



WHITE PAPER

The Global Voice of the U.S. Pork Industry

Modernizing NAFTA and Safeguarding U.S. Interests A Summary of Issues and Risks

National Pork Producers Council

May 2017

Executive Summary

Overview: Do No Harm

On May 18, 2017, USTR Ambassador Robert Lighthizer formally notified Congress of the Trump administration's intent to renegotiate the North American Free Trade Agreement (NAFTA). This notification triggered a 90-day period during which the administration must identify its intent and objectives for modernizing NAFTA before negotiations can begin.

"Modernizing NAFTA and Safeguarding U.S. Interests" was published by the National Pork Producers Council (NPPC) on May 25, 2017, to identify the benefits realized by the U.S. economy, agricultural sector and pork industry since NAFTA's inception 23 years ago. Its focus is on trade with Mexico, the impetus for the administration's decision to seek changes.

NPPC maintains that any modernization of NAFTA must protect and enhance the considerable U.S. benefits realized through the free trade agreement. Following is a summary of U.S. economic, agriculture and pork industry benefits derived from NAFTA as described in the white paper. The paper also addresses U.S. manufacturing gains realized through the trade agreement and includes a state-by-state analysis of trade with Mexico.

NAFTA Benefits the U.S. Economy and Other U.S. Interests

- Canada and Mexico are the top two destinations for U.S. goods and services, accounting for more than one-third of total U.S. exports and supporting 14 million American jobs. These jobs produce the nearly \$1.4 billion in goods that we ship to Canada and Mexico each day.
- Before NAFTA, trade between the U.S. and Mexico was only \$50 billion each way. Today, U.S. exports to Mexico are valued at \$231 billion, which support five million U.S. jobs.
- Over the past five years, the U.S. has enjoyed a cumulative surplus in manufactured goods traded with Canada and Mexico.
- Mexico has free trade agreements with many other countries that would gain an immediate competitive advantage over U.S. products without NAFTA.
- NAFTA has contributed to regional stability through increased cooperation on crime, the environment, labor and other issues of mutual interest.

NAFTA Benefits U.S. Agriculture

- With approximately 97 percent of population growth expected to come from outside its borders, the U.S. is highly dependent on exports and free trade agreements for the growth of its agriculture sector.
- Every \$1 billion of U.S. agricultural exports requires approximately 7,550 American jobs throughout the economy.

NAFTA Benefits U.S. Agriculture (cont.)

- The U.S. agricultural sector, the most efficient and competitive in the world, has benefited greatly from free trade agreements (FTA). U.S. agriculture now exports as much to our 20 FTA partner countries as we do to the rest of the world (over 150 countries), excluding China.
- Canada and Mexico are the second and third largest markets for U.S. agriculture, representing \$38 billion, or 28 percent, of all agriculture exports in 2016.
- U.S. agricultural exports to Mexico have grown 393 percent since NAFTA was implemented.

NAFTA Benefits the U.S. Pork Industry

- The U.S. pork industry, which has been the world's largest exporter of pork over the last 10 years, depends on exports for growth. Exports added \$50 to every U.S. hog marketed in 2016.
- The U.S. exports more pork to the 20 countries with which it has FTAs than to all other nations combined.
- Mexico and Canada are the number two and number four export markets for U.S. pork.
- Withdrawing from NAFTA would amount to a loss of five percent of U.S. pork production, reducing the live hog market by 10 percent at a cost of \$14 per hog, or an aggregate loss of nearly \$1.7 billion to the industry.

Modernizing NAFTA and Safeguarding U.S. Interests

U.S. Trade Representative Robert Lighthizer on May 18 wrote to the chairmen and ranking members of the respective House and Senate trade oversight committees, officially notifying them of the Trump administration's intention to enter into negotiations with Mexico and Canada to modernize the North American Free Trade Agreement (NAFTA). These negotiations can begin after a 90-day consultative period, during which the administration must provide Congress with a formal statement of its objectives for the negotiations.

This paper is intended to provide some clarity to the debate over NAFTA with respect to the benefits it has achieved and the costs associated with either erecting new import barriers through the renegotiation or withdrawing from it altogether. Because most of the impetus for NAFTA renegotiation or withdrawal has been based on our bilateral trade with Mexico, this paper focuses largely on that.

We recognize that there are sections of our economy that have not benefitted from expanded trade the way others have, and we are sensitive to their situation. We support the administration in addressing such concerns in a complementary manner that does not cause other problems for our sector and for other sectors of the economy.

To that end, we believe it is vital that U.S. negotiators, stakeholders and members of Congress have a full understanding of NAFTA's benefits and the need to avoid putting those benefits at risk in this renegotiation process. First and foremost, it is essential that we do no harm.

The paper is divided into the following sections:

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Section I: NAFTA – The Big Picture

NAFTA was negotiated during the presidency of George H.W. Bush and signed by him Dec. 17, 1992. It was approved by Congress a year later and took effect Jan. 1, 1994. NAFTA replaced and built upon the previously negotiated U.S.-Canada FTA, which had been implemented in 1989.

After 23 years, NAFTA is in need of updating. Subsequent U.S. free trade agreements have included stronger provisions in such areas as sanitary and phytosanitary measures in agriculture, labor, the environment, regulatory coherence, intellectual property rights, services, investment and e-commerce, to name a few. Each of the three NAFTA countries will have its own list of priorities for a modernized agreement.

The one thing a renegotiation of NAFTA (or its failure) must not do is to scuttle it. Despite the picture painted by critics of the agreement, NAFTA can be credited with some important accomplishments not only in trade but in improved relations, regional investment and supply chains, not to mention cooperation in fighting drug trafficking and terrorism and greater political stability in Mexico.

But trade is where the focus is today and the debate is over jobs.

“NAFTA destroyed this country. It took all the jobs.” – A U.S. small business owner quoted in the *Wall Street Journal*.¹

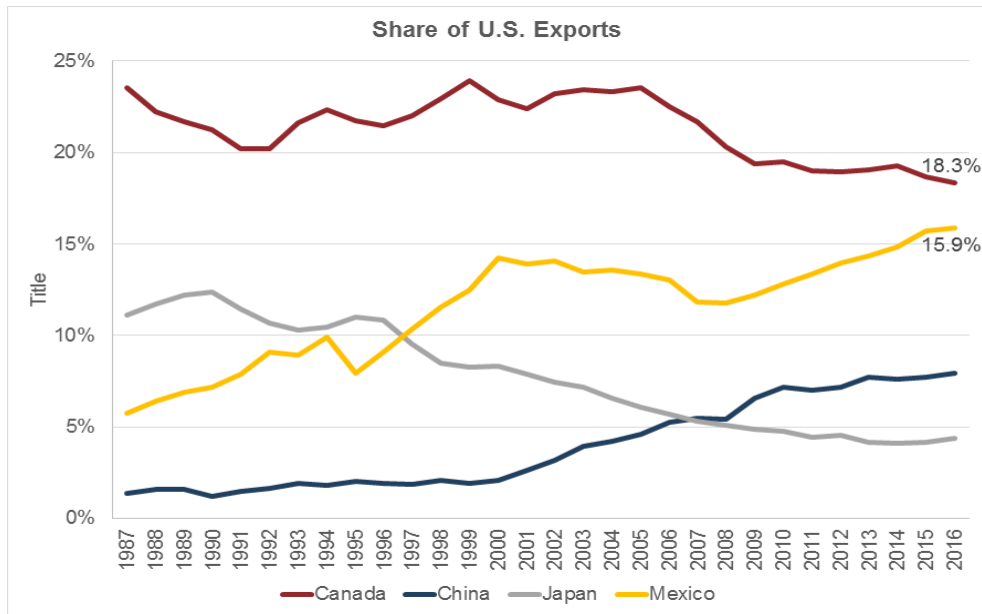
This is no doubt a commonly held view in many parts of the United States, and the principal culprit is seen as Mexico. There is no debating the fact that jobs have been created in Mexico (and lost in Mexico) and jobs have been lost in the United States (and created in the United States) because of NAFTA. Critics focus almost entirely on the trade deficit with Mexico and the jobs “lost” because of it. But it is important to put our bilateral trade with Mexico in its proper context.

In 1994, our trade with Mexico was roughly in balance at about \$50 billion each way. By 2016, our exports to Mexico had nearly quintupled to \$231 billion, and these now support some 5 million jobs. Imports from Mexico have grown even more, to \$294 billion, and these also support millions of jobs in Mexico. In short, NAFTA created many jobs in the United States and, no doubt, even more in Mexico. This begs the question: Would we be better off if we reverted to balanced trade at \$50 billion each way and sacrificed the jobs that exist today because of our increased trade with Mexico under NAFTA?

No one can deny that American jobs did go to Mexico as a result of plant closings, but it is inaccurate to say that trade under NAFTA resulted in lost jobs here, without recognizing the millions of jobs it created, particularly when one also considers that close to 40 percent of United States imports from Mexico include U.S. content. Twenty years ago that would have been less than 5 percent.²

Other factors to consider:

- Canada and Mexico are our first and second largest export markets for all goods, totaling nearly half a trillion dollars in 2016, \$266 billion to Canada and \$231 billion to Mexico. That equates to almost \$40,000 in export revenue for each American factory worker.
- Together exports to Canada and Mexico account for over a third of U.S. exports to the world. The following chart shows how this compares with China and Japan.



U.S. Census Bureau International Trade Data

- Cumulative U.S. goods exports to our North American neighbors support some 14 million U.S. jobs. Those jobs make possible the \$1.36 billion in products we ship to Mexico and Canada each day.
- Removing bilateral trade in oil and gas from the equation, over the past five years our cumulative trade deficit with Canada and Mexico totaled only \$6 billion (See chart below). That represents one-tenth of 1 percent of total non-gas and oil trade with Mexico and Canada over that period.

**Cumulative 5-Year (2012-2016) Trade and Balances with Canada and Mexico
Excluding Oil and Gas (Billions of Dollars)**

	U.S. Exports	U.S. Imports	Balance
Canada	1,403	1,222	+182
Mexico	1,133	1,321	-188
Total	2,536	2,542	-6

Source: USITC at <https://dataweb.usitc.gov>

- The United States actually ran a cumulative trade surplus in manufactured goods of more than \$27 billion with Mexico and Canada over the past five years.

**Cumulative 5-Year (2012-2016) Trade in Manufactured Products with Canada and Mexico
(Billions of Dollars)**

	U.S. Exports	U.S. Imports	Balance
Canada	1,202	990	+212
Mexico	982	1,167	-185
Total	2,184	2,157	+27

Source: USITC at <https://dataweb.usitc.gov>

- As a result of NAFTA, Mexico made substantially deeper cuts in tariffs and other import restrictions on U.S. goods than did the United States on barriers to Mexican goods. If NAFTA were to be dissolved, Mexico would have the right to re-impose those much higher tariffs on our goods, likely making the trade deficit bigger.¹ (See table below.)

What Happens to Tariffs on Trade between the U.S. and Mexico If the U.S. Pulls Out of NAFTA?

