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U.S. Must Enhance—Not Weaken—NAFTA's Positive Impact on America's Economy and National Security

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After seven rounds of negotiations, the future of the North American Free Trade Agreement (NAFTA) is uncertain.[1] This is an opportune moment, then, to review the many economic and national security advances that have accrued for the United States, Canada, and Mexico since NAFTA took effect nearly a quarter century ago. While additional improvements and updates to the agreement are certainly appropriate, considering the many changes that have occurred in the economies of the three NAFTA partners in the years since it was negotiated, the Trump Administration will not advance American interests by withdrawing from or demanding harmful changes to NAFTA.

NAFTA: A Successful and Reliable Rules-Based Agreement—in Jeopardy

NAFTA's rules-based system has fostered dramatically expanded and safer trade among the three partner countries. As the Office of the U.S. Trade Representative (USTR) reminds Americans, NAFTA entered into force on January 1, 1994, and gradually eliminated tariffs, duties, and quantitative restrictions on trade between the partner nations. NAFTA's chapters cover "rules of origin, customs procedures, agriculture and sanitary and phytosanitary measures, government procurement, investment, trade in services, protection of intellectual property rights, and dispute settlement procedures."[2]

According to the Wharton School, overall annual NAFTA trade has increased sharply, "from roughly $290 billion in 1993 to more than $1.1 trillion in 2016."[3] *The Washington Post* reports that total trade (imports plus exports) between the U.S. and Mexico grew from $85 billion in 1993 to $532 billion annually in 2015.[4]

One damaging change to NAFTA currently on the table would be inflicted by the tariffs on steel (25 percent) and aluminum (10 percent) announced last week by the Administration. A report by the Trade Partnership estimates that, overall, those tariffs could cost as many as 180,000 American jobs, far exceeding the modest gains they might generate in the steel and aluminum manufacturing sectors.[5] In reality, these tariffs amount to taxes on imports and, eventually, they will be reflected in higher prices for American consumers and businesses.

President Donald Trump has signaled that Canada and Mexico will be exempted from those tariffs while the talks are ongoing but, in making that announcement, the President reiterated his threat to terminate NAFTA. Beyond the damage that the American economy would sustain from imposing tariffs on Canada (the biggest source of imported steel) and Mexico (America's fourth-largest foreign steel supplier),[6] there are literally millions of additional reasons for the U.S. to remain in NAFTA.

The National Association of Manufacturing reports that "U.S.-manufactured goods exports to Canada and Mexico alone support the jobs of more than 2 million men and women at more than 43,000

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manufacturing firms across the United States."[7] That is because Canada and Mexico are the top two markets for U.S. exports of manufactured goods, which have tripled under NAFTA (from $129 billion in 1993 to $446 billion in 2016) according to the U.S. Chamber of Commerce.[8]

The Coalition of Services Industries is also worried that a decision by President Trump to withdraw from NAFTA could risk the loss of hundreds of thousands of American jobs "in sectors such as financial services, express delivery, media and entertainment, distribution, telecommunications and computer services."[9]

American trucking and transportation groups are likewise warning that there would be immediate economic harm if the Administration decides to step away. They cite a December 2017 report by the American Action Forum, a center-right nonprofit, "claiming that withdrawing from the trade deal could jeopardize 14 million jobs." The report also found that "withdrawing could expose businesses to $15.5 billion in new tariffs and increase consumer costs by at least $7 billion."[10]

Agriculture: NAFTA Benefits American Consumers

NAFTA's agricultural trade has provided significant benefits to farmers, ranchers, and consumers in the United States. In 2016, Mexico and Canada were the largest and second-largest agricultural importing countries for U.S. products, respectively. The third-largest importer was China, and its agricultural imports from the U.S. ($4.2 billion) were just one-fifth of Canada's imports ($21.5 billion). In fact, total imports by Mexico and Canada from the U.S. exceeded those of the next 16 countries *combined*.[11]

Not too long ago it was unusual to have fruits such as plums available all year round. Today, Americans enjoy year-round access to a variety of fruits and vegetables at affordable prices. In 2015, Canada and Mexico alone accounted for an astonishing 56 percent of the fruit and vegetable imports into the U.S.[12]

