NAFTA:
North American Free Trade Agreement

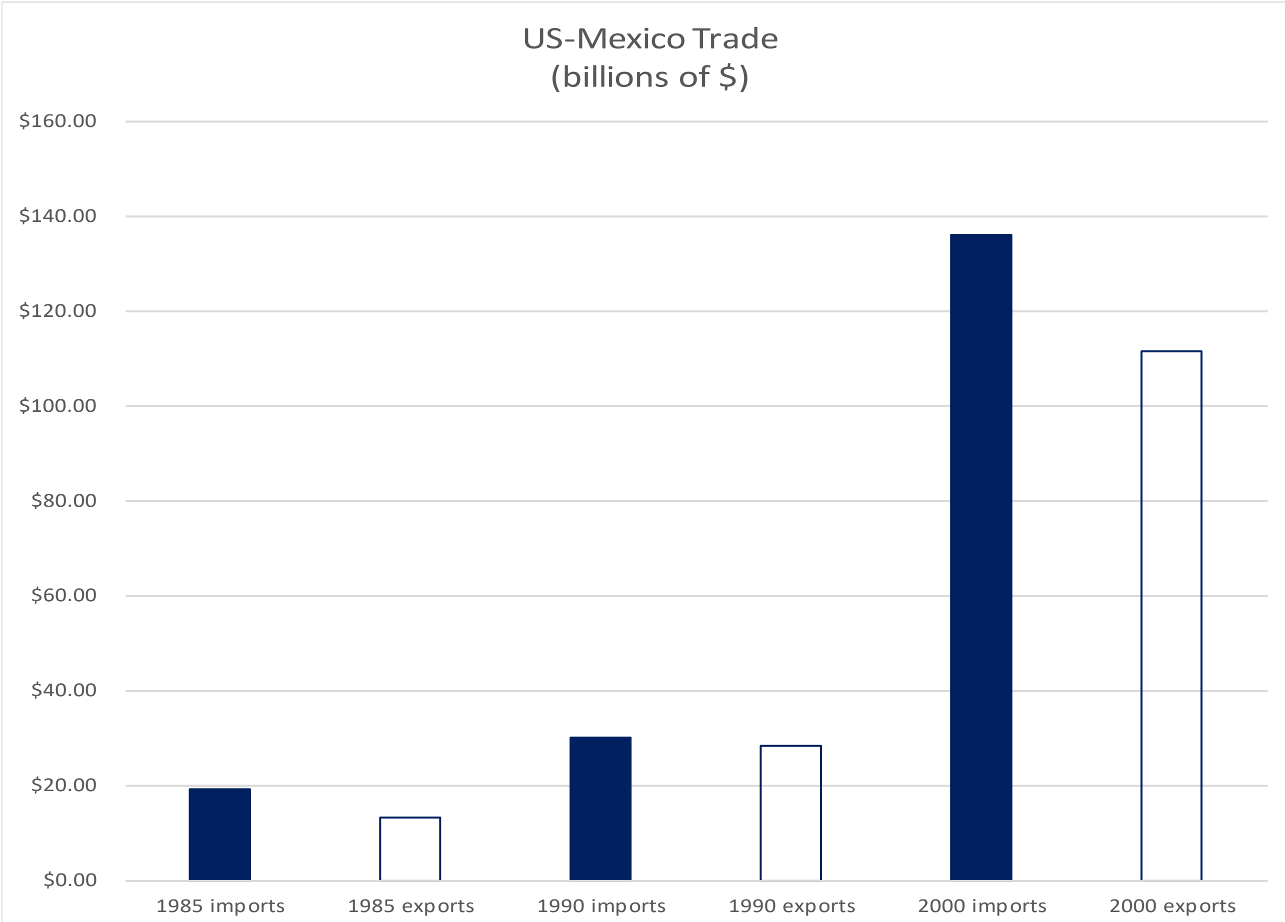
What is NAFTA?
NAFTA is a trilateral free-trade deal that was put into effect on January 1, 1994, signed by U.S. president Bill Clinton, Mexican president Carlos Salinas, and Canadian prime minister Jean Chrétien. The main idea of the agreement is to eliminate most tariffs on products traded among the United States, Mexico, and Canada. The terms of the agreement called for these tariffs to be phased out gradually, and the final aspects of the deal weren't fully implemented until January 1, 2008. The deal swept away import tariffs in several sectors--agriculture was a major focus, but tariffs were also reduced on items like textiles and automobiles. NAFTA also implemented intellectual-property protections, established dispute-resolution mechanisms, and set up regional labor and environmental safeguards.

