

# **Fool Me Twice?**

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## **Chamber of Commerce Distorts NAFTA Record, Hides CAFTA Costs**

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## Introduction

In early 2005, the U.S. Chamber of Commerce released a study projecting possible gains to the United States and to several U.S. states' economies from the proposed Central America Free Trade Agreement (CAFTA) NAFTA expansion. CAFTA would extend NAFTA to six additional countries: Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

In an eerie repeat of NAFTA promises from a decade earlier, the Chamber study claimed that, if implemented, CAFTA would create over 100,000 U.S. jobs, over \$17 billion in increased sales and \$3.5 billion in increased earnings for employees in all industries during its first nine years. The study also made specific mention of projected CAFTA gains for the state economies of Alabama, California, Florida, Georgia, Louisiana,<sup>2</sup> New Jersey, New York, North Carolina, Pennsylvania and Texas, and will continue to add additional states. Regarding these states, the report made a variety of glowing predictions of CAFTA benefits.<sup>3</sup> Given that CAFTA would expand NAFTA to six additional countries – including the expansion of NAFTA's foreign investment provisions that incentivize relocation of production to lower-waged countries – the notion that CAFTA would create U.S. jobs or economic gains seems dubious on its face.

An examination of the methodology and assumptions underlying the Chamber study's predictions about CAFTA's effect on both the national and state economies reveal that, in fact, the very design of this "study" ensures that the Chamber's conclusions would be wildly inaccurate. First of all, the Chamber study assumes that U.S. imports from Central America would not grow under a CAFTA – a dangerous and misguided assumption, out of line with the historical record under NAFTA and other U.S. trade agreements. Secondly, to create a scenario under which CAFTA could benefit the U.S. economy, the Chamber study must assume a growth in U.S. exports to Central American countries which goes far beyond these poor countries' consumption capacity. According to the study's assumptions, by 2013, U.S. exports to Honduras would comprise 80 percent of that country's economy. Finally, the Chamber study repeatedly misrepresents facts about the history of U.S. job loss due to NAFTA and corporate globalization more generally.

This report examines each of these claims underlying the Chamber study in turn, and shows that the CAFTA business plan assumptions used by the U.S. Chamber of Commerce – which identifies itself as the U.S. business "voice of experience and influence in Washington, D.C., and around the globe"<sup>4</sup> – would probably flunk as the answer to a freshman business midterm.

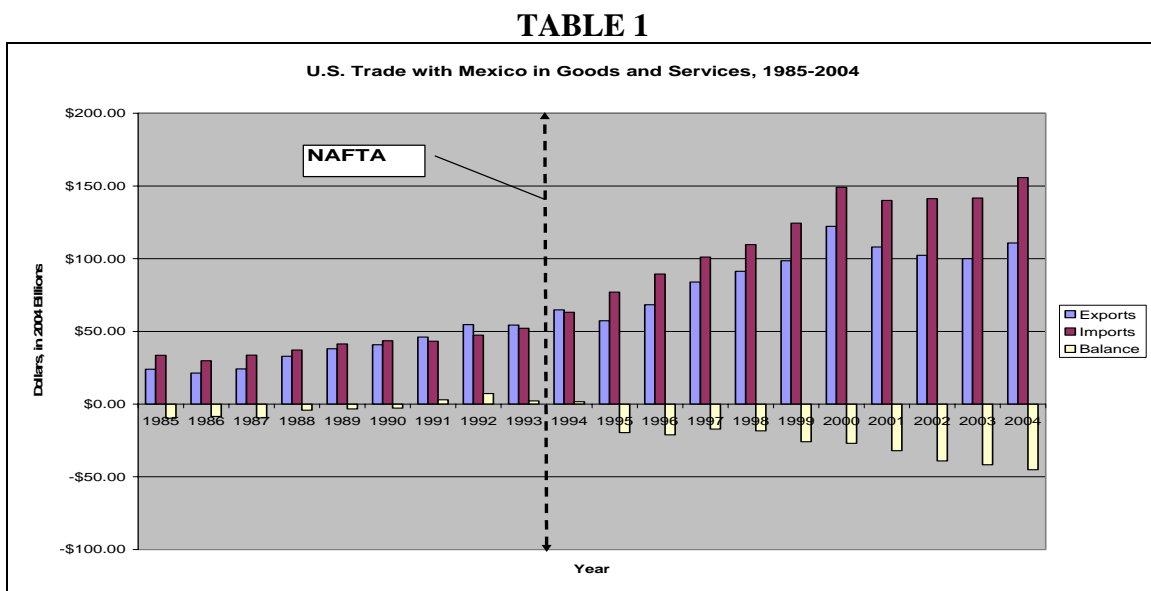
## **Ridiculous Assumption #1: No New CAFTA Imports into the United States?!**

