

**Inclass Handout**  
**Agricultural Economics 101**

**Predictions of Long-Term NAFTA Impacts (ITC)**

Predictions based on 12 economic studies conducted prior to 1993:

- (1) Increase in U.S. real gross domestic product (GDP): 0.02 - 0.5%
- (2) Increase in Mexico's real GDP: 0.1 - 11.4%
- (3) Increase in U.S. net aggregate employment: 0.03 - 0.08%
- (4) Increase in Mexico's net aggregate employment: 0.1 - 6.6%
- (5) Increase in U.S. real average wages: 0.1 - 0.3%
- (6) Increase in Mexico's real average wages: 0.7 - 16.2%

**Actual Effects of NAFTA (GAO)**

- (1) U.S. trade with NAFTA members has accelerated.
- (2) Estimates of changes in total trade due to NAFTA are generally consistent with pre-NAFTA expectations.
- (3) Diverse impacts on different sectors of the economy. Although efficiency may improve from this reallocation of resources, it creates costs for certain sectors and for workers in those sectors.
- (4) Employment impacts range widely, from 160,000 jobs gained to 420,000 jobs lost. GAO argues that both are likely to be incorrect-- and that NAFTA can't be expected to "substantially alter overall employment levels" (may affect distribution of income and wages).
- (5) One of NAFTA's objectives was to lock in Mexico's market reforms and provide long-term economic growth in Mexico, therefore contributing to a more stable border. The effectiveness of NAFTA for achieving these goals is not yet clear.
- (6) NAFTA's system for avoiding and settling disputes is a critical element, and is working relatively well. Disputes are often over "dumping." Examples of disputes resolved or in the process of being resolved by NAFTA panels:
  - (a) Fresh cut flowers from Mexico
  - (b) Refined sugar from U.S.

(7) Supplemental agreements: environment and labor

Note that NAFTA labor adjustment programs exist. Workers covered by the programs are in the following industries:

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<u>Sector</u>	<u>No. workers covered</u>
Apparel	42,140
Electrical and electronic equipment (exc. computers)	29,730
Fabricated metal products	12,750
Lumber and wood products	8,280
Industrial/commercial machinery and computer equipment	11,005
Other sectors	38,979
Total	142,884

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<u>Statistics on Exports and Imports: Pre- and Post-NAFTA</u>	<u>Annual average growth rate</u>	
	<u>(%)</u>	
	<u>1991-93</u>	<u>1994-96</u>
<u>U.S. exports to:</u>		
Canada	6.5	9.8
Mexico	13.9	12.1
World (exc. NAFTA partners)	4.7	10.4
<u>U.S. imports from:</u>		
Canada	6.7	12.1
Mexico	9.9	22.1
World	4.4	9.5

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Source: IMF, Direction of Trade Statistics, 1997.