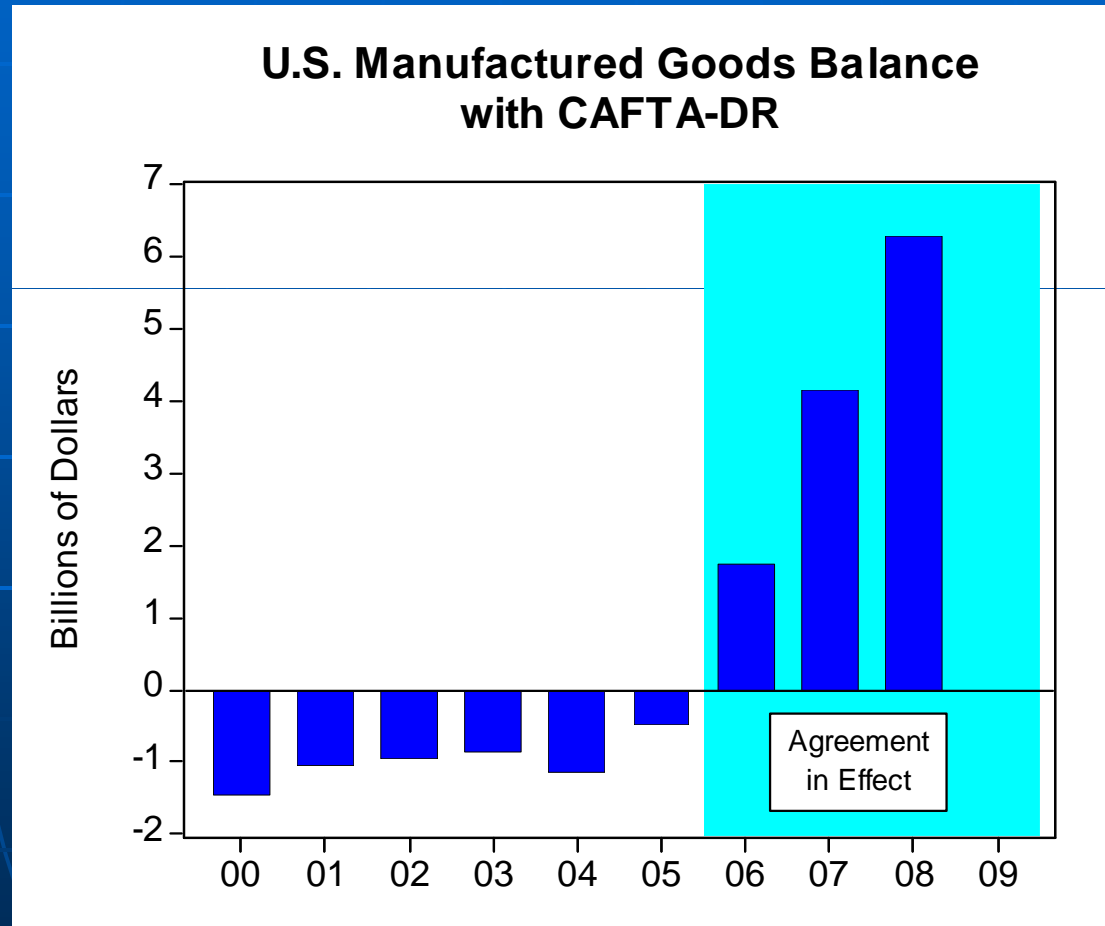
**No Increase in NAFTA Deficit During Period U.S. Lost Manufacturing Jobs**

# ... Or With Other Free Trade Agreement (FTA) Partners



FTA Manufactures Deficit 20% **SMALLER** in 2007 than in 2001, and in 2008 was in **SURPLUS**

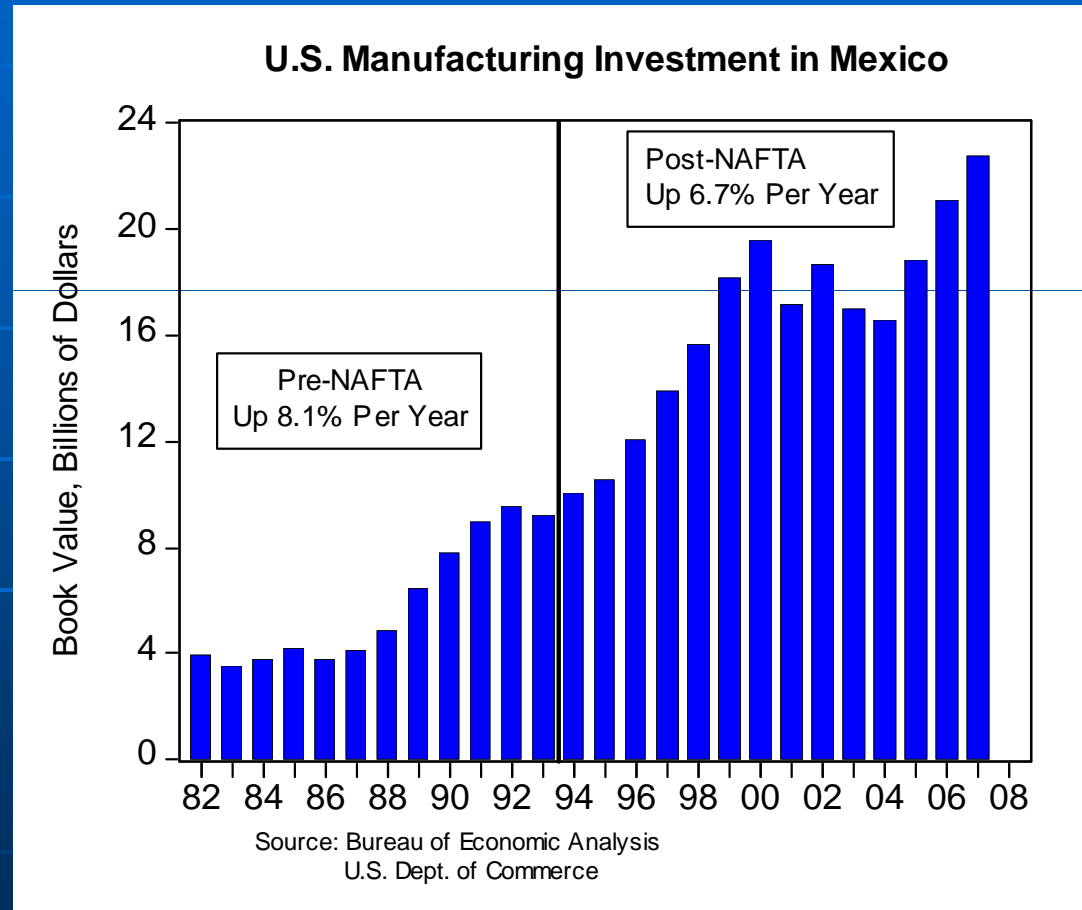
# For Example, What About CAFTA – “The Job Killer” ?