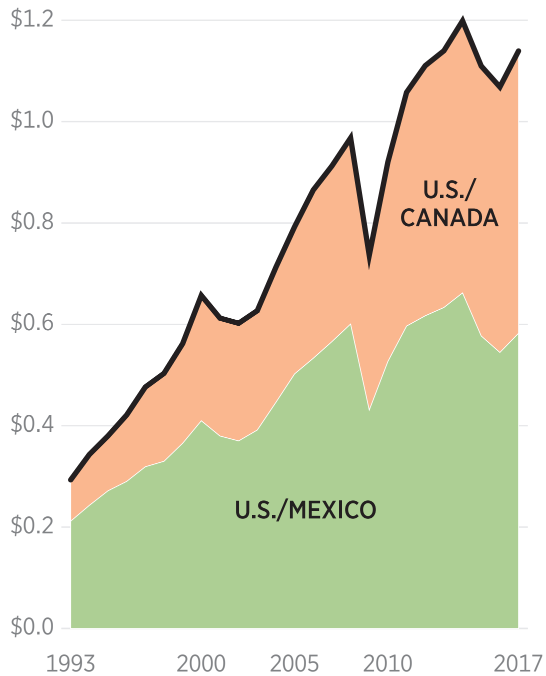
Unfortunately, U.S. trade negotiators have been pushing a provision in the current NAFTA renegotiations, the "seasonality provision," which could significantly increase trade disputes, leading to higher prices for agricultural products and reducing export opportunities for farmers and ranchers. U.S. trade

1. Josh Wingrove and Luke Kawa, "Canada, Mexico Stick to Nafta Plan After Trump's Tariff Reprieve," Bloomberg, March 9, 2018, https://www.bloomberg.com/news/articles/2018-03-09/canada-mexico-stick-to-nafta-plan-after-trump-s-tariff-reprieve (accessed March 13, 2018).
2. 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 (accessed March 13, 2018).
3. "NAFTA's Impact on the U.S. Economy: What Are the Facts?" University of Pennsylvania Wharton School, September 6, 2016, http://knowledge.wharton.upenn.edu/article/naftas-impact-u-s-economy-facts/ (accessed March 13, 2018).
4. Christopher Ingraham, "The Smart Way to Think About that Trade Deficit with Mexico," *The Washington Post*, January 26, 2017, https://www.washingtonpost.com/news/wonk/wp/2017/01/26/the-smart-way-to-think-about-that-trade-deficit-with-mexico/?utm_term=.780f5561949b (accessed March 13, 2018).
5. Kate Rogers, "Trump's Tariff Plan Puts Jobs at Risk," CNBC, March 9, 2018, https://www.cnbc.com/2018/03/09/trumps-tariff-plan-puts-jobs-at-risk.html (accessed March 13, 2018).
6. Jeffry Bartash, "Trump Steel Tariffs to Hit These 8 Countries the Hardest—and China Isn't One of Them," *Market Watch*, March 3, 2018, https://www.marketwatch.com/story/trump-steel-tariffs-to-hit-these-8-countries-the-hardest-china-is-not-one-of-them-2018-03-01 (accessed March 13, 2018).
7. John G. Murphy, "The Chief Beneficiary of NAFTA is Hidden in Plain Sight," U.S. Chamber of Commerce, December 7, 2017, https://www.uschamber.com/series/modernizing-nafta/the-chief-beneficiary-nafta-hidden-plain-sight (accessed March 13, 2018).
8. Ibid.
9. Megan Cassella, "Service Companies Warn of NAFTA Withdrawal Pains," *Politico*, February 22, 2018, https://www.politico.com/newsletters/morning-trade/2018/02/22/services-companies-warn-of-nafta-withdrawal-pains-112929 (accessed March 13, 2018).
10. Connor D. Wolf, "Trucking Industry Concerned About NAFTA Ending," *Transport Topics*, January 22, 2018, http://www.ttnews.com/articles/trucking-industry-concerned-about-nafta-ending (accessed March 13, 2018).
11. Daren Bakst, "NAFTA Renegotiations: What's at Stake for American Farmers, Ranchers, and Families," Heritage Foundation *Backgrounder* No. 3277, January 11, 2018, https://www.heritage.org/trade/report/nafta-renegotiations-whats-stake-american-farmers-ranchers-and-families.
12. Ibid., and Renee Johnson, "The U.S. Trade Situation for Fruit and Vegetable Products," Congressional Research Service, Table 2, p. 4, December 1, 2016, https://fas.org/sgp/crs/misc/RL34468.pdf (accessed March 13, 2018).

