



## Pacific NorthWest Economic Region

# NAFTA: Legacy of Growth, Opportunity for Growth

### Contact PNWER:

Phone: (206) 443-7723 | Website: [www.pnwer.org](http://www.pnwer.org) | Email: [info@pnwer.org](mailto:info@pnwer.org)

*\*Disclaimer: The following report was authored by PNWER intern, Nathan Coats and any opinions expressed do not reflect the views of the PNWER Executive Committee and Delegates. For further information on PNWER's NAFTA Modernization Taskforce, please visit <http://www.pnwer.org/nafta-modernization.html>*

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## Intro

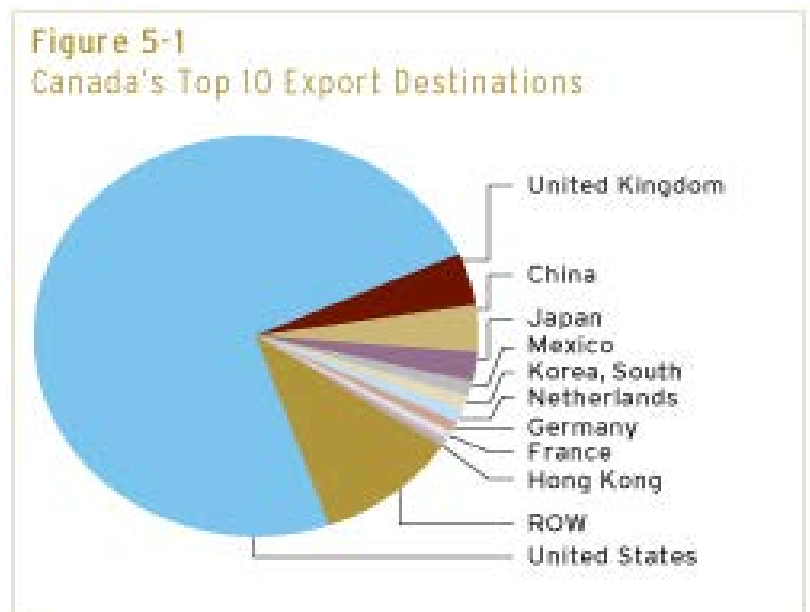
Free trade in North America has been a controversial subject in recent history. In the 2016 U.S. presidential election, both presidential candidates, Donald Trump (R) and Hillary Clinton (D), opposed the Trans Pacific Partnership (TPP) and supported a renegotiation of the North American Free Trade Agreement (NAFTA). Since the election of President Trump, there has been vigorous support for the U.S. to adopt a protectionist trade policy. Since May 2017, the Trump Administration has been renegotiating NAFTA, with an intent to implement their campaign promises of protecting U.S. jobs in a new agreement.<sup>1</sup>

In this report, I will discuss in depth the issues surrounding NAFTA, the concerns from many industries of a U.S. withdrawal, how a U.S. withdrawal will impact the U.S. and Canadian economies, and the future of NAFTA.

## About NAFTA

The North American Free Trade Agreement (NAFTA) is a three country partnership between the United States, Canada and Mexico. It laid out the framework for the next 20 years of trade between the three countries including, but not limited to, the elimination of most tariffs and quotas, the supply chain of automobile manufacturing and the intracontinental labor and environmental protections.<sup>2 3</sup>

Signed into U.S. law by President Clinton in 1993 and went into effect on January 1, 1994, NAFTA has created plentiful opportunities to expand business development and investment in the Pacific Northwest.<sup>4</sup> The removal of most barriers to trade



<sup>1</sup> "NAFTA's Economic Impact." Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgroundunder/naftas-economic-impact](http://www.cfr.org/backgroundunder/naftas-economic-impact);

<sup>2</sup> "NAFTA's Economic Impact." Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgroundunder/naftas-economic-impact](http://www.cfr.org/backgroundunder/naftas-economic-impact);

<sup>3</sup> "Canada's State of Trade: Trade and Investment Update 2012." GAC. April 30, 2013. Accessed February 20, 2018. [http://www.international.gc.ca/economist-economiste/performance/state-point/state\\_2012\\_point/2012\\_5.aspx?lang=eng](http://www.international.gc.ca/economist-economiste/performance/state-point/state_2012_point/2012_5.aspx?lang=eng).

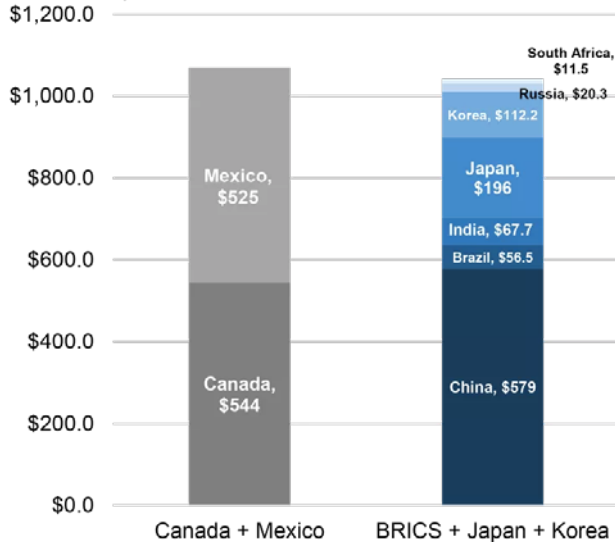
<sup>4</sup> "NAFTA's Economic Impact." Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgroundunder/naftas-economic-impact](http://www.cfr.org/backgroundunder/naftas-economic-impact)

and investment has increased trade between the U.S. and Canada significantly since 1993. In 2016, trade between the US and Canada reached CDN\$2.2 billion/US\$1.7 billion, which created 11.1 million jobs in the US and Canada combined<sup>5</sup>. For the Pacific Northwest during this same period, trade amongst PNWER jurisdictions totaled CDN\$29 billion/US\$22.6 billion in goods and services, nearly equivalent to the GDP of Honduras.<sup>6</sup>

The access to highly valuable supply chains, increase in investment, and job creation the Pacific Northwest has experienced since 1994 is a result of a strong trade relationship between the United States and Canada. NAFTA has transformed the Pacific Northwest into a competitive global and regional economy, where regional industries like agriculture, manufacturing, and service have flourished in the interconnected global economy.

