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ADRIENNE ARSHT
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WHAT IF NAFTA ENDED?

THE IMPERATIVE OF A SUCCESSFUL RENEGOTIATION

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FOREWORD

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Atlantic Council
October 2017

One year ago, few would have predicted that today we would be in the midst of negotiations to update the North American Free Trade Agreement (NAFTA). But the administration of President Donald Trump has quickly followed through on a signature campaign promise. Now, the burning questions facing business leaders—from small firms to large enterprises—and their workers are, what will be included in a modernized deal and how long will the negotiations take? Essentially, what is the end game?

But this is also the moment to assess what would happen to North America, and to the United States specifically, if NAFTA ended. Today's economic and business realities are markedly different than those of 1994, when the agreement went into force. And NAFTA needs to catch up with the twenty-first century.

Still, Canada and Mexico are some of the best trading partners for the United States. NAFTA has made American companies more competitive, allowing them to focus on producing what they are best at making. Not only has this increased company profits and brought jobs, but it has spurred reinvestment across all borders, creating intricate supply chain links that operate more efficiently and lower the cost of final products.

NAFTA has also ushered in an era of unprecedented trilateral cooperation among Mexico, the United States, and Canada, making it a rare and enviable achievement. We share intelligence information that helps keep our borders safe, we dismantle organized crime together, and we even tackle pressing energy concerns in ways that benefit all residents of North America.

Despite this, in the 2016 US presidential election we saw widespread concern about how the global economy is changing, with many blaming trade, and specifically free trade agreements, for the disruptions caused by globalization. Trade deals, like NAFTA, should better serve our current and future economy, but we cannot lose sight of the jobs across the United States that depend on a well-functioning accord like NAFTA.

At the same time, what is often missed is the breadth of US states that are highly dependent on trade with Mexico and Canada. From Texas to Michigan and Arizona to Ohio to Louisiana, state-level exports to Mexico surpass $5 billion. In 2016, Canada imported more than $23 billion worth of goods from Michigan and Ohio each. North Dakota and Montana conduct more than half their global two-way goods trade with Canada. The economies, jobs, security, and future of individual communities, and the United States overall, is tied to a successful NAFTA renegotiation. The problem is that we have largely failed at communicating the benefits of this trade to Americans.

We hope this report serves as a catalyzing force to galvanize greater appreciation and understanding of the economic and strategic benefits of NAFTA. The agreement does need modernization, but all parties must continue to recognize that millions and millions of people depend on a successful conclusion to negotiations. Future generations are relying on us getting this right.

As negotiators continue to meet at breakneck speed and work through thorny issues, this report captures the moment to highlight how crucial it is for them to be successful. The following pages show—from a country-by-country perspective—the potential losses that would be suffered without NAFTA. As the refrain goes, "You don't know what you've got until you lose it."

The United States without NAFTA

By Phil Levy

On the heels of a strongly contested US presidential election, the North American Free Trade Agreement (NAFTA) has taken center stage. Now that the United States has engaged its North American partners in talks to modernize the twenty-three-year-old accord, the question must be asked: Where would the US would be without NAFTA?

WHAT DID NAFTA DO FOR THE UNITED STATES?

The United States had close economic relations with both Canada and Mexico before NAFTA. Mexico had joined the General Agreement on Tariffs and Trade in 1986, at which point the United States committed to applying its standard, relatively low, bound, Most Favored Nation (MFN) tariffs. Canada and the United States signed the Canada-United States Free Trade Agreement (CUSFTA) in 1987, which then came into force in early 1989. One result of this: In 1993, the year before NAFTA went into effect, US sectoral tariff rates on Canada and Mexico already averaged just 2.7 percent.[1]

Given this low tariff rate, the effects of NAFTA could have been expected to be minimal. Yet NAFTA implementation in 1994 coincided with a period of burgeoning trade, low unemployment, and strong economic growth in the United States. In the four years following NAFTA's implementation, the United States added 800,000 manufacturing jobs—a contrast with the 2 million lost between 1980 and 1993. More broadly, US unemployment averaged 5.1 percent from 1994 to 2007, compared with 7.1 percent between 1982 and 1993.[2]

Today, the United States relies on its NAFTA

FIGURE 1. US-NAFTA Trade and Investment (US$ billions)*

	US imports of goods and services	US exports of goods and services	Trade balance	Inward FDI stock	Outward FDI stock
Canada	$314	$321	$7	$371	$364
Mexico	$325	$262	–$58	$17	$88
NAFTA total	$638	$583	–$51	$388	$452
World total	$2,713	$2,208	–$547	$3,725	$5,332
NAFTA share of world total	24%	26%	9%	10%	8%

*DATA FOR 2016.

SOURCE: US Census Bureau, US Bureau of Economic Analysis.

FIGURE 2.

US States' Reliance on Trade with Canada*

Top 14 states	Canada's share of total two-way goods trade
North Dakota	72.9%
Montana	72.4%
Vermont	56.0%
Maine	49.3%
Michigan	37.9%
New Hampshire	37.9%
Wyoming	36.8%
South Dakota	36.2%
West Virginia	31.8%
Oklahoma	29.1%
Iowa	28.6%
Ohio	27.1%
Missouri	26.3%
Minnesota	25.0%

US States' Reliance on Trade with Mexico

Top 14 states	Mexico's share of total two-way goods trade
New Mexico	38.2%
Arizona	37.8%
Texas	37.5%
Michigan	32.2%
Nebraska	17.2%
South Dakota	16.9%
Iowa	16.9%
Missouri	16.8%
Utah	16.2%
Alabama	13.7%
Wisconsin	13.4%
Colorado	13.3%
Ohio	12.7%
Kansas	12.7%

*DATA FOR 2016.

SOURCE: US Census Bureau.

partners for roughly a quarter of its global two-way trade in goods and services, and for almost a tenth of its inward and outward stock of foreign direct investment (see figure 1).

Even these large aggregate numbers mask the critical role that NAFTA plays for certain states. At least fourteen states conduct more than 25 percent of their global two-way trade in goods with Canada, with fourteen states also conducting more than 13 percent of two-way global trade with Mexico (see figure 2). Four of these states conduct more than 30 percent of their two-way trade with Mexico. The disparity in trade volumes is not surprising, given that in 2016 Canada's GDP was about 50 percent greater than that of Mexico.

Several of these states have robust agricultural sectors that have greatly benefited from NAFTA. Canada and Mexico are the first and third export markets for US agricultural products, including meat and dairy, grains, fruits, vegetables, and sweeteners.[3]

While it is easiest to think of trade in these kinds of easily recognized items, such as Mexican avocados or US corn, intermediate inputs are also critical. Most autos these days are not made in a single place. The engine may be made by a subsidiary in one country, the chassis in another. These are intermediate inputs that go into the production of the final good—a car. Data show that a large share of trade takes place within firms or between related parties, especially in the transport, electrical, and machinery industries.

An array of industries in the United States rely on intermediate inputs imported from Mexico for both domestic production and exports. For example, while motor vehicles and vehicle parts accounted for 33 percent of US imports from Mexico in 2016, motor vehicle parts were also the leading US export to Mexico that year, accounting for 10 percent of the US total.[4]

While automobile production may be the most integrated sector in North America, thanks to NAFTA, it is hardly unique. Understanding this interconnectedness through supply chains is critical to understanding modern global commerce and the significance of NAFTA. Obstacles to North American trade would not just hit American households, but would undermine the viability of American producers.

Together, Mexico, Canada, and the US produce goods and services for world markets. On average, 40 percent of the content in Mexican exports of finished goods to the United States is US made; that means 40 cents of every dollar Americans spend on Mexican products supports

Nearly 41 million US jobs were related to US trade more generally, accounting for 22 percent of US employment.

jobs in the United States.[5] The integration of the US and Mexican auto sector helped mitigate the effects of the 2008 recession and contributed to the recovery on both sides of the border.

The importance of related-party trade highlights the significance of the linkage between trade and foreign direct investment. It also shows the importance of reforms beyond simply removing tariffs, since for this type of exchange, investment obstacles would also have an important effect on trade flows.

While it is straightforward to demonstrate the importance of US trade linkages to Canada and Mexico, it is more challenging to discern the impact of NAFTA on US employment and to separate out the effect of NAFTA from concurrent events when assessing net effects on US well-being.

