

North American Free Trade Agreement (NAFTA) Analyzed

Sourced & Compiled by Arvind Sinha



This has been one of the very successful Free Trade Agreements which is really great benefit to US, Canada & Mexico. It has been discussed very often during current US elections. Some of the interesting details are as under and it is continuous to be a most successful Free Trade Agreement which has created travel opportunity of 50 billion USD.

In the 20 years since it entered into force, the North American Free Trade Agreement has been both lauded and attacked in the United States. But to properly assess NAFTA's record, it is important to first be clear about what the agreement has actually done.

Economically speaking, the answer is a lot. By uniting the economies of Canada, Mexico, and the United States, NAFTA created what is today a \$19 trillion regional market with some 470 million consumers. The U.S. Chamber of Commerce figures that some six million U.S. jobs depend on trade with Mexico and another eight million on trade with Canada. NAFTA was the first comprehensive free-trade agreement to join developed and developing nations, and it achieved broader and deeper market openings than any trade agreement had before.



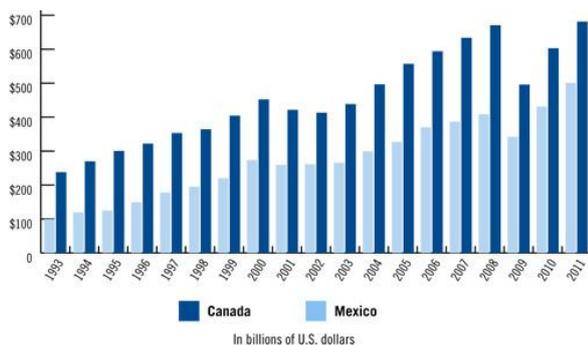
Then-U.S. President Bill Clinton signs the North American Free Trade Agreement (NAFTA)

NAFTA did that by eliminating tariffs on all industrial goods, guaranteeing unrestricted agricultural trade between the United States and Mexico, opening up a broad range of service sectors, and instituting national treatment for cross-border service providers. It also set high standards of protection for patents, trademarks, copyrights, and trade secrets.

To preserve the rights of investors, it prohibited barriers such as local-content and import-substitution rules, which require producers to ensure that specified inputs are produced domestically.

For the United States, the economic consequences of these reforms -- which have also had social, political, and cultural impacts -- have been dramatic. If North America is to remain a uniquely competitive region, however, it will need to build on NAFTA's success by opening markets beyond its borders.

TRADE AND GROWTH



Trade growth since NAFTA's entry into force

NAFTA ignited an explosion in cross-border economic activity. Today, Canada ranks as the United States' largest single export market, and it sends 98 percent of its total energy exports to the United States, making Canada the United States' largest supplier of energy products and services. Mexico is the United States' second-largest single export market. Over the past two decades, a highly efficient and integrated supply chain has developed among the three North American economies. Intraregional trade flows have increased by roughly 400 percent, from around \$290 billion in 1993 to over \$1.1 trillion in 2012.

Every day, nearly \$2 billion in goods and services cross the United States' northern border and roughly \$1 billion worth cross its southern border.

Today, thanks to NAFTA, North Americans not only sell more things to one another; they also make more things together. About half of U.S. trade with Canada and Mexico takes place between related companies, and the resulting specialization has boosted productivity in all three economies. For every dollar of goods that Canada and Mexico export to the United States, there are 25 cents' worth of U.S. inputs in the Canadian goods and 40 cents' worth in the Mexican goods. By way of comparison, there are four cents' worth of U.S. inputs in Chinese goods going to the American market and two cents' worth for Japanese goods.

NAFTA has also caused cross-border investment to soar. Since the treaty was signed, the United States, Canada's largest source of foreign capital, has invested more than \$310 billion in Canada, and Canada, the United States' fifth-largest source of foreign capital, has invested over \$200 billion in the United States. Mexico has also made major investments north of its border since NAFTA was signed, especially in the cement, bread, dairy, and retail sectors, thereby contributing to U.S. jobs and tax revenues. Similarly, U.S. investment in Mexico has grown substantially, with about half of it going to the manufacturing sector and much of that share flowing to the automotive industry. The United States derives a unique benefit from its investments in Canada and Mexico because a large percentage of that output returns home as imports of intermediate goods, which allows U.S. firms to focus on the higher-end task of assembling finished products.

The United States' expanded economic collaboration has created another economic benefit: a boom in intraregional travel by businesspeople, tourists, and students. According to the U.S. Department of Commerce, in 2011, Americans made nearly 12 million trips to Canada and spent almost \$8 billion there, and they made 20 million trips to Mexico (the top destination for U.S. tourists) and spent over \$9 billion there. The United States' neighbors returned the favor, with Canadians making 21 million trips to the United States and spending \$24 billion there and Mexicans making more than 13 million trips and spending almost \$8 billion.

In spite of this impressive economic record, NAFTA has its critics. Most of those who attack it on economic grounds focus on Mexico, not Canada, and claim that the partnership is one-sided: that NAFTA is Mexico's gain and America's pain. But the economic data prove otherwise. Last year, roughly 14 percent of U.S. exports went to Mexico -- more than went to Brazil, Russia, India, and China combined. Indeed, Mexico buys more U.S. goods than the rest of Latin America combined, and more than France, Germany, the Netherlands, and the United Kingdom combined. Although economists still debate whether NAFTA has caused a net gain or a net loss in U.S. jobs, they agree that the market openings it created have generated more export-related jobs in the United States, which pay an average of 15 to 20 percent more than those focused purely on domestic production.