CHART 1

U.S. Trade with NAFTA Countries

TOTAL TRADE, IN TRILLIONS OF U.S. DOLLARS



SOURCES: U.S. Census Bureau, "Trade in Goods with Canada," https://www.census.gov/foreign-trade/balance/c1220.html (accessed March 14, 2018), and U.S. Census Bureau, "Trade in Goods with Mexico," https://www.census.gov/foreign-trade/balance/c2010.html (accessed March 14, 2018).

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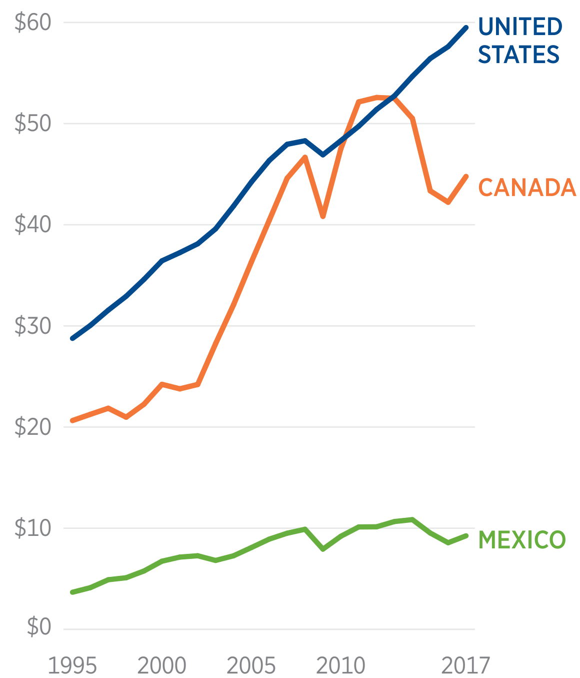
CHART 2

Growing Prosperity in NAFTA Countries

GDP PER CAPITA, IN THOUSANDS OF U.S. DOLLARS



SOURCE: International Monetary Fund, "GDP Per Capita, Current Prices," http://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD (accessed March 14, 2018).

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negotiators have proposed new rules to permit a sub-category of an industry (seasonal or perishable products, such as Florida tomatoes) to bring cases against imports, thus effectively creating an end-run around the current requirement that an action be on behalf of an entire industry.

This provision would set a bad precedent. It would incentivize other businesses that are not effectively competing within their industries to try to bundle themselves into sub-units and seek protection from foreign competition. This means more trade disputes and almost certainly retaliatory action in one form or another by Mexico, thus creating higher consumer prices for goods, and obstacles for American producers to export their goods.[13]

NAFTA Can Open New Markets for American Energy Exports

Americans have prospered—not only from lower energy prices, but also increased economic growth—since the expansion of hydraulic fracturing and horizontal drilling technologies broke the trend of high

13. Daren Bakst, "NAFTA Renegotiations Should Not Harm Agriculture and Consumers with the 'Seasonality Poison Pill,'" Heritage Foundation *Issue Brief* No. 4783, November 9, 2017, https://www.heritage.org/agriculture/report/nafta-renegotiations-should-not-harm-agriculture-and-consumers-the-seasonality.

energy prices beginning in 2009.[14] In fact, over the past year, U.S. energy production has expanded to the point where the industry is not only able to provide for Americans, but also to reach beyond U.S. borders. The year 2017 marked the first time in over half a century that America became an annual net exporter of natural gas.[15]

With the United States now solidifying its global energy dominance, Congress and the Trump Administration must continue to encourage the expansion of freer markets and freer trade to take full advantage of the current energy revolution—particularly with two of America's most significant energy trading partners, Canada and Mexico.

The strongly integrated North American energy trade relationship has been a huge boon for American producers and consumers alike. The U.S. and Canada have had a well-established energy partnership for decades, where investments in oil and natural gas, refining, and other necessary materials and services supporting natural resource extraction have flowed both ways. If oil and gas entities in Canada continue to have unencumbered access to purchase U.S. goods, services, and materials to operate their industries efficiently, it is estimated that they alone will generate $45.6 billion in U.S. gross domestic product over the next decade.[16]

Because the United States has strategically developed refinery capabilities in both the Midwest and Texas, it has positioned itself as a lucrative exporter of refined oil and gas goods. For example, refineries in the Gulf coast region have allowed the U.S. to become Mexico's largest importer of crude oil, but also Mexico's largest source for refined fuels. Because energy is so intertwined with the American economy, these benefits multiply beyond the oil and gas industry. With each created or sustained job, two additional jobs are projected to be either created or maintained elsewhere in the economy.