In terms of jobs, it is exceedingly difficult to pinpoint NAFTA's effects. In 2008, a study done by Baughman and François found that 5.4 million jobs were linked to trade with US Free Trade Agreement (FTA) partners and roughly 92 percent of that was due to NAFTA.[6] Thus, NAFTA was linked to almost 5 million US jobs. However, such estimates can be problematic, since in the absence of a trade agreement, many of the workers employed in NAFTA-related jobs would have found other, less desirable employment.

A different way to address the employment question that sidesteps this difficulty is to ask how many jobs are related to trade. A 2016 study found that nearly 41 million US jobs were related to US trade more generally, accounting for 22 percent of US employment.[7] In 1992, it was 14.5 million jobs, or 10 percent of the total.[8] Those linkages are not all due to NAFTA, but NAFTA played a significant role both in spurring World Trade Organization (WTO) negotiations and in providing a template for later US FTAs. Further, its employment role should be commensurate with the large Canadian and Mexican shares of US trade.

The causality question is at least as difficult when accounting for terms of trade (i.e., the changes in relative prices), growth, and economic well-being. The implementation of NAFTA was contemporaneous with ongoing economic trends, such as the increased automation of manufacturing. It coincided with both ongoing economic reforms in Mexico and sharp macroeconomic shocks. And it took place as all three countries were implementing the commitments of the Uruguay Round of WTO talks. Some of these shocks would be expected to enhance the apparent luster of NAFTA (e.g., ongoing reforms) while others would be expected to dampen apparent benefits (e.g., the peso crisis).

Perhaps the most prominent and careful econometric study that attempted to disentangle the effects of NAFTA from other stimuli found that NAFTA had increased intra-bloc trade by 41 percent for the United States. However, by other measures, NAFTA's impact on the United States was relatively minor: terms of trade improved by 0.04 percent and welfare rose by 0.08 percent.[9]

It would be a mistake, however to conclude from this and similar studies[10] that NAFTA was unimportant for the United States. First, the study limited itself to the effects of tariff removal, an exceedingly common tactic since it is dramatically easier to model the effects of tariffs than of non-tariff barriers (NTBs). But this does not diminish the relevance of NTBs. It is the

Chrysler's Warren Truck Assembly Plant in Michigan is only one of many factories in the United States that rely on intermediate inputs imported from Mexico for both domestic production and exports.

FIAT CHRYSLER/FLICKR

equivalent of searching for keys at night under a lamppost—not because that is where they are likely to be, but because that's where the light is. We know that NTBs are significant for at least two reasons: participants in key sectors tell us so; and studies looking at the importance of border effects find them to be significant, even when tariffs are reduced or removed.[12]

Second, the study assumed perfect competition and constant returns to scale. Coupled with this is the idea that productivity gains are not driven by trade liberalization. But it has been argued that in the NAFTA context: "The vast majority of what we trade in manufactured goods and services is dominated by a very small number of mega-firms...we see that these firms adopt new technologies strategically......the resulting NAFTA-induced innovation adds further welfare gains into the pot."[13] Those welfare gains could come in the form of new or improved products, as well as through lower consumer prices.

A final significant omission, common to most large-scale modeling efforts, is the assumed counterfactual. If NAFTA had not been signed, would Mexico have continued on its path of economic reform? Would Mexico's low tariffs have survived the Asian Financial Crisis of the late 1990s the way they did? Alternative paths in which Mexico reverted to other historical traditions would magnify the gains from NAFTA.

WHAT WOULD THE UNITED STATES LOOK LIKE WITHOUT NAFTA?

Without NAFTA, the least worrying baseline case would be one in which the North American countries revert to their pre-NAFTA levels of

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protection, adjusted for subsequent commitments at the WTO. Even this would involve the dramatic and painful unwinding of integrated industries such as autos. While industries could adjust in the long run, they currently have substantial investments premised on the existing low barriers. The unwinding would involve higher consumer prices, business failure, and substantial job loss.

The abandoned Packard Plant is one many former auto plants which now sit in ruins in the city of Detroit. Without NAFTA, an unwinding of integrated industries such as autos would lead to higher consumer prices, business failure, and substantial job loss.

But a forecast return to a world governed by a free trade agreement between Canada and the United States, plus the WTO agreements, seems excessively optimistic. It assumes that the same forces that would strike down NAFTA would be content with CUFSTA. It might be more plausible to think that both the WTO and the underlying free trade agreement with Canada would be at risk and would be renegotiated as well.

If the United States were not in NAFTA, the unwinding of industries would create higher consumer prices, business failure, and substantial job loss. In addition, even if other trade institutions were not at immediate risk, an end to NAFTA would send a strong negative signal to trading partners and investors well beyond North America.

Those who must make investment decisions well in advance could conclude the United States had become an unreliable partner and either leave or apply a risk premium that the United States has not previously had to pay. This is not purely speculative. NAFTA kicked off a long string of US liberalization efforts; ensuing agreements built off of the NAFTA framework. If that framework were rejected, other countries would be right to worry. Investment in the United States would stagnate, risking millions of well-paying jobs that support families across the country.

Quite simply, an end to NAFTA would seriously jeopardize US prosperity.

NAFTA's Importance to Canada and What that Means for the United States
By Daniel Schwanen

NAFTA is fundamental to Canada, and without it, Canadian and US workers alike would suffer. The US market accounts for three-quarters of Canada's exports—equivalent to just under 20 percent of Canada's entire GDP—and many US businesses depend on these exports to build US products. NAFTA negotiations have little, if any, room for error.

Geographic, historical, and cultural bonds have made this one of the largest trading relationships in the world, with the economies, jobs, and consumers of both partners highly vulnerable to its potential demise. A look at what the Canada and the United Sates might lose without NAFTA is essential for negotiators, to highlight what needs to be preserved, and even enhanced, in a renegotiated agreement.

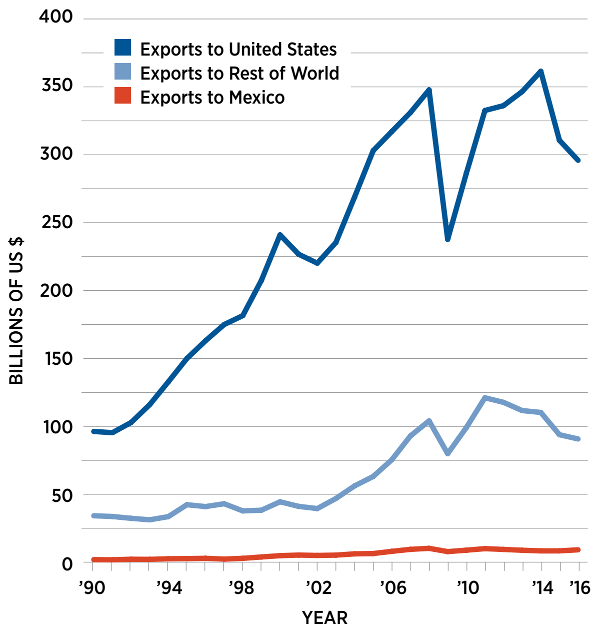
BACK TO CUSFTA

Before NAFTA, the Canada United States Free Trade Agreement (CUSFTA) governed trade between the two countries. Predating NAFTA by five years, CUSFTA is currently suspended—subsumed by NAFTA.[14] However, if NAFTA were not in place, trade between Canada and the United States would be dictated by CUSFTA rules, subject to different rules of origin than under NAFTA. Reverting to these CUSFTA rules for trade between Canada and the United States would make most Canadian-made products, many of which made with US inputs, less competitive.

Having to rely on the CUSFTA would also mean reverting to a "positive list" approach to liberalizing trade, which lists those goods and services that have been liberalized. This is less comprehensive than NAFTA's "negative list" approach, which leaves open anything that is not specifically on the list. It would herald a hub-and-spoke trading system in North America, with the US as a hub—whereby inputs and skills could not be as easily combined within the region, negatively affecting competitiveness and consumer prices in all three countries. This is exactly the outcome Canada tried to avoid

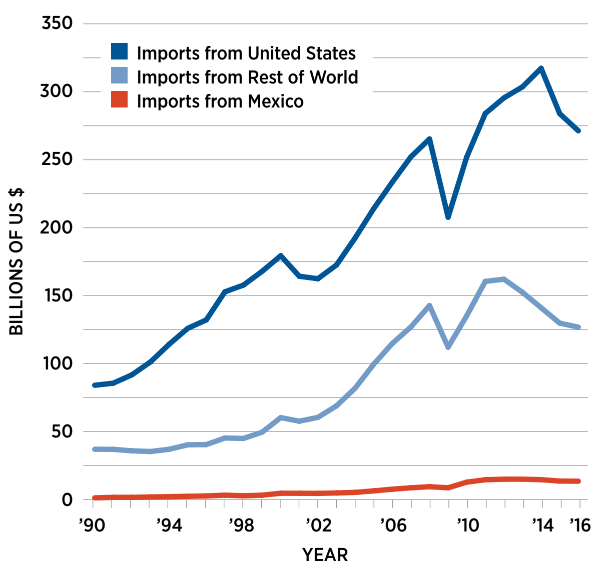
Growth in the trade of commercial services in both directions has easily exceeded that of merchandise trade.