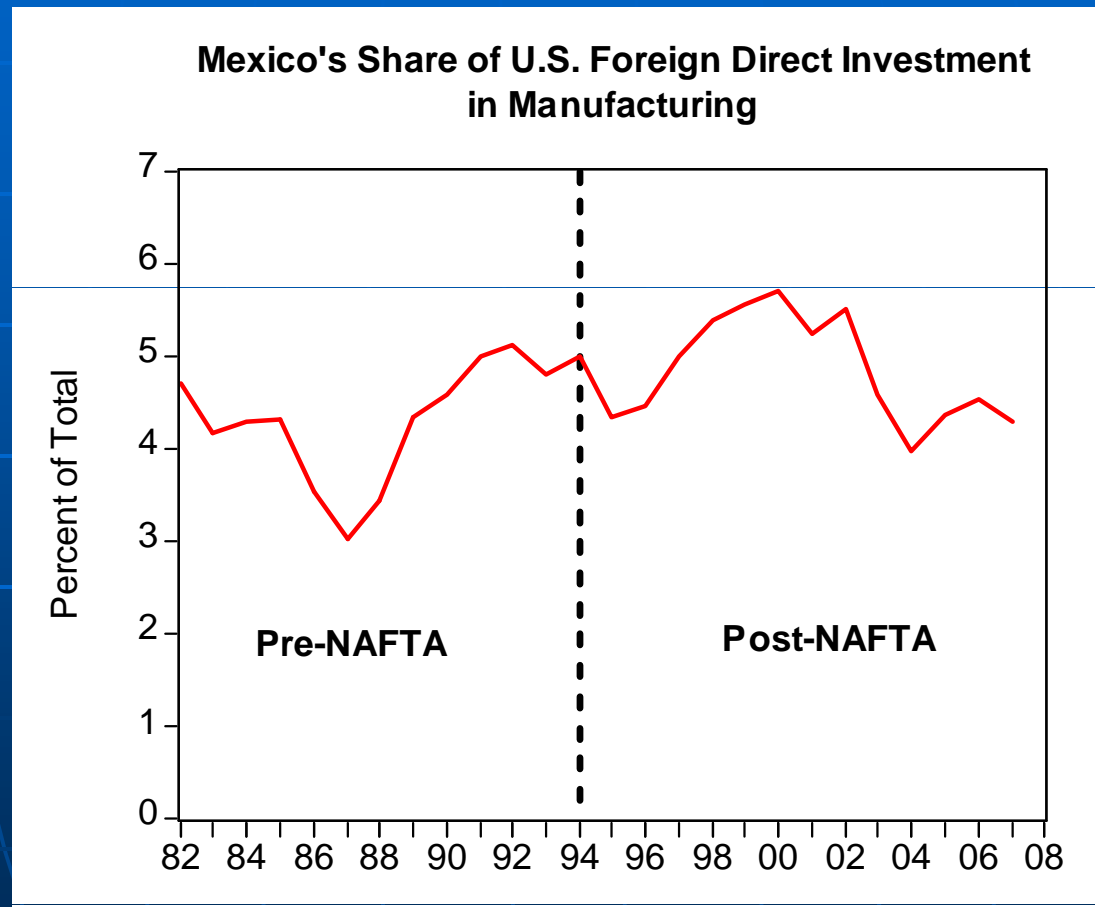
**Balance in Substantial Surplus After Agreement**