With 116 million consumers who have a combined purchasing power of more than \$1 trillion, Mexico represents a major market opportunity for U.S. entrepreneurs large and small. But small U.S. enterprises, lacking the global reach of major corporations, benefit in particular from Mexico's proximity and openness. Mexicans purchase about 11 percent of the exports of small and medium-size U.S. companies, which account for more than half of all job creation in the United States. Even Mexican exports worldwide benefit the U.S. economy, because of their high percentage of U.S. content. And making the picture even brighter, for every dollar that Mexico earns from its exports, it spends 50 cents on U.S. goods.

MOVING NORTH AND SOUTH

Another of NAFTA's positive effects has been the increased sharing of talent. Today, Canadians constitute about three percent of the United States' total foreign-born population, and Mexicans constitute about 30 percent. Americans make up about four percent of Canada's foreign-born population and roughly 70 percent of Mexico's. The Canadians and Mexicans who live in the United States are younger than the overall U.S. population. And according to a study conducted by the Kauffman Foundation, immigrants in the United States are almost twice as likely to start a new business as native-born Americans.

Complaints about U.S. immigration policy focus primarily on concerns about Mexico. What are the facts? According to the Pew Hispanic Center, 34 million Hispanics of Mexican origin live in the United States, roughly two-thirds of whom were born there. Of those born in Mexico, the majority arrived in the United States after 1990, encouraged by the growth of cross-border travel, trade, investment, and business collaboration that NAFTA stimulated.

About half of them reside in the United States legally. In recent years, however, as the Mexican economy has expanded and created more jobs, both illegal and legal immigration from Mexico to the United States has plummeted. Compared with 1990, today, as a result of higher-than-average birthrates, the number of U.S.-born people of Mexican origin has more than doubled. Also, compared with their predecessors from that year, today's Mexican immigrants tend to be older, with an average age of 38, versus 29, and better educated, with 41 percent holding at least a high school degree, versus 25 percent. Their numbers have had a cultural impact, too. Holidays such as Cinco de Mayo are widely celebrated across America. As a nation of immigrants, the United States celebrates its cultural diversity.

In addition to contributing youth, talent, and cultural diversity, these immigrants are having an impact on politics. In the 2012 presidential election, Hispanic voters composed ten percent of the electorate, up from eight percent in 2004. They lean Democratic and tend to hold more liberal views on immigration policy. An exit poll conducted during the 2012 election asked voters what should happen to unauthorized immigrants working in the United States, and 77 percent of Hispanic respondents, compared with 65 percent overall, said that these immigrants should be given a chance to apply for legal status.

Hispanics' growing numbers have contributed to a shift in the balance of political power in some battleground states. In 2012, President Barack Obama carried 75 percent of the Hispanic vote in Colorado and 70 percent in Nevada, winning both states. As Hispanics' share of the U.S. population increases, their political voice should only grow stronger. Increasingly, they are joining politically interested civic groups; the United States now has 2.3 million Hispanic business owners and 1.2 million Hispanic military veterans.

BEYOND NAFTA

The economic, political, and social integration that has taken place in North America since NAFTA went into effect has made the region one of the most competitive on the planet. But the rest of the world has not stood still. Supply chains encircle the globe, and bilateral and regional trade agreements to which the United States is not a party are giving other countries preferential access to key markets.

To ensure that the U.S. economy continues to grow and remain competitive, the United States needs to keep North America's supply chains working at maximum efficiency and global markets open to North American products, services, investment, and ideas. There are a number of actions the United States could take, building on the NAFTA platform, to create new commercial opportunities. For example, when the U.S. government evaluates a potential trade arrangement, it should assess the benefits not only on a national basis but also on a regional basis. In that regard, it was encouraging to see Canada and Mexico join the negotiations of the Trans-Pacific Partnership, a proposed free-trade agreement among 12 countries in Asia and the Americas.

Similarly, as the United States negotiates the Transatlantic Trade and Investment Partnership with the 28 countries that compose the EU, it would benefit immensely by including Canada and Mexico, which would add 150 million consumers and \$3 trillion in GDP, making an even stronger agreement. Doing so would reduce needless complexity, too, since Mexico has had a free-trade agreement with the EU since 2000 and Canada just concluded one in October 2013. For entrepreneurs on both sides of the Atlantic, having to deal with three separate agreements with different rules of origin and different customs measures would add unnecessary costs and regulatory headaches. It would also erode the hugely beneficial economic integration North America has achieved thanks to NAFTA. A single agreement among the three countries of North America and the EU would bring badly needed regulatory coherence to more than half of the world's trading volume.

In addition, having all three North American governments participate in the negotiations would give them an opportunity to upgrade the provisions of NAFTA that were not especially relevant 20 years ago, such as those dealing with digital data flows. Finally, such a deal could facilitate the economic reforms of Mexican President Enrique Peña Nieto, who is seeking to open up Mexico's energy sector to foreign investment. Pointing to the benefits that Mexico could obtain from a mega-agreement that involved half of global GDP could help Peña Nieto build political support for his energy reforms, which the United States strongly supports.

In just 20 years, NAFTA has succeeded in spurring an enormous amount of economic activity throughout Canada, the United States, and Mexico.

But in order to maximize future growth, North American universities, think tanks, and business organizations will need to better educate the public about the tremendous gains that can come from increased regional economic integration. Given how closely NAFTA has drawn the nations of North America together -- not just economically but also politically, culturally, and socially -- this is a goal they can and should strive to achieve. Shall be considered as most one of the Free Trade Agreement and if it is corrected slightly it will continue a success path.

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