FIGURE 3. Merchandise Exports from Canada



SOURCE: Statistics Canada and author calculations, 2017

FIGURE 4. Merchandise Imports to Canada



SOURCE: Statistics Canada and author calculations, 2017

when it asked to join the United States-Mexico negotiations that eventually led to NAFTA.[15]

While CUSFTA offers Canada some protections in a world without NAFTA, that protection is highly imperfect and uncertain. The United States may also seek to dismantle it, or at least re-impose tariff barriers on its trade with Canada. The US can even re-impose tariffs on sectors that were already free of such tariff barriers prior to CUSFTA.

WHY NAFTA IS ESSENTIAL FOR TRADE FLOWS

CUSFTA—and then NAFTA—spurred significant increases in gross trade flows between Canada and the United States in the years immediately following its implementation (see figures 3 and 4). At the time, even accounting for the economic growth of both Canada and the United States as they recovered from a severe recession in the early 1990s, trade grew particularly in those sectors liberalized under CUSFTA, and more between Canada and the United States than between Canada and other countries.[16]

The share of Canadian goods in the value of US merchandise imports has fallen sharply, from 18.5 percent in 1988, the year before CUSFTA took effect (when Canada was the second largest source of US imports, behind Japan), to 12.7 percent in 2016 (third behind China and Mexico). In comparison, the Canadian market seems to have been less fickle for US exporters: Canada accounted for 18.4 percent of total US merchandise exports in 2016, compared to 21.7 percent in 1989. Seen from the Canadian side (see figure 5), despite the drop in Canada's share of US imports, there is now a slightly greater dependence on merchandise exports to the US than before either free trade agreement.

Abstracting from these ups and downs in relative dependency, the takeaway after twenty-eight years of free trade is that, since

CUSFTA, the Canadian and US economies are more highly integrated than before. Factoring in the much smaller but now fast-rising trade between Canada and Mexico, NAFTA exports are equivalent to 19.7 percent of Canadian GDP in 2016 (compared to 16.2 percent in 1990), while NAFTA imports are equivalent to 18.7 percent of GDP in 2016 (compared 14.2 percent in 1990). This interdependence is a defining feature of NAFTA.

BROAD INDUSTRY TRADE PATTERNS

In 1988, transportation equipment accounted for about one-third of the value of Canada's merchandise exports to the United States—a result of an even earlier agreement, the 1965 Auto Pact, which was based on balanced trade between the two countries. Over the ensuing twenty-eight years, the pattern of Canadian exports to the United States changed considerably, becoming somewhat more diversified to include significant amounts of minerals, oil, gas, chemicals, plastics, and agricultural products.

These broad patterns show the continued importance of open two-way trade between Canada and the United State, in autos certainly, but also in a range of machinery and equipment, chemicals, plastics, agriculture, and energy products. Trade in all these areas, among all three economies, has benefited considerably from reduced customs duties and other supportive provisions in NAFTA.

One of the least well-known yet crucial trends in trade between Canada and the United States under NAFTA is the growth of trade in commercial services, such as engineering, architecture, consulting, legal services, and intellectual property (payments for copyrights, royalties, etc.). Growth in the trade of commercial services in both directions has easily exceeded that of merchandise trade. Trade in commercial services now accounts for 9 percent of total trade between the two countries, compared to just over 5 percent before CUSFTA.

FIGURE 5. Share of Merchandise Trade in Canadian GDP—NAFTA Countries and the Rest of World

	Percent of Merchandise Trade		
	1990	1997	2016
CANADIAN EXPORTS			
Share of GDP	*21.9%*	*33.5%*	*25.7%*
Share of Total to US	73.4%	82.3%	75.2%
Share of Total to Mexico	0.9%	0.7%	1.7%
Share of Total to Rest of World	25.7%	19.4%	23.1%
CANADIAN IMPORTS			
Share of GDP	*20.3%*	*30.7%*	*27.0%*
Share of Total from US	69.1%	76.1%	65.8%
Share of Total from Mexico	0.7%	1.5%	3.5%
Share of Total from Rest of World	30.2%	22.4%	30.8%

SOURCE: Statistics Canada and author calculations, 2017

The United States, however, still registers a large surplus with Canada when other services—specifically, transportation and tourism—are included in the balance. This underscores that service industries have captured a generous chunk of the benefits of more open trade for an advanced economy such as that of the United States.[17]

IMPACT OF FREE TRADE ON CANADA'S ECONOMY

The era of free trade with the United States has produced a huge change for Canada's manufacturing sector, lifting its productivity by an average of 14 percent, as Canadian plants quickly became as efficient as their US counterparts.[18] While employment was negatively affected in industries previously protected by high tariffs,[19] the losses were replaced by higher-paying jobs overall.[20] Free trade supported a shift in Canadian output toward relatively more

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sophisticated manufactured goods and services (a long-term trend sometimes obscured by upward bursts of commodities prices and investments), in turn supporting rising wages in those higher value-added industries.

Canadian consumers benefited from lower prices on those goods now subject to greater cross-border competition. One recent estimate suggests that Canadian consumer prices are between 7 percent and 12 percent lower because of free trade.[21]

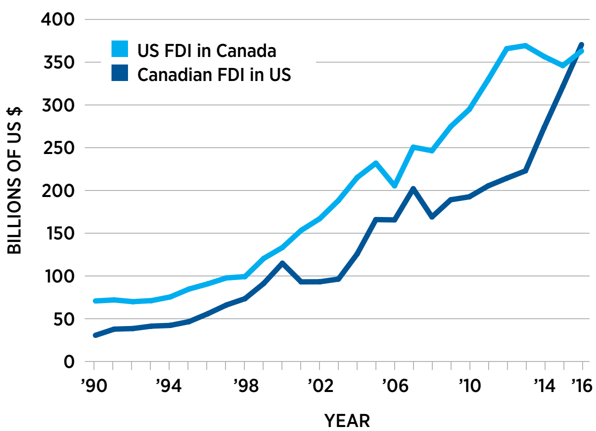
The Bombardier Aerospace plant in Quebec manufactures jet planes, serving as a final assembly point for components manufactured in Mexico, Canada and the United States. Part of a shift in Canadian output, supported by free trade, toward more sophisticated manufactured goods and services, in turn supporting rising wages.

THE DEBATE AROUND TRADE BALANCES: THE CANADA-US CASE

The Canada-US case demonstrates particularly well the pitfalls of making balanced exports and imports a goal of trade policy. Consider this passage from the opening statement of United States Trade Representative (USTR) Robert Lighthizer at the first round of NAFTA renegotiations: "In recent years, we have seen some improvements in our trade balance with Canada. But over the last ten years, our deficit in goods has exceeded $365 billion."

First, while it is critical that NAFTA work better in the realities of today and tomorrow, the USTR in this statement focuses on trade in goods only—the significant US services trade surplus, which accounts to about a quarter of Canada's surplus in goods, is ignored, distorting the picture of trade between the two countries. More importantly, about 90 percent of the US goods trade deficit with Canada over these years has been due to US imports of oil, natural

FIGURE 6. Canada — US Foreign Direct Investment (FDI)



SOURCE: Statistics Canada and author calculations, 2017

gas, and other minerals. If the United States did not secure this supply from Canada, it would almost certainly have to get it elsewhere, or produce it domestically (as indeed it has been doing lately, accounting in part for the reduced deficit with Canada). This would leave the US deficit with the world unchanged, but with a weakened neighboring economy likely buying less from US suppliers. These facts show the danger of excessively focusing on "crude" measures of bilateral trade imbalances as a measure of policy success.