	Percent					
	Agriculture		Non-Agriculture		All Products	
	NAFTA	No NAFTA	NAFTA	No NAFTA	NAFTA	No NAFTA
U.S. Tariffs on Mexican Goods	0 ²	4.8 (Bound) 5.2 (Applied MFN)	0	3.3 (Bound) 3.2 (Applied MFN)	0	3.5 (Bound) 3.5 (Applied MFN)
Mexican Tariffs on U.S. Goods	0	45.0 (Bound) 15.6 (Applied MFN)	0	34.8 (Bound) 5.7 (Applied MFN)	0	36.2 (Bound) 7.1 (Applied MFN)

Source: WTO World Tariff Profiles, 2016, https://www.wto.org/english/res_e/booksp_e/tariff_profiles16_e.pdf

- Mexico has free trade agreements with many other countries. Without NAFTA, those countries would immediately secure huge competitive advantages over potentially thousands of U.S. products in the Mexican market. And Mexico is already looking at additional agreements in Asia, with TPP dead and the United States threatening to pull out of NAFTA. (See the table on the next page.)

¹ It should be noted that Mexico’s “applied” MFN average tariff on all products is 7.1 percent, and the U.S. “applied” average is 3.5 percent. In theory, the tariffs that make up these averages would be the maximum the two countries could apply to each other if NAFTA were dissolved (since those are the levels of tariffs that they “apply” to imports of products from other WTO members). However, in a situation where the United States unilaterally imposed higher tariffs on Mexican goods to attempt to achieve balanced trade, such tariffs would certainly have to exceed U.S. applied (and no doubt bound) rates. Mexico would then have the ability to raise its tariffs on U.S. products put to its WTO-bound levels shown in the table, without abrogating its WTO obligations. Or, alternatively, Mexico could choose to raise those “applied” tariffs up to their “bound” levels on products from all WTO members (those with which it does not have free trade agreements) to allow it to maximize the restrictive effect on U.S. products. The United States does not have the same option. It’s applied and bound tariffs are virtually the same at 3.5 percent.

² Does not include special import relief measures on tomatoes and sugar.

**Mexico's Current Bilateral and Plurilateral
Trade Agreements**

Chile	Also as part of the LAIA
Colombia	Also as part of the LAIA
EFTA	Switzerland, Norway, Iceland, Lichtenstein
European Union	Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom
Israel	
Japan	
LAIA - Latin America Integration Assoc. Central America	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Paraguay, Peru, Uruguay, Venezuela
Panama	
Uruguay	Also as part of the LAIA
Peru	Also as part of the LAIA

Source: WTO

- Many U.S. states have close ties to Mexico and substantial export interests there; 31 states export over \$1 billion each year to Mexico. Seven states export more than \$5 billion – Texas, California, Michigan, Arizona, Illinois, Ohio and Louisiana. It is the largest export market for products from California, Arizona, New Mexico and Texas. It is the second largest export market for 25 other states. At the end of this paper is a state-by-state summary of trade interests with Mexico.
- NAFTA's expanded economic collaboration has created another economic benefit: a boom in intraregional travel by businesspeople, tourists and students. According to the U.S. Department of Commerce, in 2011, Americans made nearly 12 million trips to Canada and spent almost \$8 billion there, and they made 20 million trips to Mexico (the top destination for U.S. tourists) and spent over \$9 billion there. The United States' neighbors returned the favor, with Canadians making 21 million trips to the United States and spending \$24 billion here and Mexicans making more than 13 million trips and spending almost \$8 billion.³

In any overall assessment of NAFTA, non-economic issues must also be taken into account. As an article in the *Wall Street Journal* put it: "NAFTA advocates say the economic debate misses the bigger point of the deal, which has been to ameliorate longstanding tensions across the border and turn Mexico into a more steadfast U.S. ally. By that standard, they say, the pact has been a great success, fostering more bilateral cooperation on issues from crime to the environment—and keeping Mexico from following the path of left-wing Latin American countries or drifting closer to American rivals like China."

A study by the Pew Research Center found that more Mexican immigrants have returned to Mexico from the United States than have migrated here since the end of the Great Recession. It also found that the overall flow of Mexican immigrants between the two countries is at its lowest level since the 1990s, mostly because of a drop in the number of Mexican immigrants coming to the United States. The vast majority of illegal immigrants arriving in the United States now come from Central America.

In recent years, Mexico has stepped up its presence along its southern border in an effort to help the United States slow immigration from Central America and other parts of the world. Between October 2014 and May 2015, for example, Mexican authorities detained more Central American migrants than the U.S. Border Patrol. Mexico and the United States also collaborate closely on security issues, from intelligence sharing between law enforcement agencies to the Merida Initiative, a bilateral partnership forged in 2007 to help reduce the power of drug trafficking in Mexico.⁴

Summary: NAFTA-The Big Picture

NAFTA is an old trade agreement. In its 23 years, it has accomplished a great deal, but it has also been overtaken by new, unanticipated forms of trade as well as new trade problems. It needs to be modernized. But there are enormous risks associated with withdrawing if efforts to negotiate a more modern agreement fail.

Many more U.S. jobs would be almost immediately lost than could possibly be created by high-protective tariffs, which would inevitably be imposed by all sides. The hardest hit would be the states with the strongest trade and investment ties to Mexico and Canada and sectors and companies that have developed supply chains in Mexico and Canada critical to their businesses.

Especially hard hit would be American farmers and ranchers. The next three sections look into the impact NAFTA has had on the U.S. manufacturing sector, its impact on U.S. agriculture and its impact on the pork sector.

Section II: NAFTA – Impacts of the U.S. Agriculture Sector

It is widely known and appreciated how important exports are to the U.S. food and agricultural sector. U.S. agricultural exports averaged more than \$140 billion over the past five years (2012-2016). Over the same period, the United States enjoyed on average a \$31 billion agricultural trade surplus. That swells to \$50 billion on average if non-competing imports such as coffee, tea, rubber, etc., are excluded.

Former USDA Chief Economist Joseph Glauber points out that, “Based on the value of agricultural production, roughly one-third of what is produced by U.S. farmers and ranchers is exported and for many commodities such as soybeans, wheat, and cotton, more than 50 percent of the crop is typically exported. Moreover, with a slowing population growth rate at home, more than 97 percent of the anticipated population growth over the next 35 years is anticipated to take place outside of U.S. borders. Those facts explain why U.S. agricultural interests have been such strong supporters of free trade agreements in the past.”⁵

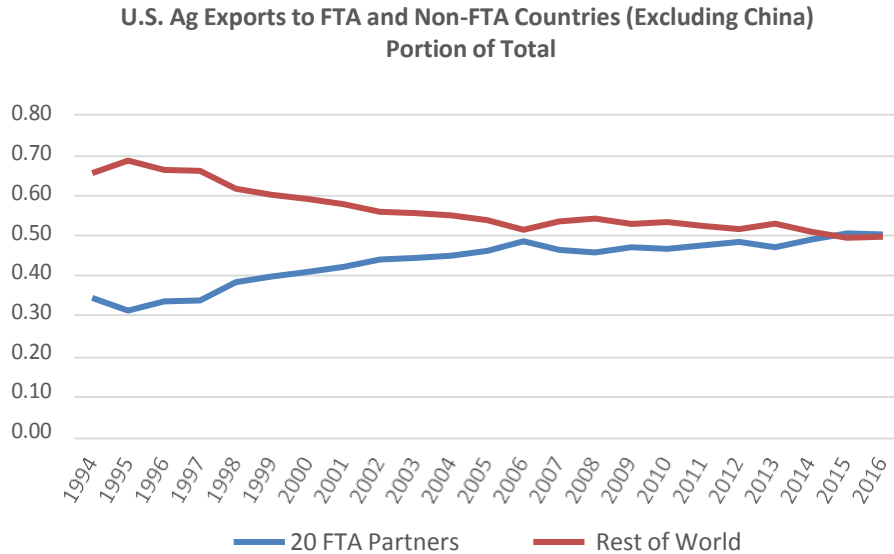
According to the USDA’s Economic Research Service (ERS), agriculture and agriculture-related industries contributed \$985 billion to the U.S. gross domestic product (GDP) in 2014, a 5.7 percent share. The output of America’s farms contributed \$177.2 billion of this sum – about 1 percent of GDP. The overall contribution of the agriculture sector to GDP is larger than this because sectors related to agriculture – forestry, fishing and related activities; food, beverages and tobacco products; textiles, apparel and leather products; food and beverage stores; and food service and drinking places – rely on agricultural inputs to contribute added value to the economy. In 2014, 17.3 million full- and part-time jobs were related to agriculture – 9.3 percent of total U.S. employment. Direct on-farm employment provided over 2.6 million of these jobs.⁶

The share of U.S. agricultural production exported overseas is 20 percent by volume, with some sectors being much higher. For example, exports account for over 70 percent of U.S. production of tree nuts and cotton, over 60 percent of soybeans and over 50 percent of rice and wheat. Positive farm income throughout America would not be possible without access to foreign markets, trade promotion and trade agreements.⁷

Food and agricultural exports in 2016 totaled \$135 billion, which generated \$440 billion in U.S. economic activity in 2016, based on the ERS multiplier. Agricultural exports as a share of cash receipts to farmers have grown from 22 percent to 35 percent since the early 1990s. ERS estimates that each dollar of agricultural exports stimulates another \$1.27 in business activity in the economy. The \$135 billion of agricultural exports in calendar year 2016, therefore, produced an additional \$171 billion in economic activity, for a total of \$306 billion economy-wide.

In addition, every \$1 billion of U.S. agricultural exports requires approximately 7,550 American jobs throughout the economy. Agricultural exports in 2016 required 1,019,000 full-time civilian jobs, which included about 752,000 jobs in the nonfarm sector. Exports to Canada and Mexico, our second and third largest foreign markets, totaled over \$38 billion in 2016, or 28 percent of our total to the world. Those exports generated over \$48 billion in additional business activity throughout the economy and accounted for some 287,000 jobs.

Much of the growth in U.S. agricultural exports has occurred during the period the United States implemented new trade agreements. The U.S. agricultural sector, as the most efficient and competitive in the world, has benefited greatly from more open markets brought about by these agreements. We now export as much to our 20 FTA partner countries as we do to the rest of the world (over 150 countries), excluding China.



Source: USDA/FAS/Global Trade Atlas

The following table provides a breakdown of agricultural export growth by FTA in chronological order since NAFTA. While exports to at least some of these countries would have increased without the FTAs, there is no doubt that the FTAs played a major role in the growth. In all cases, very high tariffs or other restrictive measures were negotiated away, allowing for freer access for U.S. products and, in many cases, preferential access over products from competitor countries.