The standard methodology used for estimating the projected impact of trade on U.S. jobs will compare the likely increases in exports (which create jobs) to the likely increases in imports (which destroy jobs). Therefore, an increase in U.S. exports to CAFTA countries would create U.S. jobs, while an increase in Central American exports to the United States would destroy U.S. jobs. A researcher can calculate how many new U.S. jobs are created (or destroyed) by a given increase in U.S. exports (or imports), by determining what are called trade income elasticities.<sup>5</sup> This is, simply put, another way of asking how sensitive trade flows are to a given change in price. The projected impact of trade on jobs then is calculated by finding the difference between jobs gained and lost.

The Chamber, however, just assumes that imports won't change at all and therefore, there will be no job losses.

“While there is additional access in several product areas, the change from the status quo in the import area is minimal. The value of the agreement for Central America and the Dominican Republic is that their existing preferential access to our market would be locked in. *Thus, in this study we have not made an effort to estimate potential California economic losses due to greater imports.*” (U.S. Chamber of Commerce Study on California, italics added)<sup>6</sup>

How realistic is this assumption? In general, hasn't the United States always imported more from foreign countries with which the United States signs a trade agreement? Table 1 shows that this was certainly the case for NAFTA, the agreement on which CAFTA is based. In fact, while U.S. exports to Mexico increased, as would be expected given the country's economy grew in most years following 1994 when the agreement was signed, imports from Mexico into the United States grew by much more, converting a trade surplus with Mexico into a ballooning bilateral U.S. trade deficit with Mexico.<sup>7</sup>



Source: Census Bureau; authors' calculations

Indeed, the record is consistent. Following the U.S. trade agreements with Canada, Chile, and Jordan, imports in each case rose compared with their pre-agreement levels, and the *growth rate* of U.S. imports from these countries often exceeded the *growth rate* of U.S. exports to these countries. Since the United States joined the World Trade Organization at the time of its creation in 1994, the U.S. trade deficit with the world ballooned to over \$617 billion in 2004 – an all-time high. But, in no instance was there zero import growth.<sup>8</sup>

The Chamber maintains that the assumption of “no new imports” is reasonable because the U.S. market is already open to Central American products under the existing Caribbean Basin Initiative (CBI) preference program, which allows duty-free imports of certain products from the CAFTA target countries into the United States.<sup>9</sup> But there are serious reasons to doubt this assertion.

First, a similar claim was made when NAFTA was signed: specifically, that NAFTA would not result in increased imports from Mexico because products from Mexico already enjoyed preferential access to the U.S. market both through the extensive U.S.-Mexico “Border Industrialization Program,” also called the *maquiladora* program, and because of special low tariffs applied to Mexican imports under the

Generalized System of Preferences (GSP) program. Of course, eleven years of NAFTA trade flow data have thoroughly disproved these claims.

At the time though, pro-NAFTA spin focused primarily on the precedent set by the border *maquiladora* program. Initiated in 1965, the *maquiladora* program allowed for duty-free re-importation into the United States and favorable tax treatment for U.S. firms producing goods in Mexico for sale in the United States, so long as certain U.S. inputs were used.<sup>10</sup> At the time of NAFTA passage, it was widely claimed that any U.S. job and industrial displacement had already occurred under the *maquiladora* program. Thus the U.S. Trade Representative at the time of NAFTA made the very same argument CAFTA promoters do now:

“The result of the maquiladora program and Mexican protection has been to distort U.S.-Mexican trade, limiting exports from the U.S. to Mexico and exaggerating exports from Mexico to the U.S. NAFTA transforms the situation by opening Mexico’s market and eliminating the distortions created by the maquiladora program. Under NAFTA, Mexico eliminates its import protection and the maquiladora program is also effectively eliminated, permitting [U.S.] firms to sell in the Mexican market without restriction.”<sup>11</sup>

Despite these pledges, production in Mexico for import into the United States expanded greatly following NAFTA. According to a paper commissioned by the Federal Reserve Bank of Dallas,

“Although maquiladoras have been in operation in Mexico since the 1960s, their output and employment growth began to accelerate rapidly with the advent of NAFTA. Over the first five years after the onset of NAFTA, maquiladora employment grew 86 percent, compared with 47 percent growth over the five years previous.”<sup>12</sup>

Mexico’s privileges under the GSP were also hailed as an indication that the price for the United States from greater trade with Mexico had already been paid before NAFTA, and the same is now said of the access that Central America has under the CBI in relation to potential import surges under CAFTA. What is misleading about this argument is that both NAFTA and CAFTA significantly enhance the incentives to relocate U.S. production abroad, and reduce the pre-FTA incentives to use U.S. inputs.

