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on

Trump-eting the Requiem or Revival of NAFTA?

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Abstract

In the wake of US President Donald Trump's decision to re-negotiate NAFTA, the paper provides an assessment of the economic impact of the agreement on the three member countries – US, Canada and Mexico. In doing so, the paper analyzes data sets on exports, imports, foreign direct investments and employment generation since the implementation of the agreement in 1994. The paper argues, based on the available data, that NAFTA is as much important for the US as it is for Mexico and Canada, and that NAFTA has resulted in the improvement of exports, imports, FDI and jobs, creating a well-knitted regional supply chain.

Introduction

After twenty-three years of its enactment, the debate on the future of North American Free Trade Agreement (NAFTA) – negotiated between the three countries of United States (US), Canada and Mexico in January 1994 – is being invoked over US President, Donald Trump's announcement to either re-negotiate the trade deal or withdraw, in case of failure to strike a better deal.[1] To this effect, President Trump was to sign an executive order on April 29, 2017, announcing his move to withdraw from the trade deal. But President Trump reconsidered his decision three days prior to signing it following his conversation with the Mexican President, Enrique Pena Nieto, and Canadian Prime Minister, Justin Trudeau, as well as intervention by pro-business lobby for re-negotiation.[2] The draft executive order, notifying US withdrawal, held NAFTA responsible for "massive transfer of wealth" from the US, loss of some 700,000 jobs as against 200,000 new jobs promised under the trade deal, a cumulative trade deficit exceeding $1 trillion with Mexico and exploitation of American dairy and lumber industries by

Canada.[3] Eventually on May 18, 2017, President Trump notified his reconsidered decision to the Congress that plans to renegotiate the NAFTA.[4]

In the light of the debate revolving around the precariousness of the future of NAFTA, stirred by the inconsistent policy stances of the US President on the deal, the paper attempts to assess the economic impacts of NAFTA based on the analysis of data sets on exports, imports, foreign direct investments and employment generation. The paper argues that NAFTA is as much important for the US as it is for Mexico and Canada, and NAFTA has been effective in augmenting trade, investment and employment among three NAFTA countries, creating a tightly knitted regional supply chain.

The paper is divided into five parts. Part I provides an overview of the NAFTA by tracing its genesis. Part II explores debate on NAFTA, including President Donald Trump's stance on the trade deal since the presidential campaign, and underlines the objectives for re-negotiations. Part III posits the three countries in the renegotiation process by analyzing the reactions of Canada and Mexico to President Trump's decision. Part IV assesses the economic impacts of the agreement by analyzing the data sets on exports, imports, foreign direct investment (FDI), and employment generation since the inception of NAFTA. Part V provides the concluding observations based on the analysis undertaken in the previous sections.

I

Negotiating NAFTA: A Historical Overview

The origins of North American Free Trade Agreement (NAFTA) dates back to the 1980s when President Ronald Reagan envisioned a North American common market during his presidential campaign.[5] The major breakthrough facilitating the realization of a North-American economic integration was the creation of Canada-United States Free Trade Agreement (CUSFTA) in 1989.[6] A year later, in June 1990, Mexican President Carlos Salinas de Gortari and US President George Bush announced the establishment of a free trade area between the two countries, and in 1991 Canada joined the formal negotiations. On December 17, 1992, the three countries signed the trade pact which received the approval of the US Congress on November 20, 1993. Thereafter, NAFTA Implementation Act was signed into law by President William J. Clinton on December 8, 1993, and finally NAFTA entered into force on January 1, 1994.[7]

The main rationale for the US to negotiate NAFTA was as much economic as political. Economically, it gave US the opportunity to expand its export markets, particularly to the south, and politically it provided the platform to resolve bilateral tensions with Mexico. Additionally, it also provided the way to promote political pluralism and deepening of democratic processes in Mexico, and at the same time facilitate in expediting the Uruguay Round of WTO negotiations. For Mexico, joining the NAFTA provided the lever to boost its economic reforms initiated in the mid-1980s on account of a major debt crisis and to secure access to the US market. The main rationale which drove Canada into the negotiations was to minimize the risks from a US-Mexico free trade agreement and accrue new commercial concessions from the US.[8]