Growth in U.S. Agricultural Exports to FTA countries

FTA	Date Entered into Force	Year Before Agreement	2016	Growth
		Million Dollars		Percent
Canada FTA/NAFTA	1/1/89	2,019	20,242	+903
Mexico - NAFTA	1/1/94	3,618	17,850	+393
Jordan	1/1/02	122	273	+124
Singapore	1/1/04	266	738	+177
Chile	1/1/04	144	848	+489
Australia	1/1/05	410	1,292	+215
El Salvador - CAFTA	3/1/06	239	560	+134
Honduras - CAFTA	4/1/06	249	649	+161
Nicaragua - CAFTA	4/1/06	125	218	+74

Guatemala - CAFTA	7/1/06	455	1,081	+138
Morocco	1/1/06	164	425	+159
Bahrain	8/1/06	15	65	+333
Dominican Rep.	3/1/07	629	1,175	+87
Costa Rica - CAFTA	1/1/09	608	701	+15
Oman	1/1/09	77	65	-16
Peru	2/1/09	424	1,146	+170
South Korea	3/15/12	6,976	6,202	-11
Colombia	5/12/12	868	2,377	+174
Panama	10/31/12	206	670	+225

Source: USDA/FAS/Global Trade Atlas

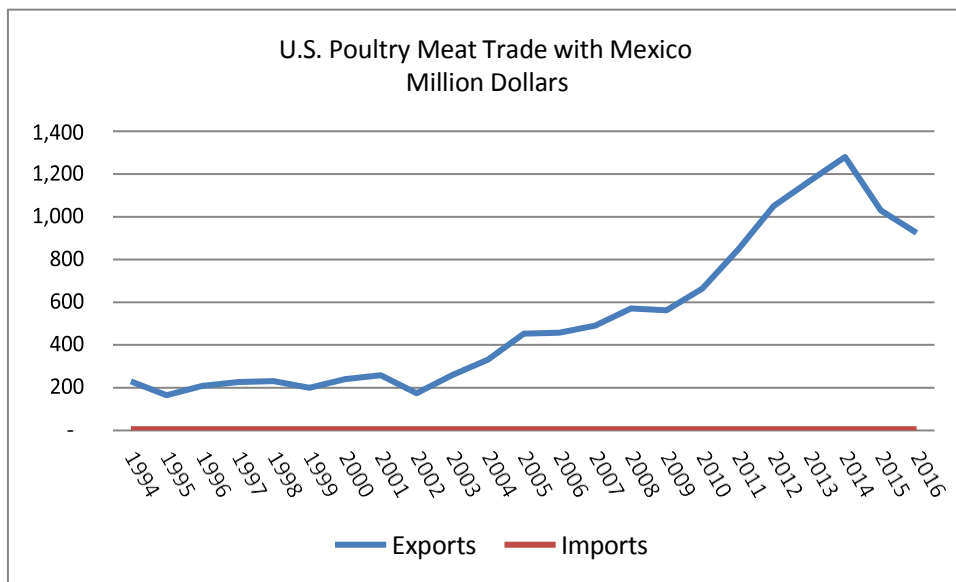
It is clear from the table that one of the most important trade agreements for agriculture is NAFTA. But no trade agreement is perfect, and NAFTA is now 23 years old. It is encouraging that efforts are underway, with Mexican and Canadian support, to negotiate needed improvements in this important deal. But it is vital that in doing so we do not backtrack on provisions that have made the two countries among our top three markets in the world. As noted previously, Mexican WTO tariff rates were substantially higher in the agricultural sector (45 percent bound and 15.6 percent applied) than U.S. WTO rates in agriculture (4.8 percent bound and 5.2 percent applied). It is clear which country's agriculture would suffer more from moving away from NAFTA tariffs – which are essentially zero in both directions – and back to WTO levels.

With the productivity of U.S. agriculture growing faster than domestic demand, the U.S. food and agriculture industry – and the rural communities that depend on it – relies heavily on export markets to sustain prices and revenues. Disrupting U.S. agricultural exports to Mexico and Canada would have devastating consequences for our farmers and the many American processing and transportation industries and workers supported by these exports.

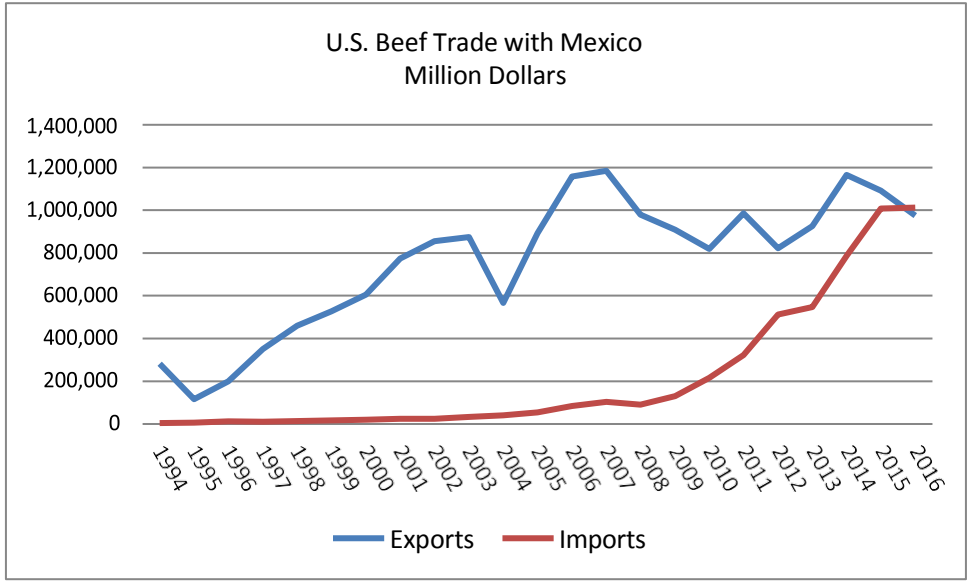
The following charts help tell the story of our successful trade relationship with Mexico. Exports to Mexico of most commodity sectors have grown substantially since 1994. For Mexico, exports have risen in more labor-intensive horticultural crops, especially those that are seasonal. But even in horticultural products U.S. exports to Mexico have grown, reaching over \$2.6 billion in 2016. Agricultural trade between the two countries benefits farmers and consumers on both sides of the border.



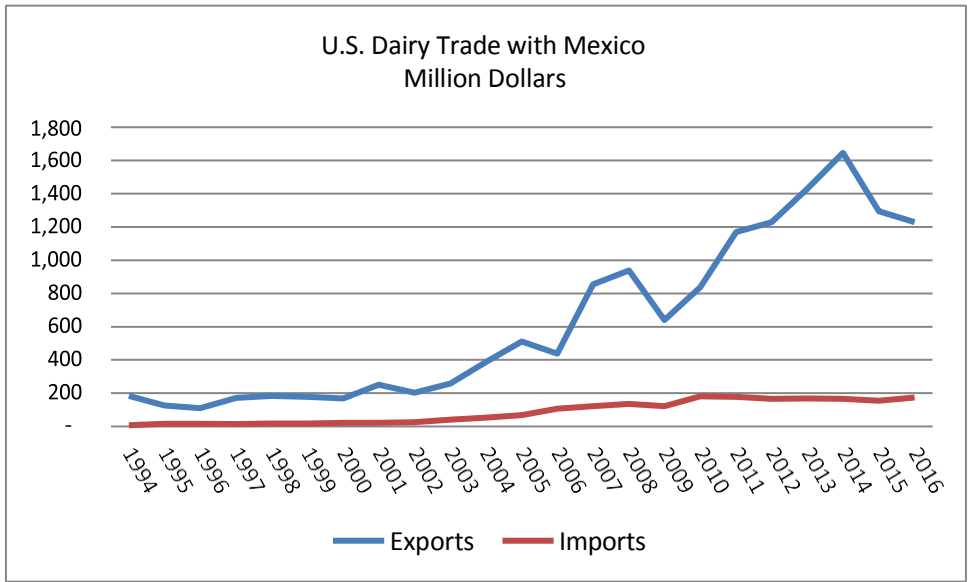
Source: USDA/FAS/Global Trade Atlas



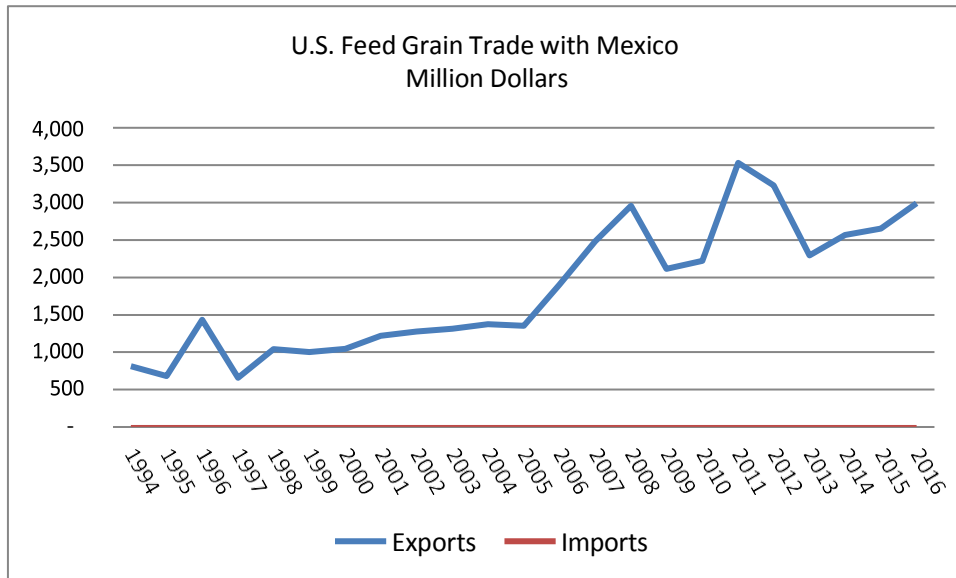
Source: USDA/FAS/Global Trade Atlas



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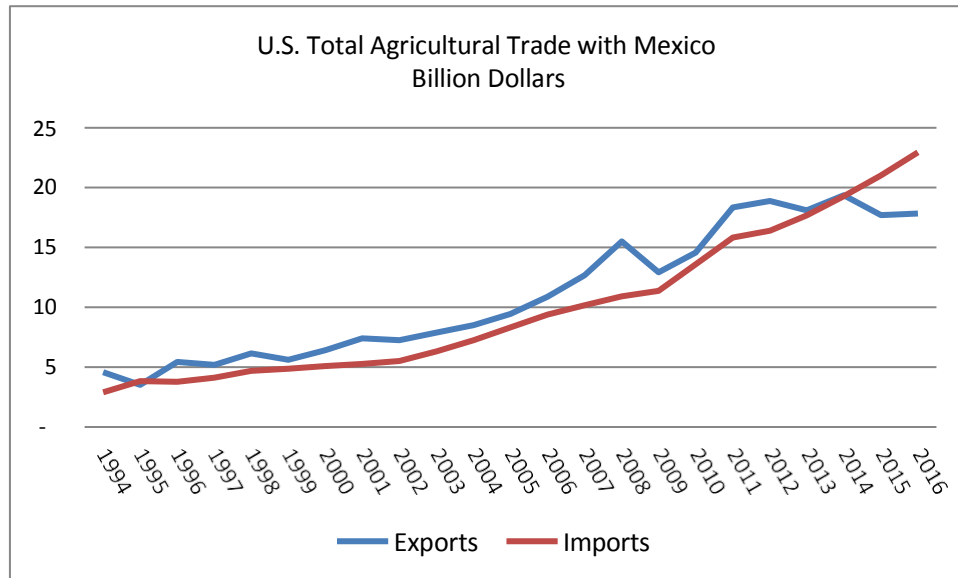
Source: USDA/FAS/Global Trade Atlas



Source: USDA/FAS/Global Trade Atlas



Source: USDA/FAS/Global Trade Atlas



Source: USDA/FAS/Global Trade Atlas

As one can see, the United States has achieved important export gains in many commodity sectors. Mexico has done very well in the horticultural sector, where it has seasonal and specialty product advantages. (Many of the specialty products from Mexico that we do not produce were duty-free even before NAFTA.) Mexico also exports products to the United States that we do not produce, including coffee and cocoa. These tables demonstrate the value of NAFTA to the agricultural sectors of the United States and Mexico and to the consumers of both countries. It also represents what free trade agreements are supposed to accomplish – growing trade in both directions.

