

NAFTA: beneficial for all three countries

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A few days ago, we saw the conclusion of the third round - out of the seven already agreed - of the renegotiation process of the North American Free Trade Agreement (NAFTA), a positive agreement for Mexico, the United States and Canada that, since it was signed in 1994, has led to trade between these countries almost quadrupling. NAFTA has been a key instrument for Mexico to become one of the world's leading exporters of manufactured goods, and explains why foreign direct investment in the country has doubled in the last twenty years. Similarly, and contrary to President Trump's rhetoric, NAFTA has also been beneficial to the US economy. As a result of the agreement, companies in the country have been able to develop value chains that allow them to be more globally competitive. In addition, Canada and Mexico are the top two destinations for exports from the United States, which exports more goods to Mexico than to Germany, the United Kingdom and Japan put together.

International trade is not a zero-sum game: it is possible for everyone to win. Therefore, if the self-interest of the three countries prevails, NAFTA will not be dissolved, and a successful renegotiation will be achieved that can modernise it with chapters on e-commerce (which did not yet exist when it was first negotiated), improved conflict-resolution mechanisms, the incorporation of the Mexican energy sector after its opening up (with the reforms of 2013), and the adaptation of the labour and environmental sections. What is fundamental is that the spirit of free trade prevail, without tariffs or quotas.

Information disseminated after the end of the third round indicates that negotiations are progressing well and that important agreements have been reached. There are nevertheless controversial issues still to be resolved. Perhaps the most important is the United States' claim that the new NAFTA must eliminate its trade deficit with Mexico. This is a mistake. The deficit is not explained by the treaty but by macroeconomic imbalances: the United States is a country that saves less than it invests.

Another tricky issue will be the United States' desire to review the agreement every five years, which would lead to increasing uncertainty, and would prevent investors from maintaining medium- and long-term planning horizons. All of this would adversely affect the effectiveness of the trade agreement.

NAFTA has been an agreement that has positively impacted the three countries that signed it, so the most likely scenario is that it will be renegotiated with the prospect of preserving the trade relationship in the North American region. This is what economic rationality dictates, despite the obstacles it needs to overcome.

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