

## Overview

The North American Free Trade Agreement (NAFTA) is one of the United States' signature foreign trade policies and has been a topic of both praise and criticism for decades. Negotiated in the late 1980s and early 1990s, NAFTA has been tied to increased imports and exports, lost industrial and manufacturing jobs, a spike in information-sector jobs, the loss of intellectual property, and much more. And though NAFTA may have been considered "state of the art" when it was first negotiated in the 1990s, it is nearly twenty-five years old. In this Basic, "A Change in the Deal: NAFTA's Future," we provide a summary of the massive and far-reaching agreement as Congress and the President move to renegotiate the deal in the coming months.

## What is NAFTA?

NAFTA is a free trade agreement (FTA) between the United States, Canada, and Mexico that went into effect in January of 1994. NAFTA is often referred to as one of the most crucial components of the geopolitical, diplomatic, and commercial relationships that exist between the U.S., Canada, and Mexico.

NAFTA was created to boost economic interaction and partnership between the three neighboring countries by creating a system where all three nations are trading and holding each other accountable on equal footing. The agreement, therefore, provides intellectual property rights protection related to patents, trademarks, and copyrighted material. Additional provisions of NAFTA grant equal treatment to U.S. investors in Mexico and Canada, procurement provisions that apply to service contracts and federal construction jobs. NAFTA also covers trilateral rules governing how the three countries treat rules of origin, customs procedures, agriculture and sanitary measures, and dispute settlement procedures.

The information exchanged in the negotiation of NAFTA and subsequent addendums are not subject to Freedom of Information Act requests because the United States, Canada and Mexico have all agreed that the information must be kept confidential.

## History

Nearly 30 years ago, before the United States entered into NAFTA negotiations, the U.S. government had begun working out the details of a bilateral trade agreement known as the U.S.-Canada Free Trade Agreement, which it ultimately entered into on January 1, 1989. Several years later in 1991, the U.S. began similar talks with Mexico. Canada quickly joined and NAFTA was the end result. At the time of negotiation and when the agreement went into effect in January of 1994, many were skeptical as this was the first time that an American FTA had linked two

## NAFTA By The Numbers

- **In 43 out of 50 states**, Canada or Mexico is the 1st or 2nd largest export market
- Canada and Mexico account for over a **third of all U.S. exports** and over a **quarter of all U.S. imports**
- Since NAFTA, **U.S. manufacturing exports** to Canada and Mexico have **increased 258%**
- Based on the trade growth since NAFTA's adoption, it is estimated that the U.S. is **\$127 billion richer annually**
- **NAFTA Job Numbers:**
  - **9 million** U.S. jobs depend on trade and investment with Canada
  - **5 million** U.S. jobs depend on trade and investment with Mexico
- **In 2014, the top five U.S. export items to NAFTA partners were:**
  - Motor Vehicle Parts
  - Crude Petroleum Oil
  - Refined Petroleum Products
  - Machinery Parts
  - Motor Vehicles
- Estimates suggest that **40%** of the content of U.S. imports from Mexico and **25%** of the content of U.S. imports from Canada originated in the U.S.

developed economies (U.S. and Canada) with a developing economy (Mexico).

## Updates and Current Law

Currently, Canada is the United States' second largest trading partner and Mexico its third. Since NAFTA took effect, U.S. trade with Canada and Mexico has more than tripled. In a span of a little more than ten years, trade with Mexico and Canada increased by 544% and 158%, respectively, a much more rapid increase than trade with other nations.

Several updates have changed NAFTA over the years. Over the course of ten to fifteen years, depending on the product or service, NAFTA phased out tariffs and many other non-tariff barriers so long as specific rules of origin criteria were met. As mentioned earlier, the agreement introduced standards for intellectual property (IP) rights into a foreign trade agreement for one of the first times in American history, though notably the protections did not extend to pharmaceuticals. The IP portions of NAFTA eventually served as a template for the World Trade Organization (WTO) when drafting global trade standards. Additionally, congressional concern led to the creation and signing of separate agreements to add enforceable labor and environmental provisions.

NAFTA has long been ridiculed by some as the cause of many U.S. industrial, manufacturing, and agricultural jobs moving to Mexico or elsewhere in the world due to subsequent free trade agreements initiated post-NAFTA. However, many economists argue that NAFTA modernized U.S.-global trade relations and resulted in the creation of thousands of new jobs, creating a net export surplus and serving as an example of how better to negotiate free trade agreements in the future.

## Efforts to Address and Renegotiate NAFTA

Trade issues played a major role in the 2016 presidential campaign. Following up on his rhetoric as a candidate, now-President Donald Trump has made moves to renegotiate and withdraw the United States from NAFTA. The 2015 Trade Promotion Authority (TPA) requires the President to submit a 90-day notification letter of intent to renegotiate NAFTA. On May 18, 2017, the Trump Administration sent that letter and U.S. trade representatives began renegotiations on August 16, 2017.