Section III: NAFTA – Impacts on the U.S. Pork Sector

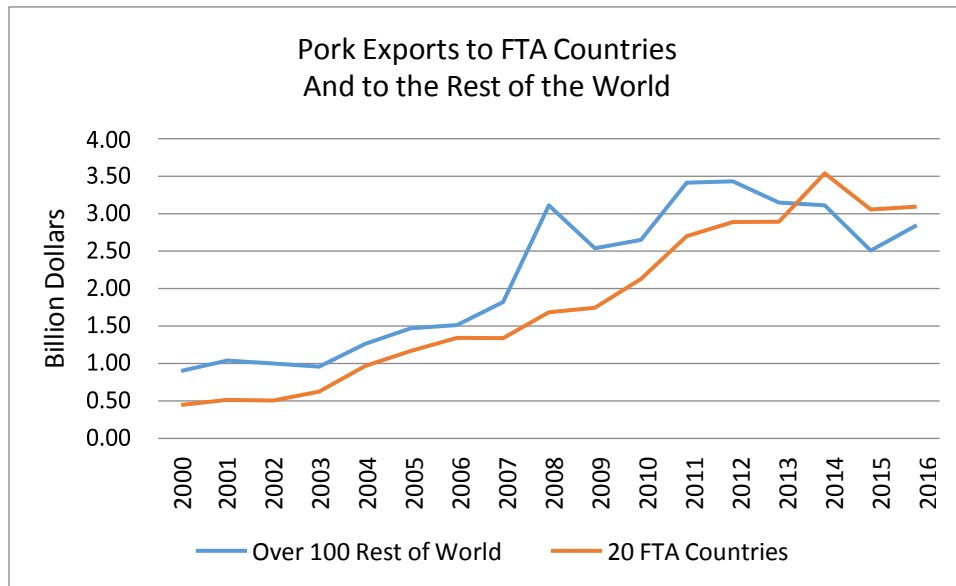
The United States over the past 10 years, on average, has been the No. 1 exporter of pork in the world, and it is the world's lowest cost producer. In any given year, the U.S. pork industry ships product to more than 100 countries. Exports contribute significantly to the bottom line of all U.S. pork producers, adding more than \$50 to the value of each hog marketed in 2016, when about \$6 billion of U.S. pork was exported. For these reasons, the opening of new, and the expansion of existing, markets for U.S. pork through free trade agreements have been and will continue to be vital to the success of the U.S. pork industry.

Growth in U.S. Pork Exports to FTA countries

FTA	Date Entered into Force	Year Before Agreement	2016	Growth
		Million Dollars		Percent
Mexico (NAFTA)	1/1/94	164.7	1,268.2	+670
Canada (NAFTA)	1/1/94	46.9	778.9	+1,561
Jordan	12/17/01	.009	.188	+2,022
Singapore	1/1/04	1.6	14.1	+781
Chile	1/1/04	0.2	41.3	+20,550
Australia	1/1/05	11.3	172.7	+1,428
El Salvador (CAFTA)	3/1/06	0.8	8.3	+937
Honduras (CAFTA)	4/1/06	11.3	43.8	+288
Nicaragua (CAFTA)	4/1/06	0.4	7.2	+1,700
Guatemala (CAFTA)	7/1/06	8.4	40.4	+581
Morocco	1/1/06	0.03	0.05	+150
Bahrain	8/1/06	0.025	0.034	+36
Dominican Republic	3/1/07	6.6	53.2	+706
Costa Rica (CAFTA)	1/1/09	1.3	12.9	+892
Oman	1/1/09	.004	.003	-39
Peru	2/1/09	0.7	10.0	+133
Korea	3/15/12	497.9	472.1	-5
Colombia	5/12/12	29.0	101.5	+250
Panama	10/31/12	13.4	31.1	+132

Source: USDA/FAS/Global Trade Atlas

U.S. exports of pork have increased by 1,550 percent in value and nearly 1,300 percent in volume since 1989, the year the United States implemented the FTA with Canada and began the process of opening international markets for value-added agriculture products. The importance of trade deals is evident given that the United States now exports more pork to the 20 countries with which it has FTAs than to all other nations combined.



Source: USDA/FAS/Global Trade Atlas

In 2016, the United States exported more than 730,000 metric tons of pork and pork products, valued at \$1.36 billion, to Mexico, making it the largest volume market and the second largest value market for U.S. pork exports. According to Iowa State University economist Dermot Hayes, U.S. pork exports to Mexico have created more than 9,000 U.S. jobs. Canada is our third largest market, taking almost \$800 million in pork in 2016. Together, the two countries account for over 40 percent of our exports to the world and about 15 percent of our production. Professor Hayes calculates that if Mexico were to place a 20 percent duty on our pork and allowed EU and Canadian pork duty-free access, we would eventually lose all of that market.

In his assessment, Professor Hayes also looked at the possibility of U.S. pork finding alternative markets and concluded the U.S. pork industry would be left with a net loss of about 600,000 tons, or 5 percent of our total production. This would cause a 10 percent reduction in our live hog market. At today's hog prices that is \$14 per hog, Professor Hayes concluded. Based on 118.3 million hogs harvested in 2016, that's an aggregate loss to the pork industry of nearly \$1.7 billion.

A loss in exports to Mexico of that magnitude would be cataclysmic for the U.S. pork industry. Pork producers will support updating and improving the NAFTA but only if duties on U.S. pork remain at zero and pork exports are not disrupted.

Section IV: NAFTA – Impacts on the U.S. Manufacturing Sector

This section contains excerpts from statements and papers by organizations that have examined the importance to U.S. industries and to the U.S. economy of bilateral trade with our NAFTA partners.

General

The Congressional Research Service report on “The North American Free Trade Agreement (NAFTA),” April 16, 2015:

“Many economists and other observers have credited NAFTA with helping U.S. manufacturing industries, especially the U.S. auto industry, become more globally competitive through the development of supply chains. Much of the increase in U.S.-Mexico trade, for example, can be attributed to specialization as manufacturing and assembly plants have reoriented to take advantage of economies of scale. As a result, supply chains have been increasingly crossing national boundaries as manufacturing work is performed wherever it is most efficient. A reduction in tariffs in a given sector not only affects prices in that sector but also in industries that purchase intermediate inputs from that sector. The importance of these direct and indirect effects is often overlooked, according to one study. The study suggests that these linkages offer important trade and welfare gains from free trade agreements and that ignoring these input-output linkages could underestimate potential trade gains.”

“Much of the trade between the United States and its NAFTA partners occurs in the context of production sharing as manufacturers in each country work together to create goods. The expansion of trade has resulted in the creation of vertical supply relationships, especially along the U.S.-Mexico border. The flow of intermediate inputs produced in the United States and exported to Mexico and the return flow of finished products greatly increased the importance of the U.S.-Mexico border region as a production site. U.S. manufacturing industries, including automotive, electronics, appliances, and machinery, all rely on the assistance of Mexican manufacturers. One report estimates that 40 percent of the content of U.S. imports from Mexico and 25 percent of the content of U.S. imports from Canada are of U.S. origin. In comparison, U.S. imports from China are said to have only 4 percent U.S. content. Taken together, goods from Mexico and Canada represent about 75 percent of all the U.S. domestic content that returns to the United States as imports.”

The Wilson Center: “Growing Together: Economic Ties between the United States and Mexico,” September 2016, by Christopher Wilson, <https://www.wilsoncenter.org/article/growing-together-economic-ties-between-the-united-states-and-mexico#sthash.nVUysZr0.dpuf>. Excerpts from the summary:

Our study concludes that the economic relationship with Mexico, though not without its challenges, provides concrete benefits, strengthening the competitiveness of American firms, creating jobs in the United States, and generating savings for the average American family. Key findings include:

- The United States and Mexico no longer simply sell finished products to one another. Instead, they build things together, using a regional system of manufacturing production that involves supply chains that crisscross the U.S.-Mexico border. This allows the two countries to effectively combine their individual comparative advantages into an ultra-competitive regional system, improving North America's ability to compete on the global stage. In 2011, the most recent year for which this data is available, Mexican industries consumed \$140 billion dollars in U.S. intermediate goods, and U.S. industries consumed \$111 billion dollars' worth of Mexican inputs. This is direct evidence of joint production taking place between the United States and Mexico on a massive scale.
- Nearly five million U.S. jobs depend on trade with Mexico. Our economic model shows that if trade between the United States and Mexico were halted, 4.9 million Americans would be out of work. This is a net figure and includes jobs directly and indirectly tied to trade, meaning it takes into account, 1. Jobs currently supported by the production of goods for export that would be lost if we stopped trading with Mexico; 2. Jobs that would return to the United States to produce goods we currently import; and 3. Jobs currently supported by the income individuals and companies save by having access to lower cost imports. Some of the net job gains associated with bilateral trade are in manufacturing, but the vast majority are actually in service sectors, including everything from finance to healthcare and retail. This is because the job gains associated with exports are more or less cancelled out by those lost through import competition (1 cancels out 2 in the list above), leaving the major win really coming from fact three, the availability of more competitively priced inputs for U.S. businesses and products for consumers.
- Without doubt, the United States is in the process of an economic transformation, and middle class workers in the United States have endured a tough period over the last couple of decades. Real median household income, though up sharply over the last year, is still below its pre-recession high in 2007 and below the previous peak in 1999.^[1] Manufacturing workers have been particularly hard hit, with employment in the sector down 29 percent since 2000. Service sector employment, on the other hand, is up, which suggests the United States is going through a structural shift, largely driven by productivity improvements in manufacturing that allow more goods to be produced by fewer workers. Trade, though a much smaller driver than technology, pushes in the same direction, accelerating this structural shift toward higher-skilled service jobs. Researchers from Ball State University recently found that 87 percent of manufacturing job losses in the period from 2000 to 2010 were caused by productivity increases, while 13 percent were linked to trade.^[2] These transformations are positive for the overall economy, but clearly tough on those workers that have the skills to fill the jobs of yesterday rather than the jobs of tomorrow.
- Mexican foreign direct investment in the United States has nearly doubled since 2007, and businesses supported by Mexican investment in the United States employ more than 123,000 jobs.^[3] These investments impact all fifty states and include a diverse group of industries, from construction and mining to television and financial services. Grupo Bimbo, for example, which is the world's largest baking company and is Mexican-owned, operates over 70 bakeries and employs 27,000 people in the United States, managing well-known brands

like Sara Lee and Entenmann's. Even the U.S. auto industry, which has been the subject of much attention for recent announcements of major investments in Mexico, receives significant Mexican investment. Nemaq, which supplies one-quarter of all light vehicles in the world with aluminum engine components, and Rassini, a top global producer of brakes and suspensions, run factories in Kentucky, Michigan, Ohio and Tennessee.[4]

- To be sure, there are times when firms close their factories in the U.S. and move to Mexico. However, there is strong evidence that investment by U.S. firms in Mexico is more often associated with job growth in their U.S. operations than with job losses. Theodore Moran and Lindsay Oldenski have analyzed U.S.-Mexico trade and investment data from 1990 to 2009, and find that on average a ten percent increase in employment at U.S. companies' operations in Mexico leads to a 1.3 percent increase in the size of their workforce in the United States, a 1.7 percent increase in exports from the United States, and a 4.1 percent increase in U.S. research and development spending.[5] There is also evidence that the jobs created in the U.S. due to this phenomenon require higher skill levels, reinforcing the need for worker training and re-training to benefit from this transition and qualify for these higher-paying positions.

