Houston Hispanic
Chamber of Commerce

The Leader of Houston's New Majority®

THE ECONOMIC IMPACT OF NAFTA

Overview

The North American Free Trade Agreement (NAFTA) is an agreement signed into law in 1994 by the United States, Canada, and Mexico. The agreement created a bi-lateral trading bloc between the North American continent and replaced the Canada - United States Free Trade Agreement, which had been in place since 1988.

NAFTA's impact has been viewed by most economists as generally beneficial for the economies and citizens of all three countries as measured by GDP, albeit showing modest gains in some instances. With that, free trade agreements have adversely impacted workers in industries exposed to international trade competition. Cheaper labor and business costs in Mexico have resulted in the relocation of operations for manufacturers and companies from the United States, leaving many American workers displaced when those jobs are moved abroad.

NAFTA - and free trade, generally - has become a lightning rod of contemporary political discourse.

Indeed, a key catalyst for the election of President Donald Trump was his campaign's disposition toward NAFTA. Despite polls showing widespread support for NAFTA across all three countries, President Trump has threatened to "rip up" NAFTA and renegotiate a new agreement that better favors the United States and its workers. At the time of this report, negotiations between the United States, Canada, and Mexico are still ongoing and will carry on throughout 2018.

While the adverse impacts of NAFTA are real, and should be addressed in any current renegotiations, it is important to note that NAFTA has been a positive economic factor for the United States and even more so for the State of Texas and the Greater Houston Region. Any new deal must continue to encourage robust trade and commerce between the North American continent. Per the Texas Public Policy Foundation, should the US withdraw from NAFTA, the Greater Houston region not only stands to lose billions in GDP and thousands of jobs per year - it could also place into jeopardy its relationship with Mexico, its foremost trading partner globally.

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The North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA) was born out of the candidacy of former President Ronald Reagan, who championed a North American free trade zone in his announcement speech in 1979.

President Reagan championed the concept, stating that "a developing closeness between the United States, Canada, and Mexico would serve notice to friends and foe alike that we were prepared for a long haul, looking outward again and confident of our future; that together we are going to create jobs, to generate new fortunes of wealth for many, and provide a legacy for the children of each of our countries." This disposition would guide American policy on global trade for more than three decades.

The precursor to NAFTA was the Canada-United States Free Trade Agreement, which was signed into law by President George H.W. Bush in 1988. Quickly following the codification of the agreement, Mexico approached the two other North American countries in an effort to generate new foreign investment via the creation of a North American trading bloc. NAFTA would be signed and go into effect on January 1, 1994, and has been in place for more than 24 years.

In the late 2000s the United States slipped into the Great Recession - the country's deepest economic recession since the Great Depression. As the '00's transitioned into the '10's and the economy began to gain steam, many workers - particularly in manufacturing and other trade-centric industries - did not feel the positive effects of a recovering economy. This left many workers still out of work or making less than they did before the economic downturn. Even to this day, many workers are currently earning less for the same work they did years ago.

This issue would ripen in the mid '10's and become a preeminent political issue during the 2016 Presidential campaign. Leaders from both political parties lambasted NAFTA and free trade, generally, claiming that the agreements came at the sacrifice of the American worker. Then candidate Donald Trump would become NAFTA's biggest critic, calling it "the worst trade deal in the country's history" throughout the campaign and into his presidency.

The Trump administration is now finalizing renegotiations on NAFTA with Mexico and Canada. With the administration taking a strong disposition against the deal - and already pulling the United States out of the Trans-Pacific Partnership (TPP) agreement - the economies of three countries stand to be significantly impacted by a new deal that puts added restrictions on trade within the North American continent.

NAFTA's Economic Impact

By most analyses, NAFTA has had a generally positive impact on the national economy, with a more limited impact on US GDP. Even with that, NAFTA's impact on the economies of the State of Texas and the Greater Houston region is unmistakable. Per the Council on Foreign Relations, NAFTA has made Mexico into Texas' top trading partner, the Greater Houston region has developed a positive trade balance of more than $4 billion with Canada, and annual exports from Houston to Mexico have topped more than $2.5 billion.

United States

According to a study from the Wharton School, overall trade between U.S., Canada, and Mexico has increased from roughly $290 billion in 1993 to more than $1.1 trillion in 2016 due to NAFTA.

According to the U.S. Chamber of Commerce, six million U.S. jobs depend on U.S. trade with Mexico.

NAFTA is also responsible for a positive - albeit modest - impact on U.S. GDP. According to a study conducted by the Peterson Institute for International Economics (PIIE), the United States has seen a $127 billion increase in GDP yearly due to NAFTA.