For example, the CBI allowed for duty-free treatment of textile and apparel assembled in CBI countries if certain U.S.-made fabrics were used (much as the GSP and *maquiladora* program gave incentives for textile and apparel production in Mexico destined for the U.S. market to use certain U.S.-made metal components, buttons and other inputs.)<sup>13</sup> But CAFTA, like NAFTA, changes these underlying conditions for access to the U.S. market that products from Central America, like Mexico before it, must meet. One such change is to loosen the “rules of origin” on textile and apparel goods allowed duty-free treatment into the United States. These changes will give incentives for Central American factories to use Chinese and other non-CAFTA country fabric, fiber, and inputs, thereby decreasing demand for U.S.-made inputs – i.e. U.S. exports to Central America – and contributing to a worsening U.S. trade balance with the CAFTA countries.<sup>14</sup> According to U.S. industry sources, the agreement could affect \$4.65 billion in U.S. textile exports, especially of cotton, elastic and wool.<sup>15</sup>

There are other reasons that imports are likely to go up under CAFTA relative to their level under the previous preferential access regime. CAFTA, like NAFTA, would provide investors with additional incentives to relocate through its investor protection regime, which gives U.S. investors abroad greater rights than they enjoy under the U.S. Constitution.<sup>16</sup> CAFTA would also liberalize the U.S. sugar market, specifically authorizing a larger volume of sugar imports into the United States from the CAFTA countries.

The Chamber study's assumption of “no new imports,” in addition to being out of touch with facts and recent history, has the additional bizarre implication that Central American countries will not have any

new economic opportunities or gains if they sign CAFTA. Assuredly, this is not the message that the Chamber of Commerce is sharing with the Central American ambassadors, who are currently on a Chamber-sponsored tour across the United States to sell CAFTA to U.S. citizens.<sup>17</sup>

## Ridiculous Assumption #2: U.S. Exports will Grow How Quickly?!

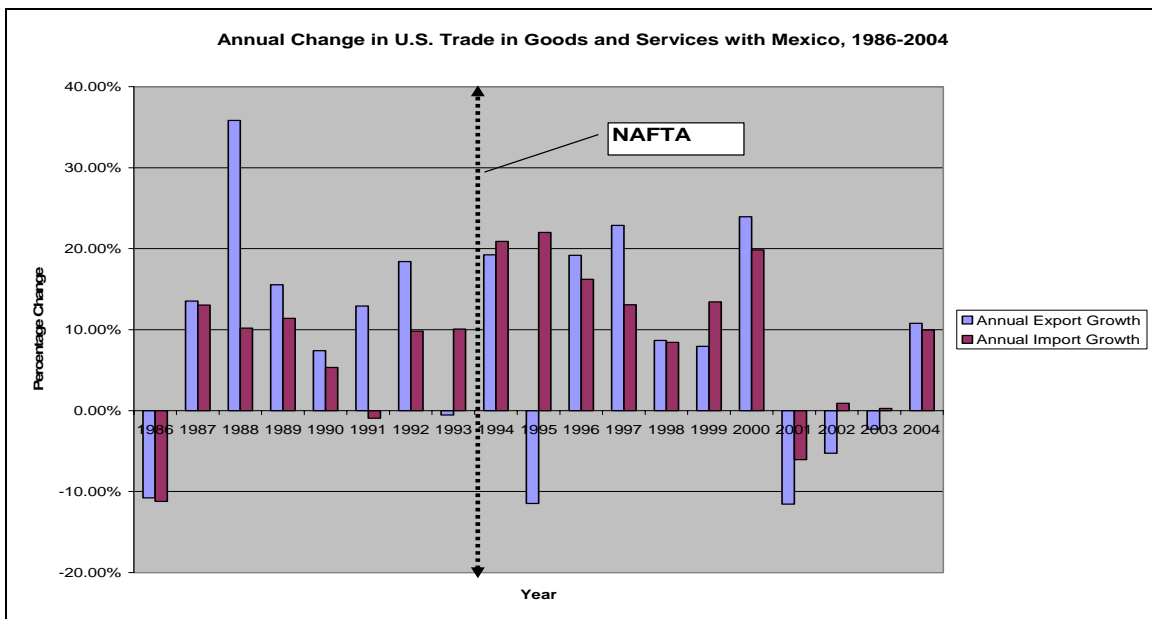
It is commonplace for proponents of commercial agreements, such as CAFTA, to promise immediate benefits from increased trade. Such public relations initiatives are designed to counter the often-correct impression that painful ‘adjustments’ will take place abruptly due to changes in trade policy.

