STORY OF NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA): ITS SUCCESS AND FAILURE

Bhavya Bansal, Aishvarya Bansal

Post graduate scholar, Deptt. of Commerce, Assistant Professor, Deptt of Commerce

ABSTRACT

The purpose of this paper is to evaluate the North American Free Trade Agreement (NAFTA) which is proposed to eliminate restrictions on the flow of goods, services, and investment in North America. This evaluation is critical since the United States, Canada, and Mexico have a giant & integrated market of almost 400 million people with $6.5 trillion worth of goods and services annually. And, Mexico is the world's second largest importer of U.S. manufactured goods and the third largest importer of U.S. agricultural products. Thus, these economies play a vital role for free flow of goods across the globe. This paper will highlight the success and failure story of members of NAFTA which will help our understanding of regional economic integration and its impact on world economy. The treaty between these 3 countries provides full protection of intellectual property rights (patents, copyrights, and trademarks) and also includes provisions covering trade rules and dispute settlement and establishes trilateral commissions which is of political and socio-economic importance for other nations. Thus, this paper will highlight the trends in NAFTA which are both positive and negative since its formation till date.

Keywords: Free Trade Agreement, NAFTA, North American Free Trade Agreement, Regional Integration, SAFTA.

1. INTRODUCTION

In three separate ceremonies in the three capitals on Dec. 17, 1992, President Bush, Mexican President Salinas, and Canadian Prime Minister Mulroney signed the historic North American Free Trade Agreement (NAFTA). The framework agreement proposed to eliminate restrictions on the flow of goods, services, and investment in North America. The House of Representatives approved NAFTA, by a vote of 234 to 200 on November 17, 1993, and the Senate voted 60 to 38 for approval on November 20. It was signed into law by President Clinton on December 8, 1993, and took effect on January 1, 1994.

Under NAFTA, the United States, Canada, and Mexico become a single, giant, integrated market of almost 400 million people with $6.5 trillion worth of goods and services annually. Mexico is the world's second largest importer of U.S. manufactured goods and the third largest importer of
Prior to NAFTA, Mexican tariffs averaged about 250% as compared to U.S. duties. After the pact, about half of the tariffs on trade between Mexico and the United States were eliminated, and the remaining tariffs and restrictions on service and investment (as far as it is possible) will be phased out over a 15-year period. The United States and Canada have had a free-trade agreement since 1989.

The treaty provides full protection of intellectual property rights (patents, copyrights, and trademarks) and also includes provisions covering trade rules and dispute settlement and establishes trilateral commissions to administer them. NAFTA also marks the first time in the history of U.S. trade policy that environmental concerns have been directly addressed.

2. SUCCESS STORY OF NAFTA

NAFTA demonstrates the benefits that came from trade. It created the world’s largest free trade area. All members of NAFTA have grown significantly from 1993-2003-2013 USA 38% economic growth

- Canada 30.9% economic growth Mexico 30% economic growth
- The exports between NAFTA members increased.
- Total volume of trade of goods & services between members increased
- Increase in US wages, employment, incomes
- Increase in Mexican wages, employment, investment, trade, agriculture, and decrease in migration rate of its population to other nations
- Increase in Canadian exports, investment,
- Promotion of environmental laws, between NAFTA members
- Promotion of labour laws like safety and health of workers, child labour, gender equality, protection of migration between NAFTA members

Exports

- The NAFTA countries (Canada and Mexico), were the top two purchasers of U.S. exports in 2010. (Canada $248.2 billion and Mexico $163.3 billion).
- U.S. goods exports to NAFTA in 2010 were $411.5 billion, up 23.4% ($78 billion) from 2009, and 149% from 1994 (the year prior to Uruguay Round) and up 190% from 1993 (the year prior to NAFTA). U.S. exports to NAFTA accounted for 32.2% of overall U.S. exports in 2010.
- The top export categories (2-digit HS) in 2010 were: Machinery ($63.3 billion), Vehicles (parts) ($56.7 billion), Electrical Machinery ($56.2 billion), Mineral Fuel and Oil ($26.7 billion), and Plastic ($22.6 billion).
- U.S. exports of agricultural products to NAFTA countries totaled $31.4 billion in 2010. Leading categories include: red meats, fresh/chilled/frozen ($2.7 billion), coarse grains ($2.2 million), fresh fruit ($1.9 billion), snack foods (excluding nuts) ($1.8 billion), and fresh vegetables ($1.7 billion).
- U.S. exports of private commercial services* (i.e., excluding military and government) to NAFTA were $63.8 billion in 2009 (latest data available), down 7% ($4.6 billion) from 2008, but up 125% since 1994.

