NORTH AMERICAN FREE TRADE AGREEMENT

Negotiations on a North American Free Trade Agreement (NAFTA) began in 1991 with the goal of creating the world's largest free market. The pact marked a bold departure: never before had industrialized countries created such a massive free trade area with a developing country neighbor. Today, the free trade area includes over 400 million consumers with a total output of over $10 trillion.

Since Canada stands to gain very little from NAFTA (its trade with Mexico is 1 percent of its trade with the United States), issues arising from the agreement center on the gains and losses for the United States and Mexico. Proponents believe that the agreement will give U.S. firms access to a huge pool of relatively low-cost Mexican labor at a time when demographic trends indicate labor shortages in many parts of the United States. At the same time, many new jobs will be created in Mexico. The agreement will give firms in both countries access to millions of additional consumers, and the liberalized trade flows will result in faster economic growth in both countries. Overall, the corporate view toward NAFTA is overwhelmingly positive. Opposition to NAFTA has risen from issues relating to labor, labor abuses, and the environment. At the outset, unions in particular worried about job loss to Mexico, given its lower wages and work standards. Some estimated that six million U.S. workers were vulnerable to job loss.

Trade between Canada, Mexico, and the United States has increased dramatically since NAFTA took effect, with total trade exceeding $650 billion in2000. Reforms have turned Mexico into an attractive market in its own right. Mexico's gross domestic product has been expanding by more than 3 percent every year since 1989, and exports to the United States have risen 20 percent per year to $138 billion in 2000. By institutionalizing the nation's turn to open markets, the free trade agreement has attracted considerable new foreign investment. The United States has benefited from Mexico's success. U.S. exports to Mexico are nearly double those to Japan at $112 billion in 2000. While the surplus of $1.3 billion in 1994 has turned to a deficit of $25 billion in 2000, these imports have helped Mexico's growth and will, therefore, strengthen NAFTA in the long term. Furthermore, U.S. imports from Mexico have been shown to have much higher U.S. content than imports from other countries. At present, cooperation between Mexico and the United States is taking new forms beyond trade and investment; for example, binational bodies have been established to tackle issues such as migration, border control, and drug trafficking.

Among the U.S. industries that benefit are computer, auto, petrochemical, financial services, and the aerospace sector. Aerospace giants like Boeing, Honeywell, Airbus Industries, and GE Aircraft Engines have recently made Mexico a center for both parts manufacture and assembly. Aerospace is now one of Mexico's largest industries second only to electronics. That sector employs an estimated 10,000 workers and is currently worth $200 billion a year. That figure is expected to skyrocket in coming years, as U.S. corporations send more of their $35 billion business south.

Czinkota, Michael R., Ilkka A. Ronkainen and Michael H. Moffett. Fundamentals of International Business. Mason: South-Western, 2004.