The Chamber, in this case, claims that U.S. exports to Central America will shoot up rapidly once the agreement is approved by Congress. Leaving aside, for a moment, the question of whether it is reasonable to expect Central America to import so much right away, we can ask if the picture the Chamber paints of NAFTA – on which the assumptions for this study are explicitly based – is a complete one.

“In making these predictions, *we drew on our experience with NAFTA* [...] In the first year of NAFTA, total trade with Mexico increased 20% and U.S. exports to Mexico increased 18%. [...] We decided to use a conservative 17% figure to calculate the first year impact of the agreement (see pg. 5). For the nine year estimate, we used the same increase in U.S. exports to Mexico between 1994 and 2003: 91% (see pg. 6). These estimates, while based on historical facts and experience, are predictions. The true results could surprise to either the upside or downside, but they allow us to make an educated guess about the economic impact of the agreement.” (U.S. Chamber of Commerce, italics added)<sup>18</sup>

It turns out that yet again, the Chamber study’s assumptions result in misleading conclusions, because the study once again ignores the role of imports. Regarding the Chamber’s first year CAFTA prediction, the actual record of trade flows under NAFTA was that, while U.S. exports to Mexico did indeed rise about 19 percent in NAFTA’s first year, imports rose faster still – at over 20 percent.<sup>19</sup> In fact, as Table 2 shows, the *rate* of growth of imports outpaced that of exports in six of the 11 years since NAFTA.

TABLE 2



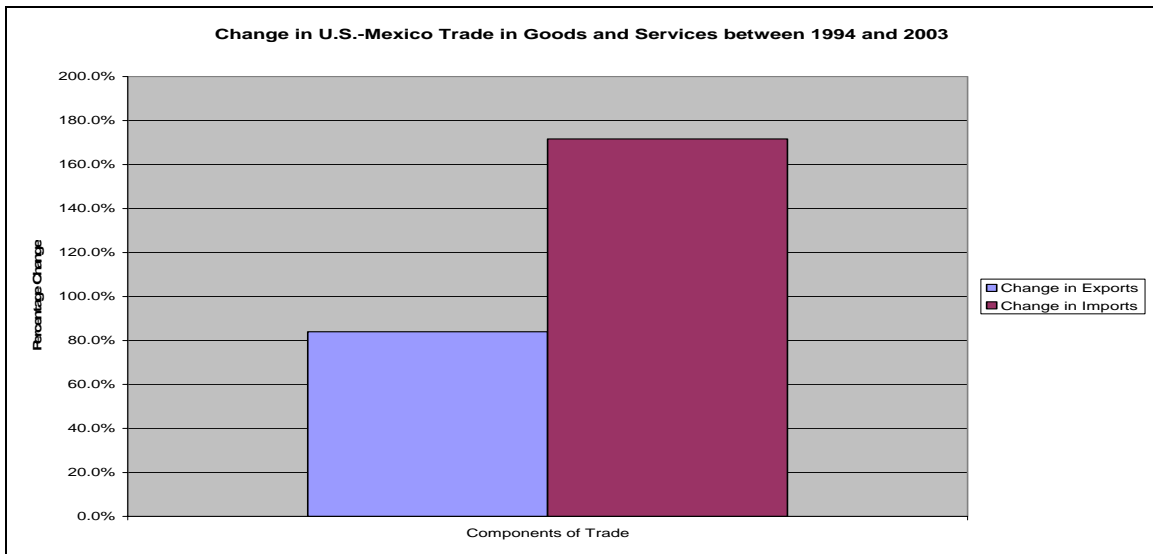
Source: Census Bureau; authors’ calculations

The Chamber’s assumptions of CAFTA’s longer term effect on U.S. export growth based on NAFTA are similarly erroneous. Yet, although the Chamber ignores the import side and the total trade balance, indeed we find that imports grew more rapidly than exports – at twice the rate – causing the U.S. bilateral trade

deficit with Mexico to rise from a slight surplus to a staggering deficit of over \$40 billion in 2003 and \$45 billion in 2004.