Imports

- The NAFTA countries were the second and third largest suppliers of goods imports to the United States in 2010. (Canada $276.5 billion, and Mexico $229.7 billion).
• U.S. goods imports from NAFTA totaled $506.1 billion in 2010, up 25.6% ($103 billion), from 2009, and up 184% from 1994, and up 235% from 1993. U.S. imports from NAFTA accounted for 26.5% of overall U.S. imports in 2010.
• The five largest categories in 2010 were Mineral Fuel and Oil (crude oil) ($116.2 billion), Vehicles ($86.3 billion), Electrical Machinery ($61.8 billion), Machinery ($51.2 billion), and Precious Stones (gold) ($13.9).
• U.S. imports of agricultural products from NAFTA countries totaled $29.8 billion in 2010. Leading categories include: fresh vegetables ($4.6 billion), snack foods, (including chocolate) ($4.0 billion), fresh fruit (excluding bananas) ($2.4 billion), live animals ($2.0 billion), and red meats, fresh/chilled/frozen ($2.0 billion).
• U.S. imports of private commercial services* (i.e., excluding military and government) were $35.5 billion in 2009 (latest data available), down 11.2% ($4.5 billion) from 2008, but up 100% since 1994.

3. FAILURE STORY OF NAFTA

• US trade deficit with NAFTA partners Mexico & Canada and thus lost approx 1 million US jobs.
• Growing income inequality and displacement of farmers in Mexico and consequently immigration of people from Mexico
• Rather than creating 200,000 jobs per year as promised by former US President Bill Clinton, the jobs were lost in NAFTA
• US relocated its production to Mexico to take advantage of that country’s lower wages and weak environment standards
• Many workers in US lost jobs due to imports from Canada & Mexico and relocation of its factories
• Foreign companies asked for compensation from NAFTA members for toxic waste, land use rules, water and forest policies, etc

Trade Balances
The U.S. goods trade deficit with NAFTA was $94.6 billion in 2010, a 36.4% increase ($25 billion) over 2009. The U.S. goods trade deficit with NAFTA accounted for 26.8% of the overall U.S. goods trade deficit in 2010. The United States had a services trade surplus of $28.3 billion with NAFTA countries in 2009 (latest data available).

4. MY FUTURE PROJECTIONS FOR NAFTA: SUCCESS OR FAILURE

Looking at Mexico, the outlets like Starbucks, Wal-Mart has dramatically expanded consumer choice and trade since it took effect 20 years ago Jan 1. Though NAFTA never met many of its sweeping promises like:

• Mexico's wage gap with the United States: competition from Asia and Central America kept wages down
• boost job growth
• fight poverty and
• Protect the environment.

Though, auto, electronics and agriculture sectors grew, and foreign banks moved in, increasing access to credit, but a majority of Mexicans saw little benefit in income.
Before NAFTA, Mexico was a state-dominated economy suffering from debt and the underlying problems of Mexican farms like low productivity on small plots. The foreign investment through NAFTA did help create jobs. Consumer goods, clothing, electronics appliances and cars are now available to everyone, with more products and choice.

The three North American countries are pushing to become even more economically integrated. On the plus side, trade between the three countries vastly increased, to about 3.5 times the 1994 levels, though U.S. trade with China and other Asian nations has grown even faster in the last two decades.

