

# WebMemo



Published by The Heritage Foundation

No. 2116  
October 24, 2008

## Renegotiating NAFTA and Other U.S. Trade Agreements: Fixing What Isn't Broken

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Barack Obama's pledge to—if elected President—rewrite the rules of trade set out in the North American Free Trade Agreement (NAFTA) caters to a protectionist agenda set on protecting special interests, not promoting America's prosperity. The argument that NAFTA has brought nothing but woe to the U.S. economy and America's workers is based on anecdotes and distorted data—and has gone far toward helping to misshape public perceptions about NAFTA's real impact. Unfortunately for good policymaking, the ongoing practice of bashing NAFTA on the campaign trail may result in real changes made to an agreement that has done far more good than harm to America's economy.

Populist rhetoric aside, NAFTA and other free trade agreements (FTA) the U.S. has in place have spurred competition and economic growth. In fact, without the lower barriers to trade that these agreements and the more than six decades of multilateral trade liberalization has brought to bear on the world's markets, America's ability to weather the current economic storm would be much less. While it is certainly the case that these agreements can always be improved, that does not mean they are broken—although reopening them may indeed bring about that result. Instead, a new Administration and Congress keen on promoting America's economic well-being should support the efforts already underway to improve the implementation of the agreements.

**The Positive Benefits of FTAs.** As of the beginning of 2008, the U.S. has 11 FTAs with 17 countries. Congress has approved FTAs with the following

nations: Israel; Canada and Mexico (NAFTA); Jordan; Singapore; Chile; Australia; Morocco; the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua (DR-CAFTA); Bahrain; Oman; and, most recently, Peru.<sup>1</sup>

While agreements with Oman and Peru have not yet been fully implemented, the U.S. has already seen impressive results from its bilateral trade deals. For instance, in 2007, the FTAs currently in force accounted for more than \$1 trillion in two-way merchandise trade, which is about 35 percent of U.S. trade worldwide.<sup>2</sup> Along with the economic benefits of the agreements, the FTAs have also strengthened political relationships between the U.S. and its strategic allies around the globe.<sup>3</sup>

Contrary to popular opinion, since its inception NAFTA has generated significant gains for the U.S. Together, Canada and Mexico constitute America's largest trade partner, accounting for about 83 percent of all merchandise trade between the U.S. and our FTA partners and 29 percent of all U.S. merchandise trade in 2007. Each day NAFTA countries conduct roughly \$2.2 billion in trilateral trade.<sup>4</sup> This trade supports U.S. jobs, bolsters productivity, and promotes investment. Since 1994, U.S. GDP grew more than 50 percent in the first 13 years of

This paper, in its entirety, can be found at:  
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Produced by the Center for International  
Trade and Economics (CITE)

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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the agreement, and the economy created a net 26 million new jobs.<sup>5</sup>

In fact, economy-wide, the estimated net number of jobs displaced each year by international trade is estimated to be no more than a relatively small 3 percent of the workforce.<sup>6</sup> Far more important to the changing composition of America's workforce have been improvements in technology and shifts in consumer preferences. The combined impact of innovation and reduced barriers to trade has served to help the economy, not harm it. Up until the current economic slowdown, America experienced an average unemployment rate of 5.1 percent—2 percent less than the average unemployment rate experienced over the decade preceding the implementation of NAFTA.<sup>7</sup> Today, more than 57 million Americans are employed by firms that engage in international trade—roughly 40 percent of all non-farm jobs.<sup>8</sup>

**The Cost of Renegotiating Treaties.** While the data does not support the popular opinion that freer trade results in a competitive environment that is unfair to U.S. workers and companies, the call for renegotiating trade agreements has been taken up by protectionists, most of Congress, and one presidential candidate. While such tactics may make for good politics, they would result in very bad policy. Should the U.S. demand to reopen NAFTA or other

FTAs as a means to pull back from previous market access commitments, then it is fair to expect that America's trade partners will retaliate with protectionist demands of their own.