Furthermore, as the Chamber study does not appear to adjust for inflation, it overstates even the growth in exports by about 10 percent. Adjusting for inflation brings the 1994-2003 export growth rate from 91 percent to 84 percent, while imports into the United States grew over 170 percent over the same period.

**TABLE 3**



Source: Census Bureau; authors' calculations

This NAFTA data – the actual record of NAFTA’s effect on trade flows – reveals how unrealistic are the assumptions underlying the Chamber’s study regarding export growth.

### **Ridiculous Assumption #3: Central America Can Import *How Much* from the United States?!**

A third critical flaw of the Chamber CAFTA study is that it assumes that the small, poor economies of Central America will greatly increase their consumption of exports from the United States. Underlying the Chamber’s predictions of U.S. economic gains from CAFTA is the presumption that these countries can absorb nearly double the amount of U.S. exports over the next nine years.

It is easy enough to do some back-of-the-envelope calculations to determine what these increases would look like as a share of the six CAFTA economies. The Chamber’s study assumes that each of the CAFTA countries increases its exports from the United States 17 percent by 2005, and 91 percent by 2013. Let us use the predictions of the International Monetary Fund for the rate at which the CAFTA countries will grow in 2005, and use their average rate of growth over the last decade (1996-2005) for their annual growth rate in each subsequent year until 2013. It should be noted that, since the IMF systematically overestimates the rate of growth for poor countries,<sup>20</sup> this is a very generous assumption.<sup>21</sup> Finally, we can compare U.S. exports to the projected size of the Central American economies in 2005 and 2013.<sup>22</sup>

**TABLE 4**

<b>COUNTRY</b>	<b>U.S. Exports, 2004, Billions</b>	<b>U.S. Exports, 2005, Billions</b>	<b>U.S. Exports, 2013, Billions</b>	<b>U.S. Export Share of Economy, 2005</b>	<b>U.S. Export Share of Economy, 2013</b>
Costa Rica	\$3.30	\$3.87	\$6.31	22.2%	32.1%
Dominican Republic	\$4.34	\$5.08	\$8.29	22.7%	31.2%
El Salvador	\$1.87	\$2.19	\$3.57	14.9%	21.8%
Guatemala	\$2.55	\$2.98	\$4.87	12.4%	16.8%
Honduras	\$3.08	\$3.60	\$5.88	52.4%	83.3%
Nicaragua	\$0.59	\$0.69	\$1.13	16.7%	27.2%
<b>Total</b>	\$15.73	\$18.41	\$30.05	20.5%	30.2%

Source: U.S. International Trade Commission; International Monetary Fund; author's calculations.

What is striking about these numbers that undergird the Chamber's rosy CAFTA predictions is how totally unrealistic they are. They presume, for example, that by 2013 over 80 percent of the Honduran economy would be consumed by the purchases of U.S. exports. While less dramatic, it is just as unlikely that nearly a third of Central American economic activity in 2013 would be dedicated to the consumption of goods imported from the United States. Indeed, it seems probable that if such trends began to occur, social unrest would erupt well before U.S. exports rose to occupy the projected share of the CAFTA countries' economies.

In any case, in the real world, U.S. exports would be balanced out by increased U.S. imports from these countries. But since the Chamber study assumes that imports from these countries would not increase, it is worth showing exactly what the Chamber of Commerce is claiming would happen to the economies of the Central American countries represented by their ambassador "friends" if CAFTA is approved.

### **Show Me the Jobs: The Chamber's Leap of Faith vs. NAFTA Reality**

Finally, stepping back from the Chamber of Commerce's faulty presumptions about the changes in exports and imports over time, most people will be more concerned about the bottom-line impact of trade on job creation or destruction. While the Chamber's study predicts that over 100,000 jobs will be created as a result of CAFTA, it is useful to compare this rosy prediction to the job loss that actually occurred during the past decade of increased trade flows under NAFTA and other recent trade agreements.

Recall that during the NAFTA decade, NAFTA proponents promised that the agreement would create 170,000 U.S. jobs per year in its first seven years. As the job losses from NAFTA rose into the hundreds of thousands, and the U.S. Commerce Department shut down its NAFTA job creation PR program to avoid continuing bad press over the meager scores of new jobs it could tally,<sup>23</sup> the economist who predicted that NAFTA would create 170,000 jobs per year withdrew his claim.<sup>24</sup> The public, press and policy-makers may have benefited from this economist's promise to forego further predictions of job creation from trade, but now the Chamber of Commerce is stepping into the role itself.

