Updating NAFTA: Implications of the Trans-Pacific and Trans-Atlantic Partnerships

Jeffrey J. Schott
Senior Fellow
Peterson Institute for International Economics

Mexico and the United States: Building on the Benefits of NAFTA

July 15, 2014
Overview: TPP, TTIP and NAFTA

• The slow pace of the Doha Round has led key trading nations to pursue “mega-regional” free trade initiatives.
  – Trans-Pacific Partnership (TPP);
  – Transatlantic Trade and Investment Partnership (TTIP).
• US, Canada, and Mexico negotiating TPP; each has separate initiatives with Europe.
• TPP and TTIP aim to (1) deepen trade/investment ties with partner countries; (2) create new trade rules in areas not yet covered by WTO obligations; and (3) set precedents for broader multilateral negotiations.
• Both have important implications for NAFTA and North American economic integration.
Why TPP is important for NAFTA countries

• TPP-12 countries represent almost 40% of global output and 25% of global exports.
• NAFTA is core of TPP: 68% of combined output and almost 60% of population.
• Developing comprehensive new 21st century rulebook for trade and investment.
• Adds new FTA partners, plus updates existing pacts with other TPP countries.
• Reinforces economic and political ties among Asia-Pacific countries; stepping stone to broader Asia-Pacific and multilateral trade accords.
• TPP would generate significant income/trade gains for each country.
## NAFTA and TPP, 2025

<table>
<thead>
<tr>
<th>Country</th>
<th>Income gains</th>
<th></th>
<th>Export gains</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TPP-12</td>
<td>TPP-16</td>
<td>TPP-12</td>
<td>TPP-16</td>
</tr>
<tr>
<td></td>
<td>US$  %</td>
<td>US$  %</td>
<td>US%  %</td>
<td>US$  %</td>
</tr>
<tr>
<td>United States</td>
<td>76.6 0.4</td>
<td>108.2 0.5</td>
<td>123.5 4.4</td>
<td>190.5 6.8</td>
</tr>
<tr>
<td>Canada</td>
<td>8.7 0.4</td>
<td>12.4 0.6</td>
<td>13.8 2.3</td>
<td>17.7 3.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>9.9 0.5</td>
<td>31.2 1.6</td>
<td>19.1 3.8</td>
<td>40.1 7.9</td>
</tr>
<tr>
<td>NAFTA total</td>
<td>95.3 0.4</td>
<td>151.9 0.6</td>
<td>156.4 4.0</td>
<td>248.3 6.3</td>
</tr>
<tr>
<td>TPP-12 total</td>
<td>285.0 0.9</td>
<td>395.6 1.2</td>
<td>440.5 6.6</td>
<td>633.1 9.5</td>
</tr>
<tr>
<td>NAFTA gains as a % of TPP total</td>
<td>33.4 n.a.</td>
<td>38.4 n.a.</td>
<td>35.5 n.a.</td>
<td>39.2 n.a.</td>
</tr>
</tbody>
</table>

US$ = billions of 2007 US dollars; % = percent change from 2025 baseline; n.a. = not applicable

Note: TPP-16 scenario based on membership of Indonesia, Korea, the Philippines, and Thailand.

How TPP will affect the NAFTA provisions

- TPP will update and augment NAFTA without renegotiating NAFTA.
- Regional rules of origin will help integrate North American firms in global supply chains and increase import competition in the North American market.
- Expansion of environment and labor provisions and integration into core agreement.
- Added coverage of government procurement; new disciplines on state-owned enterprises and e-commerce.
- No new disciplines on contingent protection policies.
NAFTA: Implications of TTIP

- NAFTA trading partners have separate bilateral efforts with the EU: TTIP, Canada-EU CETA (signed in 2013), and EU-Mexico FTA (entry into force in 2000).
- TTIP’s novel contribution will be regulatory convergence; higher TTIP standards/regulations could affect access to US/EU markets for Canada and Mexico.
- CETA includes some enhanced provisions on agriculture (e.g., market access through TRQ and GI protection) and procurement (e.g., sub-federal level), but less advanced agenda on regulatory issues compared to TTIP agenda.
- EU-Mexico pact relatively less comprehensive; concerns that advantages gained through EU FTA could easily be eroded by US and Canadian deeper liberalization.
- TTIP membership procedures will limit third country accession until after deal is concluded, despite interest of Mexico and Turkey.
Conclusions

• TPP will update and augment NAFTA without renegotiating NAFTA, and thus contribute to a deepening of North American economic integration.
• TPP should strengthen North American competitiveness and significantly boost output and exports of each country.
• TTIP could produce additional advantages for the NAFTA countries; however, US officials need to take care not to create new frictions in the NAFTA region as a result of the TTIP regulatory reforms.
• NAFTA countries would also benefit if TPP and TTIP inspire new plurilateral and multilateral trade initiatives that strengthen the world trading system.