**What About NAFTA's  
Effect on Investment?  
Wasn't There a Huge  
"Sucking Sound?"**

# Some Faster Manufacturing Investment Through 2000, But Slower Since Then

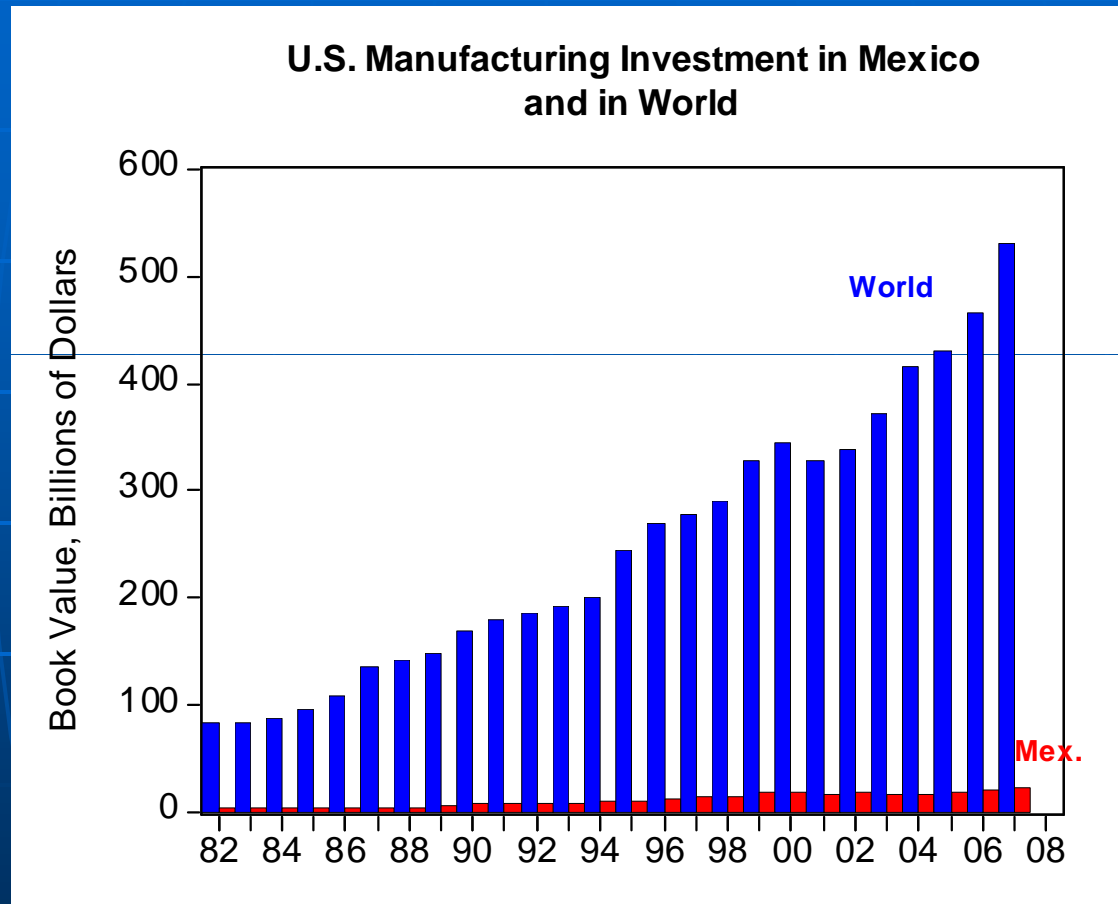


## Mexico's Share of U.S. Foreign Direct Investment in Manufacturing Showed Some Gain After NAFTA, but has Since Returned to Pre-NAFTA Levels



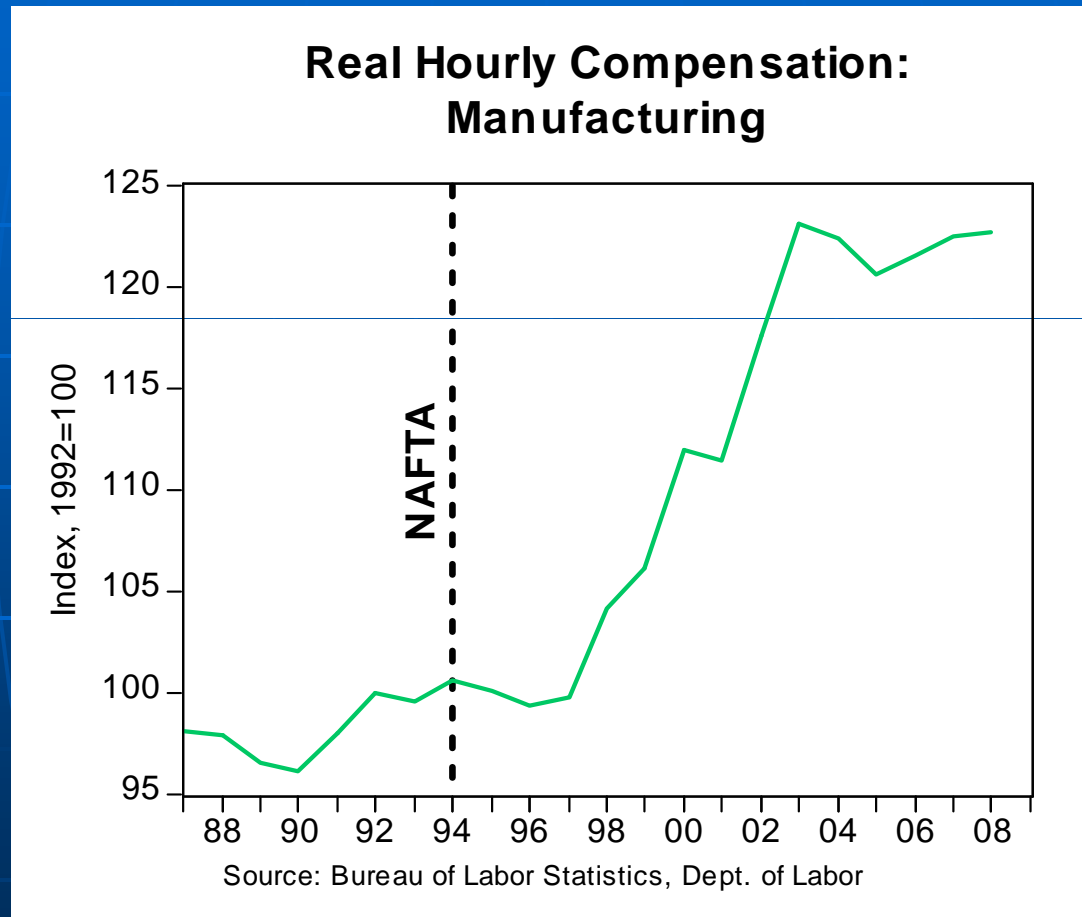
**Investment is Determined by Many Factors in Addition To Trade Agreements**

## Manufacturing Investment in Mexico Did Not Soar in Comparison to Investment in Rest of the World



**Most U.S. Manufacturing FDI Continues to Go to the European Union and Other Industrial Countries, to Produce for Local Consumption**

