NAFTA and FTAA
Analysis and Recommendations

A perspective of the impact of the North American Free Trade Agreement and its impact on participating economies.

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Executive Summary

Though with caveats involved, NAFTA has been net-in-net profitable and positive for all participating countries. NAFTA was not an upheave of a move when it was instituted, but rather a setup over the incremental trade liberalizations already in play between the North American constituents.

The most impacted industries were automobile, textile, banking, oil and gas, and uniquely agriculture, which was considered a roadblock in most trade agreements. The industry stakeholders benefitted from the opportunities of a bigger market and operational efficiencies due to the distinctive value added of each country.

Credible reports suggest that NAFTA had a financial advantage for all participating countries, which would not have existed without NAFTA.
Simultaneously, there have been nation-level negatives such as illegal immigration and economic downturns added due to the increased intimacy of the economies.

Finally, one of the key metrics of the economic health of a country – the GDP has grown at a better rate for NAFTA participants, in comparison to their past and thus it is recommended for the Americas to scale NAFTA and create a more ambitious NAFTA-like FTAA, and the United States should endeavor to endorse it.

Origin of NAFTA

After GATT opened doors for more free trade, half a century later the North American countries felt a natural next step would be to have intra-regional cooperation with regards to trade, and decided to set up NAFTA. This was not new, as GATT allowed for such regional agreements to be set in place, and there were approx. 44 such agreements that were already in place before NAFTA. Thus, the North American states followed suit.

This decision was also not a seismic change brought about in how these countries traded, rather it was an incremental development over previous such agreements such as – Auto Pact in 1965 between the US and Canada, and CUFTA in 1989, which primarily liberalized trade between the countries, and were the stepping stones towards NAFTA.

Similarly with Mexico, NAFTA was not a watershed moment, but rather a culmination of previous engagements over international trade between the US and Mexico. Mexico was already trading with the US, at an intimate level with the "Bracero Program" in the 1950s – providing seasonal labor, and the Border Industrialization Program – employing 23% of Mexico's total manufacturing labor force.

Mexico, intrinsically, simultaneous to the above-mentioned international trade activities, was also going through internal deregulation and unilateral liberalization of its various industries, which further acted as a catalyst for them to subscribe to NAFTA, compared to its earlier rigid stance on high tariffs and quantitative restrictions on imports.

Finally, in 1990, Mexico initiated discussions around an FTA, and in 1994, after due red tape, it was signed.
Canada joined in Feb 1991.

Beneficiary Industries and Sectors

Regarding trade in goods, the immediate change that was brought about was to reduce and then make negligible tariffs imposed on imports, especially automobiles. This would have created and expanded the market for all automakers between the participating markets and created new opportunities for revenue generation and operational efficiencies.

Similarly, the textile industry, which was anticipating a phase-out of global quotas on textile exports by 2004 due to the Multi-Fiber Agreement, gained a head start, as with NAFTA, the phase-out preponed to 2000.

The agriculture industry trade, which was the elephant in the room because of the participating countries' unique stakes, production, and political situation in the context, was also liberalized with individualized operational agreement implementation plans between the two borders over a span of 15 years. This would have also opened markets to the private players and provided employment-generating opportunities for governments and citizens.

Finally, sectors such as banking, energy, investment, and oil and gas were also opened for participation from neighboring players with special restrictions, as some of these industries were considered national motifs – for example, Oil in Mexico.
This allowed private players to bid competitively for contracts and consumers and also provided a plethora of options to the ones that needed services.
The foreign direct investment allowed private stakeholders from participating countries to invest and own assets with a competitive rate of return and provided access to capital by institutions in need of investment.

These decisions, other than creating a financial advantage for the participants, also created social value such as the transfer of knowledge and technology, optimization techniques, and culture transfer.

Also, NAFTA allowed for a rollback of these implementations for up to 3 to 4 years, to protect the domestic industry or to improve its maturity before it was open to international competition. Hence, all these changes were safeguarded for individual countries and allowed temporary re-adjustment opportunities.

Participant Benefits Distribution

NAFTA, and international trade in general did bring a positive impact to its participants, and is the reason why it existed in the first place. It is the redistribution of the positives within the participant countries' stakeholders; that was the challenge.

The US, as researched and presented by the Institute for Int'l Eco., would have a net growth of 170k jobs overall, albeit, the industries where jobs will grow, and jobs will be lost will be different.

Also, with NAFTA, there were national-level downstream impacts to the US in general. It created job opportunities and economic welfare for Mexico, in general, but negatively impacted their agriculture industry, which could be considered a big catalyst for illegal migration. There was a jump of 85% in apprehensions of illegal migrants along the southwest border after NAFTA, from 1994 to 2001.

It also led to the creation of institutions around labor (NAALC) and environment (NAAEC), which though ended up having just symbolic significance, were great first steps to standardize and maintain these two avenues of international trade.

Mexico had a challenging time calibrating NAFTA with its internal stakeholders and constituents, but with the aid of the US, it was finally able to do a streamlined implementation of NAFTA by 1996.

A big contention, which ratifies, that the countries were enjoying the benefits of NAFTA, is that the countries preponed the second round of tariff cuts as prescribed, and did it sooner than NAFTA's original requirements.
A World Bank report mentioned that these benefits experienced from the surplus of trade were unique to NAFTA, and were not a diversion of trade with non-NAFTA members. There was trade diversion in play, but it was not the only reason driving up trade through NAFTA.
The report claimed, that Mexico would have 25% lesser exports and 40% lesser FDI, sans NAFTA.

Regarding labor and productivity, the gist was jobs were disappearing and appearing in separate industries. This sometimes created the cloud of NAFTA negatively impacting the countries' labor workforce, further accentuated by the fact that the NAFTA Trade Adjustment Assistance Program did not keep track of jobs created due to trade, and only lost.

Also, multiple non-NAFTA factors such as the terrorist attack of 9/11 had an overflow impact on the economy of the US, exclusive of trade, and thus negatively impacted NAFTA.

To summarize, post-NAFTA the signing of multiple NAFTA-like agreements by all three countries with regions all over the world stands testament to the fact that these countries positively benefitted from NAFTA. The scale and distribution of benefits within Mexico, the US, and Canada definitely varied.

FTAA (Free Trade Agreement of the Americas)

The signing of NAFTA prompted leaders of 34 nations in the Americas to set a target to sign FTAA by 2005.

FTAA though similar in nature to NAFTA, was more aggressive. Like the world, where regional trade agreement counts had increased by approx. 500% from 1990 to 2004, it was natural and imperative for the Americas to consider an RTA.

FTAA has its challenges, especially factoring in the wide diaspora of participating countries. But looking at previous success with NAFTA, amongst three countries, scaling it should be a natural next step.

The GDP growth from 1990 to 1995, when NAFTA's effects were just nascent, for the US, Canada, and Mexico, was 27%, 1.2%, and 9% respectively. Whereas GDP growth for the next 6 years till 2001, before the 9/11 terrorist attack, was – 36%, 19%, and a whopping 117% for Mexico.
Although Mexico's GDP has fluctuated, overall, NAFTA has caused an improvement.

There is a definite disparity in which industries have experienced growth, for example, employment in the agriculture industry fell by 20% and 14% in Canada and Mexico respectively whereas total jobs grew by 19% and 28% in the same.

Thus, looking at the trend of growth after NAFTA, the United States should go ahead and encourage the formation of FTAA.