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NAFTA: DONALD TRUMP'S CRITICISMS ARE UNFOUNDED

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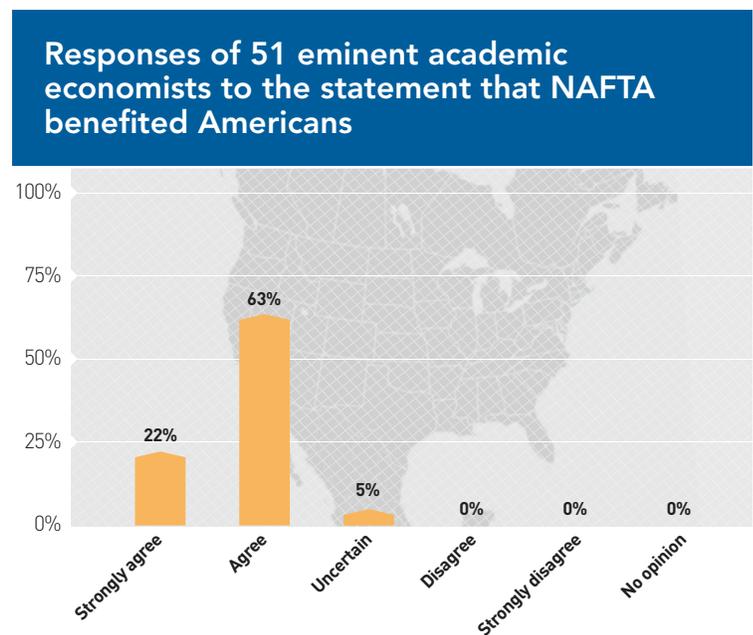
The Republican Party's presumptive nominee for the presidency of the United States, Donald Trump, has made the negative effects of the opening up of borders, and especially of trade between the United States and Mexico, one of his recurring themes. He claims that free trade does not benefit the United States.¹ According to him, the North American Free Trade Agreement (NAFTA) is "a disaster" that needs to be renegotiated. In Canada, this opposition to free trade finds a certain echo among commentators and lobby groups. The truth of the matter, though, is that this agreement has had positive effects for the three countries involved.

THE EFFECTS OF NAFTA

The liberalization of trade brings lasting benefits at the cost of certain short-term inconveniences. This is one of the uncontested conclusions of economic analysis, agreed upon by practically all economists. Free trade increases well-being in the countries concerned thanks to falling prices and efficiency gains, despite the initial disappearance of certain jobs at less efficient companies that produce at higher prices than their new competitors.

These effects were observed following the entry into force of NAFTA in January 1994.² Labour productivity increased across North America.³ In Canada, it increased by an estimated 14%, a huge leap suggesting that the least efficient companies closed down

Figure 1



Note: These are responses to the statement: "On average, citizens of the U.S. have been better off with the North American Free Trade Agreement than they would have been if the trade rules for the U.S., Canada and Mexico prior to NAFTA had remained in place." If the responses are weighted by each expert's degree of confidence, the verdict becomes even more convincing: 31% strongly agree, 67% agree, and 2% are uncertain.
Source: Chicago Booth School of Business, IGM Economic Experts Panel, Free Trade, March 13, 2012.

and the rest experienced growth, became more innovative, and increasingly adopted advanced technologies.⁴

Customs duties reductions led to additional increases in trade with the other two countries of 11% in Canada, 41% in the United States, and 118% in Mexico, for the period between 1993 and 2011.⁵ In terms of value, American trade with Canada and Mexico increased from US\$481 billion in 1993 to US\$1.1 trillion in 2015.⁶ While Donald Trump claims that Americans "don't make anything anymore,"

implying that NAFTA is to blame,⁷ the American manufacturing sector has increased production by 58% since the deal came into effect.⁸

Figure 1 shows that practically every one of the 51 eminent academic economists surveyed as part of the *IGM Economic Experts Panel* are of the opinion that NAFTA was beneficial for Americans. Not one believes that this agreement made them worse off.

There is no question that, as Donald Trump likes to repeat, there are far fewer jobs in the manufacturing sector in the United States than there used to be—29% fewer than before NAFTA came into effect.⁹ However, this change is mainly due to technical innovations that increase productivity and allow the standard of living to rise.¹⁰

During the ten years following the entry into force of NAFTA, the opening up of borders was by itself responsible for an increase in real wages in the companies concerned of 0.32% in Canada and of 0.11% in the United States.¹¹ NAFTA led to the creation of jobs in exporting industries, which pay wages that are 15% to 20% higher on average than industries that focus on domestic production.¹²

AN INTEGRATED CONTINENTAL ECONOMY

These data do not capture all of the effects of free trade, however. One of these important effects, having benefited everyone, is that production between countries is now better integrated thanks to a deeper division of labour. This phenomenon of integration is such that in many cases, imports stimulate domestic production instead of replacing it. Around 25% of American imports from Canada are products of American design, or that were assembled or processed there, and then reimported. In the case of American imports from Mexico, this figure climbs to 40%.¹³

Another positive effect of the liberalization of trade, often overlooked in these debates, is the effect on the Mexican economy. Mexico is a country whose economy struggled for a long time, for a multitude of underlying reasons. NAFTA, however, reduced the price of many consumption goods by half in just a few years, which has helped improve the still precarious living conditions of many Mexicans. The World Bank estimated in 2004 that NAFTA had lifted 3 million Mexicans above the poverty line.¹⁴

Yet these numerous benefits of free trade have not prevented fear-mongers from exaggerating the negative effects of NAFTA. Already in 1998, four years after the deal was signed, certain Canadian critics claimed that “Canada faces extinction as an independent nation.”¹⁵ Clearly this threat, which brings to mind Donald Trump’s recent remarks, never materialized.

Free trade has an undeniably positive effect on the economy. If Donald Trump wants to negotiate “a better deal” for the United States, it should be an agreement that liberalizes trade even further.

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