



WTO General Council: NAFTA

Lorenz Holzhauer

* E-mail: lorenz@ethmun.org

1 Introduction and Executive Summary

The North American Free Trade Agreement was signed by Canada, Mexico and the United States in 1994. It was established to facilitate trade between the member nations. The main method to achieve this goal has been lowering tariffs on almost all traded goods. One of the last holdouts in this area are agricultural goods, the trade of which is still heavily regulated, especially between Canada and the US. Furthermore the agreement tries to remove other trade barriers. Implementing measures such as opening governmental contracts to companies from all member states, improving the transportation infrastructure, allowing certain professions easier transit as well as unifying product and health standards (mostly by lowering them). Another key Goal of NAFTA is to unify the protection of intellectual property and copyright across all member nations by blocking the import and circulation of goods that infringe upon copyrights and properly enforcing the copyrights and patents registered in other member nations. While NAFTA has always been controversial it has come under heavy attack recently by the new US administration and is currently in the process of being renegotiated. Despite close cooperation NAFTA's member nations are actually very different and have different agendas regarding the global economy.

While the US, Mexico and Canada have recently reached a consensus renegotiating the Agreement, we will ignore this for the sake of session. It will be your task to renegotiate the agreement.

On the upcoming WTO meetings, US Delegates should focus on

- protecting domestic production,
- reducing the trade deficit,
- demonstrating strength on intellectual property and
- keeping the energy proportionality rule.

The Canadian Delegations agenda should include

- diversifying trade partnerships by
- orienting more globally and
- scrapping the energy proportionality rule.

For Mexican Delegates, the main goals of the negotiations are

- protecting the domestic agriculture,
- creating export opportunities for manufacturing industries and
- fending off tightening of rules for car production in NAFTA renegotiations.

This dossier may serve as a brief introduction into the matter and can be a starting point for further research.

2 Trade Balance

2.1 Internal Trade Balance

The US has a large trade deficit in goods with other Member nations of NAFTA. Its deficit with Mexico is almost \$71 bln and that with Canada around \$17 bln according to the US Census Bureau. However it has a large surplus in provided services which leads to an

influx of foreign money. It is believed that due to NAFTA the US lost almost 800,000 jobs, mainly in manufacturing, to Mexico. However the general impact of NAFTA on the US economy is believed to be good. Mexico has a large trade surplus with the United States and a small one with Canada. Mexico mainly exports vehicles and machinery to the other member states which are assembled in Mexico because of reduced labour and environmental standards. However this has been endangered by the recent attempts at a renegotiation of NAFTA. With almost 75% of its exports going to the US Mexico has become very dependent on the development of the US-American economy which showed itself in 2008 when Mexico was among the countries most affected by the financial crisis. Additionally the reduction of tariffs in the agricultural sector combined with the heavy subsidies to agricultural production in the US has led to many small scale Mexican farmers no longer being able to compete with the imported products and going out of business, thus negatively affecting the rural population in Mexico.

2.2 External Trade Balance

2.2.1 Canada: As stated previously Canada mainly relies on the US to buy most of its exported goods. The next most important country would be China with a share of only 5% of the exports, mainly agricultural goods and natural resources such as wood or minerals. In general Europe and Asia are still important export markets for Canada however they pale in comparison to the US. Canada imports from all around the World and while the US is still dominant in this category it depends on more partners. The main import goods are cars, machinery and associated parts, which account for almost half of the imported trade volume. The only other truly big partner of Canada in this regard is China.

2.2.2 USA: The US has a huge trade deficit of about \$800 bln. A large part of this is due to its trade with China which exports cheaply manufactured electronics, machines and the corresponding parts. While China mainly imports the finished machines, cars and agricultural produce from the US. The US does however "export" a lot of services such as banking, insurance, telecommunication or entertainment to other countries. This brings in a surplus of almost \$260 bln in trade surplus from around the world. The main countries that pay for these services are Canada, the UK, Japan and China.

2.2.3 Mexico: As previously stated Mexico relies on the US for a large part of its exports. However it imports a lot of Machines and associated parts from China.

3 Trade Interests

3.1 USA

The current administration in the United States wants to protect domestic production of goods, such as cars, aluminium and steel. To do this they have shown that they are willing to withdraw from trade Agreements such as TPP which they view as unfavourable and renegotiate some long-standing agreements such as NAFTA. Their approach to strengthen the US economy is two-pronged. Firstly by relaxing taxation and regulation of domestic companies they want to make the more competitive. Secondly by implementing tariffs on foreign goods such as steel and aluminium but also solar panels and

washing machines. The global response has been to impose retaliatory tariffs on many US exports. They also aim to improve the protection of their research and intellectual property which they see as violated specifically by China. In regards to NAFTA the administration demands stricter regulation regarding the assembly of cars as well as protesting Canada's dairy tariffs.

3.2 Mexico

Mexico is largely reliant on the US as a trade partner. However their policy has always been one of international outreach. Mexico currently maintains 12 free trade agreements with 44 countries. Specifically its membership in the CPTPP an agreement made after the US withdrawal from TPP shows that it is very much willing and able to move beyond the US on its own. Since Mexico is very dependent on its industrial manufacturing sector which greatly profits from free trade and reduced tariffs. Mexico has always been a proponent of such. The demands by the US administration would weaken their car production and export possibilities to the US. Avoiding stricter rules should therefore be a priority in any negotiations. Further it may be advisable to reduce their reliance on the US economy. However Mexico also uses anti-dumping measures to protect local production from cheap foreign imports especially from China.

3.3 Canada

Canada generates more than two thirds of its GDP through trade. It maintains Free trading agreements with over 40 countries with many more currently under negotiation. Some of those currently under Negotiation are a trade agreement with Japan and one with India. Additionally there have been talks about potential agreements with China and Turkey. With the reliability of the US as a trading partner being thrown into question by recent developments Canada would do well to reduce its dependence and align itself more internationally. A very specific issue Canada faces in regard to NAFTA is the so called Energy proportionality rule (Article 605) of NAFTA. This threatens Canadian plans to reduce carbon emissions and Canadian energy independence. Removing this rule would be a great success for Canada.

4 Recent Developments

After the election of Donald Trump as the President of the United States of America the administration followed up on campaign promises and announced their plans to renegotiate NAFTA. The main goal of the administration has consistently been to increase trade barriers again as well as decreasing the trade deficit of the US. To do this they insisted on less rights for Canada and Mexico to formally protest tariffs imposed by the US as well as inserting a "sunset-clause" which would require all member states to periodically affirm NAFTA for it to continue in its effects.

5 References

- 1 A view on the possible Damages of the Energy Proportionality Rule.
<https://canadians.org/sites/default/files/publications/factsheet-nafta-energy.pdf>
- 2 The Observatory of Economic Complexity: USA
<https://atlas.media.mit.edu/en/profile/country/usa/>
- 3 The Observatory of Economic Complexity: Canada
<https://atlas.media.mit.edu/en/profile/country/can/>
- 4 The Observatory of Economic Complexity: Mexico
<https://atlas.media.mit.edu/en/profile/country/mex/>
- 5 Service Exports of the United States of America
<https://www.export.gov/article?id=Service-Exports-with-High-Growth-Potential>
- 6 Mexican Trade Agreements
<http://www.promexico.gob.mx/en/mx/tratados-comerciales>
- 7 USA Trade Agreements
<https://www.trade.gov/fta/>
- 8 Canadian Trade Agreements
<https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/index.aspx?lang=eng>
- 9 The US administrations proposed trade policy
<https://ustr.gov/sites/default/files/files/Press/Reports/2018/AR/2018%20Annual%20Report%20I.pdf>