When it was negotiated, NAFTA "specifically excluded the Mexican energy sector and reserved to the Mexican government the right to prohibit foreign investment in the sector."[17] More recently, however, the Mexican government has taken significant steps to open its energy sector. Duncan Wood of the Wilson Center reports that the hard-won (and long overdue) reforms in Mexico's energy sector are "meant to change a sector that was closed and monopolistic for 75 years," but that U.S. and Canadian companies will need the confidence provided by NAFTA protections to safeguard the multi-billion-dollar investments required to take advantage of these new opportunities.[18] Those NAFTA protections will be of even greater importance in the event that an anti-business politician is elected president of Mexico in 2018.

The liberalization of Mexico's energy sector has also resulted in more opportunities for American energy producers. Historically, U.S. refineries benefited from Mexico sending heavier crude oil to the Gulf Coast. Gulf Coast refineries continue to benefit from this bilateral partnership, though to a lesser extent. However, with the glut of natural gas and petroleum products in the U.S., companies are now sending more energy to Mexico for consumption. According to the U.S. Energy Information Administration, "For 2016, the value of U.S. energy exports to Mexico was $20.2 billion, while the value of U.S. energy imports from that country was $8.7 billion."[19]

Maintaining NAFTA is critical for building on the energy trade success the U.S. has with Canada

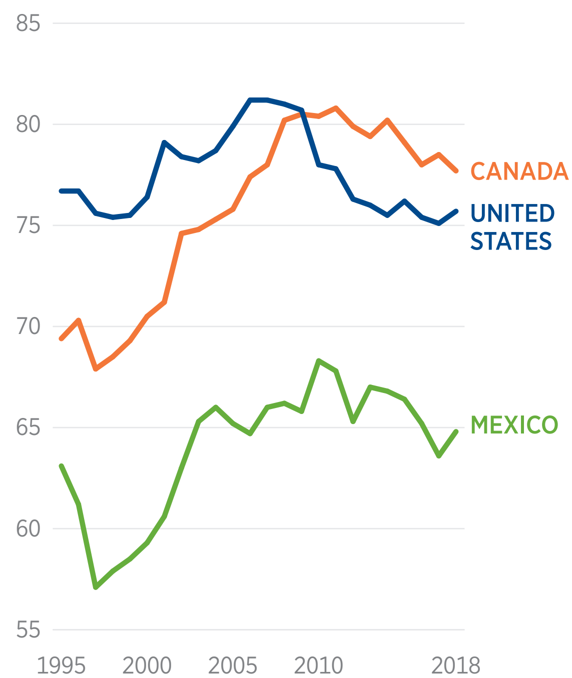
14. U.S. Energy Information Administration, "Natural Gas," March 7, 2018, https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm (accessed March 13, 2018).
15. Victoria Zaretskaya and Katie Dyl, "United States Expected to Become a Net Exporter of Natural Gas This Year," U.S. Energy Information Administration, August 9, 2017, https://www.eia.gov/todayinenergy/detail.php?id=32412 (accessed March 13, 2018).
16. Ganesh Doluweera, Paul Kralovic, and Dinara Millington, "Economic Impacts of Canadian Oil and Gas Supply in Canada and the United States," Canadian Energy Research Institute, August, 2017, https://www.ceri.ca/assets/files/Study_166_Executive_Summary.pdf (accessed March 13, 2018).
17. James M. Roberts and William Tucker, "Additional Reforms Can Boost Mexico's Hydrocarbons Industry," Heritage Foundation *Backgrounder* No. 2971, November 12, 2014, https://www.heritage.org/international-economies/report/additional-reforms-can-boost-mexicos-hydrocarbons-industry.
18. Duncan Wood, "Protecting Mexico's Energy Reforms," *Real Clear World*, August 14, 2017, https://www.realclearworld.com/articles/2017/08/14/protecting_mexicos_energy_reforms_112502.html (accessed March 13, 2018).
19. U.S. Energy information Administration, "U.S. Energy Trade with Mexico: U.S. Export Value More than Twice Import Value in 2016," February 9, 2017, https://www.eia.gov/todayinenergy/detail.php?id=29892 (accessed March 13, 2018).