Furthermore, in the NAFTA age, Canadian businesses have significantly stepped up direct investments in US production. Data from the Bureau of Economic Analysis shows that the value of Canadian direct investments in the United States now exceeds that of US investments in Canada (see figure 6). These Canadian investors now directly employ some 600,000 Americans. These investments are, in part, supported by the promise of a more integrated economy under NAFTA. The NAFTA provisions that liberalized services trade allowed for smoother cross-border travel, encouraged regulatory cooperation, and protected investors making long-term commitments. By supporting Canadian investments in the US, and vice-versa, they clearly have enhanced the competitiveness and ability to sustain good jobs in both countries.

The focus on deficits ignores the fact that the gains from trade on both sides—even for deficit countries—are more closely related to the volume of trade than to any deficit or surplus. Today's trade patterns represent Americans, Canadians, and Mexicans working together in value chains, big and small, that make the operations in each country better able to meet global competition and create jobs for the twenty-first century.

This is certainly the case in the auto industry. Whether it's the iconic F-150 pickup truck relying on affordable Canadian aluminum, or the rear suspension assembly in GM cars (which is made in Canada from parts provided by thirteen suppliers, of which three are American), such relationships help make quality, affordable North American vehicles for individuals and businesses.[22]

The same goes for the splendid Salt Lake City public library designed by a Canadian architect and built by American construction workers using high-tech Mexican-made concrete panels. Or for the Canadian bank helping its US customer do business in Canada. Or the

The focus on deficits ignores the fact that the gains from trade on both sides are more closely related to the volume of trade than to any deficit or surplus.

FIGURE 7. Canadian Industries Most Sensitive to Disruption in Merchandise Trade with the United States*

Industry	Number of Canadian jobs that depend on exports to the US	Percent of Canadian jobs that directly depend on exports to the US	Percent of exports to the US comprised of US content
Motor vehicle manufacturing	161,993	76.1%	44.1%
Semiconductor and other electronic component manufacturing	12,660	65.3%	29.0%
Rubber product manufacturing	15,934	54.6%	32.5%
Alumina and aluminum production and processing	22,919	56.0%	21.1%
Soap, cleaning compound and toilet preparation manufacturing	10,728	44.7%	30.6%
Motor vehicle parts manufacturing	69,683	45.1%	29.1%
Other general-purpose machinery manufacturing	21,802	42.6%	25.4%
Other electronic product manufacturing	15,336	40.5%	23.1%
Plastic product manufacturing	35,627	27.4%	33.0%
Aerospace product and parts manufacturing	36,260	40.0%	19.4%
All other sensitive industries (as defined in text)	551,040	31.8%	10.1%
Total above industries	**945,032**	**36.4%**	**19.9%**
Of which: Excluding raw materials	**682,195**	**37.3%**	**28.4%**
Other goods-producing industries	391,300	15.3%	19.3%

*DATA ARE FROM 2013.

SOURCE: Statistics Canada and the author's calculations

US machinery manufacturer easily able to send service personnel across borders to ensure seamless customer service. NAFTA facilitates the fruitful economic cooperation among industries, including in public procurement, without which consumers and taxpayers—and ultimately workers whose employers could less easily bid on projects—would be poorer in all three countries.

One thing that economists, the public and political leaders can agree on is that the quality of jobs and consumer incomes related to trade is a key indicator of the success of trade agreements. In that light, no one denies that jobs or incomes have been lost because of foreign competition—including the 700,000 US jobs mentioned by USTR Lighthizer. However, these gross losses need to be netted against jobs that have been created or maintained, incomes generated by US exports, and incomes generated by foreign investment in the US (few people know that foreign investment in the US is the mirror image of the country's trade deficit). They must also be considered against the likelihood that jobs lost during a transition to more open trade were also often the prime candidates to lose jobs anyway, because of technological changes.[23]

VULNERABILITY IN A WORLD WITHOUT NAFTA

Without NAFTA, US Most Favored Nation (MFN) tariffs would apply to Canadian goods entering the United States, including, of course, their Mexican components. These are not inconsequential for Canada. Per the Organisation for Economic Co-operation and Development's (OECD) Trade in Value-Added database, the share of Mexican value-added in Canadian manufacturing exports rose from under 0.75 percent in 1995 to 1.25 percent in 2011, and was highest in motor vehicles at 6.9 percent.

Based on the current structure of Canadian exports to the United States, US tariffs would average 12.7 percent for basic agricultural goods (which represent just under 5 percent of Canadian merchandise exports to the US) and 1.9 percent for nonagricultural goods.

The "good" news is that these MFN tariffs are lower than they were at the time NAFTA was signed, so for many products, the US tariffs would not go back to where they were before the agreement. This is not true, however, of some key products that were circulating free of duty between Canada and the United States even before CUSFTA, such as autos. For these products, a new tariff at the border would be a historical step backward.

More generally, the bad news is that many industries have woven value chains across the border that require several crossings at different stages of production, before being turned into a final product. Any changes to NAFTA would negatively affect many long-term investments that have been made, on both sides of the border, based on the assumption that the agreement was going to remain in place.

Figure 7 lists the Canadian industries that would be most affected by a re-imposition of duties between Canada and the United States. The first column shows the number of Canadian jobs dependent—directly or indirectly—on that industry's exports to the United States—in other words, the number of Canadian jobs that would feel some negative disruption (such as lower compensation or, at the limit, job loss) if the industry's ability to export to the United States was compromised. The second column is the percentage of jobs in that industry that depend directly on exports to the United States. The third column shows the percentage of Canadian exports to the United States that are actually comprised of US inputs—a measure of value chain integration in that industry between the two countries. "Sensitive" industries in the table are defined as those that support at least 10,000 Canadian jobs, and have at least 30 percent of their employment directly dependent on exports to the United States and/or 30 percent of US content embodied in their exports from Canada to the United States.

The manufacturing industries that are most in the line of fire without NAFTA and CUSFTA support some 682,000 Canadian jobs (out of a total of just over 18 million such jobs across all of Canada).

The manufacturing industries that are most in the line of fire without NAFTA and CUSFTA support some 682,000 Canadian jobs (out of a total of just over 18 million jobs across all of Canada in 2013). On average, 37 percent of jobs in those industries directly depend on exports to the United States.

It is immediately obvious why disrupting this trade would hurt the United States as well, probably negatively affecting an equivalent number

Traffic at a US-Canada border crossing between Washington and British Columbia. Since NAFTA was put into effect, new international security threats have made keeping the border fluid a growing challenge.

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of US jobs, as the US value-added incorporated in those Canadian industries' exports to the United States was 28 percent, indicating a high degree of cross-border integration. Facilities that trade inputs and, eventually, finished products, are located on either side of the border for a reason. Typically, these reasons have to do with geography (Canadian production facilities are often closer to US production facilities than to other Canadian locations, and vice-versa), skill availability, economies of scale or scope, and other cost advantages offered by a particular location. Imposing barriers on cross-border supply chains would certainly make a number of Canadian operations costlier—to the detriment of products made jointly in both countries, whether those goods are consumed in North America or exported elsewhere.

While some firms may relocate activities in the United States, away from their cost-efficient Canadian base, to escape the cascading effect of new tariffs, the result would still be higher costs and therefore reduced global competitiveness for the entire chain of manufacturing that relies on Canadian and US operations making things together.

MOVING FORWARD

One reason why NAFTA may not be fully appreciated—considering that it underpins millions of good jobs across all of North America—is that it left in place important barriers to open trade, some of which might reasonably be construed as unfair. For example, on Canada's side, virtually impenetrable barriers to imports of "supply managed" products such as dairy contribute significantly to keeping consumer prices higher in Canada than in the United States, while hurting US farmers. And low duty-free exemptions into Canada also negatively affect Canadian consumers relative to their US and Mexican counterparts, while hurting US businesses.

On all sides, there remain significant barriers to balanced access for foreign contractors to state and provincial procurement opportunities, inefficient subsidies that distort competition, and unnecessary regulatory disagreements. These only raise costs for consumers, businesses, and governments. And of course, since NAFTA was put into effect, new international security threats have emerged that have made keeping the border as fluid as possible for trade very challenging—requiring additional border investments and verifications unforeseen at the time NAFTA was implemented. These and other considerations illustrate the potential for a modernized NAFTA to further lower trade barriers.