At the core, the question is whether the United States and Mexico are better as competitors or partners. Without doubt, there are some elements of the relationship that are zero-sum, but our profound ties, ranging from cross-border supply chains to migration to cooperation to prevent terrorist attacks, mean that at the deepest level the United States and Mexico truly are partners. Millions of American workers already benefit from the relationship. With the right approach by decision-makers on both sides of the border, those benefits can be expanded and extended to millions more. The United States and Mexico depend on each other more than ever for our economic well-being and competitiveness. We will sink or swim together in the global economy.

The Auto Sector

The Center for Automotive Research (CAR) recently published a paper that examines the consequences to the U.S. automotive industry of the United States withdrawing from NAFTA: *“NAFTA Briefing: Trade benefits to the automotive industry and potential consequences of withdrawal from the agreement.”*

The auto sector has been in the forefront of the debate over NAFTA and U.S. jobs, as it has in the debate over trade agreements generally. This section is intended to offer some perspective on auto trade under NAFTA and the implications of withdrawing from the agreement or otherwise restricting imports from NAFTA partners.

The following are key excerpts from the CAR paper. However, since these alone cannot do justice to the work by the authors, we recommend that the full report be downloaded at this link: <http://www.cargroup.org/?module=Publications&event=View&pubID=148>

Regarding NAFTA Benefits:

NAFTA allows automakers to take advantage of best cost production and lower supply chain risk, thus ensuring automotive production remains in North America. Without NAFTA, large segments of the U.S. automotive industry would have moved to other low-wage countries in

Asia, Eastern Europe, or South America (Porter, 2016). By producing cheaper automotive parts and components on the “near shore” in Mexico rather than truly “off-shore,” Mexican automotive plants helped sustain a competitive automotive industry across North America.

Page 2

Regarding Cross-Border Investment:

Companies in Canada, Mexico, and the United States have invested throughout the NAFTA region. In 2015, total U.S. Foreign Direct Investment (FDI) in Canada was \$353B (all industries); Canadian FDI in the United States was \$269B. Total U.S. FDI in Mexico was \$93B; Mexican FDI in the United States was \$17B (U.S. Bureau of Economic Analysis, 2016). Page 3

Regarding Limiting Imports from Mexico:

Limiting the flow of vehicles from Mexico into the United States will not automatically create the replacement manufacturing capacity for those vehicles in the United States. Canada serves as an obvious likely replacement source of capacity. In fact, current exchange rate makes Canadian labor costs lower than those in the United States. Page 5

Regarding the Supply Chain:

Within NAFTA, automakers and suppliers are dependent on inputs from throughout the trading region. In fact, between 80 and 90 percent of U.S. automotive trade is intra-industry (Wilson C. E., 2011). The United States, Canada, and Mexico produce and assemble automotive parts and components, and these parts and components may cross the NAFTA countries’ borders as many as eight times before being installed in a final assembly plant in one of the three partner countries (Wilson C. E., 2011). This integration compounds the effects of any impediments to free trade. Page 7

Regarding U.S. Content:

Rising international automotive production in Mexico will be a net gain for U.S. employment, as many parts and components produced in the United States are inputs for Mexican production facilities. For example, U.S. content of imported vehicles from Mexico was only 5 percent before NAFTA; today, that number is 40 percent (Wharton School, 2014). U.S. suppliers have benefited from increased automotive assembly capacity throughout North America. Pages 7-8

Regarding Competitiveness:

When multi-national corporations based in the United States expand internationally, their home country operations benefit as well. For example, overall U.S.-Mexico trade data show that, on average, a 10 percent increase in employment at a Mexican affiliate operation leads to a 1.3 percent increase in U.S. employment, a 1.7 percent increase in U.S. exports, and a 4.1 percent increase in U.S. R&D spending (Moran and Oldenski, 2014). While a 10 percent to 1.3 percent employment growth ratio doesn’t seem like much, the U.S. employment base is generally much larger. For a company that might add 500 additional jobs in Mexico for a total of 5,500 jobs in that country (10 percent), the 1.3 percent U.S. jobs gain could be more than 500 if the U.S. corporation has employment greater than 38,500. Page 8

Regarding U.S. Wages and Jobs:

Product and process technological changes have done more to increase productivity gains and shift employment than has trade; an estimated 87 percent of U.S. manufacturing job losses are due to technology (Wilson & Woods, 2016). Outsourcing explains 15 percent of the increase in the U.S. relative wage of nonproduction workers during the period 1979 to 1990. U.S. automakers and suppliers that increase global manufacturing employment also see employment growth in high-wage engineering and R&D jobs, as well as in other headquarters and administrative functions in the United States. Expanding NAFTA manufacturing anchors the automakers' and suppliers' engineering and R&D in the region—largely within the United States. [Page 8](#)

Regarding NAFTA Withdrawal:

If it were possible to completely withdraw from NAFTA, the immediate benefit would not necessarily be a retrenchment of automotive assembly and supplier jobs back to the United States. What would it mean to bring back automotive and auto parts manufacturing from Mexico?

Implications for Automakers

In 2016, 55 percent of light vehicles produced in Mexico were exported to the United States (1.8 million) (IHS|Markit, 2016). Automakers could choose to supply the U.S. market from U.S. factories or from production based outside of the NAFTA region. (IHS|Markit, 2016). In 2016, U.S. production-weighted capacity utilization in automotive assembly was 94 percent. There is little open capacity, which means it would not be possible to simply shift production from Mexico to existing U.S. plants—new capacity would have to be built. This takes time, and would amount to an estimated \$4.7B to \$6.5B in new capital costs (CAR analysis); costs could go higher since this added U.S. capacity would potentially be spread across the ten automakers that produce vehicles in Mexico. It is worth noting that over half of Mexico's light vehicle output is produced by foreign automakers—FCA. [Pages 8-9](#)

Implication for Parts Suppliers

Automotive suppliers have made significant commitments to production in Mexico. Indeed, 65 percent of all Mexican foreign direct investment across all industries is automotive supplier-related (U.S. International Trade Administration, 2016). Mexico's auto supply industry employed just over 500,000 people in 2015 (of which nearly 460,000 were production/hourly workers—including contract/temp workers). It is not possible to distinguish Mexican parts and components production for original equipment (OE) installation versus production for the aftermarket, so it is difficult to determine how much of the Mexican supply base would potentially move or shift production back to the United States to support the 1 million additional units of capacity needed. The suppliers that would potentially move back to the United States to follow relocated vehicle production would be few—mainly those tied to the just-in-time plants and jobs manufacturing other bulky, fragile, or otherwise difficult to ship parts and components. (Most Mexican auto parts production go to OEM. The aftermarket is ruled by China in the three NAFTA countries.)

Implications for Dealers

Dealer employment would be impacted should automakers decide to curtail or halt production, curtail importing vehicles, or should the price of vehicles increase significantly as a result of a tariff or other increased cost of trade within North America.

Michigan Would Be Hard Hit by a U.S. withdrawal from NAFTA. The Detroit metropolitan area is in the heart of the U.S. automotive industry, and was the sixth largest metro area for all exports in 2015 (\$44.3B) (U.S. International Trade Administration, 2016). That same year, transportation was the Detroit's top export category, accounting for nearly 60 percent of the area's exported goods (\$25.3B) (U.S. International Trade Administration, 2016).

Mexico and Canada are the top foreign markets for Detroit exports; in 2016, 39 percent of the value of Detroit Metropolitan Statistical Area (MSA)'s goods exports were bound for Mexico (\$17.3B), and 34 percent were exported to Canada (\$15.1B) (U.S. International Trade Administration, 2016). Detroit's exports to Mexico are greater in both absolute value and in share than those of any other U.S. city (U.S. International Trade Administration, 2016).

Michigan's high concentration of engineering and automotive-related employment could be at risk to foreign countries if production shifts outside the NAFTA region. [Page 10](#)

Regarding a 35 percent Tariff:

If the U.S. were to enact a 35 percent tariff on light vehicles imported from Mexico, CAR estimates the sales impact would be 450,000 units in the United States, and an implied loss of nearly 6,700 North American assembly jobs. These 6,700 North American assembly jobs lost from the higher price of Mexican imported light vehicles are just the tip of the iceberg, however. When it comes to U.S. employment, the impact could be much larger.

Mexican-assembled vehicles contain U.S. parts, engines, transmissions, and other content—in 2015, Mexican vehicle exports contained an average of 40.3 percent U.S. content. The U.S. parts employment impact of the lost Mexican import sales would result in approximately 20,000 U.S. parts jobs lost.

Automakers who assemble in the United States utilize Mexican parts and components that would also be subject to this tax. U.S. vehicle production contains an average of 11.7 percent Mexican parts and components content. Since the price of the Mexican parts content in U.S. light vehicle production would rise by 35 percent, that would result in approximately 11,000 additional U.S. assembly jobs lost.

At least 31,000 U.S. jobs could be lost—in addition to some proportion of the 6,700 North American job loss—as a result of a 35 percent tariff on light vehicles and parts imports from Mexico. There are two factors that could raise the jobs impact even further:

- Many parts and components cross the U.S.-Mexico border multiple times before being installed at a final assembly plant in either country for sale in the United States; taxing these parts at each border crossing would multiply the impact of the tariff.

- Job losses would not be evenly distributed and would have an impact on individual automakers' and suppliers' capacity utilization, which could lead to plant closures and broader job impacts.