The negotiations of NAFTA were not without any controversy.[9] Infact, even at the time when it was first proposed, the negotiation stirred a political debate in the US.[10] Like today, the debate was mainly on the effectiveness of the agreement in 'generation of jobs' in the US. While the proponents saw huge job potential from the agreement, the opponents opined that the agreement would "cause a 'giant sucking sound' of US capital and jobs fleeing to Mexico, while endangering the sovereignty of US".[11] Even after ratification and thereafter, the political debate remained alive and opinions divisive on the benefits of the agreement.

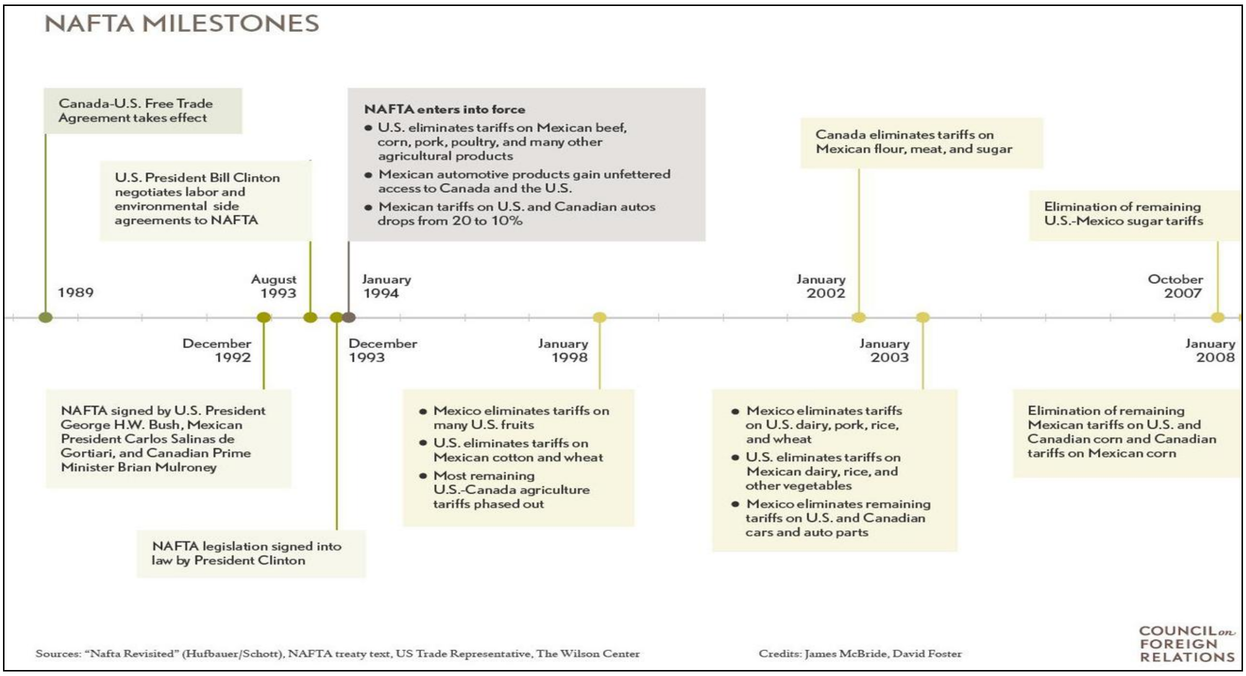
Nonetheless, upon entering into force, NAFTA became unique in two ways. First, the agreement created one of the world's largest free trading blocs, representing a $6 trillion economy with a population of 360 million. In a span of ten years NAFTA grew to become a $12.5 trillion economy catering to a population of 430 million. Second, the agreement was the most comprehensive trade pact ever negotiated between regional trade partners in those times as well as the first agreement between a developing country (Mexico) and two developed countries (US and Canada) on the basis of reciprocity.[12]

