



As a New Trade Agreement for Mexico, Canada, and the United States Is Debated, More Realistic Policies Are Needed to Support Workers

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The world economy has changed dramatically in the 25 years since the signing of the North American Free Trade Agreement, known as NAFTA. Automation has increased across sectors, digital communications technologies have proliferated, and the outsourcing, or offshoring, of jobs to other countries has become common practice. Many of these changes reflect the emergence of *fragmented production* — a term that refers to corporations' ability to split up and spread the production of a good or service across countries. By failing to take these realities into account, policies aimed at encouraging more production in the United States have largely failed.

My research suggests that instead of trying to manage trade to improve the lives of U.S. workers, policymakers should work to broaden the safety net and make job training more widely available. This is particularly important as three neighbors prepare to sign the United States-Mexico-Canada-Agreement, called USMCA for short, to replace NAFTA. New ratification debates must be grounded in a clear understanding of how global trade realities affect the welfare of workers and communities today.

U.S. Workers in the Global Economy

Much of the debate in the United States around NAFTA has focused on the “offshoring” of manufacturing jobs from advanced economies to lower-wage countries. But in the 1990s offshoring spread as call center operations for major corporations such as Verizon and AT&T were moved abroad, affecting additional sets of less-skilled workers. Today, “offshorable” occupations — those that can be feasibly provided from a distance — span industries and affect a wide range of employees, from manufacturing workers, call center operators, and software developers to accountants and radiologists.

The rise of offshoring signals two new developments in how trade affects the welfare of workers in advanced economies. First, higher-skilled workers employed in exporting or non-tradable industries are becoming increasingly vulnerable to offshoring, contrary to the common notion that these workers benefit from globalization. Second, as global production becomes increasingly fragmented, competitive pressures are directed at specific jobs, rather than industries or firms. These developments have generated new patterns of anti-trade sentiment that demand the attention of advocates and policymakers concerned with the welfare of U.S. workers.

Global Production and the Welfare of Workers

Workers' occupations, rather than their skill levels or industries, now determine whether they benefit from or are harmed by globalization. Broadly speaking, trade and global production negatively affect workers employed in *routine jobs* — those that follow a script or rule-based procedures. Software programmers and bookkeepers, for example, face lower wages or greater job insecurity because their routine jobs are readily offshored. Meanwhile, workers in non-routine jobs, such as software engineers or financial analysts whose occupations require more creative or analytical inputs, may benefit from trade in advanced economies, especially when their work may be provided from a distance.

Attitudes about trade openness generally, and the new U.S.-Mexico-Canada pact specifically, have changed to reflect such occupational realities. In developed democracies like the United States, individuals in routine occupations are more likely to support trade protection, especially when they are vulnerable to offshoring. But other kinds of workers in the same firms or industries often have different preferences. Accordingly,

policymakers should look to occupation-based benefits and costs to understand diverging worker preferences and build support for the ratification of a new trade pact with reformed provisions.

Much of the debate around international trade pacts past and present revolves around strengthening U.S.-based production facilities and improving worker wellbeing. But past policies of those sorts have been largely ineffective. Few have addressed all aspects of a firm's production decisions, such as location or levels of automation. Simply adding new jobs in capital- and skill-intensive sectors will not help workers facing competition from overseas production or automation. For example, in 2016 air conditioner manufacturer Carrier Corporation received \$7 million in state tax breaks to keep 800 jobs onshore for ten years, but the very next year Carrier offshored close to 600 other jobs to Mexico and the company is also investing heavily in automation to save on labor costs. And Trump tariffs on steel imports have generated record profits for companies like U.S. Steel, without increasing wages or benefits.

In the recent trade pact negotiations, the Trump administration has pushed rules intended to generate employment in the U.S. auto sector. But the higher costs caused by these rules could reduce competitiveness and lead manufacturers to produce as cheaply as possible in Mexico and forgo 0% tariffs. What is more, because U.S.-based production is heavily automated, domestic production could increase without boosting employment in general and in particular for workers who previously lost their jobs.

Better Policies to Support U.S. Workers

The ratification of NAFTA originally took place in a world with significantly less global production. Occupation-based cleavages emerged in the early 2000s and are likely even more pronounced today, given fragmented production fostered by trade and offshoring. Without recognizing these changes, new trade pacts that focus on manufacturing overlook large segments of the labor force that are now vulnerable to globalization. As more workers become vulnerable to offshoring, anti-trade sentiment will grow. Policymakers must recognize these sentiments and, to truly help workers, they must pursue alternatives to the managed trade favored by the new Trump trade pact. Federal programs that support workers harmed by trade should be expanded, and job retraining and educational programs need to target the non-routine jobs of the future that are most resistant to pressures from globalization and automation. U.S. workers are already competitive in such positions, and more Americans can gain the benefits and security they offer.

Read more in Erica Owen and Noel Johnston, "Occupation and the Political Economy of Trade: Job Routineness, Offshorability, and Protectionist Sentiment" *International Organization* 71, no. 4 (2017): 665-699; and Erica Owen, "Exposure to Offshoring and the Politics of Trade Liberalization: Debate and Votes on Free Trade Agreements in the U.S. House of Representatives, 2001-2006" *International Studies Quarterly* 61, no. 2 (2017): 297-311.