and Mexico. If the U.S. withdraws from NAFTA, natural gas imports and exports will face an additional and unnecessary bureaucratic hurdle. In the case of natural gas imports and exports, U.S. statutes mandate that if the U.S. does not have a free trade agreement in place with the country receiving or sending the natural gas, the U.S. Department of Energy must make a public interest determination.[20] U.S. producers should be allowed to export liquid natural gas to any country they see fit. The distinction that exports to free trade agreement countries (such as the three countries of NAFTA) are somehow deemed to be in the "public interest" while others are not is, on the whole, an arbitrary one. Nevertheless, withdrawal from NAFTA would empower Energy Department bureaucrats in Washington to reject subjectively energy imports or exports.

Consequently, to avoid this potential negative outcome, the current Administration must maintain the free trade principles of an already functioning NAFTA to bolster the energy industry and the individual prosperity that results from less restrictive commerce.[21]

CHART 3

Economic Freedom Scores in NAFTA Countries



SOURCE: Terry Miller, Anthony B. Kim, and James M. Roberts, *2018 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2018), http://www.heritage.org/index.

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NAFTA Strengthens America's National Security in the Hemisphere

As Heritage Foundation Distinguished Fellow David Shedd has noted,[22] the significant and positive national security ramifications for the United States emanating from the NAFTA agreement have too often been taken for granted. For example, NAFTA has helped to empower a stronger and more vibrant Mexican economy that has contributed to reductions in illegal immigration.

According to Shedd, NAFTA is the bedrock of America's regional security interests. Its termination by President Trump would make the achievement of U.S. policy objectives with Mexico and Canada more difficult, and would undermine U.S. regional initiatives throughout the Western Hemisphere.

The U.S.–Mexico partnership has been strengthened by NAFTA, which has served to broaden and deepen the bilateral relationship during the past two-plus decades. While joint economic security has expanded, American cooperation with Mexican law enforcement to combat organized crime, identify counterterrorism opportunities, and address illegal immigration has also reached unprecedented levels. Mexican counterparts have helped to make America safer.

A NAFTA withdrawal, on the other hand, could have devastating consequences for this partnership, especially for U.S.–Mexican cooperation to reduce illicit drug trafficking. NAFTA withdrawal would

20. Natural Gas Act, Section 3, 15 U.S. Code § 717(b) (1938).

21. Nicolas D. Loris and Elliot Raia, "NAFTA Is Essential to Expanding U.S. Energy Dominance," Heritage Foundation *Commentary*, January 22, 2018, https://www.heritage.org/energy-economics/commentary/nafta-essential-expanding-us-energy-dominance.

22. David R. Shedd, "Renegotiating Nafta Trade Deal: A U.S. National Security Necessity," *Investor's Business Daily*, March 2, 2018, https://www.investors.com/politics/commentary/renegotiating-nafta-trade-deal-a-u-s-national-security-necessity/ (accessed March 13, 2018).

also have adverse impacts on American efforts to resolve the Venezuela crisis, affect a positive change in Cuba, and counter adversarial encroachment in the region by China and Russia.

Conclusion

As the annual Heritage Foundation *Index of Economic Freedom* has demonstrated,[23] NAFTA has advanced fundamental American policy objectives to promote free markets and economic freedom by strengthening institutions that promote the rule of law and resist the nefarious transnational organized crime organizations and state actors in this hemisphere that seek to undermine it.

There is certainly room to improve NAFTA, as Dr. Edwin Feulner, founder of The Heritage Foundation, has reported, and the Trump Administration is correct to play hardball and work to ensure the best deal possible. But, as Dr. Feulner cautions, "nobody wins a trade war."[24]

Congress and the Administration must work together, supported by American conservatives, to build on the many economic and national security benefits that NAFTA has generated for the United States to enhance—not destroy—the agreement through the current negotiations.

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23. James M. Roberts, "All 3 NAFTA Countries Have Gained in Prosperity Since 1994," Heritage Foundation *Commentary*, January 24, 2018, https://www.heritage.org/trade/commentary/all-3-nafta-countries-have-gained-prosperity-1994.

24. Ed Feulner, "The Trouble with Tariffs," *The Washington Times*, February 19, 2018, https://www.washingtontimes.com/news/2018/feb/19/why-the-us-must-trash-the-tariffs-and-update-nafta/ (accessed March 13, 2018).