Regarding Retaliation:

Mexico currently purchases over \$185 billion worth of products from the United States. These products involve everything from automotive parts, iron, plastics, and chemicals to agricultural products and computers. A U.S. withdrawal from NAFTA might prompt Mexico to place a retaliatory tariff on all U.S. imports to that country, making these goods more expensive for producers in Mexico to purchase them. When U.S. goods become more costly due to increased tariffs, companies will look to suppliers in other countries—and Mexico has favored nation trading status with 46 other countries through existing free trade agreements.

The CAR Conclusion:

NAFTA allows automakers to take advantage of best cost production and lower supply chain risk, thus ensuring automotive production remains in North America. With automotive parts and components being two-thirds the value of the finished vehicle the opportunity to have a best cost location of this content on the “near shore” in Mexico rather than truly “off-shore,” supports and sustains a competitive automotive industry across North America, of which the United States dominates in terms of vehicle production and parts manufacturing. Any move by the United States to withdraw from NAFTA or to otherwise restrict automotive vehicle, parts and components trade within North America will result in higher costs to producers, lower returns for investors, fewer choices for consumers, and a less competitive U.S. automotive and supplier industry. Counter to the incoming Trump Administration’s goal of creating manufacturing jobs the withdrawal from NAFTA or the implementation of punitive tariffs could result in the loss of at least 31,000 U.S. automotive and parts jobs.

Other Manufacturing Industries

While the auto sector is one of the largest traded between the United States and Mexico, other manufacturing sectors make up significant portions of total dollars Mexico spends on U.S. products. In 2016, the United States exported some \$171 billion in other U.S. manufactured goods (excludes food, agricultural commodities, seafood and forest products). Important U.S. industries (See table on the next page) would be hit hard by increased duties on their sales to Mexico, particularly if Mexican importers turn to competing products from countries with which Mexico has free trade agreements.

U.S. Exports to Mexico
Key Industrial Sectors, Excluding Autos & Parts

NAIC Code	Description	\$ Billion
324	Petroleum and Coal Products	16.7
325	Chemicals	21.6
326	Plastics and Rubber Products	10.2
331	Primary Metal Manufactures	9.9
332	Fabricated Metal Products	10.4
333	Non-Electrical Machinery	20.0
334	Computer & Electric Products	43.9
335	Electrical Equipment, Appliances & Components	14.0
	Total Above	146.8
	Other Industrial	24.4
	Total Industrial Excluding Auto	171.2

Source: USITC Dataweb

As mentioned previously, Mexico’s average WTO-bound tariff rate for manufactured product imports is 34.8 percent. The average tariff it applies to imports of manufactured products from the United States (and Canada) under NAFTA is zero.³ There are two takeaways from this. First, NAFTA caused Mexico to reduce its tariffs on U.S. products much more than the United States reduced tariffs on Mexican goods.⁴ The second is that if NAFTA were to disappear, U.S. products would face steeper additional tariffs than Mexican products would face entering the United States.

Perhaps more importantly is the fact that the U.S. products would not only be facing those higher tariffs, but they would be facing competition from third parties that would be facing lower or zero tariffs. As mentioned, Mexico has some form of free trade agreement with some 50 countries. This price disadvantage would be devastating to U.S. firms attempting to sell to Mexico. The preservation and improvement of NAFTA is critical to continued access to the Mexican market for these American-made products and to the safeguarding of the millions of jobs they represent.

³ As covered in a prior footnote, Mexico’s “applied” MFN average tariff is 5.7 percent, and the U.S. “applied” average is 3.2 percent on manufactured goods. In theory, the tariffs that make up these averages would be the maximum the two countries could apply to each other if NAFTA were killed (since those are the levels of tariffs they “apply” on a non-discriminatory basis to imports of products from other WTO members). However, in a trade war situation, or one where the United States unilaterally imposed higher tariffs on Mexican goods, Mexico would have the ability to raise its tariffs on U.S. products to the WTO-bound levels. Or, alternatively, Mexico could choose to raise its “applied” tariffs up to their “bound” levels on products from all WTO members with which it does not have free trade agreements to allow it to maximize the restrictive effect on the United States. (Mexico has some form of free trade agreements with some 50 countries, not counting NAFTA.) The U.S. does not have the same option. It’s applied and bound tariffs are virtually the same, 3.2 percent and 3.3 percent, respectively.

⁴ The reason is that Mexican tariff bindings (i.e., limits) at the time NAFTA was negotiated were much higher than U.S. tariff limits. Mexico was a recent entrant into the WTO (GATT at the time) and had not been a party to any of the tariff-cutting trade agreements under that system. The Uruguay Round would be its first such negotiation and that one was a year after NAFTA.

Section V: Importance of Trade with Mexico to the 50 States

Alabama

Alabama exports \$2.9 billion in goods to Mexico, and Mexico is the state's third largest export market. Metal manufacturing (iron, steel, aluminum and nonferrous metals) generates \$1.1 billion and represents 40 percent of the state's total sales to Mexico. Mexico also imports nearly a third (29 percent) of the state's global machinery exports. Alabama's main farm exports are chicken, oilseeds, cotton, wheat and beef. Trade with Mexico supports over 67,000 jobs.

Alaska

\$41 million in goods are traded between Alaska and Mexico. Alaska exports \$1.5 million worth of machinery (machine creation for a variety of industries), accounting for 19 percent of the state's total exports to Mexico. Trade with Mexico supports nearly 11,000 jobs.

Arizona

Arizona exports \$9.2 billion in goods to Mexico. It is the fourth biggest export state to Mexico, and Mexico is Arizona's largest export market. Minerals and ores exported to Mexico generate over \$2.5 billion in revenue and account for 96 percent of the sector's exports worldwide. Mexico imports a quarter of Arizona's global computer and electronic products exports. Arizona's main farm export commodities are vegetables, cotton, dairy, beef and wheat. Trade with Mexico supports over 89,000 jobs, and Mexican investment supports over 8,800 jobs.

Arkansas

Arkansas exports \$837 million in goods to Mexico, and Mexico is the state's second largest export market. Transportation equipment (motor vehicle, railroad, ship and aerospace) exported to Mexico generates over \$224 million in revenue and accounts for 27 percent of Arkansas' total exports to Mexico. Key farm exports of the state are rice, soybeans, chicken, cotton and meats. Trade with Mexico supports nearly 42,000 jobs, and Mexican investment supports over 3,300 jobs in the state.

California

California exports \$26.8 billion in goods to Mexico. It is the second biggest export state to Mexico, and Mexico is the state's largest export market. Computer and electronic products exported to Mexico generate over \$6.7 billion in revenue for California. Mexico is also the largest export market for transportation equipment, generating \$2.9 billion annually. Major farm exports from California include tree nuts, fruits, dairy, rice, cotton and beef. Trade with Mexico supports nearly 566,000 jobs, and Mexican investment supports nearly 13,300 jobs in the state.

Colorado

Colorado exports \$1.1 billion in goods to Mexico, and Mexico is the state's second largest export market. Colorado exports \$129 million of industrial machinery to Mexico, making it the third biggest market for this product. Its major farm exports include beef, wheat, feed grains and dairy. Trade with Mexico supports over 88,000 jobs in the state, and Mexican investment supports nearly 1,400 jobs.

Connecticut

Connecticut exports \$1.3 billion in goods to Mexico, and trade with Mexico supports over 61,000 jobs in the state. Mexican investment also supports 440 jobs in Connecticut. Its chief farm exports are chicken, dairy and eggs.

Delaware

Delaware exports \$146 million in goods to Mexico. Mexico is the second largest export market for Delaware's plastics, generating \$19 million and representing 14 percent of the state's global plastic exports. Delaware's main farm exports are dairy, soybeans and corn. Trade with Mexico supports over 15,000 jobs in Delaware, and Mexican investment supports another 317.

Florida

Florida exports \$2.7 billion in goods to Mexico, and Mexico is the state's third largest foreign market. Its leading exports are transportation equipment (\$440 million), non-electrical machinery (\$432 million) and electronic products (\$389 million). Its main farm exports are fruits, vegetables and dairy products. Trade with Mexico supports over 290,000 jobs, and Mexican investment supports nearly 10,500 jobs in the state.

Georgia

Georgia exports \$3.5 billion in goods to Mexico, and Mexico is Georgia's second largest export market. Electrical equipment exported to Mexico generates \$367 million in revenue for the state, accounting for 17 percent of the state's global electrical equipment exports. Its principal farm exports are cotton, poultry products, peanuts and tree nuts. Trade with Mexico supports nearly 153,000 jobs, and Mexican investment supports over 3,900.

Hawaii

Hawaii exports \$2 million in goods to Mexico. A total of \$11 million in goods are traded between Hawaii and Mexico. Mexico is the second largest market for Hawaii's primary metal manufacturing. Its principal farm export commodity is macadamia nuts. Total trade with Mexico supports nearly 24,000 jobs.

Idaho

Idaho exports \$264 million in goods to Mexico. Food processing is one of Idaho's strongest industries, with exports to Mexico reaching \$152 million and representing 57 percent of the state's total exports to Mexico. Idaho's principal farm exports are dairy, wheat, potatoes, malt and beef. Trade with Mexico supports over 23,000 jobs in the state.

Illinois

Illinois exports \$9.1 billion in goods to Mexico. It is the fifth biggest export state to Mexico, and Mexico is Illinois' second largest export market. \$1 billion in machinery and \$1.5 billion in transportation equipment are exported to Mexico, and 34 percent of the state's global primary metal manufacturing exports go to Mexico. Illinois's key farm exports are corn, soybeans and products and pork. Trade with Mexico supports over 200,000 jobs, and Mexican investment supports 1,800 jobs in the state.

Indiana

Indiana exports \$4.8 billion in goods to Mexico. It is the eighth biggest export state to Mexico, and Mexico is Indiana's second largest export market. Transportation equipment and machinery exports to Mexico represent \$1.5 and \$1.4 billion annually. Its main farm exports are corn, soybeans and products and pork. Trade with Mexico supports nearly 96,000 jobs, and Mexican investment supports over 1,200 jobs in the state.

Iowa

Iowa exports \$2.1 billion in goods to Mexico, and Mexico is Iowa's second largest export market. Mexico is Iowa's largest corn export market, generating \$466 million and accounting for 48 percent of all Iowa's corn exports. Other important farm exports include soybeans and products and pork. Trade with Mexico supports over 53,000 jobs, and Mexican investment supports nearly 1,560 jobs in the state.

Kansas

Kansas exports \$1.8 billion in goods to Mexico, and Mexico is Kansas's third largest export market. Transportation equipment is Kansas' strongest export industry to Mexico, accounting for \$560 million in revenue annually and 31 percent of total exports to Mexico. Its key farm exports are wheat, beef, soybeans and feed grains. Trade with Mexico supports almost 48,000 jobs, and Mexican investment supports over 630 jobs in the state.

Kentucky

Kentucky exports over \$2.2 billion in goods to Mexico, and Mexico is Kentucky's second largest export market. Transportation equipment accounts for 31 percent of Kentucky's total exports to Mexico, totaling \$619 million. Kentucky's main farm exports are soybeans and products, tobacco, livestock products, corn and wheat. Trade with Mexico supports over 61,000 jobs, and Mexican investment supports 3,330 jobs in the state.