Although NAFTA has revolutionized regional trade for suppliers, consumers have also greatly benefited from the agreement. The access to low cost labor and other inputs in North America has lowered total costs for producers, giving U.S. and Canadian

Figure 1. Total U.S. Trade with Canada/Mexico vs. BRICS/Japan/Korea, 2016



Source: Brookings Analysis of U.S. Census data, 2016



consumers more discretionary income to spend. The more capital in circulation has also lead to more investment in the US and Canadian economies, where, for example, US foreign direct investment has increased in Canada from \$70 billion in 1993 to \$368 billion in 2013, accounting for more than half of Canada's FDI stock<sup>7</sup>. Since NAFTA, Canada has seen strong gains in cross-border investment; in fact, U.S. and Mexican investments in Canada have tripled since 1993.<sup>8</sup>

U.S. trade with NAFTA partners has more than tripled since the agreement took effect.<sup>10</sup> It has increased more

<sup>5</sup> Branch, Foreign Trade Data Dissemination. "Foreign Trade: Data." U.S. Trade with Canada, 21 Apr. 2009, [www.census.gov/foreign-trade/balance/c1220.html](http://www.census.gov/foreign-trade/balance/c1220.html)

<sup>6</sup> PNWER. "Resolution on Modernized North American Free Trade Agreement." News release, November 5, 2017. [http://www.pnwer.org/uploads/2/3/2/9/23295822/pnwer\\_nafta\\_resolution\\_-\\_final.pdf](http://www.pnwer.org/uploads/2/3/2/9/23295822/pnwer_nafta_resolution_-_final.pdf).

<sup>7</sup> "NAFTA's Economic Impact." Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgrounder/naftas-economic-impact](http://www.cfr.org/backgrounder/naftas-economic-impact)

<sup>8</sup> "NAFTA's Economic Impact." Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgrounder/naftas-economic-impact](http://www.cfr.org/backgrounder/naftas-economic-impact)

<sup>9</sup> Parilla, Joseph. "How US states rely on the NAFTA supply chain." Brookings, Brookings, 3 May 2017, [www.brookings.edu/blog/the-avenue/2017/03/30/how-u-s-states-rely-on-the-nafta-supply-chain/](http://www.brookings.edu/blog/the-avenue/2017/03/30/how-u-s-states-rely-on-the-nafta-supply-chain/).

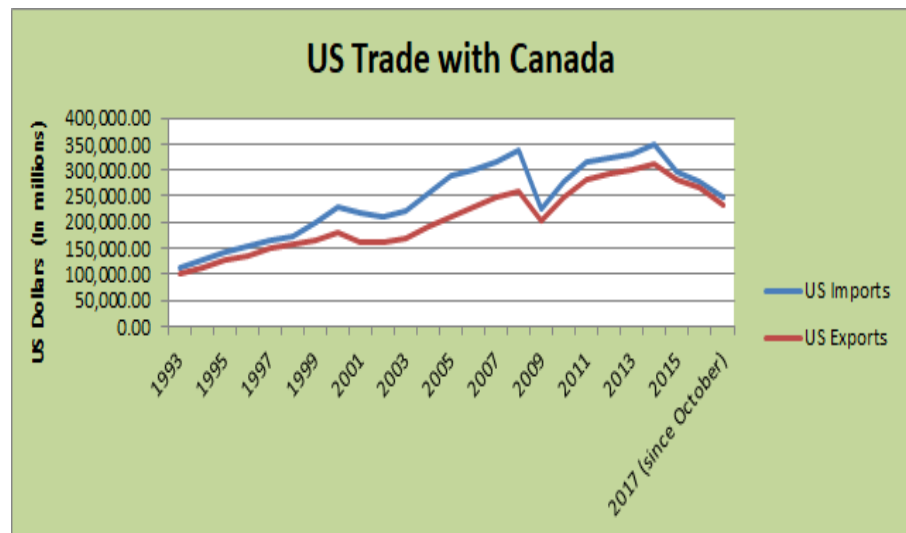
<sup>10</sup> McBride, James. "The U.S. Trade Deficit: How Much Does It Matter?" October 17, 2017. <https://www.cfr.org/backgrounder/us-trade-deficit-how-much-does-it-matter>.

rapidly than trade with the rest of the world. Since 1993, trade with Mexico grew faster than trade with Canada or with non-NAFTA countries. In 2011, trilateral trade among NAFTA partners reached the \$1 trillion threshold.<sup>11</sup> In 2016, Canada was the leading market for U.S. exports, while Mexico ranked second. The two countries accounted for 34% of total U.S. exports in 2016. In imports, Canada and Mexico ranked second and third, respectively, as suppliers of U.S. imports in 2016<sup>12</sup>. The two countries, in total, accounted for 26% of U.S. imports<sup>13</sup>.

## NAFTA Today

Twenty-three years have passed since NAFTA came into force and based on a vast majority of economic reports on the economic effects of NAFTA, the trade agreement has been

overwhelmingly regarded as pivotal to economic competitiveness in the age of globalization. “If we splinter up NAFTA into three separate economies, that makes all of us less competitive and ultimately the whole region will end up losing a bit versus other trading areas like Asia,” said Douglas Porter, a



chief economist of BMO Financial Group<sup>14</sup>. NAFTA’s value to the U.S. economy, for example, is very high; in fact, for every US\$1 spent on imports from Mexico and Canada is US\$0.40 and US\$0.25 value added by U.S., respectively<sup>15</sup>. Despite a consensus from economists across North America that NAFTA has increased productivity, output and competitiveness amongst the three partnering countries, the Trump Administration has made it a priority to renegotiate NAFTA and if necessary, withdraw from it.<sup>16,17</sup>

<sup>11</sup> “NAFTA’s Economic Impact.” Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgrounder/naftas-economic-impact](http://www.cfr.org/backgrounder/naftas-economic-impact)

<sup>12</sup> Canada | United States Trade Representative. November 15, 2017. Accessed February 22, 2018. <https://ustr.gov/countries-regions/americas/canada>.

<sup>13</sup> Canada | United States Trade Representative. November 15, 2017. Accessed February 22, 2018. <https://ustr.gov/countries-regions/americas/canada>.

<sup>14</sup> Carey, Nick. “Ending NAFTA would hurt growth, competitiveness of United States, Canada.” Reuters, Thomson Reuters, 27 Nov. 2017, [www.reuters.com/article/us-nafta-economy/ending-nafta-would-hurt-growth-competitiveness-of-united-states-canada-report-idUSKBN1DR1D4](http://www.reuters.com/article/us-nafta-economy/ending-nafta-would-hurt-growth-competitiveness-of-united-states-canada-report-idUSKBN1DR1D4).

<sup>15</sup> Trautman, Laurie. NAFTA Renegotiations and the Pacific Northwest Economic Region. Border Policy Research Institute, [www.wedaonline.org/documents/NAFTA%20Renegotiations.pdf](http://www.wedaonline.org/documents/NAFTA%20Renegotiations.pdf).