There was much opposition to NAFTA in the US. Ross Perot, who ran for President of the US in the 1992 election (and got 19% of the popular vote), complained of a "giant sucking sound" of jobs flowing from the US to Mexico, as a result of NAFTA. But in the years before NAFTA, US unemployment averaged 7%; by 1996, it had fallen to 5%. US unemployment continued to fall to just under 4% by 2000. So much for that giant sucking sound.

NAFTA was supposed to be the demise of the US automobile industry in particular. Representative David Bonior from Michigan complained that NAFTA "will destroy the auto industry." And yet US production of automobiles increased by 30 percent from 1993 to 2000: from 14.2 million to 17.7 million cars (although production dropped in 2001, because of a recession). In 2015, 20 years after NAFTA, US automobile production was the highest ever, at 17.95 million. To show how well US manufacturing did, one can compare the dollar value of US manufacturing in the 7 years before NAFTA was implemented (1988 through 1994), to the seven years after it was implemented (1995-20001). With inflation being taken into account, the US manufactured 32% more products in the 7 years after NAFTA, than the 7 years before NAFTA. Clearly NAFTA did not hurt US manufacturing.

Determining the Economic Impact of NAFTA
After NAFTA was implemented, trade among the three partners increased significantly over the treaty's first two decades, from roughly $290 billion in 1993 to more than $1.1 trillion in 2012. Cross-border investment and travel have also surged. The United States trades more in goods and services with Mexico and Canada than it does with Japan, South Korea, Brazil, Russia, India, and China combined. Much of this growth has been due to increased trade between the United States and Mexico.

By way of comparison, US trade with Mexico in 1985 was $13.1 billion in exports, and $19.1 billion in imports. In 1990, it was $28.3 billion in exports, and $30.2 billion in imports. In 2000, after 7 years of NAFTA, it was $111.3 billion in exports, and $135.9 in imports.



One of the benefits of increased trade among the US, Canada, and Mexico, is the ability of all three nations to emphasize production on what each does best, and take advantage of what the other two nations do best.

