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5 Myths About NAFTA

By Philippe Legrain
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Sen. Hillary Rodham Clinton often likes to take credit for her husband's achievements as president. But then there's NAFTA. Clinton may have been present at the creation of the North American Free Trade Agreement in 1994, but she wants everybody to know that it's not her baby. She now proposes to "fix" the agreement to make trade "work for working families." Sen. Barack Obama, meanwhile, makes the fallout from NAFTA sound downright nuclear, lamenting that "entire cities . . . have been devastated as a consequence of trade agreements that were not adequately structured to make sure that U.S. workers had a fair deal." Despite the heightened rhetoric, he, too, wishes to "fix" the treaty, not nix it. Only the presumptive Republican nominee, Sen. John McCain, would leave NAFTA untouched; his priority is freeing up global trade.

The Democratic rivals have bought into most of the myths that have been peddled about the agreement and have placed their opposition to NAFTA at the center of their campaigns. Here's some information that could help them update their stump speeches.

1 NAFTA has transformed the U.S. economy.

Hardly. Critics rightly point out that NAFTA's economic benefits were oversold, but they're wrong to heap the blame for all America's woes on it. NAFTA, which expanded the existing Canadian-U.S. free-trade area to Mexico, has had only a marginal effect on the U.S. economy. Yes, exports to Mexico have more than tripled since 1993 -- but at \$161 billion last year, they still account for only 1.1 percent of the economy. Considering that total U.S. exports have more than doubled over the same period, to more than \$1.6 trillion a year, the boost from NAFTA is just a trifle.

Though imports from Mexico have risen nearly five-fold since 1993 -- potentially threatening some U.S. businesses -- they only amounted to \$230 billion in 2007, or less than 1.7 percent of the \$14 trillion U.S. economy. That's peanuts. And for all the fears of factories being shipped south on the back of an 18-wheeler, the total U.S. investment in Mexican factories and offices adds up to a mere \$75 billion. Mexico received just \$19 billion in foreign direct investment in 2006, while the United States attracted \$175 billion. Thus, the "giant sucking sound" that Texas businessman and independent presidential candidate H. Ross Perot heard back in the 1990s doesn't sound so giant after all. But the benefits of NAFTA don't seem so remarkable, either.

2 NAFTA has put countless Americans out of work.

Not really. Obama claims that NAFTA has destroyed a million American jobs. Suppose he's right. Total employment still rose by 27 million jobs between 1993 and 2007, to 137.6 million, and the unemployment rate has fallen. At worst, then, NAFTA has cost only a tiny minority of American workers their jobs. And even that is a one-sided view. As Mexico opened its economy to U.S. trade and investment, NAFTA created new American jobs, too.

NAFTA critics also decry the trade deficit with Mexico, but at \$70 billion a year, it accounts for only 0.5 percent of the U.S. economy. These figures should quiet NAFTA foes, who point to lost jobs and stagnant manufacturing wages, as well as boosters, who trumpet claims of rising output and record-high exports. The fact is, NAFTA has had only a fractional impact

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on these trends. Mexico's biggest impact on the U.S. labor market is not through trade, but through immigration. And the money that Mexican migrants send home contributes more to the Mexican economy than foreign direct investment does.

3 "Fixing" NAFTA would be easy and cost-free.

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