

# Emergency Committee for American Trade

on behalf of the

**Business Coalition for U.S.-Central America Trade**

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## CAFTA, Trade Deficits and Jobs

### **Free Trade Agreements Don't Cause Trade Deficits.**

Trade deficits largely result from broader macroeconomic issues, including the continued growth of the U.S. economy and sluggish growth in other parts of the world, as well as the United States' low saving rate. They are not caused by free trade agreements.

Claims that NAFTA has resulted in a massive trade deficit with Mexico, for example, ignore that Mexico suffered a severe (and unrelated) depreciation of its currency soon after the NAFTA was implemented – the so-called peso crisis – making Mexico's exports to the United States much cheaper. Indeed, in significant part as a result of the NAFTA, Mexico kept its market open and its economy recovered much faster than it had in earlier crises. Notably, U.S. exports to Mexico also more than doubled since NAFTA's entry-into-force, from \$41.6 billion in 1993 to \$110.7 billion in 2004, making Mexico America's second largest export market after Canada. U.S. exports to the rest of the world grew much slower during that same period.

### **The U.S. Trade Deficit with Countries with Which the United States Has Free Trade Agreements Is a Small Fraction of the Total U.S. Trade Deficit.**

Consider that in 2004, countries with which the United States did not have free trade agreements accounted for over 80 percent of the U.S. trade deficit.

By contrast, the 2004 trade deficit with countries with which the United States had an FTA in 2004 – Israel, Canada, Mexico, Jordan, Singapore and Chile – accounted for 17.6 percent of the total U.S. trade deficit.

Furthermore, the trade deficit for this group of countries has declined since 1993 (right before the NAFTA) as a percentage of the total U.S. trade deficit (23.7 percent of the total trade deficit in 1993).

### **The Facts about Trade Deficits and Jobs.**

Contrary to much speculation, increasing trade deficits do not cost U.S. jobs. U.S. unemployment has fallen significantly from 7.5 percent in 1992, while trade deficits over the last decade grew by nearly 300 percent. As the United States undertook significant trade

liberalization through the NAFTA and the Uruguay Round, total U.S. employment grew by 22 million jobs between 1990 and 2000, and U.S. average per capita real income rose by 26 percent over the same period. Similarly, since 1994, the real hourly wages for workers rose 38.4 percent, while prices (as measured by the Consumer Price Index (CPI)) rose at a slower rate of 27.1 percent.

As explained in the *2005 Economic Report of the President*:

According to standard economic theory, the degree to which an economy is open to trade affects the mix of jobs within an economy and may cause dislocations in certain areas or industries, but has little impact on the *overall* level of employment. . . . Trade tends to lead a country to specialize in producing goods and services at which it excels. Trade affects the mix of jobs because workers and capital would be expected to shift away from sectors in which they are less productive compared to foreign producers and toward existing and new sectors.

As reflected in the analysis of the *Economic Report of the President*, obviously some workers in some sectors are dislocated as a result of trade flows – although not necessarily the trade agreement itself. The United States has in place Trade Adjustment Assistance programs to help retrain such workers to address such dislocations.

**CAFTA Is Largely about Opening *Their Markets to Our Goods and Services*, since the U.S. Market Is Already Substantially Open to Central American-Dominican Republic Imports.**

CAFTA is about leveling the playing field for U.S. manufacturers, service providers and farmers.

The U.S. Congress has overwhelmingly and on a bipartisan basis largely opened the U.S. market to imports from Central America and the Dominican Republic, such that over 75 percent of CAFTA imports and 99% of CAFTA agricultural imports already enter the United States duty free. As well, through commitments in the WTO, the U.S. services market is also largely open.

CAFTA will open their markets to our goods and services, eliminating tariffs and non-tariff barriers that impede U.S. opportunities for U.S. manufacturers, service providers and farmers in these countries.