# Finally, What About NAFTA Suppressing Labor Compensation in Manufacturing?

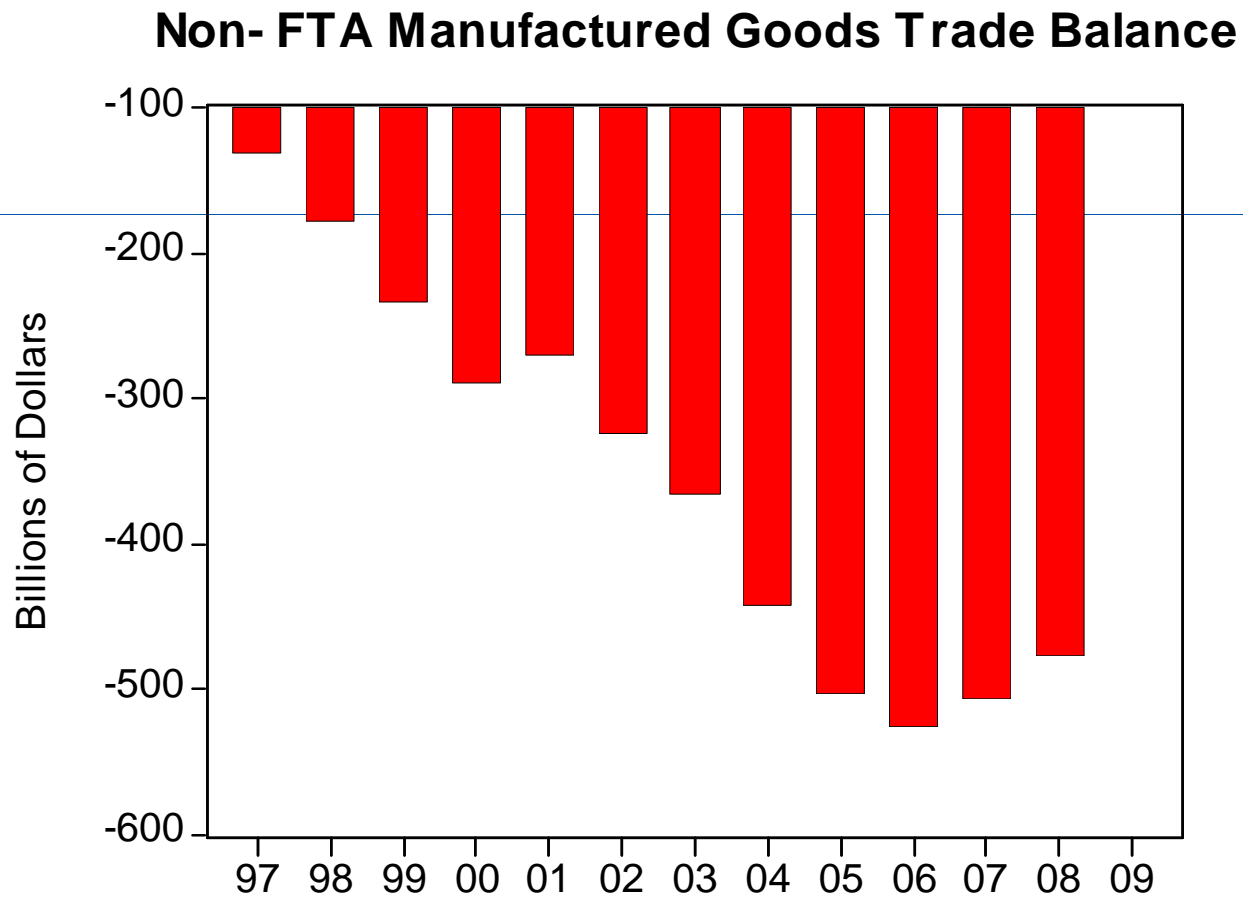


**Real Manufacturing Compensation Grew Much  
Faster After NAFTA Than Before**

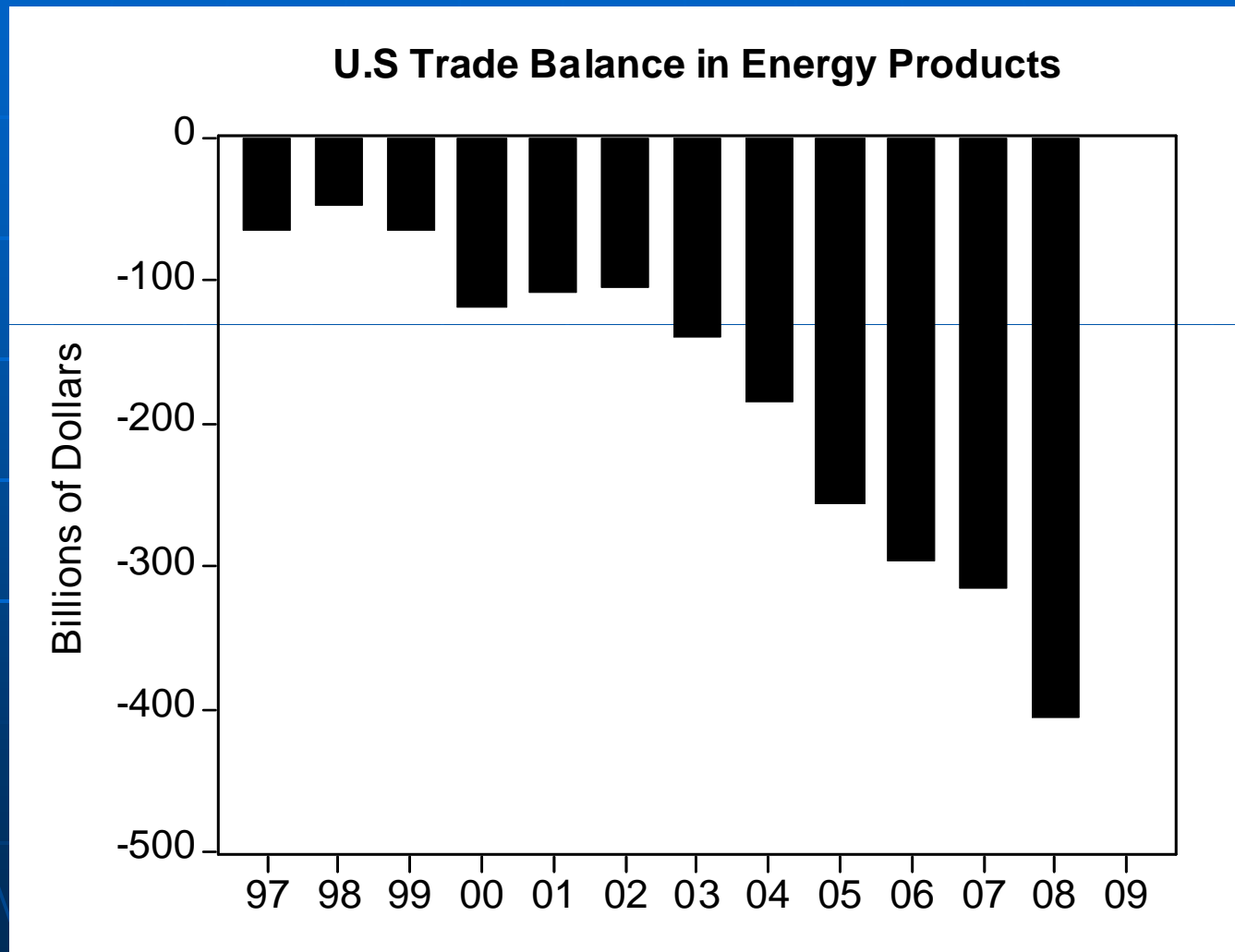
**So if the Trade Balance Didn't Grow  
With NAFTA and Other Free Trade Partners,**