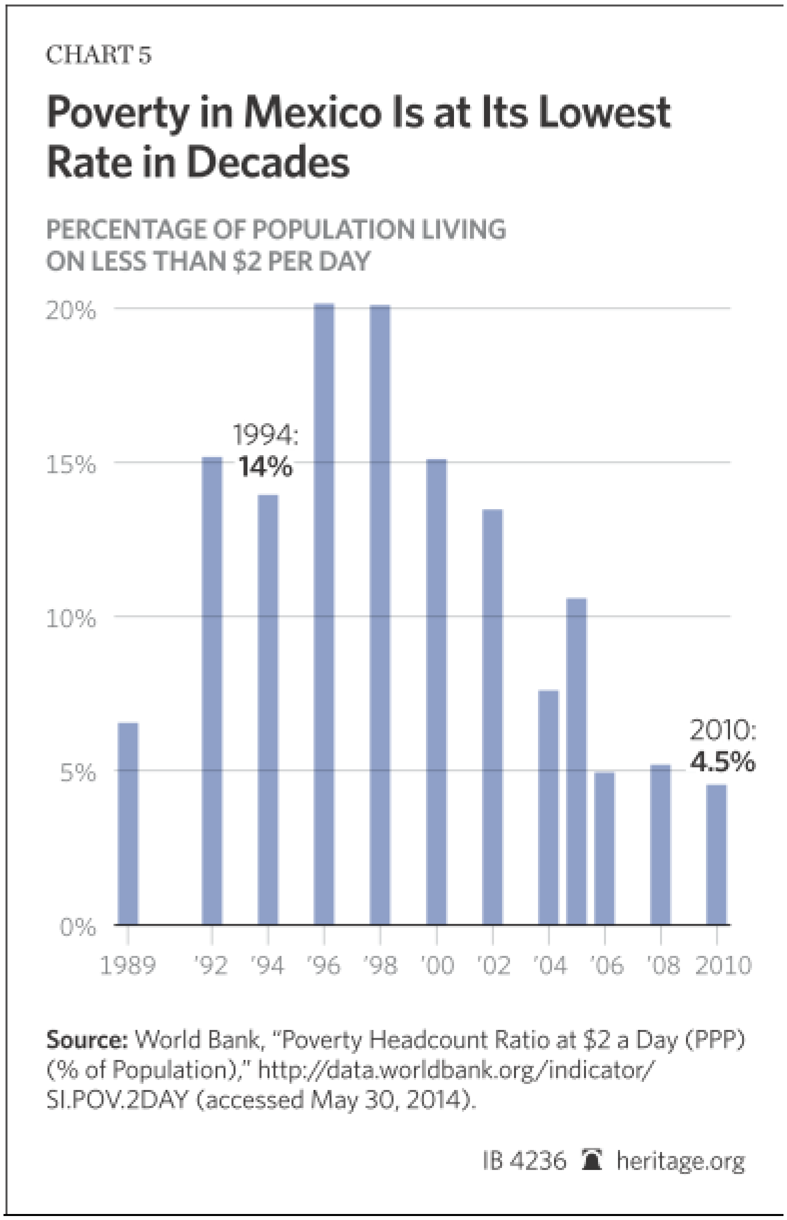
Economists estimate that 40 percent of the content of U.S. imports from Mexico and 25 percent of the content of U.S. imports from Canada are of U.S. origin\. In other words, even some imports from Mexico and Canada (that come into the United States) have a fair amount of “Made in the USA” material in them. "Ignoring these input-output linkages could underestimate potential trade gains," noted a Congressional Research Service report.

Supporters of NAFTA, and many economists, see a positive impact on U.S. employment and note that new export-related jobs in the United States pay 15 to 20 percent more on average than those focused on domestic production.

Impact on Mexico

The Economist notes that despite increased competition, Mexican farm exports to the United States have tripled since NAFTA's implementation, in part because of reduced tariffs on maize.

For instance, the deal has led to a dramatic reduction in Mexican prices for clothes, televisions, and food, which helps offset slow income growth. GEA (*Grupo de Economistas y Asociados*), a Mexico City-based economic consulting firm, estimates that the cost of basic household goods in Mexico has been cut in half, since NAFTA's implementation. Mexican workers in the car manufacturing and aeronautics sectors of northern Mexico have benefited from the treaty and helped expand the country's manufacturing base.



American investment in Mexico increased dramatically. Using three year periods to compare, US investment in Mexico rose from $12 billion in 1992-94, to $54 billion in 2000-02. And so Mexico was able to benefit from additional funds and management expertise provided by the US. Even so, this was not a crass relocation of US manufacturing in Mexico. US investment in Mexico was 10 percent of what it had invested in Europe at that time.

With increased foreign investment, exports, and imports, NAFTA helped economic growth in Mexico surge forward. From 1980 to 1993 (before NAFTA was implemented), Mexico's GDP rose an average of 2% a year. From 1996-2002, it rose 4% a year (before 1996, Mexico was suffering from an economic crisis).