<sup>16</sup> Branch, Foreign Trade Data Dissemination. “Foreign Trade: Data.” U.S. Trade with Canada, 21 Apr. 2009, [www.census.gov/foreign-trade/balance/c1220.html](http://www.census.gov/foreign-trade/balance/c1220.html)

The United States began formally renegotiating NAFTA in August 2017 and as of February 2018, the three countries have met seven times. Key issues are automobile rules of origin, Chapter 11 investor state settlement, dairy supply chain management, and a proposed sunset clause. Some progress has been made but negotiations are expected to stretch until next year.

## Withdrawal of NAFTA

Although studies have found that NAFTA has had a very small impact on the U.S. (0.5% of U.S. GDP or \$US 80 billion in added value of goods and services upon full implementation)<sup>18</sup>, withdrawal from NAFTA will have astronomical impacts on the North American economy. The U.S. withdrawal from NAFTA can have a significant effect on all three NAFTA countries, especially on household income, jobs and economic growth. [According to a study from the C.D. Howe Institute](#), real GDP in North America would potentially be 0.225 percent smaller without NAFTA, trade between the three parties will fall by over US\$120 billion, and jobs will fall by 220,000 across the NAFTA region<sup>19</sup>.

U.S. withdrawal of NAFTA could have an immediate impact on economic activity in the Pacific Northwest. Multiple industries that employ thousands of Pacific Northwest workers can be adversely affected by a seemingly imminent U.S. withdrawal of NAFTA. Industries that rely heavily on NAFTA for their business model are, but not limited to, agriculture, manufacturing and service. For many PNWER jurisdictions these industries represent the largest sector in their economies and have a significant impact on GDP. An end in the three country trade partnership could lead to a market collapse, forcing companies in prominent Pacific Northwest industries to lose their competitive advantage in the global economy.

## Industry: Agriculture

### *Prominence in the Pacific Northwest*

Agriculture has remained one of the largest industries in the Pacific Northwest. The agricultural industries in the states of Oregon, Washington and Idaho combined produce

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<sup>17</sup> Branch, Foreign Trade Data Dissemination. "Foreign Trade: Data." U.S. Trade with Canada. April 21, 2009. Accessed March 08, 2018. <https://www.census.gov/foreign-trade/balance/c1220.html>.

<sup>18</sup> "NAFTA's Economic Impact." Council on Foreign Relations, Council on Foreign Relations, [www.cfr.org/backgrounder/naftas-economic-impact](http://www.cfr.org/backgrounder/naftas-economic-impact);

<sup>19</sup> Ciuriak, Dan, et al. The NAFTA Renegotiation: What if the US Walks Away? C.D. Howe Institute, [drive.google.com/file/d/0B3DoAgIP-GrBNdESzVSVmt5MjBnanhb1VmaWIVT3VNazBr/view](https://drive.google.com/file/d/0B3DoAgIP-GrBNdESzVSVmt5MjBnanhb1VmaWIVT3VNazBr/view).

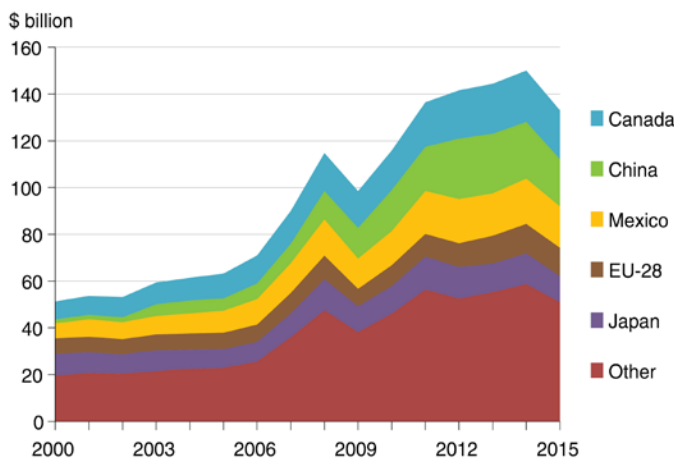
over half of the nation's potato crop<sup>20</sup> and around 16 percent of the nation's wheat<sup>21</sup>. In the Canadian PNWER jurisdictions, British Columbia exports CDN\$3.8 billion of agrifood to 160 markets while Alberta has more than 50 million acres of land that is used to produce crops and livestock<sup>22</sup>. Agriculture continues to reign as the largest industry in the local economies of the Pacific Northwest and with expected U.S. agricultural exports to reach \$140 billion in 2018, the future looks promising for the agricultural industry<sup>23</sup>.

The prominence of the agricultural industry in the Pacific Northwest can be attributed to a geographical comparative advantage in fertile land and in natural resources, an abundance of labor and a favorable climate. Although these unique advantages have given the Pacific Northwest an edge in international trade, the robust economic activity in the agricultural industry since 1994 is strongly associated with the favorable provisions in NAFTA.

### *Benefits to producers*

Tariffs on agricultural products between the United States, Canada and Mexico were first eliminated in January 1994, the first month that NAFTA took into effect. In this first phase, agricultural products like corn and beef were exempted from tariffs in the U.S. In

Top five markets for U.S. agricultural exports, 2000-15



Source: USDA, Economic Research Service using data from U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Database.

1998, Mexico eliminated their tariffs on fruits and most U.S.-Canada agricultural tariffs were phased out. By 2008, Mexico eliminated all of their remaining agricultural tariffs on U.S. and Canadian corn. This chain of events led to a boom in economic activity in the U.S.-Canadian-Mexico agricultural industry. Since 1993, US agricultural exports to NAFTA partners have increased by 328%, from \$8.9 billion in 1993 to \$38.1 billion in 2016<sup>24</sup>. Canada has shared similar success in agricultural exports,

<sup>20</sup> National Agricultural Statistics Service. USDA. News release, September 17, 2015. [https://www.nass.usda.gov/Statistics\\_by\\_State/Washington/Publications/Current\\_News\\_Release/2015/PT09\\_01\\_new.pdf](https://www.nass.usda.gov/Statistics_by_State/Washington/Publications/Current_News_Release/2015/PT09_01_new.pdf)

<sup>21</sup> National Agricultural Statistics Service. USDA. News release, January 12, 2018. [https://www.nass.usda.gov/Statistics\\_by\\_State/Idaho/Publications/Crops\\_Press\\_Releases/2018/CP01\\_1.pdf](https://www.nass.usda.gov/Statistics_by_State/Idaho/Publications/Crops_Press_Releases/2018/CP01_1.pdf).