The main aim of NAFTA was the gradual elimination, over a period of 15 years, of most remaining barriers to cross-border investment and to the movement of goods and services among the three countries.[13] Figure 1 indicates that while many provisions were implemented at the time of its coming into force, some other provisions were negotiated until 2008. NAFTA also marked the first Free Trade Agreement (FTA) which included labour and environmental provisions in addition to tariffs in trade and services, investments, intellectual property rights and dispute settlement procedures.[14] The text of the NAFTA identifies six objectives:[15]

a. eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties;
b. promote conditions of fair competition in the free trade area;
c. increase substantially investment opportunities in the territories of the Parties;

d. provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;
e. create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and
f. establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

Figure 1



Source:http://www.css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/resources/docs/CFR-NAFTA%27s%20Economic%20Impact.pdf

II

Re-negotiating NAFTA: Trends and Objectives

As already mentioned, the idea of a free trade agreement among the three North-American neighbours remained a perennial subject of discussion in the broader debate in the US. In this section, an analysis of the debate on NAFTA based on the statements in different presidential campaigns since 1992 in the US is being undertaken. The aim is to comprehend the underlining argument for re-negotiating the NAFTA agreement which has resurfaced over time.

Table 1 shows that the debate on NAFTA has been an integral part of the presidential campaigns in the US since its inception. The common underlining argument of all these debates on NAFTA has been mostly focussed on labour and environmental impact. Interestingly, although the NAFTA re-negotiation debate remained a key element of US presidential campaigns since 1992, yet it is the first time that the renegotiation process of NAFTA has been triggered by a Presidential candidate elected to the office keeping up with his pre-election campaign promises. So far, NAFTA was not re-negotiated either because the candidate who assumed the Office of the President was an advocate of free trade in general and NAFTA in particular, or because of the reversal in the position of the elected candidate after assuming office. For instance, in presidential campaign of 2008, President Obama had promised to open up NAFTA to renegotiations. However, he reversed his decisions in the wake of the global financial crisis of 2008-09. He said, "At a time when the economy has been shrinking drastically and trade has been shrinking around the world…we probably want to make the economy more stabilized in the coming months before we have a long discussion around further trade negotiations." [16] Among the presidential candidates, the most vacillating position on NAFTA has been taken by Hillary Clinton – at times being supportive and at other times being confutative.

In the most recent US Presidential Campaign 2016, the issue of NAFTA received renewed attention. Republican candidate, Donald Trump, called NAFTA as "the worst trade deal maybe ever signed anywhere, but certainly ever signed in this country". He attributed US trade deficit and loss of jobs to the agreement.[17] Keeping with his campaign promises, Trump announced at his swearing-in ceremony that he is going to start renegotiating on NAFTA, on immigration and on security at the border.

Table 1. History of Political debate on NAFTA

Year	Statements On NAFTA
1992 Presidential Campaign	**Bill Clinton** endorsed the North American Free Trade Agreement, but also said that as President he would not sign it in its current form and that an acceptable trade agreement should include provisions that would toughen environmental and worker-safety standards in Mexico.[18] **Ross Perot:** *"We have got to stop sending jobs overseas…To those of you in the audience who are business people, pretty simple: If you're paying $12, $13, $14 an hour for factory workers and you can move your factory South of the border, pay a dollar an hour for labor, hire young -- let's assume you've been in business for a long time and you've got a mature work force -- pay a dollar an hour for your labor, have no health care -- that's the most expensive single element in making a car -- have no environmental controls, no pollution controls and no retirement, and you don't care about anything but making money, there will be a giant sucking sound going south."*[19]
2000 Presidential Campaign	**George W Bush:** *"Our future cannot be separated from the future of Latin America," "Should I become the president, I will look south not as an afterthought, but as a fundamental commitment."* [20]
2008 Presidential Campaign	**Barack Obama:***"I will make sure that we renegotiate" and "ensure that we actually get labour and environmental standards that are enforced"* **Hillary Clinton**: *"…would opt out of NAFTA unless we renegotiate it, and we renegotiate on terms that are favorable to all of America", and re-negotiate on "the core labour and environmental standards"*[21] *"NAFTA was negotiated more than 14 years ago, and Hillary believes it has not lived up to its promises."*[22]
2016 Presidential Campaign	**Donald Trump:** *1. "I will renegotiate NAFTA. If I can't make a great deal, we're going to tear it up. We're going to get this economy running again"; "We are going to start renegotiating on NAFTA, on immigration and on security at the border".*[23]*(January 22, 2017, Swearing-in ceremony)* *2. " If I am unable to make a fair deal for the United states, meaning a fair deal for our workers and for our companies, I will terminate NAFTA" (April, 2017)*[24] ***Pre-election:*** *1. "NAFTA was signed by Bill Clinton. NAFTA has been a catastrophe, an absolute catastrophe for our country.";* *2. "The Mexicans want it, and that doesn't sound good to me";*

