

NAFTA Negotiations
Comments on Negotiating Objectives Regarding Modernization of the North American Free
Trade Agreement with Canada and Mexico

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The North American Free Trade Agreement (NAFTA) has created US jobs, lowered consumer prices, and made the North American market more competitive globally. NAFTA—and the underlying premise of its open markets—is unique among the United States’ trade agreements: it is both a strategic accord as well as one crucial to US economic interests.

Modernization of the twenty-three-year-old agreement certainly makes sense. But as negotiations begin, it is crucial that discussions start from the premise that our first priority should be to do no harm to the 14 million US workers whose jobs are dependent on the trilateral agreement. Other objectives should include:

- Create new opportunities for NAFTA to most effectively facilitate commerce and job creation in the rapidly evolving global economy;
- Facilitate opportunities for the United States and its North American partners of Canada and Mexico to work together to most effectively compete in the global economy; and
- Ensure that non-economic trilateral cooperation spurred on by NAFTA continues unabated and expands into untapped areas of mutual interest.

NAFTA’s Economic Legacy

NAFTA has ushered in trilateral economic cooperation to a level that few would have imagined when President George H.W. Bush’s administration negotiated it. Three-way trade has more than tripled to over \$1 trillion, with US-Mexico trade alone supporting 5 million US jobs—from factory workers to farmers and cattlemen to engineers. Mexico is the biggest consumer of US cheese while also buying a third of video game consoles that the US exports.

The legacy of NAFTA very much affects states, cities, and towns across the United States. Thirty-three US states count Mexico as one of their top-three export markets. Thirty-five US states claim Canada as their most important foreign market. But more than trade, it’s also local jobs that depend on a smooth-functioning agreement. Indiana and Wisconsin each have nearly 100,000 residents whose jobs depend on US-Mexico trade. Michigan has nearly 140,000. Ohio, nearly 180,000, and Pennsylvania, 200,000 jobs.

The integrated nature of NAFTA trade means that agreement modernization must continue to build on the robust supply chains created over the last two-plus decades. The United States does not merely export to or import from Canada and Mexico. We make products together. That is why 40 percent, on average, of the content of Mexican exports is actually made in the United States. And it is NAFTA, and the tariff-free supply chains for auto parts, that allow US auto manufacturers to keep costs down and more effectively compete on the global market.

Beyond commerce, NAFTA has helped to facilitate a new wave of investment in the United States. Mexican-owned companies now operate more than 6,500 businesses in the United States, supporting an additional 123,000 US jobs. These jobs are often located in small towns—like Horsham, PA and Fort Smith, AR—where Mexican-owned firms bear a disproportionately high responsibility for the overall state of local employment.

Yes, the United States does have a \$55 billion trade deficit with Mexico. But the bilateral trade deficit does not effectively capture the degree of success of the agreement or the unique way in which our two countries' trade is actually conducted. US-Mexico trade is less about strict exports and imports, it's about making products together with the implication that a component of any trade deficit is a reflection of the hybrid nature of supply chains.

At the same time, reducing the trade deficit is far more complicated than increasing exports and reducing imports. A nation's trade balance is governed by macroeconomic factors, which means that a country that does not save enough (public and private) to cover its investments and consumption, will, in open world markets, incur a trade deficit. The reverse is true as well: as a country increases its savings, its trade balance becomes increasingly positive

The takeaway: a trade deficit comes about when a country is selling more assets to the world than it is buying. Reducing imports alone will not rectify the trade deficit without a corresponding increase in savings or reduction in investment. In the end, bilateral trade balances do not generate any significant meaning in and of themselves. And most importantly, a trade deficit in and of itself does not affect employment.

Today, over two decades later, NAFTA has helped to usher in a new wave of economic prosperity. Supply chains and jobs now depend on the integrated trilateral nature of NAFTA trade. Consumers also rely on NAFTA for ensuring that fresh tomatoes or avocados are readily available in their grocery store produce aisle, or that a new family car is still within financial grasp.

A NAFTA Byproduct: US-Mexico Strategic Cooperation

On top of these economic benefits, trade agreements also serve as strategic accords. Close commercial relations bind countries together in ways unmatched by most other policy tools. US free trade agreements, dating back to the first FTA that was signed with Israel, have sought to establish closer cooperation and further US geopolitical aims.