NAFTA has done a very good job of protecting foreign investors where investors can bypass the courts with complaints that government regulation unfairly affects their businesses. The complaints are often against natural resource management or environmental rules. Mexico and Canada have paid out about $350 million in damages to foreign investors, while the United States hasn't paid any. Thus, to summarise

- Poverty is as high in Mexico today as it was before NAFTA
- Many jobs have been created in Mexico, albeit low-paid ones
- U.S. trade with China has grown faster than that with Mexico

5 LITERATURE REVIEW OF ARTICLES

- William Easterly, Roberto Fiess and Daniel Lederman ON NAFTA examine whether Liberal trade laws between NAFTA members led to an increase in income levels of NAFTA countries in a 2003 article titled “NAFTA and convergence in North America: High Expectations, Big Events, and Little Time”. The article showed the income gaps in consumers in Mexico and the United States. The Mexico’s convergence towards US income levels has increased since formation of NAFTA. They also estimate the rate of convergence of US and Mexican productivity in twenty eight manufacturing industries. The results found that ever since NAFTA is formed the convergence is faster and there are improvements in these economies. The article tries to find out whether NAFTA led to reduction in income gap across Mexican states. This article concluded that such income gaps were not significantly reduced by NAFTA and thus it failed in its purpose to reduce income gap.

- Gerardo Esquivel and Antonio Rodriguez- Lopez ON NAFTA examine the effects of NAFTA on Mexican wages in 2003 article titled “Technology, Trade, and Wage inequality in Mexico before and after NAFTA”. This article focused on the contribution of technological change and liberalization in trade to change the wages of skilled and unskilled workers in Mexico’s manufacturing industries. The article reveals that liberalization in trade cannot explain the Mexican wage gap between 1994 and 2000. The article rather concludes that the Mexican wage gap can be explained through technological changes and not through trade liberalizations.

- Thomas J. Schoenbaum University of Georgia School of Law on (NAFTA): Good for Jobs, for the Environment and for America Under his article Thomas concluded that NAFTA has helped the residents of all the three countries to maximise their income by buying the goods where it is cheapest and selling the goods where it can give maximum return. Under NAFTA all the three countries took as their international obligation-duty to substantially adhere to high standards of environmental protection and workers’ rights and enforce those standards. NAFTA will cause the Mexican wages to rise, improve environmental protection and best hope for dealing with Mexican illegal immigration. NAFTA is good for the United States. There was
little immediate impact but in medium to long term, it will produce economic growth and jobs for US.

6. IMPACT ON 3 COUNTRIES

- **Canada**
  
  Like Mexico and the U.S., Canada received a modest positive economic benefit as measured by GDP. Many feared declines failed to materialize, and some industries, like the furniture industry, were expected to suffer but grew instead. Canadian manufacturing employment held steady despite an international downward trend in developed countries. One of NAFTA’s biggest economic effects on U.S.-Canada trade has been to boost bilateral agricultural flows. In the year 2008 alone, Canada exports to the United States and Mexico was at CAN$381.3 Billion Dollars and imports from NAFTA was at CAN$245.1 Billion Dollars.

- **Mexico**
  
  Maquiladoras (Mexican factories that take in imported raw materials and produce goods for export) have become the landmark of trade in Mexico. These are plants that moved to this region from the United States, hence the debate over the loss of American jobs. Hufbauer's (2005) book shows that income in the maquiladora sector has increased 15.5% since the implementation of NAFTA in 1994. Other sectors now benefit from the free trade agreement, and the share of exports from non-border states has increased in the last five years while the share of exports from maquiladora-border states has decreased. This has allowed for the rapid growth of non-border metropolitan areas, such as Toluca, León and Puebla; all three larger in population than Tijuana, Ciudad Juárez, and Reynosa.

  The overall effect of the Mexico–U.S. agricultural agreement is a matter of dispute. Mexico did not invest in the infrastructure necessary for competition, such as efficient railroads and highways, which resulted in more difficult living conditions for the country's poor. Mexico's agricultural exports increased 9.4 percent annually between 1994 and 2001, while imports increased by only 6.9 percent a year during the same period.

  One of the most affected agricultural sectors is the meat industry. Mexico has gone from a small-key player in the pre-1994 U.S. export market to the 2nd largest importer of U.S. agricultural products in 2004, and NAFTA may be credited as a major catalyst for this change. The allowance of free trade removed the hurdles that impeded business between the two countries. As a result, Mexico has provided a growing market for meat for the U.S., leading to an increase in sales and profits for the U.S. meat industry. This coincides with a noticeable increase in Mexican per capita GDP that has created large changes in meat consumption patterns, implying that Mexicans can now afford to buy more meat and thus per capita meat consumption has grown.