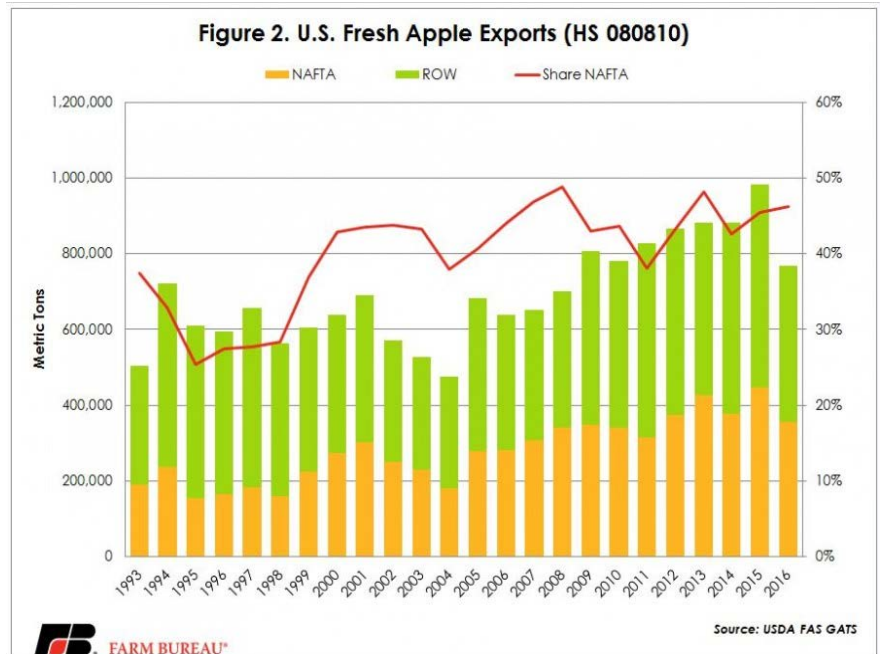
<sup>22</sup> "Doing Business in the United States and Mexico." Agriculture and Agri-Food Canada, Government of Canada, [www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/united-states-and-mexico/?id=1410083148463](http://www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/united-states-and-mexico/?id=1410083148463).

<sup>23</sup> "Outlook for U.S. Agricultural Trade." November 30, 2017. <https://www.ers.usda.gov/webdocs/publications/85920/aes-102.pdf?v=43069>.

<sup>24</sup> "Revisiting NAFTA: Implications for U.S. Agricultural Markets." American Farm Bureau Federation - The Voice of Agriculture, [www.fb.org/market-intel/revisiting-nafta-implications-for-u.s.-agricultural-markets](http://www.fb.org/market-intel/revisiting-nafta-implications-for-u.s.-agricultural-markets).

with an increase of 282% since 1993<sup>25</sup>.<sup>26</sup>

The elimination of most trade restrictions in agriculture has greatly impacted the Pacific Northwest industry. In Washington State, tariffs are eliminated for apples and potatoes; the top exported agricultural goods in the state<sup>27</sup>. This has generated a combined \$3.5 billion production value with many of these goods exported to Canada, the second largest foreign market in Washington's agricultural industry<sup>28</sup>. As shown in the graph on the right, the United States is



highly dependent on NAFTA markets for apple exports, with nearly 50% of US apple exports being shipped to NAFTA partners. In Idaho, roughly a third of their top agricultural exports are exported to Canada of which all are duty free<sup>29</sup>. In Montana, Canada represents their largest export market, with US\$614 million exported goods and services<sup>30</sup>. For Canada, 80% of their agricultural products are exported to the NAFTA markets<sup>31</sup>. Canada is also the leading importer of U.S. agricultural products and Canadian agricultural trade with the United States more than tripled since 1994, as did Canada's total agricultural exports to NAFTA partners<sup>32</sup>. Through NAFTA, the Pacific Northwest has reaped the benefits of tariff eliminations on many agricultural goods.<sup>33</sup>

### *Potential impact on Pacific Northwest if U.S. withdraws from NAFTA*

<sup>25</sup> "Revisiting NAFTA: Implications for U.S. Agricultural Markets." American Farm Bureau Federation - The Voice of Agriculture, [www.fb.org/market-intel/revisiting-nafta-implications-for-u.s.-agricultural-markets](http://www.fb.org/market-intel/revisiting-nafta-implications-for-u.s.-agricultural-markets).

<sup>26</sup> "Canada re-emerges as top destination for U.S. agricultural exports in 2015." USDA ERS - Chart Detail. Accessed February 22, 2018. <https://www.ers.usda.gov/data-products/chart-gallery/gallery/chart-detail/?chartId=58374>.

<sup>27</sup> "Agriculture: A Cornerstone of Washington's Economy." Agriculture in Washington State. Accessed March 08, 2018. <https://agr.wa.gov/aginwa/>.

<sup>28</sup> "Agriculture: A Cornerstone of Washington's Economy." Agriculture in Washington State, [agr.wa.gov/aginwa/](http://agr.wa.gov/aginwa/).

<sup>29</sup> "The Business of Food: Idaho's Agriculture Economy." NPR, NPR, [stateimpact.npr.org/idaho/tag/agriculture/](http://stateimpact.npr.org/idaho/tag/agriculture/).

<sup>30</sup> "Ag Facts." The Montana Department of Agriculture (MDA), [agr.mt.gov/AgFacts](http://agr.mt.gov/AgFacts).

<sup>31</sup> "Doing Business in the United States and Mexico." Agriculture and Agri-Food Canada, Government of Canada, [www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/united-states-and-mexico/?id=1410083148463](http://www.agr.gc.ca/eng/industry-markets-and-trade/international-agri-food-market-intelligence/united-states-and-mexico/?id=1410083148463).

<sup>32</sup> Canada | United States Trade Representative. November 15, 2017. Accessed February 22, 2018. <https://ustr.gov/countries-regions/americas/canada>.

<sup>33</sup> "U.S. Apples and NAFTA." American Farm Bureau Federation - The Voice of Agriculture, [www.fb.org/market-intel/u.s.-apples-and-nafta](http://www.fb.org/market-intel/u.s.-apples-and-nafta).

A U.S. withdrawal from NAFTA will have an immediate impact on the North American agricultural market. If NAFTA is withdrawn and not re-negotiated, trade between the U.S., Canada and Mexico would significantly change. The imposition of MFN (most favored nation) tariffs under the World Trade Organization and the adoption of other new trade restrictions, like quotas, would result to losses of millions of dollars in U.S.-Canada trade. With the US and Canada having a strong agricultural trade relationship, the decision to withdraw from NAFTA will adversely impact the Pacific Northwest.