During the last several months, the office of the U.S. Trade Representative (USTR) has been accepting public comments on the subject. During June 2017, the USTR also heard from more than 140 witnesses from a variety of sectors urging specific objectives in the new negotiations. Additionally, since the Administration notified Congress, relevant committees have been moving to exert influence on the conversations being had, though no hearings have been held to date. Both administration officials and congressional negotiators have spoken for the need to enhance intellectual property, patent transparency, and regulatory processes provisions.

The USTR indicated that he wanted negotiations to be wrapped up by the end of 2017; however, that deadline has come and gone. Renegotiating a deal like NAFTA involves extensive talks that entail competing legislative and regulatory interests,

**Despite an overall trade deficit, the U.S. has trade surpluses in certain sectors, including the services trade (e.g. education, financial services, and telecommunications)**

### ● Trade Surpluses:

- The U.S. services trade surplus with Canada was **\$43.2 billion in 2013**
- The U.S. services trade surplus with Mexico was **\$39.5 billion in 2013**

## Definitions

**Domestic Exports:** Commodities grown, produced or manufactured in the U.S., including commodities imported from foreign countries that have been significantly changed or enhanced in value, in either the United States or a Foreign Trade Zone.

**Foreign Exports (Re-exports):** Commodities of foreign origin that have entered the U.S. but are "re-exported" in substantially the same condition as when imported.

**General Imports** - Refers to the total value of merchandise shipments that arrive in the U.S. from foreign countries, whether such merchandise enters consumption channels immediately or is entered into bonded warehouses or U.S. Foreign Trade Zones under Customs custody.

**Imports for Consumption:** Refers to the total value of merchandise that physically clears Customs, or goods withdrawn from Customs bonded warehouses or U.S. Foreign Trade Zones, which immediately enter consumption channels.

**Foreign Trade Zone:** Enclosed areas, operated as public utilities, under control of U.S. Customs with facilities for handling, storing,

which is understandably a very lengthy and complex process that involves many interests. As a point of reference, when NAFTA was negotiated the first time, it took nearly three and half years. Talks are still ongoing and the U.S. has been participating.

manipulating, manufacturing, and exhibiting goods.

If efforts to renegotiate NAFTA fail, Chapter 22 Article 2205 of NAFTA, does allow the President to withdraw from the agreement after six months, contingent upon a formal notification to both the governments of Canada and Mexico. However, this process of removal would not completely detach the United States from existing laws and agreements with Canada and Mexico. As a report from the Bipartisan Policy Center concludes, a complete "withdrawal would require significant legal and regulatory action in order to change existing statutes." Strong free trade agreements give the United States the opportunity to establish high market access and intellectual property standards, address concerns regarding the trade deficit, and create U.S. jobs. Keep those goals in mind, as key players work to renegotiate the North American Free Trade Agreement.

## Links to Other Resources

- Bipartisan Policy Center — North American Free Trade Agreement: An Overview  
<https://bipartisanpolicy.org/library/north-american-free-trade-agreement-an-overview/>
- Bipartisan Policy Center — What's next for NAFTA?  
<https://bipartisanpolicy.org/blog/whats-next-for-nafta/>
- Brookings Institute — How US states rely on the NAFTA supply chain  
<https://www.brookings.edu/blog/the-avenue/2017/03/30/how-u-s-states-rely-on-the-nafta-supply-chain/>
- Congressional Research Service (CRS) — NAFTA Renegotiation and Modernization  
<https://files.acrobat.com/a/preview/8d7bfceb-15e4-4026-a968-9ae7dcd4d52e>
- Congressional Research Service (CRS) — North American Free Trade Agreement (NAFTA)  
<https://files.acrobat.com/a/preview/e05619bf-5dd0-4938-8454-08ff5a812711>
- Dentons — A closer look at the USTR Summary of Objectives for the NAFTA Renegotiation  
<https://www.dentons.com/en/insights/guides-reports-and-whitepapers/2017/august/4/a-closer-look-at-the-ustr-summary-of-objectives-for-the-nafta-renegotiation>
- Export.Gov — 6.1-NAFTA Overview  
<https://www.export.gov/article?id=NAFTA-An-Overview>
- International Trade Administration — The North American Free Trade Agreement [NAFTA]  
[https://www.trade.gov/mas/ian/tradeagreements/fta/tg\\_ian\\_002425.asp](https://www.trade.gov/mas/ian/tradeagreements/fta/tg_ian_002425.asp)
- International Trade Administration — Trade Data Basics  
[https://www.trade.gov/mas/ian/referenceinfo/tg\\_ian\\_001872.asp](https://www.trade.gov/mas/ian/referenceinfo/tg_ian_001872.asp)
- Office of the United States Trade Representative — North American Free Trade Agreement (NAFTA)  
<https://ustr.gov/trade-agreements/free-trade-agreements/north-american-free-trade-agreement-nafta>

- Third Way — Night and Day: Post-NAFTA Trade Deals Yield Steady Surpluses  
<http://www.thirdway.org/report/night-and-day-post-nafta-trade-deals-yield-steady-surpluses>
- Third Way — Renegotiating NAFTA: Supply Chains, Interrupted  
<http://www.thirdway.org/one-pager/renegotiating-nafta-supply-chains-interrupted>