The same is true with NAFTA. Since ratification, trilateral cooperation—with the close commercial relationship serving as the bedrock—has expanded in countless ways: from intelligence sharing to migration and fugitive extraditions. North America is stronger and safer when all three countries work together.

Look to the years before NAFTA, and throughout most of the US-Mexico historical relationship, and what is evident are bilateral ties based on suspicion, not trust. That is no longer the case. Over the years we have established a trustworthy relationship and the United States is more secure as a result.

Today, our strategic partnership with Mexico runs deep throughout the federal government with close ties even at the state-to-state and city-to-city levels. Cooperation between law enforcement agencies has increased dramatically, with the Border Enforcement Security Task Force being just one example of robust intelligence sharing.

Extraditions of top fugitives is also on the rise. Mexico had historically scorned the notion of extraditing its most wanted to the United States. From 1988 to 1996, only 39 criminals were sent north. Under the term of Mexican President Felipe Calderón (2006-2012), extraditions reached over 100 per year. Just recently, in mid-January 2017, Mexico sent its top fugitive, Joaquín “El Chapo” Guzmán, to the United States.

On migration, it is important to note that NAFTA has created better paying jobs in Mexico, helping to formalize the economy and foster long-term opportunities for Mexicans. Today, the number of unauthorized Mexican migrants apprehended at the US-Mexico border is near its lowest level since the early 1970s.

Mexico is also a growing partner in clamping down on unauthorized migration and assisting with refugee resettlement.

Beginning in 2014, and in partnership with the United States, Mexico began to devote serious resources to curtailing unauthorized crossings at its southern border. In its first year, the Southern Border Program yielded an over 70 percent increase in detentions of unauthorized Central American migrants headed to the United States. With Central Americans now comprising the majority of unauthorized migrants entering at the US southern border, effective patrolling, deterrence, and identification of asylum seekers in southern Mexico is critical to reducing pressures at the US border.

The deep bilateral partnership is an important, sometimes overlooked, byproduct of the strong commercial ties developed under NAFTA. When assessing the importance of the agreement, we must not only look at the economic results but also consider the critical strategic ways in which NAFTA has helped to make the United States more secure.

An Optimal NAFTA Modernization

An update to NAFTA should start from the premise that millions of US jobs depend on the agreement as currently written. Service, trade, agriculture, and scores of other industries are designed with complex integrated supply chains that assume a continuation of the tariff-free access granted by the agreement. The automobile sector, in particular, is intrinsically tied to NAFTA with 40 percent of vehicle exports going to our North American partners.

The first order of business should be to protect the jobs and the added competitiveness resulting from NAFTA. At a time of ongoing disruptions to the global economy, negotiations

must not yield uncertainty about the sanctity of the North American market. If that were to happen, investment and jobs would be put at risk.

Second, NAFTA negotiations must conclude swiftly. If discussions drag into 2018, the politics of a Mexican presidential election and US congressional elections will severely impede the ability to strike a balanced trilateral deal. Additionally, drawn out discussions will serve to inject uncertainty into the three economies with potentially profound effects on Mexico. It is in the US interest for our southern neighbor to be in an economically sound position.

Third, negotiations represent a unique opportunity to update an agreement designed well before the advent of the digital age. Commerce today depends on the Internet, but digital trade and e-commerce are not part of the current agreement's framework. Back in 1994, email had yet to reconfigure the way we do business and floppy disks still stored information.

NAFTA's modernization could help write the next generation of global data rules by putting in place mechanisms that facilitate new technologies and the free flow of data. An updated NAFTA should ensure that rules are in place to foster job creation in the future sectors of work. NAFTA negotiators should put in place policies that will give North America a technological edge in being able to compete with the rest of the world.

Across the United States, Canada, and Mexico, NAFTA has helped bring our people and governments closer together over the last twenty-three years. Of course, each country has specific objectives when arriving at the negotiating table, but an overriding principle should be that the United States stays strong when our neighbors are strong as well.

Across America, livelihoods depend on a smooth-functioning NAFTA agreement. The negotiations must keep these people in mind while ensuring that new opportunities are opened up for future generations.