In the event of a U.S. withdrawal from NAFTA, markets for prominent Pacific Northwest agricultural goods can become volatile. [According to a study from ImpactECON](#), withdrawing from NAFTA will have ripple effects in U.S. and Canadian agricultural markets. Returning to MFN tariffs and other WTO provisions could cause a net loss of 50,000 U.S. jobs in the agricultural industry and a drop in U.S. GDP of US\$13 billion in the U.S. agricultural sector alone<sup>34</sup>. A withdrawal from NAFTA will also lead to a disruption in valuable supply chains, a closure of markets, and an increase in prices for American and Canadian consumers.

For the Pacific Northwest, many agricultural products can lose its competitive edge in international trade if NAFTA was revoked. For fruits and vegetables, Canada and Mexico account for 18% and 60% of U.S. exports and since 1993, exports to NAFTA partners have more than tripled, reaching US\$ 7.2 billion in trade value<sup>35</sup>. In 2009, however, Mexico imposed a temporary tariff on U.S. fruits and vegetables in retaliation of the U.S. suspending a program allowed Mexican truck drivers to deliver goods, causing a loss of US\$65 million in U.S. crops<sup>36</sup>. Not only does this event foreshadow what a potential withdrawal from NAFTA would look like in the U.S. agricultural industry, but it also shows the impact of retaliation tariffs and why free trade agreements are so critical in promoting economic development.

The ImpactECON study also found that U.S. beef exports to Canada and Mexico, which accounts for 27 percent of US beef exports and exceeds US\$1.7 billion in trade value, would experience a 20% tariff imposition in the event of a U.S. withdrawal of NAFTA, leading towards a reduction in beef production and a loss of jobs<sup>37</sup>. For U.S. wheat farmers, the Mexican market represents a majority of their international exports and before NAFTA, Mexican state intervention policies and import tariffs restricted this access. U.S. corn production can fall by an average of 150 million bushels, which will

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<sup>34</sup> Walmsley, Terrie, and Peter Minor. Reversing NAFTA: A Supply Chain Perspective. ImpactECON, 2017, Reversing NAFTA: A Supply Chain Perspective, [impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf](http://impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf).

<sup>35</sup> "Food & Agriculture Letter on Importance of North American Market." Received by Wilbur Ross, U.S. Department of Commerce, NAFTA Food and Agriculture, 25 Oct. 2017, [naftafoodandag.org/uploads/2017/10/26/Letter\\_FoodAGTrade-Ag%20MarketsWithdrawal\\_171025.pdf](http://naftafoodandag.org/uploads/2017/10/26/Letter_FoodAGTrade-Ag%20MarketsWithdrawal_171025.pdf).

<sup>36</sup> Rosenberg, Mica. "Mexico tariffs hit a diverse list of U.S. goods." Reuters. March 18, 2009. Accessed February 23, 2018. <https://www.reuters.com/article/us-mexico-usa-trade/mexico-tariffs-hit-a-diverse-list-of-u-s-goods-idUSTRE52H1BQ20090318>.

<sup>37</sup> Walmsley, Terrie, and Peter Minor. Reversing NAFTA: A Supply Chain Perspective. ImpactECON, 2017, Reversing NAFTA: A Supply Chain Perspective, [impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf](http://impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf).



erase US\$800 million in value and strengthen the need for government assistance in the form of US\$1.2 billion in farm program payments<sup>38</sup>.

Withdrawal from NAFTA will cause productivity to fall, yields to decline due to a fall in demand, wages for laborers to fall and consumers to experience an increase in prices for agricultural goods. For the U.S., the intended goal of the Trump Administration to balance trade with NAFTA partners will not be achieved by withdrawing from the agreement; in fact, with exports and imports predicted to fall in the event of a NAFTA withdrawal, the trade balance with Canada and Mexico may remain the same. For the Canadians, withdrawal from NAFTA does not have a significant impact on their agricultural industry. Canada will not experience the same setbacks as the US with many of their agricultural goods, such as dairy and poultry, protected from NAFTA jurisdiction. However, the agricultural industry in the Pacific Northwest is reliant on NAFTA for access to new markets. Without the agreement, the Pacific Northwest will lose its competitive edge in the international agricultural industry.

## Industry: Manufacturing

### *Prominence in the Pacific Northwest*

Though not as prominent in the Pacific Northwest as the agricultural industry, manufacturing has become a very large sector in the regional economy. Companies like Boeing and PACCAR have employed thousands of workers and contributed millions of US/CDN dollars into the regional gross domestic product. For states like Washington and Montana, civilian aircraft, engines and parts represent their first<sup>39</sup> and second<sup>40</sup> largest exported goods while states like Oregon and Idaho combined to export US\$483 million of the same goods in 2017<sup>41 42</sup>. In British Columbia, the aerospace industry employs 8,300 laborers and generates CDN\$1.3 billion to the economy while manufacturing in Alberta exports CDN\$21.6 billion in goods<sup>43</sup>.

### *Benefits to producers*

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<sup>38</sup> Walmsley, Terrie, and Peter Minor. Reversing NAFTA: A Supply Chain Perspective. ImpactECON, 2017, Reversing NAFTA: A Supply Chain Perspective, [impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf](http://impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf).

<sup>39</sup> "Foreign Trade." State Exports from Washington, 18 May 2017, [www.census.gov/foreign-trade/statistics/state/data/wa.html](http://www.census.gov/foreign-trade/statistics/state/data/wa.html).

<sup>40</sup> "Foreign Trade." State Exports from Montana, 18 May 2017, [www.census.gov/foreign-trade/statistics/state/data/mt.html](http://www.census.gov/foreign-trade/statistics/state/data/mt.html)

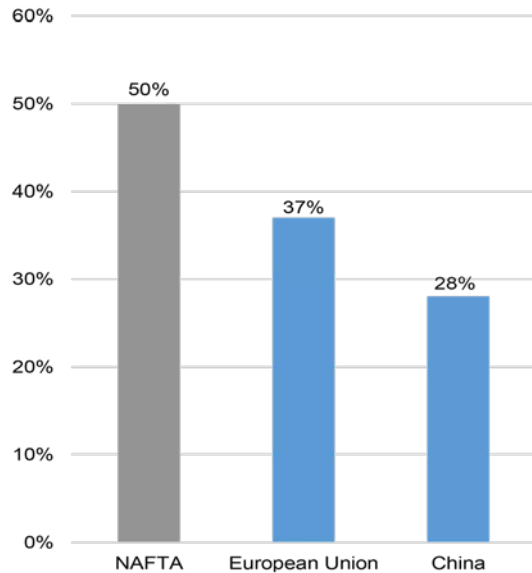
<sup>41</sup> "Foreign Trade." State Exports from Oregon, 18 May 2017, [www.census.gov/foreign-trade/statistics/state/data/or.html](http://www.census.gov/foreign-trade/statistics/state/data/or.html).