Louisiana

Louisiana exports \$5.8 billion in goods to Mexico. It is the seventh biggest export state to Mexico, and Mexico is Louisiana's second largest export market. Louisiana's oil refined products account for 41 percent of the state's total exports to Mexico, exceeding \$2.4 billion. Its main farm exports are soybeans and products, rice, cotton, livestock products and grains. Trade with Mexico supports over 65,000 jobs, and Mexican investment supports over 500 jobs in the state.

Maine

Maine exports \$60 million in goods to Mexico. Paper is Maine's top export sector to Mexico, with \$18 million, accounting for 30 percent of the state's total exports to Mexico. Maine's main farm exports are potatoes and other vegetables, fruits and dairy products. Trade with Mexico supports over 22,000 jobs, and Mexican investment supports over 560 jobs in the state.

Maryland

Maryland exports \$442 million in goods to Mexico. Computers and electronics account for 32 percent of Maryland's exports to Mexico, and chemicals are also an important export to Mexico. Maryland's main farm exports are soybeans, chicken, wheat and corn. Trade with Mexico supports over 96,000 jobs, and Mexican investment supports over 360 jobs in the state.

Massachusetts

Massachusetts exports \$2.6 billion in goods to Mexico, and Mexico is the state's third largest export market. Mexico is the largest export market for computers and electronics, generating \$1.5 billion and accounting for 21 percent of Massachusetts' exports globally for this sector. The state's main farm exports are livestock products and fruits. Trade with Mexico supports over 118,000 jobs, and Mexican investment supports over 560 jobs in the state.

Michigan

Michigan exports \$11.1 billion in goods to Mexico. Michigan is the third biggest export state to Mexico, and Mexico is Michigan's second largest export market. Transportation equipment, especially automotive products, is Michigan's strongest export industry to Mexico, accounting for over \$4.6 billion and 40 percent of the state's total exports to Mexico. Over a quarter (26 percent) of Michigan's global machinery exports go to Mexico. The state's principal farm exports are soybeans, dairy, feed grains, wheat and fruits. Trade with Mexico supports over 138,000 jobs, and Mexican investment supports nearly 1,800 jobs in the state.

Minnesota

Minnesota exports \$2.4 billion in goods to Mexico, and Mexico is Minnesota's third largest export market. \$390 million in transportation equipment are exported to Mexico annually. Generating \$330 million, 72 percent of Minnesota's global auto parts exports go to Mexico. Minnesota's main farm exports are corn, pork, soybeans and dairy products. Trade with Mexico supports over 93,000 jobs, and Mexican investment supports over 1,400 jobs in the state.

Mississippi

Mississippi exports \$1.1 billion in goods to Mexico, and Mexico is Mississippi's third largest export market. Mexico is the state's largest export market for chemicals, generating \$225 million and accounting for a fifth of all the state's exports to Mexico. Mississippi's main farm exports are soybeans, chicken, cotton and rice. Trade with Mexico supports nearly 41,000 jobs, and Mexican investment supports nearly 2,000 jobs in the state.

Missouri

Missouri exports over \$2.5 billion in goods to Mexico, and Mexico is Missouri's second largest export market. \$244 million in primary metal manufacturing is exported to Mexico. Its principal farm exports include soybeans, corn, pork, beef, cotton and rice. Trade with Mexico supports over 97,000 jobs, and Mexican investment supports nearly 1,500 jobs in the state.

Montana

Montana exports \$41 million in goods to Mexico. Montana exports \$7 million in wood products to Mexico, and 11 percent of Montana's total exports to Mexico are oil refined products. Its principal farm exports are wheat, corn and beef. Trade with Mexico supports nearly 17,000 jobs in the state.

Nebraska

Nebraska exports \$1.3 billion in goods to Mexico, and Mexico is Nebraska's second largest export market. Mexico is the largest export market for processed foods from Nebraska, with \$423 million, accounting for 18 percent of Nebraska's total exports of these products. Its main farm exports are soybeans, beef and corn. Trade with Mexico supports nearly 34,000 jobs, and Mexican investment supports nearly 1,200 jobs in the state.

Nevada

Nevada exports \$447 million in goods to Mexico. Computers and electronic products are the state's largest export industries to Mexico, generating \$263 million, and Mexico is the largest export market for game machines from Nevada worth \$23 million. Nevada's main farm exports are feed grains, dairy products and beef. Trade with Mexico supports nearly 44,000 jobs, and Mexican investment supports over 1,300 jobs in the state.

New Hampshire

New Hampshire exports \$503 million in goods to Mexico, and Mexico is New Hampshire's second largest export market. Computers and other electronic products account for 56 percent of New Hampshire's total exports to Mexico, reaching \$283 million in 2015. The state's main farm exports are dairy products, poultry and horticulture. Trade with Mexico supports over 22,000 jobs, and Mexican investment supports over 110 jobs in the state.

New Jersey

New Jersey exports \$2.6 billion in goods to Mexico, and Mexico is New Jersey's second largest export market. New Jersey's chemical-pharmaceutical industry accounts for 47 percent of the state's total exports to Mexico, generating \$1.2 billion. The state's principal farm exports are fruits, vegetables and soybeans. Trade with Mexico supports nearly 141,000 jobs, and Mexican investment supports over 940 jobs in the state.

New Mexico

New Mexico exports \$1.7 billion in goods to Mexico, and Mexico is the state's largest export market. Computers and electronic products are New Mexico's top exports to Mexico, surpassing \$1 billion and accounting for 43 percent of the state's sector exports globally. Mexico is the largest export market of electrical equipment, fabricated metal products, processed foods, transportation equipment, plastics, paper, among other sectors. New Mexico's main farm exports are tree nuts, dairy, beef and cotton. Trade with Mexico supports nearly 27,000 jobs, and Mexican investment supports nearly 900 jobs in the state.

New York

New York exports \$3.1 billion in goods to Mexico. Machinery is New York's largest export industry to Mexico, generating \$828 million. Mexico is New York's largest export market for jewelry made with precious and semi-precious stones. With 424,000 annual visitors, Mexicans rank among New York City's top 10 international travelers. New York's main farm exports are dairy products and fruits and vegetables. Trade with Mexico supports over 322,000 jobs, and Mexican investment supports nearly 5,600 jobs in the state.

North Carolina

North Carolina exports \$3.2 billion in goods to Mexico, and Mexico is North Carolina's second largest export market. Chemicals are the state's largest export sector to Mexico, generating \$784 million, and Mexico is the second largest export market of textiles and fabrics, generating \$296 million. North Carolina's chief farm exports are pork, tobacco, chicken, soybeans, vegetables and wheat. Trade with Mexico supports nearly 152,000 jobs, and Mexican investment supports nearly 3,500 jobs in the state.

North Dakota

North Dakota exports \$295 million in goods to Mexico, and Mexico is North Dakota's second largest export market. Mexico is the second largest export market of agricultural products and processed foods, generating \$152 million and \$63 million, respectively. The state's main farm exports are wheat, corn, soybeans and beef. Nearly all of North Dakota's total exports of malt and barley go to Mexico, generating \$97 million. Trade with Mexico supports over 13,000 jobs in the state.

Ohio

Ohio exports \$6.5 billion in goods to Mexico. It is the sixth biggest export state to Mexico, and Mexico is Ohio's second largest export market. Transportation equipment is Ohio's largest export sector to Mexico, representing 28 percent of the state's total exports, with \$1.8 billion in revenue. Ohio's chief farm exports are soybeans, corn, wheat, pork, beef and dairy products. Trade with Mexico supports almost 178,000 jobs, and Mexican investment supports nearly 1,900 jobs in the state.

Oklahoma

Oklahoma exports \$565 million in goods to Mexico, and Mexico is Oklahoma's second largest export market. Oklahoma's metal products account for \$105 million in exports to Mexico, the state's second largest export market, and chemicals represent the state's second largest export industry to Mexico, generating \$92 million. Oklahoma's main farm exports are beef, wheat, pork, chicken, soybeans, corn and cotton. Trade with Mexico supports nearly 51,000 jobs, and Mexican investment supports 3,900 jobs in the state.

Oregon

Oregon exports \$406 million in goods to Mexico. Computers and electronic products are the state's main export industries to Mexico, generating \$93 million annually. \$62 million in machinery is exported to Mexico, accounting for 15 percent of Oregon's total exports to that country. Plastic products generate another \$41 million and account for 10 percent of the state's exports to Mexico. Oregon's main farm exports are fruits, wheat, vegetables, beef and dairy. Trade with Mexico support over 57,000 jobs, and Mexican investment supports over 630 jobs in the state.

Pennsylvania

Pennsylvania exports \$4.2 billion worth of goods to Mexico. It is the 10th biggest export state to Mexico, and Mexico is Pennsylvania's second largest export market. Chemicals are Pennsylvania's top export sector to Mexico, representing \$1 billion and 24 percent of the state's total exports to Mexico. In addition, \$514 million in machinery is exported to Mexico, accounting for 12 percent of the state's global machinery exports. Pennsylvania's chief farm exports are dairy products, corn, soybeans, pork, beef and poultry. Trade with Mexico supports nearly 200,000 jobs, and Mexican investment supports over 6,300 jobs in the state.

Rhode Island

Rhode Island exports \$181 million in goods to Mexico, and Mexico is Rhode Island's third largest export market. Electrical equipment is Rhode Island's top export industry to Mexico, generating \$34 million and 19 percent of the state's total exports to that country. Rhode Island's chief farm exports are dairy products, fruits and vegetables. Trade with Mexico supports nearly 17,000 jobs in the state.

South Carolina

South Carolina exports \$2.4 billion in goods to Mexico, and Mexico is the state's fifth largest export market. Plastics account for \$581 million and 24 percent of the state's total exports to Mexico, and Mexico is the state's second largest export market of pneumatic tires, generating \$336 million. South Carolina's chief farm exports are chicken, cotton, tobacco, soybeans and cotton. Trade with Mexico supports over 70,000 jobs, and Mexican investment supports over 2,700 jobs in the state.

South Dakota

South Dakota exports \$404 million in goods to Mexico, and Mexico is South Dakota's second largest export market. The processed foods and beverages industries make up 56 percent of the state's exports to Mexico and generate \$226 million. South Dakota's main farm exports include soybeans, corn, wheat, beef, pork and dairy. Trade with Mexico supports over 15,000 jobs, and Mexican investment supports over 930 jobs in the state.

Tennessee

Tennessee exports \$4.8 billion in goods to Mexico. It is the ninth biggest export state to Mexico, and Mexico is Tennessee's second largest export market. 68 percent of all craft paper exports from Tennessee go to Mexico, and \$965 million worth of transportation equipment is exported to that country. Tennessee's main farm exports include soybeans, cotton, tobacco, wheat, corn and beef. Trade with Mexico supports nearly 100,000 jobs, and Mexican investment supports 2,550 jobs in the state.