**Where Did it Grow?**

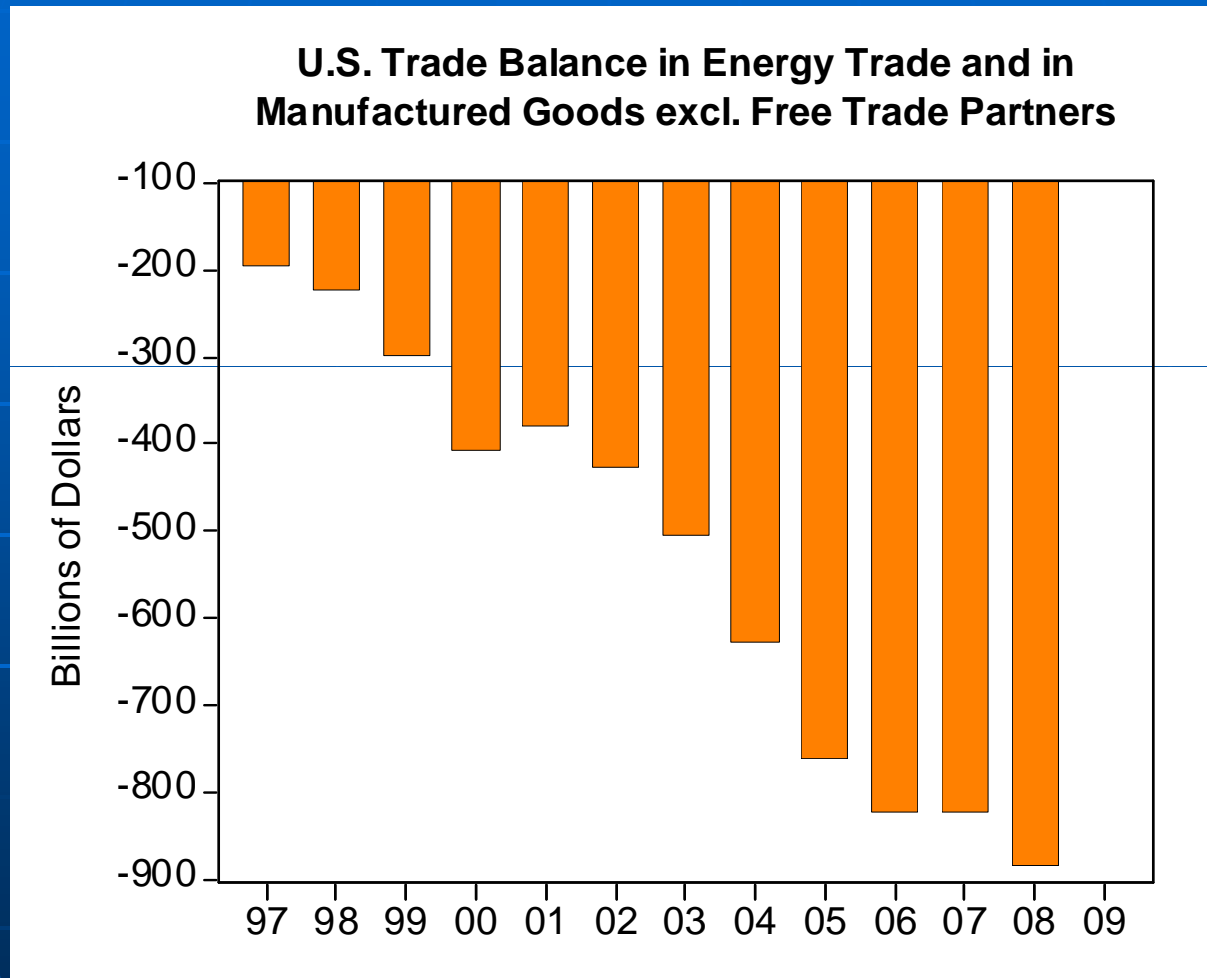
# WITH COUNTRIES THAT ARE **NOT** OUR FREE TRADE PARTNERS, FOR ONE



# AND AMERICA'S VORACIOUS APPETITE FOR IMPORTED ENERGY



# TOGETHER, THESE TWO ADD UP TO MORE THAN \$800 BILLION ANNUALLY



**THESE ARE THE TRADE PROBLEMS THAT NEED TO BE ADDRESSED – NOT U.S. FREE TRADE AGREEMENTS**

# **How Does Business View NAFTA's Effect on North American Competitiveness?**

**NAFTA is the United States'  
Largest Export Market –**

**Accounting for Over One in Every Three Dollars  
Of U.S. Manufactured Goods Exports**

## More Than One-Third of U.S. Exports Go to NAFTA. For 17 States, it is More than Two-Fifths

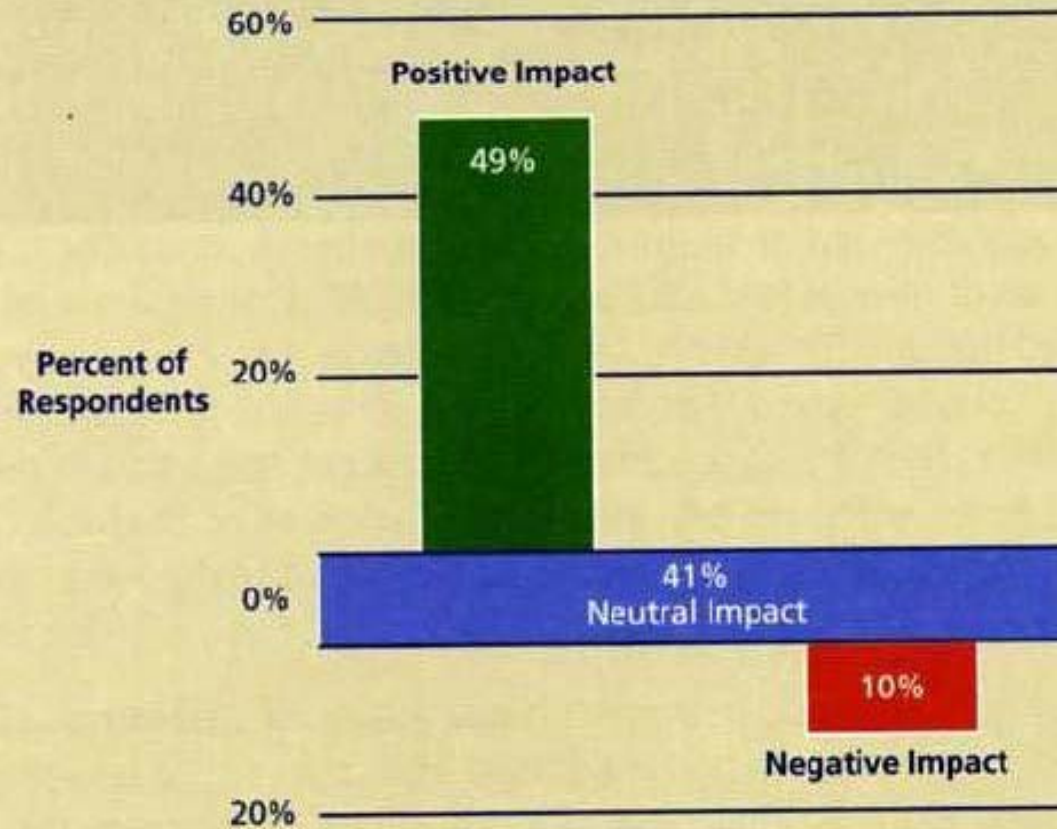
<b>Michigan</b>	<b>68%</b>
<b>Ohio</b>	<b>54%</b>
<b>South Dakota</b>	<b>54%</b>
<b>North Dakota</b>	<b>52%</b>
<b>Indiana</b>	<b>52%</b>
<b>Missouri</b>	<b>48%</b>
<b>Iowa</b>	<b>48%</b>
<b>Vermont</b>	<b>44%</b>
<b>Texas</b>	<b>44%</b>
<b>Montana</b>	<b>43%</b>
<b>Tennessee</b>	<b>43%</b>
<b>Oklahoma</b>	<b>43%</b>
<b>Mississippi</b>	<b>41%</b>
<b>Kentucky</b>	<b>41%</b>
