

# NAFTA's

A LITTLE MORE THAN 20 YEARS AGO, A REVOLUTIONARY BUT CONTROVERSIAL TRADE AGREEMENT WAS SIGNED INTO LAW.

THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA), ELIMINATED TARIFFS AND OTHER TRADE BARRIERS AMONG



THE UNITED STATES, CANADA AND MEXICO. ORCHESTRATED BY FORMER PRESIDENT GEORGE H.W. BUSH, MEXICAN PRESIDENT CARLOS SALINAS AND CANADIAN PRIME MINISTER BRIAN MULRONEY, NAFTA CREATED THE WORLD'S LARGEST FREE TRADE AREA.

BY JULIE CARLSON

# Legacy

Joe McKinney, professor of Economics in the McBride Center for International Business at Baylor's Hankamer School of Business, has studied the trade agreement since its inception. Baylor held its inaugural NAFTA conference in 1989 with people from all three countries attending. In October 2013, the McBride Center hosted its fifth NAFTA Conference.

In conjunction with Dallas' Consulate General of Canada, "NAFTA in a Changing World Economy" looked at implications for North American countries because of changes that have occurred during the past 20 years. Leading thinkers from the United States, Canada and Mexico, including Ambassador Robert Zoellick, former U.S. Trade Representative and former president of the World Bank Group, discussed how changes in

the global economy are affecting the three countries and how policies might be shaped to the advantage of the countries going forward. Topics included NAFTA and the changing global climate with regard to business, energy, economics and trade policies.

The United States had been involved with other free trade agreements before NAFTA, notably with Israel in 1985 and with Canada in 1987. The U.S.-Canada free trade agreement was controversial in Canada because many Canadians feared Canadian industries would become dominated by foreigners and the agreement would cause widespread unemployment.

"Canadians had expended a lot of energy in debating the Canada-U.S. free trade agreement, which was a big deal in Canada," said Michael Hart, the Simon Riesman Chair in Trade Policy at the Norman Patterson School of International Affairs at Carleton University in Ottawa, Canada. "Those who still harbored concerns [about NAFTA] were trade unions and nationalists, who worried that Canada would have difficulty competing with a low-wage country or would lose its ability to set its own trade policy."

In the 1980s, Mexico had instituted a number of reforms hoping for a boost in foreign capital, but investors were uncertain about the permanence of the reforms. In 1990, Mexico signaled that reforms were permanent by requesting free

trade with the U.S. Canada did not want to broaden its agreement with the U.S. to include Mexico but also worried about the U.S. creating "hub and spoke" trade in North America.

NAFTA was very controversial in the U.S. with pro-labor groups arguing unrestricted trade with a low wage country would cause mass movement of industries to Mexico. Environmental groups raised the issue of lax enforcement of environmental standards in Mexico. Before the agreement was presented to Congress, labor and environmental side agreements were included.

"The AFL-CIO claims there was job loss [by the U.S. to Mexico], but economists have found that NAFTA had a positive but modest effect on the U.S. economy," McKinney said.

So what effect has NAFTA had on the economy of the three partners and how has the global economy changed since NAFTA was signed into law?





“Expectations were low in Canada, but the government and business interests believed that adding Mexico would expand the market and create future trade and investment opportunities. The expectations have proved a little disappointing because Mexico remains a relatively small partner, in part because the rise of China robbed Mexico to become the low-cost producer in an integrated North American market,” Hart said.

McKinney said Mexico had unrealistic expectations of increased development in Mexico.

“There is no doubt that the violence in Mexico is discouraging foreign investment. The Mexican government also thought that NAFTA would slow down migration from Mexico, but the opposite occurred. For 10 years there was more migration. However, in the last couple of years, net migration has fallen to zero partly due to demographic changes and partly because there are more job opportunities in Mexico,” he said.

NAFTA has had minor effects on the U.S. economy, according to McKinney. NAFTA took effect during a time of strong economic expansion, so it is difficult to detect adverse employment effects.

“The biggest success has been the integration of industries between the U.S. and Mexico, and the U.S. and Canada. Production between U.S. and Mexican firms is highly integrated as seen by the fact that the value of U.S. content in imports coming into the U.S. from Mexico is 40 percent, much higher than any other country,” he said.

Changes in the world also have affected NAFTA. When signed into law, 9/11 had not occurred and advances in the energy industry were in their infancy.

“Some of the benefits from free trade have been forfeited since Sept. 11,” McKinney said. “Tightened border security has caused bottlenecks, and supply chain integration is disrupted by unpredictable wait times at the border.”

The oil and gas industry also has seen widespread changes because of technology. Previously, Canada had been a major supplier of oil and natural gas to the U.S., but innovations in shale oil and gas production, such as fracking, have enabled the U.S. to become an exporter. Canada is developing its own shale resources. Approval of the Keystone XL pipeline would further integrate energy markets.

NAFTA’s legacy might have spawned other regional agreements. A recent report in Financial Times pointed out that the World Trade Organization is no longer at the forefront of the global trade negotiating agenda, and instead megaregionalism is becoming the dominant player.

All three of the NAFTA countries are currently involved in negotiations for a 12-country Trans-Pacific Partnership (TPP) while the Transatlantic Trade and Investment Partnership would create free trade between and U.S. and the European Union.

“Should the TPP negotiations succeed and the terms of the agreement be implemented, this will likely upgrade the current provisions of NAFTA,” McKinney said. “The TPP negotiations could also result in expanded intellectual property rights, broadened e-commerce provisions and simplifications of rules of origin.”

“Both Mexico and Canada have separately negotiated free trade agreements with the European Union, although Canada’s awaits parliamentary approval,” he continued. “A major issue in these negotiations will be harmonization or mutual recognition of product standards and other regulations. All United States trade agreements since NAFTA have included more specific labor and environmental provisions than those of NAFTA and dispute settlement provisions for these issues similar to those used for commercial disputes.”

Hart thinks NAFTA was a historically significant document that served its time and has been surpassed by other agreements.

“The public knows little of the 1935 and 1938 Canada-U.S. trade agreements or of the 1942 U.S.-Mexico trade agreement negotiated under the U.S. reciprocal trade agreements program. They were very important in their day, but long forgotten. NAFTA is an agreement that was historically important, but which over time has become marginal. It did provide a more secure and stable, rules-based framework for trade and investment among the three partners,” he said.

McKinney believes NAFTA’s greatest success has been greater cooperation among the countries and that it stimulated other regional trade agreements.

“During its 20-year existence, NAFTA has yielded benefits for each of the participating countries,” he said. “The countries are well positioned individually for participation in the global economy going forward, but working together they can further enhance the region’s prospects. Cooperation and coordination of policies will enable the countries to take full advantage of the region’s abundance of energy resources. Proactive consultation and working together can enable the countries to obtain the best results from super-regional trade negotiations. Together, the countries of North America can have a more positive impact on the Western Hemisphere and on international institutions than they can achieve by working alone.”



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