Again, the argument made by the Chamber of Commerce in its study that the "price has already been paid" in terms of U.S. job loss simply is not credible, especially when one considers NAFTA's record and that CAFTA removes some of the existing incentives for the Central American textile and apparel



industry to use U.S. inputs made by U.S. workers, opens up new sugar import volumes, and extends incentives to relocate production.

It is notable that even the Chamber’s “optimistic scenario” of 101,079 jobs created after nine years under a CAFTA is dwarfed by the net 1,015,290 jobs lost due to a decade of NAFTA, which is over ten times the job losses than job gains forecast under the Chamber’s unrealistic assumptions.<sup>25</sup> If imports under CAFTA increase by even a fraction of their growth under NAFTA, which seems imminently probable for the reasons outlined above, the Chamber’s job gain estimate, which does not account for job loss due to new imports, would be entirely erased. For complete state-by-state numbers around NAFTA job loss, please see Appendix A.

**TABLE 5**

**Comparison of Chamber Job Estimates and Reality**

<b>State</b>	<b>Chamber-Predicted job growth</b>	<b>Estimated NAFTA-related job growth<sup>26</sup></b>	<b>Estimated China trade-related job growth<sup>27</sup></b>
California	13,887	-123,955	-199,922
Florida	36,308	-39,987	-60,026
New Jersey	1,646	-24,291	-39,020
New York	4,384	-51,582	-81,721
North Carolina	28,759	-34,150	-62,700
Texas	16,095	-72,257	-99,420
<b>Total U.S.</b>	<b>101,079</b>	<b>-1,015,290</b>	<b>-1,452,441</b>

Source: U.S. Chamber of Commerce; Economic Policy Institute.

## **Conclusion: Fool Me Once...**

After a decade of NAFTA-related job loss, environmental degradation and ballooning trade deficits, it would be difficult for anyone to sell a “new” CAFTA trade agreement that expands the failures of the “old” NAFTA agreement. The U.S. Chamber of Commerce’s study attempts to do just that, by reciting a familiar litany of pie-in-the-sky benefits that never materialized the first time around under NAFTA. The serious flaws of the Chamber’s CAFTA study calls into question the organization’s usefulness as a source of information on the proposed agreement.

There is an old adage that says, “Fool me once, shame on you. Fool me twice, shame on me.” The public, policy-makers and press who will be at the center of the debate about the fate of the CAFTA proposal should consider the promises made on NAFTA and their colossal failures before buying the same promises this time on CAFTA.

APPENDIX A

<b>Estimated Job Loss by State Due to NAFTA/China/Other</b>					
<b>State</b>	<b>NAFTA</b>	<b>China</b>	<b>TAA (1994- 2002)</b>	<b>NAFTA- TAA (1994- 2002)</b>	<b>Consolidated TAA (2002-)</b>
Alabama	16,598	22,997	50,314	18,387	4,880
Alaska	2,070	1,669	3,360	1,086	2,876
Arizona	16,616	22,665	9,065	4,804	3,619
Arkansas	10,321	19,123	188,826	13,577	3,502
California	123,955	199,922	54,953	31,578	13,134
Colorado	13,354	20,139	11,212	4,799	2,349
Connecticut	11,549	16,623	6,872	2,495	1,576
Delaware	2,113	2,742	329	0	672
District of Columbia	1,054	1,216	72	0	3
Florida	39,987	60,026	14,743	11,898	2,265
Georgia	30,464	46,848	49,231	24,618	8,715
Hawaii	2,200	2,892	298	0	69
Idaho	3,845	5,938	6,230	4,849	1,726
Illinois	47,701	69,668	37,216	17,089	13,003
Indiana	35,157	43,533	29,065	16,073	7,446
Iowa	11,409	14,345	3,888	1,792	1,863
Kansas	8,387	8,406	11,618	1,847	4,009
Kentucky	14,798	19,126	27,650	12,936	3,986
Louisiana	13,078	10,175	13,391	7,532	774
Maine	4,064	14,951	11,962	3,109	3,244
Maryland	12,601	16,073	7,425	637	2,234
Massachusetts	23,422	46,463	214,448	5,948	6,340
Michigan	63,148	50,991	313,888	20,417	12,460
Minnesota	19,278	35,981	14,214	8,515	4,452
Mississippi	11,630	13,779	30,983	5,094	4,206
Missouri	18,566	25,183	22,215	11,922	4,777
Montana	2,691	2,510	3,069	1,162	971
Nebraska	5,101	7,013	2,080	503	1,647
Nevada	5,116	6,541	2,459	795	227
New Hampshire	5,502	9,443	4,872	788	706
New Jersey	24,291	39,020	29,689	9,554	7,222
New Mexico	5,042	5,210	7,562	1,969	301
New York	51,582	81,721	50,601	25,162	10,834
North Carolina	34,150	62,698	85,022	49,776	25,534
North Dakota	1,538	1,897	1,968	488	150
Ohio	49,886	58,094	39,629	14,254	11,391

