Key Findings of the ITC Report on the Revised NAFTA: Modest Projections Do Not Alter Pact's Prospects in Congress

The April 18, 2019 release of the International Trade Commission (ITC) report on the revised North American Free Trade Agreement (NAFTA) does nothing to alter the reality that the fate of NAFTA 2.0 relies largely on whether the administration engages with congressional Democrats and then with Canada and Mexico to improve the text signed last year. That Democrats, unions and others who have opposed past pacts seek improvements – rather than the deal's demise – reveals that a path exists to build broad support. But absent removal of new monopoly protections for pharmaceutical firms that lock in high drug prices and strengthened labor and environmental standards and enforcement, the deal is not likely to garner a majority in the U.S. House of Representatives. Indeed, all four of the trade deals Congress enacted in the past decade required changes to their texts *after the pacts were signed* in order to pass the House.

- **The official government projections of very small gains spotlight how Donald Trump has oversold the revised NAFTA**, which he promised would "support many hundreds of thousands of American jobs," "send cash and jobs pouring into the United States" and eliminate the large U.S. trade deficit with NAFTA countries. The modest findings reinforce congressional Democrats' views that absent more improvements, the revised deal won't stop NAFTA's ongoing damage.
  - **The ITC projects that after six years, the pact would add 175,800 jobs – about the number created by the economy in a slow month – and increase wages by 27/100 of one percent or an average of $2.58 per week.** Almost 80 percent of projected job growth is for workers in the service sector without a college education, meaning many of these jobs are likely to be low-paid. Almost one million mainly U.S. manufacturing jobs have been lost to the original NAFTA according to Trade Adjustment Assistant certifications, which undercount trade-related job loss.
  - **Only $1.8 billion in trade deficit reduction with NAFTA countries is projected over time, relative to a U.S. 2018 NAFTA goods deficit of $215 billion.** Yet, based on past performance of ITC projections on trade pact deficits, the more likely outcome is a larger NAFTA deficit. Consider the ITC's original assessment of NAFTA: Within 10 years, the goods trade deficit with Mexico had grown to almost 20 times the level the ITC had projected in its dimmest forecast.

- **Overall, the ITC projected minuscule gains from NAFTA 2.0: one-time gains of 35/100 of one percent in real GDP, 12/100 of one percent in employment and 27/100 of one percent in wages.** In contrast to past reports, the agency somewhat obfuscated the time period of the projected GDP gain of $68.2 billion. It assumes a six-year implementation period, so if gains are realized steadily over that period, it means annual growth gains of only 6/100 of one percent for six years. That is smaller than a rounding error on the $19 trillion U.S. economy. The sum total effect of NAFTA 2.0 would be a GDP on January 1, 2025 that would be attained on March 6, 2025 without the deal.
  - **Most of these economic gains are derived from a highly dubious new research methodology, which assigns an invented positive economic value to terms that reduce "policy uncertainty" by freezing in place environmental, consumer protection, financial and other safeguards. If the ITC had not done this, the report would have projected a negative outcome.** All $68.2 billion of the deal's supposed economic gains arise from simulating the impact of removing trade barriers that <u>do not exist</u>. In other words, the gains are generated not through the removal of trade barriers directly, but through the elimination of the *possibility* of new future regulatory policies, which are deemed to be potential trade barriers. Absent this fabrication, the revised NAFTA would

have been projected to *lower* the United States' GDP by $22.6 billion and reduce the number of jobs by 53,900. The very notion that "reducing policy uncertainty" generates economic benefits is questionable. But in this study, these imagined gains also are not balanced against foreseeable downsides, such as financial instability, lower worker productivity from injury or illness, and the like. Perversely, given the focus on "uncertainty" the ITC choose to simply not analyze the impact of one prominent new feature of the deal - its review and sunset provision - that industry attacks as creating new uncertainties to North American trade.

- **Absent methodological monkey business, how could a NAFTA revision that involves no major trade barrier elimination be projected to create almost 90 percent of the GDP gains as it predicted for the original NAFTA even though the first deal substantially cut tariffs?** The study also projects almost 50 percent more economic gains than the Trans-Pacific Partnership (TPP), even though the revised NAFTA covers only two other countries with which the United States has had almost no tariffs and has been integrated with for 25 years under NAFTA, while the TPP included 11 nations and involved significant tariffs cuts with Japan, Malaysia and others.