<b>West Virginia</b>	<b>40%</b>
<b>Nebraska</b>	<b>40%</b>
<b>Pennsylvania</b>	<b>40%</b>

# SMALL AND MEDIUM-SIZED FIRMS ARE HUGE BENEFICIARIES OF U.S. FREE TRADE AGREEMENTS – PARTICULARLY NAFTA

NUMBER OF SMALL AND MEDIUM-SIZED EXPORTERS (SME's)* EXPORTING TO U.S. FREE-TRADE PARTNERS				
Market	Number of SME's Exporters to Market	SME % of Total Exporters to Market	SME % of Value of Exports to Market	Average SME Company Exports to Market
NAFTA	110,408	95%	24%	\$ 630,666
Australia	22,127	90%	27%	\$ 192,023
CAFTA	17,651	89%	44%	\$ 442,621
Korea, South (1)	17,055	89%	32%	\$ 559,649
Singapore	16,211	89%	19%	\$ 265,503
Israel	11,200	88%	42%	\$ 302,155
Colombia (1)	8,509	85%	36%	\$ 257,427
Chile	8,370	84%	28%	\$ 200,058
Peru	5,474	82%	39%	\$ 181,537
Panama (1)	5,233	81%	39%	\$ 185,421
Jordan	2,027	80%	45%	\$ 114,029
Bahrain	1,456	74%	36%	\$ 83,669
Oman	1,063	73%	17%	\$ 77,591
Morocco	811	72%	24%	\$ 246,263
* Note: All small and medium-sized exporters, not only manufacturers. Includes wholesalers and others.				
1) Agreement pending before Congress				
Source: U.S. Census Bureau, Profile of Exporters				