Texas

Texas exports \$95 billion in exports to Mexico. It is the top exporting state to Mexico, and Mexico is Texas' largest export market. One out of every three dollars that Texas earns in total export revenue comes from Mexico. Computers and electronic products make up 26 percent of Texas' exports to Mexico, generating \$24.4 billion annually. Transportation equipment is Texas' second largest export industry to Mexico, surpassing \$11.5 billion annually. Mexico is also Texas' largest export market of oil refined products, exceeding \$10.7 billion. The state's main farm exports include cotton, wheat, beef, dairy products, chicken, corn, rice and tree nuts. Trade with Mexico supports over 382,000 jobs, and Mexican investment supports over 20,000 jobs in the state.

Utah

Utah exports \$854 million in goods to Mexico. Transportation equipment accounts for 29 percent of the state's exports to Mexico, generating \$250 million. 65 percent of Utah's minerals and ores exports globally go to Mexico. Utah's main farm exports are dairy products, beef, pork and wheat. Trade with Mexico supports nearly 47,000 jobs, and Mexican investment supports over 400 jobs in the state.

Vermont

Vermont exports \$213 million in goods to Mexico. Computers and electronic products are Vermont's largest export sectors to Mexico, generating \$82 million. 26 percent of Vermont's processed food exports globally go to Mexico. The state's main farm exports are dairy products and beef. Trade with Mexico supports over 11,000 jobs, and Mexican investment supports over 60 jobs in the state.

Virginia

Virginian exports \$1.2 billion in goods to Mexico, and Mexico is Virginia's third largest export market. Chemicals are the state's largest export industry to Mexico, generating \$201 million. Virginia's main farm exports are soybeans, chicken, tobacco, beef, cotton, dairy and wheat. Trade with Mexico supports nearly 134,000 jobs, and Mexican investment supports nearly 1,400 jobs in the state.

Washington

Washington exports \$1.9 billion in goods to Mexico. Exports of airplanes and aerospace components to Mexico reach \$507 million annually. Mexico is the largest export market for apples cultivated in Washington, generating \$139 million. Other key farm exports include other fruits, wheat, vegetables, dairy and beef. Trade with Mexico supports nearly 107,000 jobs, and Mexican investment supports over 900 jobs in the state.

West Virginia

West Virginia exports \$184 million in goods to Mexico. Chemical exports to Mexico generate \$97 million for the state. West Virginia's main farm exports include chicken, beef and soybeans. Trade with Mexico supports over 23,000 jobs, and Mexican investment supports nearly 400 jobs in the state.

Wisconsin

Wisconsin exports \$3 billion in goods to Mexico, and Mexico is Wisconsin's second largest export market. Transportation equipment is the state's largest export industry to Mexico, generating \$538 million annually and representing 25 percent of the state's total exports of this sector. Mexico is the top export market for Wisconsin cheese, generating \$71 million and accounting for 46 percent of the state's global cheese exports. Other key farm exports include soybeans, corn and beef. Trade with Mexico supports over 196,000 jobs, and Mexican investment supports nearly 5,000 in the state.

Wyoming

Wyoming exports \$30 million in goods to Mexico. Oil refined products make up 27 percent of Wyoming's exports to Mexico, generating \$8 million, and 45 percent of Wyoming's global wood products exports go to Mexico. In addition, Wyoming's mineral industries export \$4 million to Mexico. The state's main farm exports are beef, pork and wheat. Trade with Mexico supports over 9,000 jobs, and Mexican investment supports over 80 jobs in the state.

Section VI: General – The Benefits of Trade (In Both Directions)

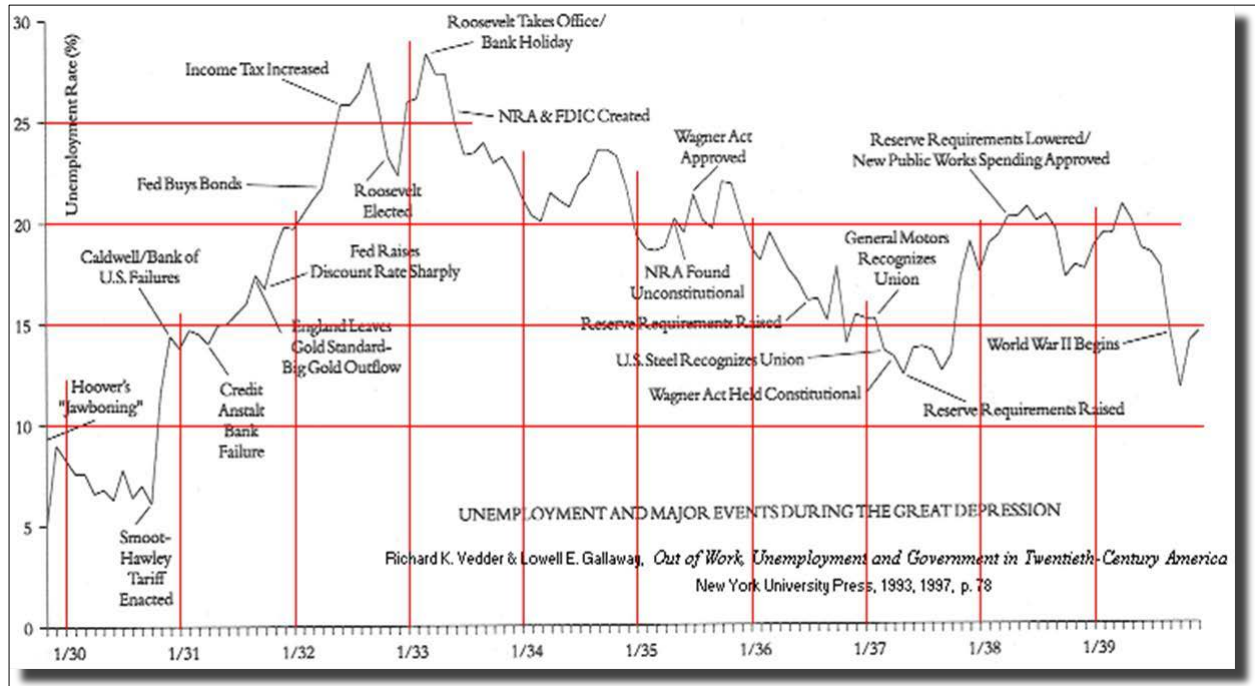
It is wrong to believe that exports are inherently good and imports are inherently bad, or that there is no job creation from imports. Trade in both directions creates jobs in such fields as port loading and unloading, transportation, wholesale trade, processing, retail trade, construction and finance. An analysis by the Heritage Foundation found, by way of example, that in 2010 “imports of apparel from China helped support 355,000 American jobs.” And that in toy and sporting goods, “imports helped support 221,000 jobs.”⁸ To different degrees the same can be said about imports in virtually every product sector.

The Heritage Foundation analysis also points out that import statistics do not take into account how much of the value of a product was actually produced in the exporting country. In many cases, only part of an imported product originated in the exporting country. Other parts, inputs or the intellectual property used to create the item originated in other countries, including the country importing the final product. This is particularly true in the case of the three NAFTA countries. According to former U.S. Trade Representative Carla Hills, “For every dollar of goods that Canada and Mexico export to the United States, there are 25 cents’ worth of U.S. inputs in the Canadian goods and 40 cents’ worth in the Mexican goods.”⁹

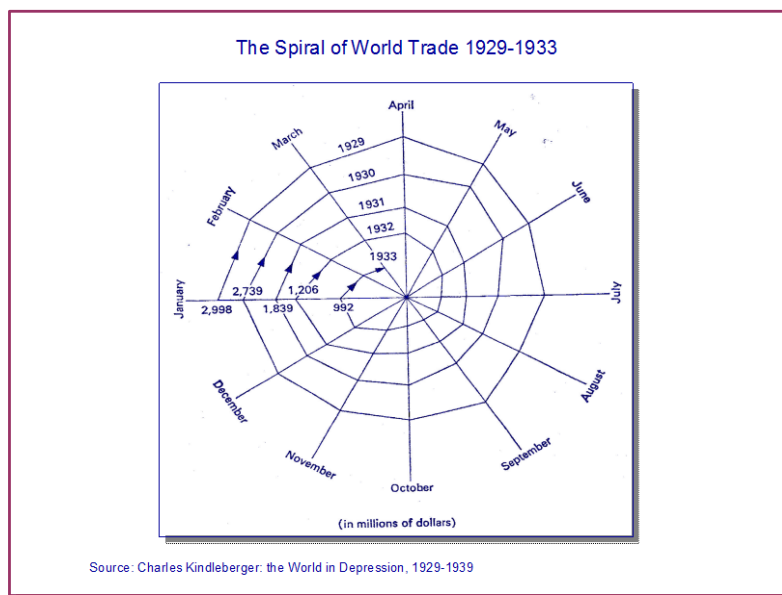
The point of this section is to ensure that governmental actions to limit imports are not viewed as an easy or harmless tool to address trade deficits or job losses. The unintended consequences could and likely would cause great harm, to very little benefit.

In fact, the United States has some real-world experience in this regard. After the stock market crash in October 1929 and unemployment began to rise, Congress decided it would be a good idea to impose additional tariffs on imports “to save jobs.” Despite the pleas of 1,028 mainstream economists to President Hoover to veto the bill, it became law in 1930.

The chart on the next page shows that unemployment had started to ease after the initial bump and prior to imposition of the tariffs but nearly doubled to 14 percent in the two months after the tariffs were imposed. The immediate effect of the tariffs was to destroy U.S. jobs in import-related fields, such as dockworkers, transportation, importers, distributors, etc. Then, since tariffs are paid by American importers, who pass the higher costs along to consumers, higher prices of imported goods helped feed inflation and reduced disposable income of most Americans. Within two years, the unemployment rate had reached 27 percent.



U.S. exports also crashed as a result of foreign retaliatory tariffs, as well as the fact that trading partners lacked the foreign exchange needed to purchase our goods (since they could no longer sell to us). The Great Depression was in full force and became global. The rest of the 1930s, as they say, is history. (See the chart below.)



End Notes

¹ Wall Street Journal, “NAFTA’s Net U.S. Impact is Modest, Wall Street Journal” January 27, 2017

² Walter Kemmsies, Chief Economist at Moffatt Nichol, as quoted in “NAFTA, 20 Years Later: Do the Benefits Outweigh the Costs?” Knowledge@Wharton

³ Carla Hills, “NAFTAs’ Economic Upsides: The View from the United States”

⁴ Kate Linthicum, LA Times, “Mexico's president warns that if Trump wants to talk trade, he'll have to talk security, too”

⁵ Joseph W. Glauber, “Likely Effects of a Trade for U.S. Agriculture? Sad!” University of Guelph, Institute for the Advanced Study of Food and Agricultural Policy

⁶ <https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/ag-and-food-sectors-and-the-economy.aspx>.

⁷ Letter from Agricultural Producer Groups to President-Elect Trump, January 6

⁸ Trade Freedom: How Imports Support U.S. Jobs, September 12, 2012

⁹ Carla Hills, “NAFTAs’ Economic Upsides: The View from the United States”