<sup>42</sup> "Foreign Trade." State Exports from Idaho, 18 May 2017, [www.census.gov/foreign-trade/statistics/state/data/id.html](http://www.census.gov/foreign-trade/statistics/state/data/id.html)

<sup>43</sup> "BC Gov News." FACTSHEET: Manufacturing in British Columbia | BC Gov News, 29 Mar. 2017, [news.gov.bc.ca/factsheets/factsheet-manufacturing-in-british-columbia](http://news.gov.bc.ca/factsheets/factsheet-manufacturing-in-british-columbia).

The abundance of high skilled workers and geographical advantages has benefited the manufacturing industry, but the NAFTA partnership has revolutionized manufacturing in the Pacific Northwest. Due to NAFTA, manufacturing in North America has benefited from the access to low cost supply chains of intermediate goods. In Canada, the

Figure 2. Intermediate goods imports as a share of total imports, 2015



Source: Brookings Analysis of U.S. Census data, 2015

**B** Metropolitan Policy Program  
at BROOKINGS

aerospace industry is highly integrated into global trade; imports and exports are equivalent to 77% and 84% of the industry's output<sup>44</sup>. Nearly 40% of domestic demand for the industry's products is fulfilled by U.S. imports while about half of Canadian aerospace products are exported to the southern neighbor<sup>45</sup>. For the U.S., many states with a large aerospace industry rely on Canadian intermediate goods. As the graph to the left indicates, 50% of total U.S. intermediate goods imports is from NAFTA countries. Washington, for example, imports \$1.1 billion worth of aerospace parts<sup>46</sup>. Due to elimination of most tariffs and other trade restrictions, the integrated North American supply chain for aerospace parts has benefited aerospace manufacturers in the Pacific Northwest in their global competitiveness.<sup>47</sup>

NAFTA has also benefited the energy sector in the U.S. and Canada, another prominent intermediate good in the manufacturing industry. In Chapter 6 in the NAFTA provisions, the Canadian government cannot impose any restrictions on oil exports to the US and Mexico, either in the form of price discrimination (i.e. tariffs) or a disruption in the supply chain<sup>48</sup>. This provision is one of the biggest reasons why crude oil has been one of the largest Canadian exports to the U.S., especially in states like Montana where Canada has supplied more than 60% of their intermediate goods imports<sup>49</sup>. For

<sup>44</sup> Canada's Aerospace Industry Vulnerable to NAFTA Renegotiations. Accessed February 25, 2018. [http://www.conferenceboard.ca/\(X\(1\)S\(ndipiscadda15stpo1c3a1tm\)\)/press/newsrelease/17-07-05/Canada\\_s\\_Aerospace\\_Industry\\_Vulnerable\\_to\\_NAFTA\\_Renegotiations.aspx?AspxAutoDetectCookieSupport=1](http://www.conferenceboard.ca/(X(1)S(ndipiscadda15stpo1c3a1tm))/press/newsrelease/17-07-05/Canada_s_Aerospace_Industry_Vulnerable_to_NAFTA_Renegotiations.aspx?AspxAutoDetectCookieSupport=1).

<sup>45</sup> Canada's Aerospace Industry Vulnerable to NAFTA Renegotiations. Accessed February 25, 2018. [http://www.conferenceboard.ca/\(X\(1\)S\(ndipiscadda15stpo1c3a1tm\)\)/press/newsrelease/17-07-05/Canada\\_s\\_Aerospace\\_Industry\\_Vulnerable\\_to\\_NAFTA\\_Renegotiations.aspx?AspxAutoDetectCookieSupport=1](http://www.conferenceboard.ca/(X(1)S(ndipiscadda15stpo1c3a1tm))/press/newsrelease/17-07-05/Canada_s_Aerospace_Industry_Vulnerable_to_NAFTA_Renegotiations.aspx?AspxAutoDetectCookieSupport=1).

<sup>46</sup> Parilla, Joseph. "How US states rely on the NAFTA supply chain." Brookings. May 03, 2017. Accessed February 25, 2018. <https://www.brookings.edu/blog/the-avenue/2017/03/30/how-u-s-states-rely-on-the-nafta-supply-chain/>.

<sup>47</sup> Parilla, Joseph. "How US states rely on the NAFTA supply chain." Brookings. May 03, 2017. Accessed February 25, 2018. <https://www.brookings.edu/blog/the-avenue/2017/03/30/how-u-s-states-rely-on-the-nafta-supply-chain/>.

<sup>48</sup> Holden, Michael. Canadian Oil Exports to the United States Under NAFTA. Parliamentary Information and Research Service Library of Parliament, 16 Nov. 2006. [lop.parl.ca/content/lop/researchpublications/prb0633-e.pdf](http://lop.parl.ca/content/lop/researchpublications/prb0633-e.pdf).

<sup>49</sup> Parilla, Joseph. "How US states rely on the NAFTA supply chain." Brookings. May 03, 2017. Accessed February 25, 2018. <https://www.brookings.edu/blog/the-avenue/2017/03/30/how-u-s-states-rely-on-the-nafta-supply-chain/>.

Canada, provinces with large petroleum industries like Alberta rely on U.S. refinery markets as their sole trade partner. As of 2016, the U.S. accounted for 87% of exported Alberta refinery products<sup>50</sup>. The integrated supply chain for energy has provided manufacturers in the Pacific Northwest with low cost inputs for final goods and services, which has not only benefited producers but also consumers.

### *Benefits to consumers and laborers*

Consumers for manufactured goods, like automobiles, in the Pacific Northwest have significantly benefited from NAFTA. Since NAFTA, North American production of automobiles has increased significantly; in 2016, NAFTA partners combined to produce 17.8 million light vehicles<sup>51</sup>. This is largely due to the integrated North American economy that NAFTA created, which gave U.S. auto manufacturers access to low wage labor in Mexico. Under NAFTA, 62.5% of auto parts must originate from either the U.S., Canada or Mexico<sup>52</sup>. This provision has prompted many U.S. auto manufacturers to relocate manufacturing to Mexico, which although has led to losses of U.S. jobs, the auto manufacturing industry as a whole has become more competitive in global trade and has lowered prices for North American consumers.

Since 2001, when China joined the World Trade Organization, North America's auto industry has competed with the Chinese comparative advantage in low cost labor. NAFTA gave U.S. auto manufacturers the ability to compete in the global economy, and although nearly 350,000 US jobs were lost due to this transition in auto production, a [2014 PIIE study](#) found that nearly 15,000 net jobs are lost each year due to NAFTA, but that for each of those jobs lost, the U.S. economy reaps gains of US\$450,000 in the form of higher productivity and lower consumer prices<sup>53</sup>.