It is critical to be sympathetic to the need for trade agreements to be seen as fair, and to implement mechanisms to monitor and take corrective action where unfair practices exist. But the cost of a new agreement that would raise barriers could be severe. Instead, a modernized NAFTA can help all three governments fulfill their goals of raising middle class incomes, making important investments in their infrastructure, and showing the way to fair, progressive trade for the world economy.

Mexico without its North American Partners
By Javier Mancera

The White House has stated that one of its main goals in modernizing NAFTA is reducing the US trade deficit with Mexico. But this very public position makes it hard to think of a modernized, twenty-first-century NAFTA because it does not take into account the economic changes since its implementation in 1994 and the risk to jobs across North America. Strong statements such as this have raised a previously unthinkable prospect—the end of NAFTA.

Although the central focus today is to ensure that negotiators over the next few months—and beyond—get to a deal that makes North America even more globally competitive, the modernization of NAFTA begs the question:

The overall impact on the US total trade deficit [without NAFTA] might be to make it worse, as its global trade deficit might go up, particularly with Asian economies that serve as alternative, more competitive suppliers.

How would North America look without NAFTA, and what would be the impact of such an outcome on Mexico? The answer demonstrates why so much is at stake for all three nations.

AN END TO NAFTA?

Although the chances of a dramatic break-up of the United States, Canada, and Mexico are low, there are a couple of possible scenarios that could mean an end to NAFTA.

One option: the United States chooses to withdraw from the agreement, arguing that the perceived trade surplus Mexico has with the United States is unfair and that the negotiations are not producing a viable way to rectify it. This scenario, although (hopefully) unlikely, is still important to consider. If that happens, trade between the United States and Mexico would be governed by the WTO's Most Favored Nation rules. Both the United States and Mexico would suffer negative economic consequences, but WTO rules for bilateral trade would have a more negative consequence on US exports than on Mexico's, due to higher MFN tariffs on US exports to Mexico. The overall impact on the US total trade deficit might be to make it worse, as its global trade deficit might go up, particularly with respect to Asian economies that serve as alternative, more

President Trump speaks at the Conservative Political Action Conference in 2017, where he described NAFTA as "one of the worst deals ever made by any country having to do with economic development."

MICHAEL VADON/FLICKR

competitive suppliers.

Another possibility is that the United States could push too hard during negotiations and be reluctant to compromise on key issues, thus creating an unbalanced agreement that would force Mexico to step out of the negotiations. As negotiations drag on into 2018, this risk becomes slightly higher as Mexico gets closer to its presidential elections in July, increasing public pressure on Mexican negotiators to stand their ground.

Yet another scenario could be that the United States ultimately insists on bilateral agreements that would significantly reduce North American competitiveness. Canada might prove to be the winner in the region if the United States succeeds in establishing separate trade agreements with both countries. This would cause Mexico to compete with the United States in the Canadian market, and because the US and Canada have similar economies, both would face off in the Mexican market.

The biggest risk for Mexico is losing its position in the North American value chain. If that happened, Asian suppliers would walk away as the clear winners because Mexico would no longer be able to compete. The enormous economic effects in Mexico would spark instability and a potential return to crisis.

The best scenario for Mexico—and for the Northern American region as a whole—would be to conduct negotiations trilaterally, building on NAFTA by updating the current text where needed and incorporating new areas to strengthen the region's competitiveness worldwide. If this outcome is achieved, it would enable North America to continue to be a leader in the twenty-first-century economy and would create opportunities for further innovation, investment, and job growth.

NAFTA'S IMPACT ON MEXICO AND ITS PARTNERS

NAFTA played an important role in grounding the liberalization of Mexico. When the Mexican Senate ratified the agreement, it sent a clear message to the world that Mexico was committed to a market economy. In the years since, the internationalization of the Mexican economy and of the rules that regulate it have brought benefits not only in terms of investment and production, but also for the overall well-being of Mexican society.

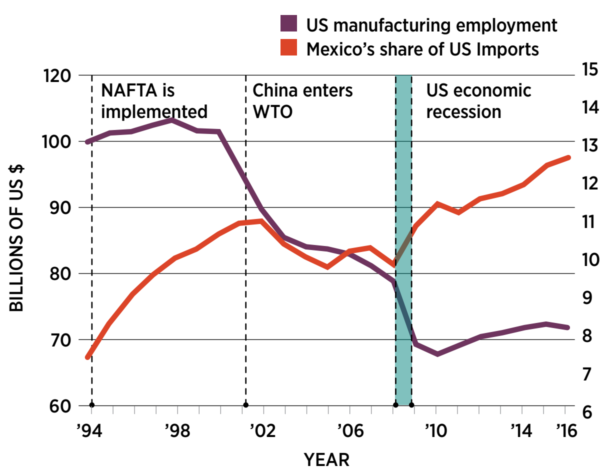
For consumers, the biggest benefit of NAFTA is the reduction in prices brought about by increasing competition and lower tariffs. Economic standards have also improved, with the corresponding gains in social indicators. One example is less labor-intensive work with higher wages that have increased the standard of living across North America.

In Mexico, NAFTA has anchored a trade policy based on principles, not private interests. Mexico is bound by the same rules and standards as the United States and Canada, and provides its businesses, entrepreneurs, and investors, with clear rules to facilitate their competition with counterparts in the region. Beyond lowering duties, these rules have turned out to be the most important asset for Mexico.

Mexico also increased its trade and investment flows with the United States and Canada, and locked in the domestic reforms of the early 1990s. NAFTA committed its partners to consolidate their future reforms through the so-called ratchet clause, which says that once a particular trade barrier is unilaterally removed in an area covered by the agreement, it cannot be reintroduced.

The automotive industry is emblematic of what NAFTA has meant for North America and for the Mexico-US relationship. The number of vehicles in Mexico per hundred people tripled between 1990 and 2012. Mexican motor vehicle part exports to the United States grew between 2005 and 2014, and US imports to Mexico improved proportionally. This highlights the importance of North American supply chains and of US imports for the success of Mexican automotive exports, and vice-versa. Mexico has also benefited greatly from foreign investment in the automotive sector, and so has the United States. For the auto industry, the attractiveness of investing in NAFTA countries lies in having access to North American supply chains in which each of the three countries play a crucial role.

FIGURE 8. Correlation Between US Manufacturing Employment and Mexico's Share of US Imports



NAFTA AND EMPLOYMENT

While employment in the manufacturing sector in the US has fallen since the early 1990s and Mexico's share of US imports has almost doubled during the same period, the idea that the fall in manufacturing employment is a direct result of NAFTA is not accurate. Figure 8 illustrates two important macroeconomic phenomena that have affected the economic relationship between Mexico and the US in the past several decades.

The most important factor for the decline in US manufacturing employment was not NAFTA, but US imports from China after its entry into the WTO.

First, US manufacturing employment grew after NAFTA was signed, just as Mexico's share of US imports started to grow. This correlation has been in place since NAFTA was implemented in 1994. In the first five years of the agreement, both grew by approximately 5 percent, with a decline in both around the time China entered the WTO in 2001.

Although the declining trend of US manufacturing began earlier, the sharpest decline in US manufacturing employment occurred after the recession of 2008–2009 (the blue vertical bar on figure 8). Shortly after the financial crisis, both manufacturing employment in the US and Mexico's share of US imports experienced a recovery. The most important factor for the decline in US manufacturing employment was not NAFTA, but US imports from China after its entry into the WTO.

WHAT IF THERE'S NO NAFTA?

What would happen in Mexico if NAFTA ended? It depends on which measures from the agreement would cease to apply. The fact that Mexico has since signed free trade agreements with other countries limits the possibility of backtracking on some of the open policies originally brought in by NAFTA. This is also the case with the WTO agreements, to which Mexico and the United States are committed.

Mexico has further embarked on ambitious structural reforms, including in the telecommunications and energy sectors, which favor investments and business activities that go beyond the United States and NAFTA—and compel the country to keep NAFTA's basic framework and build upon it.

Without NAFTA, the most detrimental implication for Mexico is the loss of preferential access to American markets. This means imports from Mexico to the US market and imports from the United States to the Mexican market would pay MFN duties. The United States is Mexico's most important trading partner: In 2016, 80.9 percent of Mexican exports went to its northern neighbor, while 46.4 of its imports came from the United States. MFN tariffs would have a significant impact on this trade.