  Production of corn in Mexico has increased since NAFTA's implementation. However, internal corn demand has increased beyond Mexico's sufficiency, and imports have become necessary, far beyond the quotas Mexico had originally negotiated. Zahniser & Coyle have also pointed out that corn prices in Mexico, adjusted for international prices, have drastically decreased, yet through a program of subsidies expanded by former president Vicente Fox, production has remained stable since 2000.

- **US**
  
  The U.S. Chamber of Commerce credits NAFTA with increasing US trade in goods and services with Canada and Mexico from $337 billion in 1993 to $1.2 trillion in 2011, while the AFL-CIO blames the agreement for sending 700,000 American manufacturing jobs to Mexico over that time.
Trade balances

The US goods trade deficit with NAFTA was $94.6 billion in 2010, a 36.4% increase ($25 billion) over 2009. The US goods trade deficit with NAFTA accounted for 26.8% of the overall U.S. goods trade deficit in 2010. The US had a services trade surplus of $28.3 billion with NAFTA countries in 2009 (the latest data available). In a study published in the August 2008 issue of the American Journal of Agricultural Economics, NAFTA has increased U.S. agricultural exports to Mexico and Canada even though most of this increase occurred a decade after its ratification. The study focused on the effects that gradual "phase-in" periods in regional trade agreements, including NAFTA, have on trade flows.

Most of the increase in members’ agricultural trade, which was only recently brought under the purview of the World Trade Organization, was due to very high trade barriers before NAFTA or other regional trade agreements.

Investment

The US foreign direct investment (FDI) in NAFTA Countries (stock) was $327.5 billion in 2009 (latest data available), up 8.8% from 2008. The US direct investment in NAFTA countries is in nonbank holding companies, and in the manufacturing, finance/insurance, and mining sectors. The foreign direct investment, of Canada and Mexico in the United States (stock) was $237.2 billion in 2009 (the latest data available), up 16.5% from 2008.

7. 20TH ANNIVERSARY OF NAFTA

The 20th anniversary of NAFTA's implementation on Jan. 1 has revived some of the perennial arguments that have surrounded the bloc since its inception. The general consensus has been that the trade deal was a mixed bag, a generally positive yet disappointing economic experiment.

That consensus may not be wrong. The history of the North American Free Trade Agreement as an institution has been one of piecemeal, often reluctant, integration of three countries with a long tradition of protectionism and fierce defence of economic national sovereignty. While NAFTA was a boon for certain sectors of the economy, particularly the U.S. agriculture industry, and the net effect of the world's second-largest trade bloc remains somewhat unknown.

The debate over NAFTA can, however, obscure some fundamental realities about the future of North America and its three major countries. While the formation of the trading bloc represented a remarkable political achievement, NAFTA has remained a facilitating institution whose success has mirrored the ebb and flow in the slow but inevitable economic integration of the United States, Mexico and Canada. What lies ahead for the three countries will not so much be the result of NAFTA as NAFTA will be the result of the strong geopolitical imperative binding the three together. Washington, Mexico City and Ottawa are tied into major global and regional trends that have been following over the years, trends that continue to point to a comparatively bright future for the North American triad.

8. CONCLUSION

While, the overall financial impact of NAFTA has been positive, but it’s not up to expectations. It has made many US companies and investors rich. But, it also cost too much to manufacturing workers by failing to raise their standards of living. Any market changes in NAFTA usually lead to both opportunity and threats. The articles as well as the information found about NAFTA reveals that there is not a single factor affecting the goals or purpose of NAFTA. In Mexican economy the NAFTA failed to reduce wage gap as given by first article and at the same time the second article failed to clearly explain the cause for income gap. Technological changes
were said to have caused gaps in income instead of liberalization in trade which the main goal of NAFTA.

In some ways, NAFTA has been less successful than hoped. Much of the NAFTA-driven investment in Mexico was in the form of maquiladoras (factories) in unpleasant border towns, and Mexican workers haven't experienced anticipated gains in wealth because of competition from Asian workers. NAFTA still imposes countless regulatory burdens on companies wishing to trade internationally and threaten administrative, civil and criminal penalties for violators.

9. REFERENCES

Books

[3] International Business by Dr. Sumati Verma published by Pearson Education

Articles

[6] Thomas J. Schoenbaum University of Georgia School of Law on (NAFTA): Good for Jobs, for the Environment and for America

Websites