## North American Firms Agree NAFTA has had A Positive Impact on Their Business

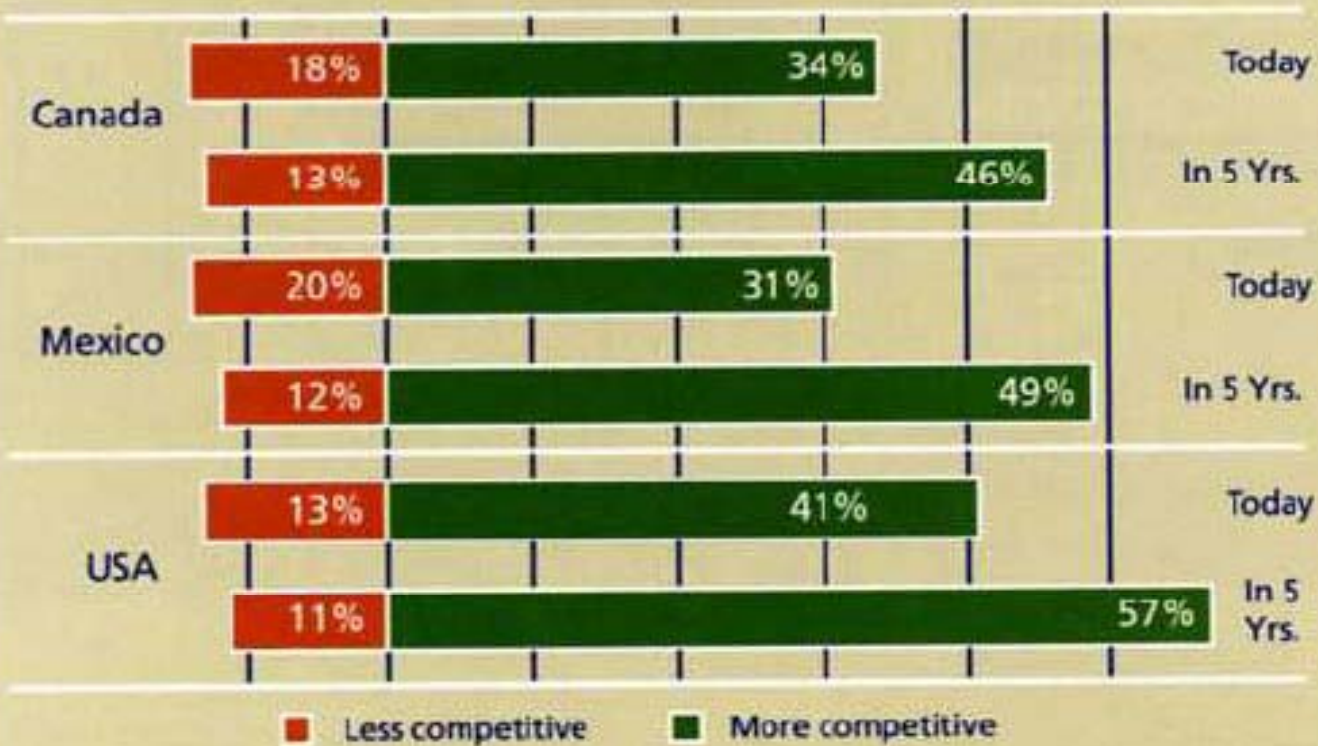
Figure 4. Impact of NAFTA on Your Business



Source: Deloitte Research, based on the "Made in North America" Survey conducted by Canadian Manufacturers & Exporters, Deloitte Touche Tohmatsu member firms in Canada, Mexico and the United States, the National Association of Manufacturers and The Manufacturing Institute.

# They Expressed Optimism for Future North American Competitiveness

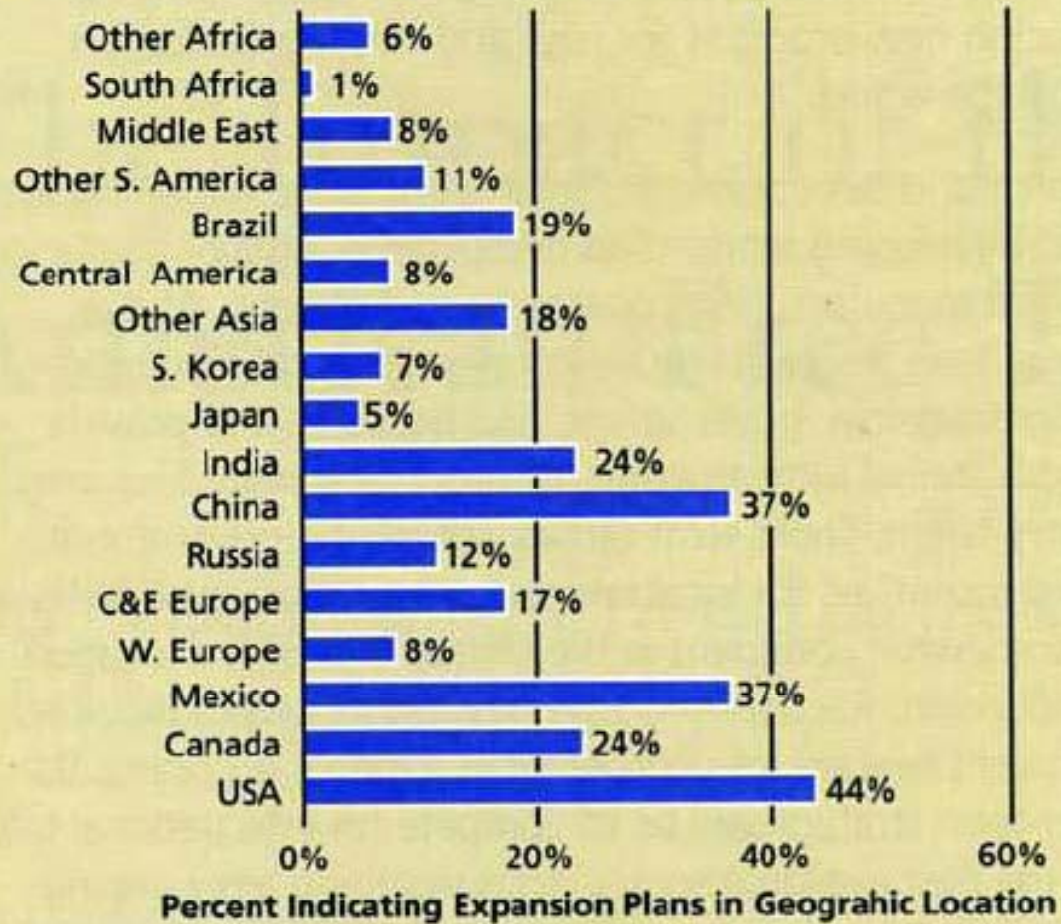
Figure 1. Competitiveness Today and in 5 Years Relative to Primary Competitors (Percent Indicating)



