# Advice for the President on NAFTA Renegotiation: Don't Fix What Ain't Broke

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February 22, 2017

Scapegoating trade for problems real and imagined has been a prominent part of American electoral politics for 25 years. So, during the campaign, when candidate Donald Trump referred to the North American Free Trade Agreement as "the worst trade deal ever negotiated," his rhetoric wasn't especially alarming.

But President Trump's recent announcement that his administration will reopen and renegotiate NAFTA is cause for deep concern. It's not that NAFTA is a perfect agreement that wouldn't benefit from some updating. The concern is that Trump will reach for a sledgehammer instead of a scalpel.

The president claims that NAFTA has been a failure, and cites America's $60 billion bilateral trade deficit with Mexico as the evidence. In his mistaken view, exports are Team America's points and imports are the foreign team's points, so the deficit means we are losing. And the reason the United States is losing is because U.S. negotiators were outsmarted in the early 1990s or our trading partners—especially Mexico—have been cheating with impunity. Outside of the Trump administration, one would be hard pressed to find an economist who believes that the trade balance is a measure of the efficacy of trade policy.

NAFTA went into effect in 1994 and provided for the gradual elimination of almost all tariffs and many other impediments to trade among the North American countries. As a share of aggregate GDP, the value of U.S.-Mexico trade doubled between 1994 and 2015. Beyond leading to lower prices and more choices for consumers, trade barrier elimination delivered the conditions necessary to permit transnational specialization in production. Essentially, the removal of barriers allowed the factory floor to break through its walls and cross borders, so that tasks spanning the spectrum from product conception to production to consumption could be performed in the places where it made the most economic sense to perform those tasks.

The result was the emergence of a globally competitive, integrated North American production platform, in industries from agriculture and food processing to automobile and machinery manufacturing.

But the nature of production and commerce has changed considerably in the internet age that has emerged and evolved over the past quarter century. NAFTA lacks rules dealing with 21st century issues, such as e-Commerce, business data transmissions, trade in services industries that didn't exist 25 years ago, and it includes provisions that might be worth reconsidering. While there is certainly scope for carefully considered reforms, massive overhaul that dramatically changes the rules and incentives undergirding the North American production platform would be enormously disruptive, and potentially disastrous.

Of course, NAFTA has its critics who would like nothing more than to blow up the status quo. Peter Navarro, who heads Trumps' newly established National Trade Council, wants to see those trans-national production and supply chains dismantled and situated entirely in the United States. He and incoming Commerce Secretary Wilbur Ross (who Trump designated to lead the NAFTA renegotiation) believe that imports detract from economic growth and that the United States should be more self-sufficient.

According to the *Financial Times*, "Mr. Navarro said one of the administration's trade priorities was unwinding and repatriating the international supply chains on which many US multinational companies rely, taking aim at one of the pillars of the modern global economy." Of course those views are consistent with Trump's threatening tweets, in which he has warned U.S. companies with supply chains running through Mexico that their products, when imported back into the United States, will face penalties.

Ever since Ross Perot's 1992 warning of "a giant sucking sound" coming from Mexico to vacuum up U.S. investment, factories, and jobs, NAFTA has been a symbol of corporate free trade agreements run amok. Despite an abundance of evidence to the contrary, the view that NAFTA killed U.S. manufacturing jobs is alive and kicking in the age of Trump.

Bureau of Labor Statistics data show that in the 14 years between 1979 (the year in which U.S. manufacturing jobs peaked at 19.4 million) and 1993 (the last year before NAFTA implementation), the manufacturing sector shed 2.7 million jobs. In the 14 years between 1993 and 2007, manufacturing shed 2.9 million jobs. In other words, the pace of job decline in manufacturing was virtually unchanged between the periods. It's worth mentioning that manufacturing jobs actually increased by 800,000 in the first five years following NAFTA's implementation.

University of California economic historian Brad DeLong – not a raging free trader — estimates that NAFTA may be responsible for net job losses of about 0.1 percent of the U.S. workforce, which amounts to fewer jobs than are added to payrolls in an average month. Other factors, especially the increase in output attributable to productivity gains, explains much of the reduction in manufacturing jobs.

The president's unorthodox views and impulsive tendencies are causing trepidation and uncertainty. Threats of 35 percent tariffs, aversion to seeing the company called out by name in a menacing tweet, and fear of political retribution have kept much of the business community cowering in silence. The uncertainty has undoubtedly deterred, deferred, and reversed cross-border investment decisions. Expect that to continue to be the case until greater clarity of purpose and scope of the NAFTA renegotiations emerges.

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