Although it may seem that laborers in the U.S. auto industry reaped none of the benefits of NAFTA, wages for highly skilled workers (i.e. non production laborers) have increased faster than unskilled workers (i.e. production laborers). This signals a shift in demand for highly skilled workers in the U.S. from unskilled workers, which has unfortunately caused mass unemployment in many labor intensive U.S. states. However, many of these [unskilled laborers are being replaced by automation](#) and not by laborers in Mexico or Canada, meaning that NAFTA had a minimal effect on the gradual loss of jobs for unskilled workers in the U.S. manufacturing sector.

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<sup>50</sup> Alberta's International Exports by Industry A 10-Year Review, 2006 to 2016. Alberta Government, 29 Nov. 2017. [www.albertacanada.com/files/albertacanada/SP-EH\\_AIIME-10-year-review.pdf](http://www.albertacanada.com/files/albertacanada/SP-EH_AIIME-10-year-review.pdf).

<sup>51</sup> NAFTA Briefing: Trade benefits to the automotive industry and potential consequences of withdrawal from the agreement. Center for Automotive Research, Jan. 2017. [www.cargroup.org/wp-content/uploads/2017/01/nafta\\_briefing\\_january\\_2017\\_public\\_version-final.pdf](http://www.cargroup.org/wp-content/uploads/2017/01/nafta_briefing_january_2017_public_version-final.pdf).

<sup>52</sup> Wingrove, Josh. "How a Trump Idea on Cars and Nafta Could Backfire: QuickTake Q&A." Bloomberg.com. October 27, 2017. Accessed February 25, 2018. <https://www.bloomberg.com/news/articles/2017-10-27/how-a-trump-idea-on-cars-and-nafta-could-backfire-quicktake-q-a>.

<sup>53</sup> Hufbauer, Gary C., Cathleen Cimino, and Tyler Moran. NAFTA at 20: Misleading Charges and Positive Achievements. Report. May 2014. <https://piie.com/sites/default/files/publications/pb/pb14-13.pdf>.

## *Impact on Pacific Northwest if U.S. withdraws from NAFTA*

In the current NAFTA renegotiations, the Trump Administration has been lobbying for a protectionist trade relationship with Canada and Mexico. Through negotiations, the Trump Administration has been proposing massive changes in the North American auto industry supply chain. These changes include an increase in the auto-parts minimum threshold from NAFTA countries to 85 percent from 62.5 percent, an additional U.S.-specific auto parts requirement of 50 percent and a strength of verification of where parts originated from<sup>54</sup>. If these rules are adopted in NAFTA 2.0, production costs for automobile manufacturing can increase, which could lower U.S. sale volume in automobile manufacturing by nearly [450,000 units if a 35% tariff on Mexican light vehicles was imposed](#)<sup>55</sup>. This, in turn, could force producers to increase prices on automobiles for consumers, causing demand for automobiles to decline.

These rules can also force U.S. manufacturers to relocate plants outside of North America, of which they will incur an import tariff to bring vehicles into the U.S. This could greatly impact Pacific Northwest consumers since it will take a higher income to maintain the same consumption. The transportation costs of shipping automobiles across the Pacific Ocean is much more expensive than shipping across the U.S.-Mexican border, thus making it more sensible for production for automobiles and other manufactured goods to take place in North America.

If the US decides to withdraw from NAFTA without having established an agreement to replace it, manufacturing in North America will lose its competitive edge. For the Pacific Northwest, the aerospace and automobile manufacturing industry may become less prominent in the global economy, forcing Boeing and other manufacturers to terminate the employment of thousands of laborers and decrease output. Contrary to the claims made by the Trump Administration, the withdrawal from NAFTA may cause [at least 31,000 U.S. automotive and parts jobs](#)<sup>56</sup>. In the perspective of consumers, relocating manufacturing plants to China can make automobiles more expensive since in order for producers to be absolved from higher production costs, economists like Michael McDonough believe that “companies would probably pass higher prices on to consumers rather than spend billions over many years to bring capacity back to the

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<sup>54</sup> Wingrove, Josh. "How a Trump Idea on Cars and Nafta Could Backfire: QuickTake Q&A." Bloomberg.com. October 27, 2017. Accessed February 25, 2018. <https://www.bloomberg.com/news/articles/2017-10-27/how-a-trump-idea-on-cars-and-nafta-could-backfire-quicktake-q-a>.

<sup>55</sup> NAFTA Briefing: Trade benefits to the automotive industry and potential consequences of withdrawal from the agreement . Center for Automotive Research, Jan. 2017, [www.cargroup.org/wp-content/uploads/2017/01/nafta\\_briefing\\_january\\_2017\\_public\\_version-final.pdf](http://www.cargroup.org/wp-content/uploads/2017/01/nafta_briefing_january_2017_public_version-final.pdf).

<sup>56</sup> NAFTA Briefing: Trade benefits to the automotive industry and potential consequences of withdrawal from the agreement . Center for Automotive Research, Jan. 2017, [www.cargroup.org/wp-content/uploads/2017/01/nafta\\_briefing\\_january\\_2017\\_public\\_version-final.pdf](http://www.cargroup.org/wp-content/uploads/2017/01/nafta_briefing_january_2017_public_version-final.pdf).

U.S.”<sup>57</sup>. If free trade is eliminated in North America, the manufacturing industry will experience significant losses in production and consumption.

## Industry: Service

### *Prominence in Pacific Northwest*

While not as prominent as agriculture or manufacturing, the service sector, especially in dense urban areas like Seattle and Portland, has a significant impact on the Pacific Northwest economy. Banking, insurance and other service sectors have employed thousands of laborers and offered excellent services to Pacific Northwest consumers. In British Columbia, for example, the service industry employs nearly 2 million people as of November 2017 and since 2016, the employment outlook has experienced a 3.5% increase<sup>58</sup>. The industry is vital for the economic well being in the Pacific Northwest and has relied significantly on free trade to expand.

### *NAFTA Benefits for the Industry*

NAFTA has allowed the North American service industry to expand and trade services in Canada and in the U.S. The trade agreement eliminated many important barriers to service trade in North America, such as establishing the principle of “national treatment” for services trade where governments must treat NAFTA partners’ services firms the same as local firms. NAFTA also eliminated other barriers that discriminated against non-local service providers, such as local presence requirements and quantitative restrictions. NAFTA also eliminated citizenship and permanent residency requirements for service providers of other NAFTA partners.<sup>59</sup>

These provisions have led to an increase in services trade between the U.S. and NAFTA partners where in 2002, the U.S. exported US\$24.3 billion of services to Canada. From 1995-2001, sales of U.S. services to Canada increased by 176% to US\$51 billion. For the banking sector, exported U.S. financial services to Mexico in 2002 equaled US\$290 million. For the insurance sector, NAFTA has permitted U.S. investors to invest in the Mexican insurance industry either through acquisitions or joint ventures by eliminating Mexico’s restrictions on purchases by Mexican citizens of U.S.