With NAFTA, Mexican exports to the United States pay an applied tariff of 0.2 percent for agricultural products and zero for nonagricultural goods. MFN tariffs would increase to 6.4 percent for agricultural products and 1.9 percent for nonagricultural goods. NAFTA allows US exports to Mexico to pay an applied tariff of 1.1 percent for agricultural products and 0.2 percent for nonagricultural goods. Without NAFTA, these tariffs would increase to 38.4 percent for agricultural products and 7.7 percent for nonagricultural goods.

If Mexican exports to the United States paid these higher MFN duties, it would put Mexico at a disadvantage vis-à-vis other countries with which the United States has free trade agreements. Even considering other advantages that Mexico has, such as its skilled lower-cost labor force and its proximity to the US market, in the case of goods including sugar, textiles, clothing, and certain vehicles, these tariffs could be high enough to displace Mexican exports with those of other countries. In this scenario, US imports from Mexico are projected to fall from $288.6 billion (in 2016) to $275.6 billion—a decrease of

JAXPORT/FLICKR

A container ship is loaded at the Port of New Orleans. Without NAFTA, US exports to Mexico would also face higher tariffs, particularly in agriculture and in some industrial goods, such as textiles, clothing, and autos.

$13 billion, or 4.5 percent. Agricultural products would account for $2.9 billion of the fall, and nonagricultural goods for $10.1 billion.

Without NAFTA, US exports to Mexico would also face higher tariffs, particularly in agriculture and in some industrial goods, such as textiles, clothing, and autos. Mexican consumers and producers would likely seek to source the same goods competitively from other countries with which Mexico has free trade agreements. If NAFTA weren't in place, it is estimated that Mexican imports from the United States could decrease from $174.7 billion (in 2016) to $161.9 billion. This is a total loss to US trade of $12.8 billion, a decrease of 7.3 percent; $4.1 billion of these projected losses represent agricultural products and $8.7 billion are in the nonagricultural sectors.

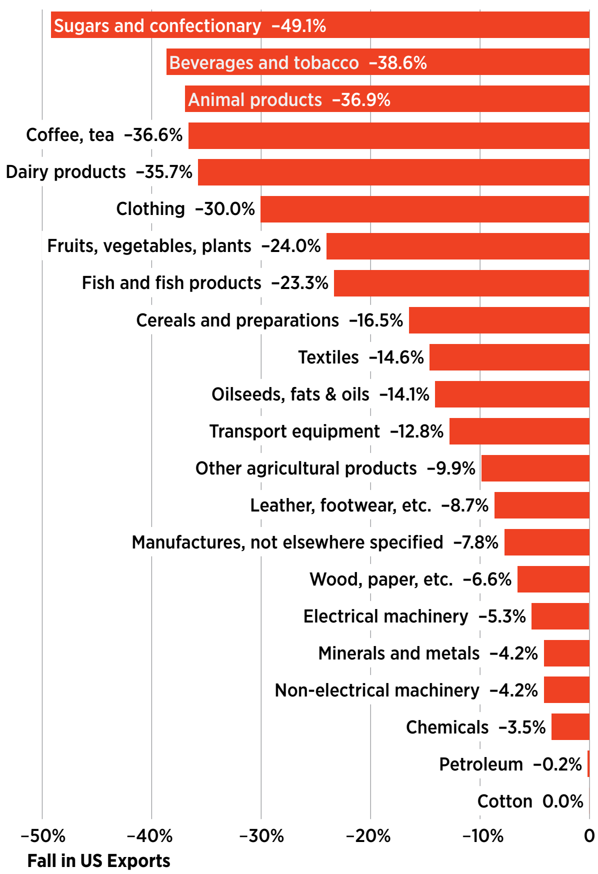
Consistent with their MFN tariff structures, US exports to Mexico (see figure 9, p20) would suffer more than Mexican exports to the United States (see figure 10, p20). The most important impact in absolute terms for both countries would be in imports of nonagricultural goods. However, in relative terms agricultural products would suffer more, particularly Mexican imports from the United States.

Apart from tariff considerations, without NAFTA, cooperation in areas such as technical standards and sanitary and phytosanitary measures would diminish, which would also affect the free flow of goods. Without NAFTA, standards could also be affected in another way: As Mexico looks to sign a free trade agreement with the EU, one possibility would be the conversion to European rather than US standards.

Another possible brake on trade relates to NAFTA's Chapter 19, which establishes a mechanism through which private parties can initiate reviews of domestic determinations in antidumping and countervailing duty cases. Without NAFTA, this mechanism would cease to operate and parties in the three countries would likely bring more cases against one another, harming both Mexican exporters to the United States and US exporters to Mexico. The result would leave consumers facing higher prices.

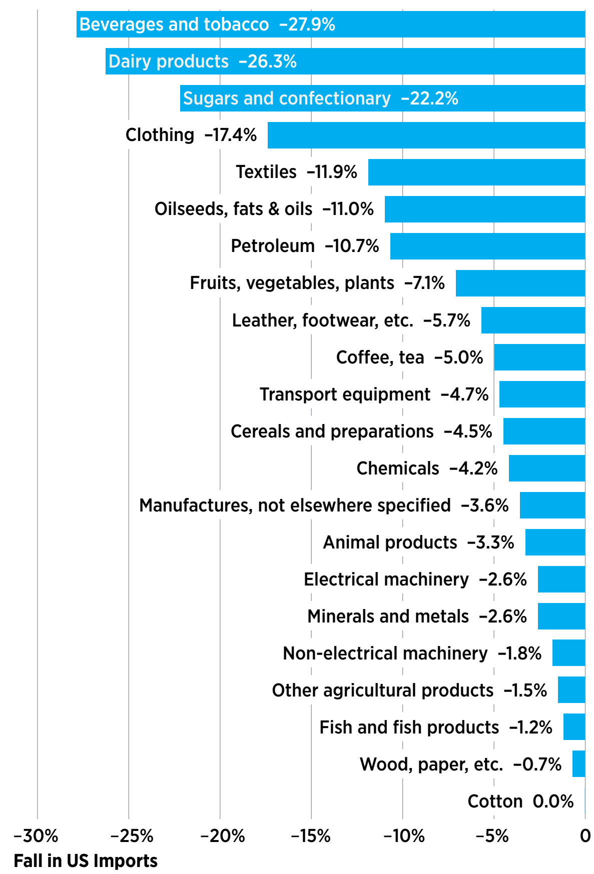
The lack of a third-party regulatory framework would also add to investor uncertainty, especially in the case of Mexico. NAFTA's investment chapter establishes a mechanism for private action to settle investment disputes when a NAFTA investor alleges that a host government has breached its investment obligations. This provision gives investors access to an impartial tribunal known as an investor-state dispute settlement mechanism. Without this provision, investors would have to file lawsuits in the host country where they are operating.

FIGURE 9. Projected Fall in US Exports to Mexico Without NAFTA, by Product Groups (%)



SOURCE: United Nations International Trade Statistics Database (Comtrade), WTO, and author calculations, 2016

FIGURE 10. Projected Fall in US Imports from Mexico Without NAFTA, by Product Groups (%)



SOURCE: Comtrade, WTO, and author calculations, 2016

Mexico would have no obligation to maintain or consolidate its services and investment regime for US investors. Mexico would also not be obligated to give recourse to US investors. This would create incentives for those interested in investing in Mexico to relocate to countries with which Mexico has investment disciplines in place.

Trade in services would also suffer. The important flow of cross-border services trade has resulted in the US holding a more than $7 billion surplus with Mexico.[24] The United States is the most important investor in Mexico and most important destination for Mexican investment.

Mexico City hosts the headquarters of a number of Mexican firms. Many have partnered with companies outside Mexico to gain entry into other markets and feed a much larger and more sophisticated Mexican economy.

MOVING FORWARD

Given the depth and breadth of the US-Mexico trading relationship, which went from $91 billion in 1993 to $579 billion in 2017,[25] it is difficult to imagine any scenario in which a NAFTA-less future benefits any of the three countries.

NAFTA is a resounding success for the citizens of Mexico, the United States, and Canada. Given that Mexico was the more closed economy of the three, its citizens reaped the greater benefits of access to world-class goods and services coming from its northern neighbors. Mexican manufacturers and service providers had to learn to compete on both price and quality with American and Canadian companies, some of the best in the world. As such, it is not surprising that Mexico noticeably moved up to become one of the world's top economies and a leading upper-middle-income nation—one that now is of interest to US firms more as a market for their goods and services than as a manufacturing platform.