State of Texas

The State of Texas is one of the biggest beneficiaries of NAFTA. Trade between the three NAFTA countries represents nearly half of Texas' yearly exports, amounting to more than $1 trillion in yearly economic activity. According to the Federal Reserve of Dallas, NAFTA is a catalyst for Texas' economic growth outpacing the national average. In fact, Texas' status as the nation's top exporting state can be attributed to the positive economic benefits of NAFTA.

The State of Texas also generates $178 billion in annual trade with Mexico, which has also been a main source of economic activity conducted via the Port of Houston for more than a decade. As of 2017, Texas exports more than $100 billion in goods annually to the other two NAFTA nations.

According to the Texas Public Policy Foundation, NAFTA's impact on the Texas job market has also been positive, with 190,000 new jobs created and just over 20,000 negatively affected by the agreement. The state's major metropolitan areas have been the biggest beneficiaries, while smaller cities have made smaller gains under NAFTA.

Greater Houston Region

Houston's geographical location and its status as the energy capital of the world have made it one of the greatest beneficiaries of NAFTA. Since it was signed into law in 1993, Houston has nearly doubled its exports to Canada and Mexico.

According to the U.S. International Trade Administration, Houston has been the nation's top exporter since 2013. In that time, Mexico has solidified its position as the Greater Houston region's top trading partner, representing more than $16.8 billion in trade annually. In fact, in the early '10s, the trading relationship between the Houston region and Mexico topped more than $30 billion. Those numbers have dropped in line with the price of oil, but this trading relationship is still a cornerstone to the region's economy.

Mexico's strong economic ties to the region are also exemplified by its strong business presence in the region. According to the Greater Houston Partnership, there are currently 132 subsidiaries in Mexico and 20 Mexican-based subsidiaries located in the Greater Houston region. Mexico is also one of the less than ten foreign countries who operates foreign banks in the Greater Houston region

In 2016, the Greater Houston region exported $2.5 billion more in goods to Mexico than it imported.

Trade with Canada represents more than $1 billion in annual economic activity, making it Houston's 32nd top trading partner. Canada also hosts a number of Houston-based subsidiaries, holds 113 total subsidiaries in the region, and operates foreign banks in the city. The Greater Houston region also enjoyed a $4 billion trade surplus to Canada, reemphasizing the positive effects of the intercontinental trade agreement on the region.

Per Houston Public Media, NAFTA continues to be a strong economic driver responsible for thousands of jobs in the Greater Houston region. A withdrawal from the agreement would devastate the volume of activity occurring at the Port of Houston. This decrease in activity would almost certainly have inverse effects on the more than 1.2 billion jobs supported by the port.

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Renegotiating NAFTA

The Houston Hispanic Chamber of Commerce supports renegotiation efforts that seek to preserve and modernize NAFTA, make it friendlier to the American worker, and introduce new energy-focused provisions to better reflect the global business climate of the 21st century. The Houston Hispanic Chamber of Commerce supports the following measures in renegotiating NAFTA

1.Preserve NAFTA

NAFTA's positive economic effects are described throughout this document - it's critical that the Trump administration does not remove the United States from this critical trade agreement.

2.Modernize NAFTA

It's been two and a half decades since NAFTA was first signed into law. The ongoing renegotiations present the entire North American continent an opportunity to develop a trade agreement better suited to serve 21st century commerce. This modernization should create an agreement that:

- » **Better encourages cross-border data flow and exports of digital products; and**
- » **Supports small businesses by streamlining custom processes and simplifying paperwork for in dependent online retailers.**

3.Protect the American Worker

While NAFTA has had a net positive effect on the labor force in the United States, there are workers who have seen their jobs disappear at the hands of cheaper labor abroad. Any renegotiation of NAFTA should better protect the American workforce by:

- » **Increasing domestic investment in workforce development and training;**
- » **Providing stronger protections for U.S.-based companies and intellectual property;**
- » **Making it easier for professional services to be rendered across borders; and**
- » **Including stronger labor, union, and human rights laws in a renegotiated agreement.**

4.Create A More Energy-Friendly NAFTA

When NAFTA was signed into law, the United States relied heavily on importing energy assets from across the globe. Since that time, the shale revolution has taken place, making the U.S. one of the world's greatest energy exporters. NAFTA should be renegotiated to reflect that new reality by:

- » **Implementing measures that secure and strengthen North American energy independence;**
- » **Creating an agreement that better reflects Mexico's recently-implemented energy reforms; and**
- » **Introducing new, modern-day environmental regulations.**

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