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<sup>57</sup> Mayeda, Andrew. "Economists Say Nafta's Collapse Would Hurt the Economy, With Mexico Hit Most." Bloomberg.com. October 19, 2017. Accessed March 09, 2018. <https://www.bloomberg.com/news/articles/2017-10-19/nafta-collapse-would-hurt-regional-economy-with-mexico-hit-most>.

<sup>58</sup> Canada, Government Of Canada Statistics. "Employment by major industry group, seasonally adjusted, by province (monthly) (British Columbia)." Government of Canada, Statistics Canada. February 09, 2018. Accessed February 26, 2018. <https://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr67k-eng.htm>.

<sup>59</sup> NAFTA: 10 Years Later. International Trade Administration, U.S. Department of Commerce, [www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_001998.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_001998.pdf).

life and health insurance policies. In 2002, the U.S. insurance service sector exported US\$302 million of services to Mexico.<sup>60</sup>

NAFTA has also supported job creation in the North American services industry. With 86 million employed in the U.S. services industry in 2002, an increase from 69 million in 1993, the service industry has shown strong job growth since NAFTA came into effect in 1993.<sup>61</sup>

### *Impact on Pacific Northwest if US withdraws from NAFTA*

Since nearly 14% of U.S. service industry exports were represented by NAFTA partners in 2002, withdrawing from NAFTA will have an immediate impact on jobs and trade in the U.S. service industry.<sup>62</sup> Canadians who are reliant on U.S. health insurance and banking services will also experience losses, in the form of less options for Canadian consumers. The elimination of many trade restrictions in the North American service industry have allowed the U.S. service industry to thrive and without NAFTA, it may collapse.

## Conclusion: Moving Forward

NAFTA is certainly not a perfect trade agreement and has harmed particular industries in the U.S. and Canada. The automotive manufacturing industry in the U.S., for example, lost 350,000 jobs<sup>63</sup>; however, many of these job losses are not necessarily due to NAFTA but to competition from China and other foreign markets. Those who have not had their jobs exported to NAFTA partners and are unskilled have seen their wages decline while skilled workers in manufacturing have experienced strong gains. Although NAFTA has not been beneficial to all, the harmful effects have been concentrated in specific industries such as automobile manufacturing. NAFTA has improved North America's trade advantage in the global economy. By eliminating many barriers to trade, Canada and the U.S. are able to produce goods and services at a competitive level in the globalized economy.

Through a series of consultations with stakeholders on both sides of the border, PNWER has collected targeted recommendations for modernizing NAFTA. The

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<sup>60</sup> NAFTA: 10 Years Later. International Trade Administration, U.S. Department of Commerce, [www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_001998.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_001998.pdf).

<sup>61</sup> NAFTA: 10 Years Later. International Trade Administration, U.S. Department of Commerce, [www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_001998.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_001998.pdf).

<sup>62</sup> NAFTA: 10 Years Later. International Trade Administration, U.S. Department of Commerce, [www.trade.gov/mas/ian/build/groups/public/@tg\\_ian/documents/webcontent/tg\\_ian\\_001998.pdf](http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_001998.pdf).

<sup>63</sup> "NAFTA's Economic Impact." Council on Foreign Relations. Accessed February 26, 2018. <https://www.cfr.org/background/naftas-economic-impact>.

stakeholder survey response and recommendations were submitted to the Office of the US Trade Representative and Parliamentary Standing Committee on International Trade in the summer of 2017. Recommendations are as follows:

1. Include Advancements from other Free Trade Agreements: As a starting point, examine previously agreed upon advances from modern trade agreements like the TPP.
2. Cross-Border Trade Facilitation: Include 'modern' processes for cross-border customs (methods to streamline and simplify clearance, declaration, documentation, facilitation, etc.). Simple clearance, declaration and origin rules will facilitate that process. Harmonizing and aligning standards before products reach the border to increase efficient trading. This includes preclearance for goods and livestock.
3. Digital Trade and E-Commerce: NAFTA should be modernized to provide a framework to promote and govern digital trade, e-commerce, services- including financial services, logistics, and information and communication technology.
4. Energy and Infrastructure: Support further integration of North American energy markets and the infrastructure needed to connect them.
5. Intellectual Property: Increase protection of intellectual property
6. Regulatory Cooperation: Encourage permanent adoption and expansion of the Regulatory Cooperation Council to align product standards, testing, and certification.
7. Express Delivery: Include modern provisions to facilitate cross-border express delivery for small shipments; harmonize de minimis thresholds for expedited shipments.
8. Labor Mobility: Update NAFTA labor categories to reflect modern classifications and expand common standards for professions and mutual recognition of skills credentials.
9. Procurement: Include exemption for Canadian content in 'Buy American' procurement, as it currently is in the defense sector.
10. Dispute Settlement: Establish clearer and more effective mechanisms for resolving trade disputes.

The digital era has created new possibilities for trade for large internet companies like Amazon and ebay. In NAFTA negotiations 2.0, the Trump Administration has been supporting provisions that would raise the tariff threshold for goods bought online to US\$800. Currently, Canadian consumers must pay a duty if they buy more than US\$16 of online goods from online platforms or U.S. retailers while Mexican consumers must

pay a duty if they buy more than US\$50 worth of online goods<sup>64</sup>. The revenue raised from these duties goes to their home countries, money that could have been spent on US e-commerce.

The absence of e-commerce regulation in NAFTA demonstrates that there is a need for updating the trade agreement. The North American economy has significantly changed since 1993 and a trade agreement between the U.S., Canada and Mexico must reflect the current state of the North American economy. Nevertheless, a complete withdrawal from NAFTA will cause irreparable harm to many industries in North America, especially agriculture, manufacturing and service. The PNWER Executive Committee adopted a NAFTA resolution in November 2017 urging all federal governments to consider the ramifications of withdrawing from NAFTA and to negotiate an agreement that make North America more competitive in the global economy. Industries like agriculture, manufacturing and service have developed in response to the free trade provisions in NAFTA. Without a stable, fair, and free trade system, North America and the Pacific Northwest, will experience significant economic harm. Free trade is the backbone of Pacific Northwest economic activity, and trade agreements like NAFTA enhance it.

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<sup>64</sup> The Trump administration this week published a list of goals for the upcoming renegotiation of NAFTA. "Trump's NAFTA could be big win for Amazon, e-commerce." CNNMoney. Accessed February 26, 2018. <http://money.cnn.com/2017/07/20/news/economy/nafta-ecommerce-amazon/index.html?iid=EL>.



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