Nevertheless, US and Canadian citizens have also received benefits from NAFTA, including lower consumer prices, better options, improved quality, and a greater market for value-added services, intellectual property, and financial services.

For Mexico, a future without NAFTA is not better than a future with it, but the country would find a way to survive and even thrive. In 2017 Mexican firms face worldwide competition for their goods and services, and many have partnered with companies outside Mexico to participate in other markets and feed a much larger and more sophisticated Mexican economy. After so much uncertainty during the US presidential election, today Mexican businesses are more confident and better prepared to perform in a North America without NAFTA.

Today, the region faces the challenge of rethinking an agreement that has aged well. Renegotiations shouldn't be aimed at avoiding harm to NAFTA, but instead must consider how to repair the damage that has already been done, while making the region the most competitive in the world. If North America gets rid of NAFTA, a successful agreement among neighbors and allies, countries around the world may conclude the region is not worth their trust or investment.

The Noneconomic Benefits of NAFTA
By Jason Marczak and Katherine Pereira

Beyond economic benefits, trade agreements are strategic accords. Close commercial relations bind countries in ways unmatched by most other policy tools. US free trade agreements, originating with the US-Israel agreement in 1985, have sought to establish closer cooperation and further US geopolitical aims.

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

Returning to the days of mistrust and minimal cooperation that could come if NAFTA ceased to exist will endanger US jobs and make our borders less secure.

GOOD TRADE RELATIONS OPEN THE DOOR FOR COLLABORATION IN OTHER AREAS

NAFTA has ushered in an era of trilateral cooperation that few would have imagined during its negotiation under President George H.W. Bush. Today, we have trustworthy and strategic partnerships with Mexico and Canada that are strengthened by the economic bonds developed in the 1990s after NAFTA was signed.

This deep trilateral partnership is an important, yet sometimes overlooked, strategic benefit of the strong commercial ties developed under NAFTA. The economic importance of NAFTA is certain, but what is also certain is the strategic ways in which NAFTA has helped to make the United States more secure. Mexico and Canada are indispensable allies. Their efforts in drug interdiction, and their cooperation on anti-terrorist initiatives are invaluable. Intelligence sharing among various security agencies has neutralized many threats before they reach the US border, and, at the urging of the United States, Mexico successfully stops thousands of unauthorized migrants at its southern border.

This strong trilateral relationship must not be put in jeopardy. Returning to the days of mistrust and minimal cooperation that could come if NAFTA ceased to exist will endanger US jobs and make our borders less secure. We cannot risk the potential of even a slight reversal of the

US Customs and Border Protection agents conduct operations on Lake Koocanusa in Montana. The SmartBorder Accord signed by the United States and Canada has yielded new collaboration on border security and migration with the aim of detecting and prosecuting security threats.

CHIEF WARRANT OFFICER BRIAN HENNESSY/U.S. COAST GUARD

collaborative diplomatic, intelligence, narcotics, security, and immigration efforts that have grown over nearly three decades.

WE SECURE THE BORDERS TOGETHER

In the quarter century since NAFTA was first negotiated, cooperation among law enforcement agencies has increased dramatically. The Border Enforcement Security Task Force (BEST), created in 2005, is just one example of robust intelligence sharing that has proven to be effective in curbing cross-border crime.

Among its successes, as reported by the US Department of Homeland Security, "in 2010 a coordinated investigation among the Tucson and Phoenix BEST units and Mexican law enforcement uncovered major smuggling networks using private and commercial transportation to move unauthorized migrants across the Arizona border. This collaborative effort resulted in nearly fifty criminal arrests and more than forty administrative arrests; seizures of illegal weapons, cash, and vehicles; and the initiation of promising investigations of criminal organizations in Mexico–effectively dismantling an entire criminal enterprise engaged in smuggling people through Arizona."[26]

Today, BEST special agents along the northern and southern borders investigate a wide range of criminal activities that threaten Americans, including trafficking of drugs, arms and money. They also work to stop gangs, child exploitation, illicit tunnels and commercial fraud. More than one hundred international, federal, state, and local law enforcement agencies are devoted to investigating transcontinental criminal activity and keeping our borders safe.[27]

BBC WORLD SERVICE/FLICKR

Drug trafficking into the United States from Mexico is valued at $19 billion to $20 billion annually, according to the Department of Homeland Security. Over the past few years, Mexico has streamlined collaboration with the United States via the Mérida Initiative.

Shortly after the 9/11 attacks, the Smart Border Accord was signed by the United States and Canada. This landmark agreement has yielded new collaboration on border security and migration with the aim of detecting and prosecuting security threats, more efficiently managing legitimate travel, and deterring unauthorized migration. It has facilitated coordinated intelligence sharing, developed compatible immigration databases, put in place biometric identifiers in travel documents, provided for joint screening of high-risk travelers, and enhanced processing of refugee and asylum claims.

Innovative border management programs, such as the Customs Trade Partnership Against Terrorism, has helped trusted businesses avoid extensive border checks by improving efficiency. These efforts, expanded on December 7, 2011, with the release of the Beyond the Border Action Plan, have worked to harmonize the approach to cargo screening under the principle of "cleared once, accepted twice."[28] The program aims to identify and resolve security concerns as early as possible in the supply chain, with the expectation that this then reduces duplicate processes at the Canada-US border and makes US-Canada trade more efficient.

WE DISMANTLE ORGANIZED CRIME TOGETHER

The trafficking of heroin, marijuana, cocaine, and methamphetamine into the United States from Mexico is valued at $19 billion to $20 billion annually, according to the Department of Homeland Security.[29] With an industry that massive, Canada and Mexico are crucial partners in the effort to dismantle organized crime groups that engage in these illicit activities.

Over the past few years, Mexican President Enrique Peña Nieto streamlined collaboration with the United States via the Mérida Initiative. Since 2008, this anticrime assistance package has focused on helping Mexico to combat drug trafficking organizations with technical assistance such as hardware, scanners and planes.[30] Although more must be done to curb demand for illegal drugs in the United States, the United States also partners with Mexico to attack the supply chains.

Canada is a crucial partner as well. After the Royal Canadian Navy and the US Coast Guard seized nearly twenty-six tons of cocaine in December 2016,[31] Commodore Craig Baines of the Royal Canadian Naval Atlantic Fleet noted: "[This] is a tangible example of our collective efforts to keep narcotics off our streets while at the same time promoting regional security."[32]

Extraditions of top fugitives from Mexico to the United States are also on the rise. Mexico had historically scorned the notion of extraditing its most wanted to the United States. From 1988 to 1996, only thirty-nine criminals were sent north. However, under the term of Mexican President Felipe Calderón (2006–2012), extraditions reached more than one hundred per year. Laws in Mexico have since changed, ensuring criminals first serve their sentence in Mexico before being sent to the United States. President Enrique Peña Nieto continues to collaborate with extraditions of the most violent criminals, 54 were extradited in 2013.[33] In mid-January 2017, Mexico sent its most notorious drug lord, Joaquín "El Chapo" Guzmán, to the United States.

WE TRAIN TOGETHER

The US and Mexico also have a strong security relationship in the military-to-military (or mil-mil) realm. Together, we train and expand educational opportunities for the militaries of both countries as well as transfer and sell equipment to each other. Jointly we patrol the US-Mexico border which has allowed us to improve communications, build confidence and establish trust.[34]

Canada and the United States support each other during large events such as the FIFA Women's World Cup and the Pan American Games by providing security training for each other, sharing best practices, and sending personnel on the day of the event. In 2015, for example, in preparation for the Canadian Football League's Grey Cup Festival, the Department of Homeland Security's Office for Bombing Prevention provided two sixteen-hour counter-improvised-explosive-device training classes. The White House reported that "attendees included Public Safety Canada, the Winnipeg Police Service, the Royal Canadian Mounted Police, the Canadian intelligence community, and private-sector partners."[35]

WE TACKLE MIGRATION TOGETHER

NAFTA has also greatly affected immigration—for the better. Today, the number of unauthorized Mexican migrants apprehended at the US-Mexico border is near its lowest level since the early 1970s. More Mexicans have been leaving the United States than arriving. Although this is due to several factors, it can be attributed partly to the better-paying jobs NAFTA has created in Mexico, helping to formalize the economy and foster long-term opportunities at home for Mexicans.