Such actions would result in a real contraction in the level of two-way trade at a time when the U.S. and other countries are relying on trade to mitigate the cost of the current economic slowdown. Firms that can no longer find a domestic consumer can export instead—provided countries do not react to hard economic times with protectionist policies. When all sales opportunities dry up or are denied, companies go out of business, jobs are lost, and the chance for economic recovery is postponed. Rather than burden already struggling firms with extra barriers to trade, governments need to keep the wheels of trade greased.

**Free Trade Agreements Promote U.S. Interests.** America's trade agreements do not need to be renegotiated to make them better. Because it is clear that economies evolve over time, NAFTA and the other FTAs have working groups and formal committees designed to continuously ensure that the rules of trade defined in the agreements work effectively for all parties. For instance, the newly established "Pathways to Prosperity in the Americas" initiative is designed to function as a regional forum for making trade free and fair.

1. Office of the U.S. Trade Representative, "Bilateral Trade Agreements," at [http://www.ustr.gov/Trade\\_Agreements/Bilateral/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html) (October 22, 2008).
2. Based on calculations using data from the TradeStats Express National Trade database at <http://tse.export.gov/ITAHome.aspx?UniqueURL=02dxjrynb2mvcgerd5jd2k55-2008-4-9-3-22-49> (October 22, 2008).
3. U.S. Trade Representative, *The 2008 Trade Policy Agenda and 2007 Annual Report*, March, 2008, at [http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2008/2008\\_Trade\\_Policy\\_Agenda/asset\\_upload\\_file649\\_14563.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2008/2008_Trade_Policy_Agenda/asset_upload_file649_14563.pdf) (October 22, 2008).
4. U.S. Trade Representative, "NAFTA: A Strong Record of Success," March 2006, at [http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2006/asset\\_upload\\_file242\\_9156.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file242_9156.pdf) (October 22, 2008).
5. U.S. Trade Representative, "NAFTA—Myth vs. Facts," March 2008, at [http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2008/asset\\_upload\\_file71\\_14540.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2008/asset_upload_file71_14540.pdf) (October 22, 2008).
6. Daniel Griswold, "Trading Up: How Expanding Trade Has Delivered Better Jobs and Higher Living Standards for American Workers," *Trade Policy Analysis* No. 36, Cato Institute, October 25, 2007, at [www.freetrade.org/node/782](http://www.freetrade.org/node/782) (October 24, 2008). Similar results were derived on 2003 jobs statistics in Erica L. Groshen, Bart Hobijn, and Margaret M. McConnell, "U.S. Jobs Gained and Lost through Trade: A Net Measure," Federal Reserve Bank of New York, August 2005, at [www.ny.frb.org/research/current\\_issues/ci11-8/ci11-8.html](http://www.ny.frb.org/research/current_issues/ci11-8/ci11-8.html) (October 22, 2008).
7. U.S. Trade Representative, "NAFTA—Myth vs. Facts."
8. Council of Economic Advisors, "Economic Report of the President," February 2007, p. 169, at [http://www.gpoaccess.gov/eop/2007/2007\\_erp.pdf](http://www.gpoaccess.gov/eop/2007/2007_erp.pdf) (October 24, 2008).

Whether the U.S. pursues freer trade through multilateral negotiations or via bilateral agreements, the result is fair and beneficial for America. Similar to the objectives sought after by U.S. negotiators in the WTO, U.S. FTAs go beyond winning lower tariffs on American agriculture, manufacturing, and services exports. FTAs include provisions that safeguard investors from discrimination, increase regulatory transparency, combat corruptive practices, and protect and enforce intellectual property rights. The U.S. trade representative negotiates agreements that include transparent dispute resolution and arbitration mechanisms to guarantee that the agree-

ments are upheld, along with the rights of U.S. firms and consumers.

U.S. FTAs generally strengthen the transparent and efficient flow of goods, services, and investments between member countries. FTAs open markets, protect investors, and increase economic opportunity and prosperity. In short, FTAs serve to promote U.S. interests, not weaken them or place an unfair burden on Americans.

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