<b>Oklahoma</b>	12,817	13,963	14,343	4,665	3,289
<b>Oregon</b>	13,653	18,438	22,008	12,205	6,006
<b>Pennsylvania</b>	44,173	69,822	75,777	37,701	15,378
<b>Rhode Island</b>	4,482	7,548	5,679	0	796
<b>South Carolina</b>	14,634	24,350	27,466	12,036	8,538
<b>South Dakota</b>	2,679	3,232	492	1,344	1,543
<b>Tennessee</b>	25,588	35,396	55,016	21,995	8,359
<b>Texas</b>	72,257	99,420	82,448	48,227	11,148
<b>Utah</b>	8,022	12,765	4,829	3,465	734
<b>Vermont</b>	2,268	4,211	1,591	1,789	644
<b>Virginia</b>	22,450	31,597	30,571	16,426	9,730
<b>Washington</b>	16,515	18,485	38,620	10,258	8,932
<b>West Virginia</b>	5,984	6,605	6,347	1,368	1,195
<b>Wisconsin</b>	25,403	39,668	26,232	16,102	8,445
<b>Wyoming</b>	2,099	1,317	2,906	620	156
<b>Totals</b>	<b>1,015,290</b>	<b>1,452,438</b>	<b>1,754,744</b>	<b>523,654</b>	<b>258,056</b>

<sup>1</sup> Updated July 22, 2005.

<sup>2</sup> A study cited on the website of the U.S. Chamber of Commerce examined the benefits to Louisiana over the first year of CAFTA, but not over nine years.

<sup>3</sup> U.S. Chamber of Commerce, "Chamber Hails Economic, Job Benefits of DR-CAFTA," Issue Briefing, Feb. 2005.

<sup>4</sup> U.S. Chamber of Commerce, "About Us," Website, checked March 3, 2005.

<sup>5</sup> For the United States, import elasticity is higher than export elasticity. This means that, even if the United States and foreign countries grow at the same rate, U.S. imports will continue to grow faster than U.S. exports. See U.S. Trade Deficit Review Commission, "The U.S. Trade Deficit: Causes, Consequences and Recommendations for Action," Final Report, 2000, at 8.

<sup>6</sup> Mark Smith, "The Economic Impact of the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) on California," U.S. Chamber of Commerce Briefing Paper, Feb. 2005, at 4. Similar claims are made in the other studies released by the Chamber.

<sup>7</sup> As the Chamber study does not appear to adjust for inflation, it systematically overstates the U.S. gain from trade with Mexico. This report corrects for this flaw by adjusting for inflation throughout.

<sup>8</sup> U.S. exports to Singapore grew more rapidly than imports from Singapore following the signing of that agreement in 2003. Singapore, however, is clearly a special case, as it is a city-state and a prime location for transshipment to other countries. Even in that case, imports did grow following the signing of the trade agreement, from \$15.1 billion in 2003 to \$15.3 billion in 2004. See U.S. Census Bureau, "Trade (Imports, Exports and Trade Balance) with Singapore," Foreign Trade Statistics, March 9, 2005.

<sup>9</sup> "In terms of job losses due to imports, the DR-CAFTA agreement is much different than the NAFTA or the U.S.-Chile-FTA in that the United States has already "paid the price" of the increased access to our market given to our counterparts through the Caribbean Basin Initiative (CBI), other trade preferences and most-favored nation (MFN) treatment." Mark Smith, "The Economic Impact of the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) on California," U.S. Chamber of Commerce Briefing Paper, Feb. 2005, at 2.

<sup>10</sup> Howard Frumkin, Mauricio Hernández-Ávila, Felipe Espinosa Torres, "Maquiladoras: A Case Study of Free Trade Zones," Occupational and Environmental Health, 1995.