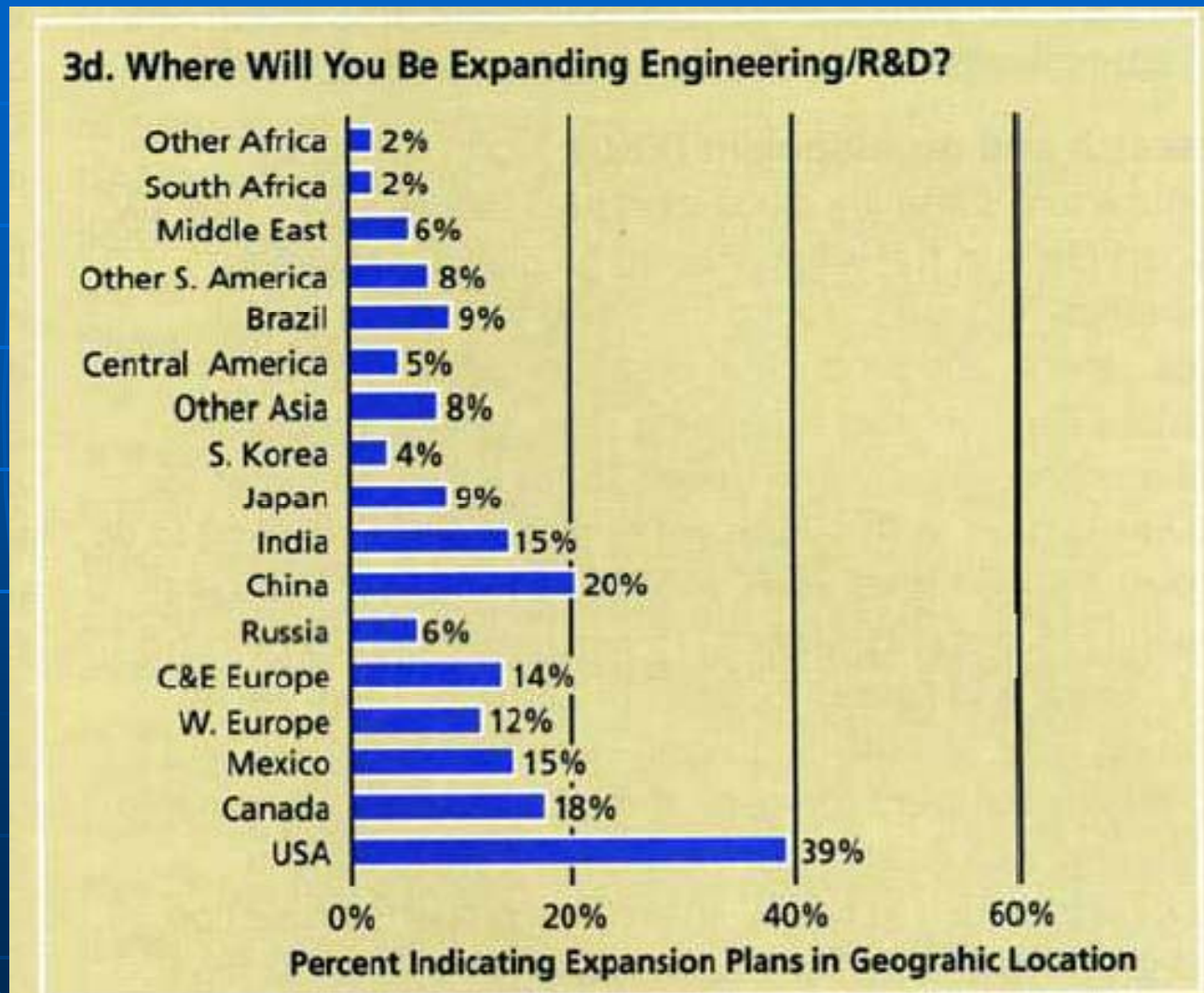
Source: Deloitte Research, based on the "Made in North America" Survey conducted by Canadian Manufacturers & Exporters, Deloitte Touche Tohmatsu member firms in Canada, Mexico and the United States, the National Association of Manufacturers and The Manufacturing Institute.

# They Plan to Expand Production in North America

3a. Where Will You Be Expanding Production?



# The United States Will Remain the Principal Location For Research and Development



**SO, DOES THIS MEAN  
AMERICAN MANUFACTURING  
DOESN'T FACE SERIOUS PROBLEMS?**

**NO. WE FACE VERY SERIOUS  
PROBLEMS THAT ENDANGER  
THE VERY FUTURE OF  
MANUFACTURING IN AMERICA.**

## **We Have to Address the Real Factors That Hurt our Competitiveness and Make the United States a Less Attractive Manufacturing Location, Including ...**

- Growing shortage of skilled workers
- Excessive corporate taxation
- Escalating health and pension costs
- Out-of-control regulatory and litigation costs
- Soaring energy costs
- Need more attention to Innovation and Technology
- Fix outmoded export control rules
- Open more foreign markets for U.S. manufacturers
- Smarter customs practices; e.g. "10+2" should be focused on high risk shippers

**... NOT Free Trade Agreements. They Are Part of the Solution – Not the Problem.**

**MANUFACTURING**

**MAKES**

**AMERICA STRONG**

**NAM** *National Association  
of Manufacturers*