

Updating the North American Free Trade Agreement

Jeffrey J. Schott
PIIE Senior Fellow

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Updating NAFTA



- **The NAFTA record is on balance positive**—contributed to robust expansion of trade and investment. It doesn't deserve unfettered praise, but neither does it merit harsh criticism.
- NAFTA was **state of the art** when constructed in the early 1990s **but imperfect**—subsequent US trade deals improved NAFTA.
- NAFTA negotiations will primarily **focus on new and/or improved rulemaking**.
- Ultimate aim of new talks should be **advancing regional competitiveness**—a different goal from President Trump's "America First" objectives.

US-NAFTA trade and investment, 1993 vs. 2016 (billions of current US dollars)



	1993							
	US imports			US exports		Trade balance	Inward FDI stock	Outward FDI stock
	Goods	Services		Goods	Services			
Canada	113	9		101	17	-4	40	70
Mexico	40	8		41	11	4	1	15
NAFTA total	153	17		142	28	0	42	85
World total	589	124		457	186	-70	467	564
NAFTA % of world	26%	14%		31%	15%	0	9%	15%

	2016							
	US imports			US exports		Trade balance	Inward FDI stock ^a	Outward FDI stock ^a
	Goods	Services		Goods	Services			
Canada	283	30		266	54	7	269	353
Mexico	297	23		231	31	-58	17	93
NAFTA total	580	53		497	85	-51	286	446
World total	2,250	503		1,453	752	-547	3,134	5,041
NAFTA % of world	26%	11%		34%	11%	9%	9%	9%

FDI = foreign direct investment

a. FDI data for 2015, latest available.

Sources: Goods data from UN Comtrade; FDI and services trade data from US Bureau of Economic Analysis.

Negotiating Objectives



- NAFTA **shouldn't require major structural reforms**, but it needs to come up to code with 21st century trading practices.
- Negotiating objectives set in Trade Promotion Authority provide **basis for constructive new talks**, but TPA entails a long agenda and will require protracted negotiations.
- **A discrete agenda could be done relatively quickly**, building on the Trans-Pacific Partnership and other trade deals, if the negotiators focus on the following areas:
 - New rights and obligations on ecommerce/digital trade
 - Upgraded, enforceable obligations on labor and environment
 - Sectoral cooperation in energy
 - Improved dispute settlement procedures with respect to Chapter 11 on investor-state dispute settlement and Chapter 19 on the review of trade remedies.
- But this limited agenda **would not yield as big dividends to North American competitiveness** as reforms in services, regulatory cooperation, and other sectors.

NAFTA Landmines



- **Care should be taken to avoid US goals that sharply deviate from past US practice:**
 - Reduce US trade deficit and “rebalance” trading relationships;
 - More restrictive rules of origin;
 - Import restrictions to “counteract” use of value-added taxes;
 - Restrict access to US federal government procurement in favor of Buy America policies.
- **Specific disputes regarding longstanding bilateral irritants over dairy and softwood lumber also could prevent broader progress.**

Alternates to Successful Negotiation: US-Canada



- In talks fail, **President Trump has threatened to withdraw from NAFTA.**
- If Trump abrogated NAFTA, US-Canada trade relations would **largely revert to terms of US-Canada FTA of 1989.**
- In large measure, old deal would **carry on much of the bilateral trade preferences.**
- However, the deal **did not address problems that has provoked Trump's criticism of NAFTA.**
- Canada and Mexico **would continue to apply NAFTA to their bilateral trade.**



Alternates to Successful NAFTA Negotiation: US-Mexico



- **Mexico and the United States would revert to most favored nation (MFN) tariff treatment like other WTO members.**
 - US applied MFN tariffs average 3.5%, Mexican MFN tariffs average 7%.
- **But Mexico's high bound rates—the upper threshold committed to in the WTO—gives it great latitude to raise tariffs beyond MFN.**
 - More than 90% of US exports to Mexico (by value) are in products with bound rates above 30% (Amiti and Freund 2017).
- **Mexican peso would likely depreciate, widening bilateral trade deficit.**
 - Mexican-produced cars would become more competitive in US market, US agricultural goods more expensive in Mexico (De Bolle 2017).
- **More importantly, abrogating NAFTA would severely disrupt North American supply chains.**