Mexico is also a growing partner in clamping down on unauthorized migration and assisting with refugee resettlement. With Central Americans now comprising the majority of unauthorized migrants entering at the US southern border, effective patrolling, deterrence, and identification in southern Mexico is critical to reducing pressures at the border. Beginning

Approximately 6.6 million took advantage of NEXUS lanes while crossing the US-Canada land border—accounting for about 12 percent of all traveler crossings and some 15 percent of all vehicle crossings.

in 2014, 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.

Under the Sharing of Visa and Immigration Information Program, the United States and Canada systematically check each others' databases of third-country nationals for immigration and border-related purposes. This collaboration has led to the identification of individuals with criminal concerns, immigration law violations, and national security concerns who might have been missed. Information obtained from the Unites States database revealed to Canadian authorities several cases of visa applicants who are convicted drug traffickers.

Conversely, information sharing has also created opportunities for genuine travelers. In another recent example, Canadian officials doubted a visa applicant would honor the visa's time limitation, until the US database showed that the applicant had traveled several times to the United States and had never violated the visa's requirements. This contributed to the Canadian authorities' decision to issue the applicant a tourist visa.[36]

Another example of trilateral progress in the area of migration is the Trusted Travelers Programs, including NEXUS, SENTRI, FAST Global Entry, which expedite travel for preapproved individuals from the three countries. This is a major accomplishment, not only for commercial border crossings, but also for tourism—a key source of revenue for all three economies.[37] According to a report by the Library of Congress, "in 2015, of the roughly 64 million travelers crossing the US-Canada land border, approximately 6.6 million took advantage of NEXUS lanes while crossing the US-Canada land border—accounting for about 12 percent of all traveler crossings and some 15 percent of all vehicle crossings. Those who participated crossed the border in half the time."[38]

That same year, the three countries agreed to expand the pool of applicants who can apply for the Trusted Traveler Program. Now Mexican nationals who are members of Mexico's trusted traveler program, Viajero Confiable, apply for the US-Canada NEXUS Trusted Traveler Program which will allow them to receive expedited screening considerations in both the United States and Canada. Similarly, Canadian citizens who are members of NEXUS will be entitled to apply for Viajero Confiable and be eligible for expedited screening benefits in select international airports in Mexico.[39]

WE FURTHER ENERGY SECURITY

The energy trade among the United States, Canada, and Mexico, established via NAFTA twenty-three years ago, has helped promote general economic growth and energy industry jobs. In many ways, the three countries comprise one large, integrated market for energy commodities. In recent years, North America has had a revolution in energy production and financing.[40] For the first time since the 1940s, the United States is poised to be a net energy

BILFINGER/FLICKR

A natural gas facility in Scio, Ohio. Natural gas is one of the main sources of energy traded across the NAFTA countries, with Mexico being a growing market for US natural gas, and Canada providing 88 percent of US natural gas imports.

exporter.[41] Canada has become a top-five energy producer, and Mexico has opened its energy sector to private investment.[42] Combined, these developments position North America as a key player in the world energy market. NAFTA renegotiations can help lock these reforms in place by further integrating the energy sector.

Both Mexico and Canada are key US energy partners. Mexico was the largest export market for US refined petroleum products and a growing market for US natural gas in 2014 as well as the third-largest supplier of foreign crude oil to the United States.[43] In 2015, the value of US petroleum and natural gas imports from Canada reached $70.5 billion. Canada also provided 37 percent of US crude oil imports in 2015 (up from 22 percent in 2009) and supplied 88 percent of US natural gas imports (up from 82 percent in 2009).[44]

As it currently stands, the USTR has signaled a desire for market-opening reforms in the energy sector and to preserve investments that further production and that can, hopefully, lead to North American energy independence.[45] On May 30, 2017, sixty members of the US Congress sent a letter urging USTR Lighthizer to be aware of potentially disruptive impacts to the energy sector while renegotiating NAFTA, and asking him to consider the importance of maintaining, and possibly improving, policies regarding the free flow of energy products by preserving the absence of tariffs and expanding access to Canadian and Mexican energy markets.[46]

In 2014, energy secretaries from the three countries launched a platform to share energy information such as cross-border energy flows and geospatial information, through the US Energy Information Administration program known as the North American Cooperation on Energy Information (NACEI).[47] And it looks

City-to-city cooperation has resulted in the mayors of San Diego and Tijuana working together to combat water pollution in the coastal area of Playas de Tijuana (pictured) and to pitch the Cali-Baja region as a destination for investment and tourism.

ANTHONY ALBRIGHT/FLICKR

like this desire to collaborate remains, as it was recently announced that in November 2017, US Energy Secretary Rick Perry will be meeting with his counterparts from Mexico and Canada in Houston to discuss ways to make "North America an energy powerhouse."[48]

The US, Mexico, and Canada also work together in alternative energy. The Canadian Nuclear Safety Commission and the US Nuclear Regulatory Commission maintain several agreements, and recently signed an Memorandum of Understanding to expand technical cooperation.[49] In 2015, at the North American Leaders Summit, federal leaders increased their pledge in developing and securing clean, affordable and reliable energy supplies to assist in driving economic growth and supporting sustainable development.[50] The future of North America's energy depends on enhanced cooperation with Mexico and Canada.

WE COLLABORATE FROM CITY TO CITY

Geographic proximity and strong cultural linkage create a common platform for the United States, Mexico, and Canada to work together. NAFTA has strengthened this relationship by encouraging small and medium businesses to collaborate in all three countries, helping to create jobs, promote innovation and, ultimately, improve security. US mayors and governors regularly meet with their Mexican and Canadian counterparts to establish new ways of working together far beyond just economics.

On the federal level, the US and Mexico have established the Bilateral Forum on Higher Education, Innovation, and Research. Through this initiative we have seen an increase through scientific research partnerships, educational exchanges and cross-border innovation. Together, "both countries advance in creating twenty-first-century workforce for mutual economic prosperity and sustainable social development."[51]

Many cities have also developed their own collaborative partnerships. One illustrative example is a declaration signed in 2012 by the mayor of Naucalpan, Mexico, David Sanchez Guevara, and Pittsburgh City Councilman William Petudo that agrees to a long-term plan for cultural, commercial, and academic exchange.[52] Mayors in San Diego and Tijuana are also working together to combat water pollution in the coastal area of Playas de Tijuana and to pitch the Cali-Baja region as a destination for investment and tourism. The two mayors, along with more than eighty business and community leaders from both nations, met with officials in Mexico City this year to advocate for initiatives to spur regional growth and commerce.[53]

There have also been partnerships between cities in Mexico and Canada. Since 1999, the Mexican state of Jalisco and the Canadian province of Alberta have carried out collaborative projects on forest fire fighting, energy, and university exchange programs for both teachers and students. In 2011, Jalisco and Alberta raised funding for three more years of further collaboration in health and technology with the goal of generating jobs and technological innovation.[54] Mount Royal University in Alberta has been active in Mexico since 1994, with twelve university partnerships. As part of its partnership with Tecnológico de Monterrey, more than 3,500 students attend Mount Royal for a semester exchange, thus providing additional tourism, cultural, and investment opportunities between Alberta and Jalisco.[55]

WE COLLABORATE ON HEALTH SECURITY

The United States and Canada, primarily through the Health Security Working Group (HSWG), continue to develop a joint approach to health security. The impact of bilateral collaboration has been confirmed through transboundary events such as SARS, H1N1, Ebola, and other outbreaks related to Listeria.

In 2015, the working group focused on sharing information on lessons learned. Together the countries have assessed best practices to deploying public health experts, medical tools and medications necessary during cross-border emergencies. Intelligence, law enforcement and regulatory agencies in both countries have met regularly to discuss the opportunities and challenges that remain. Based on their findings, the "HSWG proposed a series of recommendations on sharing bilateral public health information and expediting emergency medical assistance to ensure a fast, efficient response."[56]

NO ROOM FOR ERROR

Over the past twenty-three years, NAFTA has fundamentally restructured and integrated the economy, health, and security of the region. Trilateral cooperation on border security, dismantling organized crime, immigration, and energy at the federal, state/province, and local levels have built a safe and secure North America. The outcome of NAFTA renegotiations will have a profound impact on our economic and diplomatic relationships. The trust we have built is at risk, and it is imperative that we get these negotiations right. We have come too far to take a step backwards.

Over the past twenty-three years, NAFTA has fundamentally restructured and integrated the economy, health, and security of the region.

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