<sup>11</sup> Testimony of the United States Trade Representative before the Senate Committee on Agriculture, Nutrition & Forestry, "The Administration's Case for NAFTA," Sept. 21, 2003.

<sup>12</sup> William C. Gruben, "Did NAFTA Really Cause Mexico's High Maquiladora Growth?" Dallas Federal Reserve Bank Center for Latin American Economics Working Paper CLAE 0301, July 2001, at 2.

<sup>13</sup> For a fuller discussion of the benefits Mexico enjoyed pre-NAFTA, see William C. Gruben, "Did NAFTA Really Cause Mexico's High Maquiladora Growth?" Dallas Federal Reserve Bank Center for Latin American Economics Working Paper CLAE 0301, July 2001, at 8.

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<sup>14</sup> For more information, *see* Todd Tucker, “Myth vs. Reality: CAFTA Cannot ‘Save’ Central American Textile/Apparel Industry or Safeguard the U.S. Industry after WTO/MFA Quotas End,” Public Citizen’s Global Trade Watch Briefing Paper, Feb. 14, 2005.

<sup>15</sup> American Manufacturing Trade Action Coalition, “Textile Fact Sheet – CAFTA,” Jan. 2005, on file with Public Citizen.

<sup>16</sup> For a thorough analysis of NAFTA’s investor-state mechanism, *see* Mary Bottari, “NAFTA Chapter 11 Investor-State Cases: Lessons for the Central America Free Trade Agreement,” Public Citizen’s Global Trade Watch Brief, Feb. 2005. Furthermore, it has been widely concluded that, even firms that don’t relocate under new trade agreements can use the threat that they might to restrain U.S. wage growth. For more on this, *see* Kate Broffenbrenner, “The Effects of Plant Closing or Threat of Plant Closing on the Right of Workers to Organize,” North American Commission for Labor Cooperation Report, 1997.

<sup>17</sup> Gillian Wee, “U.S. Chamber officials host local forum pushing proposed trade deal,” *The Charlotte Observer*, Feb. 18, 2005.

<sup>18</sup> Mark Smith, “The Economic Impact of the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) on California,” U.S. Chamber of Commerce Briefing Paper, Feb. 2005, at 3.

<sup>19</sup> From 1994 to 1995, what many would consider the first year of the agreement, U.S. exports to Mexico shrank by about 12 percent.

<sup>20</sup> *See* Dean Baker and David Rosnick, “Too Sunny In Latin America? The IMF’s Overly Optimistic Growth Projections and Their Consequences,” Center for Economic and Policy Research Briefing Paper, Sept. 2003.

<sup>21</sup> Assuming a growth rate that is strong relative to historic performance for the region increases the denominator of the ratio “U.S. exports to national income.” Since this study attempts to show that the ratio implicitly assumed by the Chamber’s study is unreasonably high, our assumption that boosts the denominator serves to lower the ratio beyond what it would be under a situation of slower, and perhaps more realistic, income growth rates.

<sup>22</sup> While this will not provide an exact figure, since presumably each country would increase their consumption of U.S. exports to differing degrees, it gives some order of magnitude to the Chamber’s projections.

<sup>23</sup> Project discontinued. Documentation on file with Public Citizen.

<sup>24</sup> According to a press account, “Gary Hufbauer, an economist at the Institute for International Economics, whose predictions of NAFTA job gains were embraced by the Clinton and Bush White Houses, now figures the surging trade deficit with Mexico has cost the U.S. 225,000 jobs.” *See* “Two Years Later, the Promises used to sell NAFTA Haven’t Come True,” *The Wall Street Journal*, Oct. 26, 1995.

<sup>25</sup> It is also worth mentioning that, while many U.S. jobs were lost under NAFTA, their loss was not the gain of Mexican workers, who have seen their wages (both minimum and median) contract over the period, according to Mexico’s Institute of Labor Studies. *See* Carlos Salas, “Highlights of Current Labor Market Conditions in Mexico,” Global Policy Network Country Brief, April 2003.

<sup>26</sup> Robert E. Scott and David Ratner, “NAFTA’s Cautionary Tale: Recent history suggests CAFTA could lead to further U.S. job displacement,” Economic Policy Institute Briefing Paper, July 2005.

<sup>27</sup> Robert E. Scott, “U.S.-China trade, 1989-2003: Impact on jobs and industries, nationally and state-by-state,” Economic Policy Institute Brief, Jan. 2005.