

## COMMENTARY

**NAFTA Revisited: How to Proceed**

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During the Democratic Party presidential primary race, both candidates stated that they wished to renegotiate NAFTA in order to strengthen the labor and environmental accords and make them part of the underlying agreement. The two candidates also said they would support withdrawing from NAFTA if renegotiation failed. The risks of plunging into this are enormous. The Canadians have issues they could put on the table, including removal of the commitment made in NAFTA to provide the United States with its traditional share of oil during a shortage. Mexico has powerful interests that would prefer eliminating duty-free entry for corn, beans, and sweeteners that would unravel an unprecedented market access agreement for U.S. exporters. A majority of members of the U.S. Congress, if given the opportunity, would find it tough to vote for a new NAFTA unless it contained more protection for favored sectors. In short, efforts to renegotiate it would likely kill NAFTA.

Some context: The basic purpose of NAFTA was to increase opportunities for trade and investment in North America. The market has responded: Intra-North American trade has more than tripled since 1994 and is expected to hit \$1 trillion in 2008. By eliminating what would otherwise be an average 2008 import tariff in Mexico of 12.6 percent, in Canada of 5.5 percent, and in the United States 3.5 percent, and by removing obstacles to trade in cross-border services and investment, we have reduced the annual cost of doing business across North America by billions of dollars. But, without NAFTA, U.S. industries and workers would also face another challenge. Why? Since NAFTA, Canada and Mexico have negotiated free-trade agreements (FTAs) with other countries—such as the European Union–Mexico and Japan–Mexico FTAs—these countries now also enjoy duty-free goods and privileged treatment in our two largest export markets. As a result, agricultural and other concessions negotiated with Mexico would disappear, damaging U.S. interests. Our relations are immensely important and would be severely harmed if we destroyed North American economic integration. Humpty-dumpty could not easily be put together again.

Despite the contentions of some avid supporters and critics alike, the cold hard truth is that NAFTA by itself is neither the solution to poverty in Mexico nor the cause of U.S. manufacturing decline as a percentage of GDP. NAFTA frames a massive amount of commerce and has set in motion nearly 20 years of trilateral work in which all three countries have invested major political capital. In short, we have a cooperative foundation across many areas, including labor and environment, but also fighting narcotics trafficking and money laundering.

There are less drastic ways to deepen the labor and environment agenda with our neighbors. The next president should consider approaching Canada and Mexico to build on NAFTA using existing built-in mechanisms. This procedure could overcome Canadian and Mexico opposition and reduce the risk of failure for the United States. As the United States defines the progress it seeks, we should remain open to reasonable “balancing” proposals from Canada and Mexico. The existing North American labor and environment agreements reflect both the substance that exists in the latest FTAs and the May 10 deal initiated by congressional Democrats. The main differences lie in adding to the scope of what can be subject to dispute settlement pertaining to labor and the use of multilateral environmental agreements (MEAs) as benchmarks for enforcement of environmental disputes. The Mexicans have indicated that they want a stronger North American Development Bank focused on the border’s environment, and this could be part of the agenda. Both Canada and Mexico have ratified more core International Labor Organization conventions than the United States, and they also have ratified almost all relevant MEAs and accepted some MEA commitments beyond what the United States has undertaken. A creative solution on enforcement mechanisms may therefore be possible. Mexico and Canada would respond better to U.S. proposals to strengthen the blue and green aspects of NAFTA if their desires are also met without reopening the full agreement.

The United States should be careful to avoid an approach that in the end will preclude progress and create a terrible dilemma regarding the aftermath of the possible demise of NAFTA. Mexico and Canada care deeply about their access to the U.S. market, but assuming that they will act as if a wish of the United States is their command is wrong. The requirement for success is to keep the trilateral agenda consistent with deeper economic integration as the United States advances green and blue objectives while at the same time not making demands on its neighbors they could not accept. This is a difficult feat, but it provides an opportunity to build a more productive and prosperous North America.

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