ITC's Projected Real GDP Gains (in 2017 dollars)	
NAFTA	$77.9 billion
TPP	$42.7 billion
USMCA	$68.2 billion

- **The report then feeds these fabricated gains from the reduction of "policy uncertainty" into the same old computable general equilibrium (CGE) model that for decades has produced rosy ITC projections that have been systematically contradicted by trade pacts' actual outcomes.** The CGE model simply assumes away the very results that have often occurred under past pacts: long-term job loss, trade deficit increases and currency devaluations. By design, the CGE model assumes that the overall U.S. economy remains at full employment, that income inequality and the U.S. global trade balance does not change, and currency values are locked. These assumptions have systematically resulted in ITC trade-pact projections being entirely unrelated to actual outcomes.

NAFTA: U.S.-Mexico Trade		
1993 - Baseline	**ITC Projection**	**Actual**
$1.6 billion goods surplus	$2.3 billion goods deficit	$83.7 billion goods deficit
China-WTO: U.S.-China Trade		
1998 - Baseline	**ITC Projection**	**Actual**
$57 billion goods deficit	$60 billion goods deficit	$281 billion goods deficit
U.S.-Korea FTA: Trade		
2011 - Baseline	**ITC Projection**	**Actual**
$19 billion goods deficit	$16 billion goods deficit	$22 billion goods deficit

- **IMF economists recently calculated negligible U.S. economic growth gains from the revised NAFTA relying on the same economic model as the ITC, but without the additional assumptions of gains from regulatory freeze.** They found the United States would experience a welfare loss of $794 million, while Canada enjoys a small gain of $734 million and Mexico a gain of $597 million. The IMF study also found a zero percent change in real (inflation-adjusted) GDP for the United States, a 0.02 percent change for Canada and a -0.01 percent change for Mexico.

- The ITC's past trade-pact projections have been so entirely wrong – in direction, not just in scale – that findings of minuscule gains from the revised NAFTA would not have obtained as much attention had Donald Trump not set such a high bar by overselling this as a new species of trade deal that would miraculously reverse NAFTA's decades of damage.

- **The ITC report projects that longer periods for patents and other intellectual property monopolies will deliver economic gains by reducing what the ITC describes as "trade costs," while dismissing any economic losses (reduction in welfare) accruing from high medicine prices.** The report explicitly admits that "originator [first-to-market] firms" will gain "from stronger IPR protections" while "follow-on or generic firms" will suffer "losses." Not only do high medicine prices hit Americans directly, but extracting licensing payments from foreign consumers by imposing these rules on NAFTA partners can crowd out purchases of U.S. exports, entailing U.S. job loss.

- **Interestingly, for the first time the ITC considered the impact of investor protections and the related roll back of Investor-State Dispute Settlement (ISDS), concluding: "The Commission's quantitative analysis also shows that the reduction in the scope of ISDS would have a small positive effect on the U.S. economy**. In particular, U.S. domestic manufacturing and mining output is estimated to increase due to greater amount of capital available in the United States for investing in such industries because of reduced investment in Mexico."

- **The ITC just assumes labor terms will be enforced, even though lack of enforceability is a core critique:** "The USMCA labor provisions are expected to promote higher wages and improved labor conditions in member markets *if these provisions are enforced*." (emphasis added) After noting that significant variable, which is not ensured in the current text, the report proceeds to project a 17.2 percent increase in Mexican union wages and then to feed that finding into the broader model to project U.S. employment and other gains. There is no alternative simulation based on non-enforcement despite the upside scenario relying on a course of action that is desirable, but far from certain: Mexico passes and implements labor law reform to comply with the agreement and the pact's labor provisions remain enforced, which leads to more independent unions, which leads to successful collective bargaining, which leads to the replacement of thousands of low-wage "protection" contracts, which ultimately leads to higher wages. Second, if that happens, the projected gain is from $1.50-$3 an hour Mexican manufacturing wages to $1.76-$3.51 an hour wages, an increase that is too small to either improve Mexican workers' lives or counter the low-wage pull factor to outsource U.S. jobs.

- **The ITC projects very small job gains in the auto sector from the deal's tighter rules of origin and other auto-sector-specific terms, while the U.S. Trade Representative's office projects more jobs in the auto parts supply chain based on data from car producers that remains confidential.**

- **The ITC ignores the environmental chapter of the agreement, even as the administration claims it is the strongest such chapter of any trade agreement.**

- **The ITC concludes the revised pact will have little benefit for the energy sector, contradicting industry claims**. "Given the already very low most-favored-nation (MFN) tariffs for the parties, as well as the effects of recent reforms in Mexico's energy sector, USMCA's energy-related provisions are likely to have little impact on U.S. trade and production of energy-related products."

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