3. *"45 percent, 50 percent of manufacturing is gone"— were attributable to NAFTA."*[25] *(May 2016)*

Hillary Clinton: *"…trade is an important issue. Of course, we are 5 percent of the world's population; we have to trade with the other 95 percent. And we need to have smart, fair trade deals." "We're going to enforce the trade deals we have, and we're going to hold people accountable." "The facts are I did say I hoped it [NAFTA] would be a good deal. But when it was negotiated, which I was not responsible for, I concluded it wasn't."*

Source: Compiled by the author from various sources.

III

The Re-negotiation Process: Positing the Three '*Amigos*'

On May 18, 2017, President Trump notified the Congress that he plans to initiate negotiations with the NAFTA partners to upgrade many provisions based on modern standards. Highlighting that NAFTA, negotiated 25 years ago, must reflect and respond to the changed situation, President Trump, in his letter, underlined that US re-negotiations with its North-American neighbours was to support higher paying jobs in the US and to expand its economy by improving the opportunities under the agreement. The basic objectives underlined in the letter is to modernize NAFTA to include new provisions on intellectual property rights, regulatory practices, state-owned enterprises, services, customs procedures, sanitary and phytosanitary measures, digital trade, labour and environmental standards, and small and medium enterprises.[26] However, compared to the earlier draft letter circulated in March, this letter was less specific on the provisions to be re-negotiated, and makes only references to general areas for re-negotiation.

In the previous draft letter of March 2017 to renegotiate NAFTA, it was clearly stated that US intends to negotiate on bilateral basis with the US trading partners. Highlighting the persistent trade deficit with Canada and Mexico, the draft letter elaborated terms on which NAFTA was to be re-negotiated. These included among others 'revocation of tariff preferences, if increased imports from NAFTA countries are a substantial case of serious injury or threat of serious injury to the domestic industry' and adjusting rules of origin to 'support production and jobs in the United States'.[27]

Canada and Mexico: It Takes Two to 'Tango'

Responding to the decision for re-negotiation, both Canada and Mexico, while avoiding an aggressive posturing, has indicated that they are committed to a tri-lateral negotiation, instead of a bilateral one. In this direction Canadian Trade Minister Francois-Philippe Champagne in March 2017 said, "… talks, when they happen, should be trilateral. For me it is quite clear. NAFTA is a three-nation agreement. So the way to renegotiate a three-nation agreement is on a trilateral basis."[28] Following the initiation of formal process for re-negotiation, Canada and Mexico issued carefully worded statements. Canada's Minister of Foreign Affairs, Chrystia Freeland, said "We are at an important juncture that offers us an opportunity to determine how we can best align NAFTA to new realities—and integrate progressive, free and fair approaches to trade and investment.[29] The Mexican Government stated, "The Mexican government welcomes this important step in the United States' domestic process to modernize NAFTA. We reaffirm our willingness to update the agreement in order to successfully address the challenges of the 21st century. Our countries deserve a modern instrument to regulate our trading and economic relationship."[30] Nonetheless, both Canada and Mexico have resolved to diversify trade and reduce their dependence on the US market. Mexico is believed to be looking to Brazil and Argentina, the two biggest economies of South America, as prospective trading partners.[31]

IV

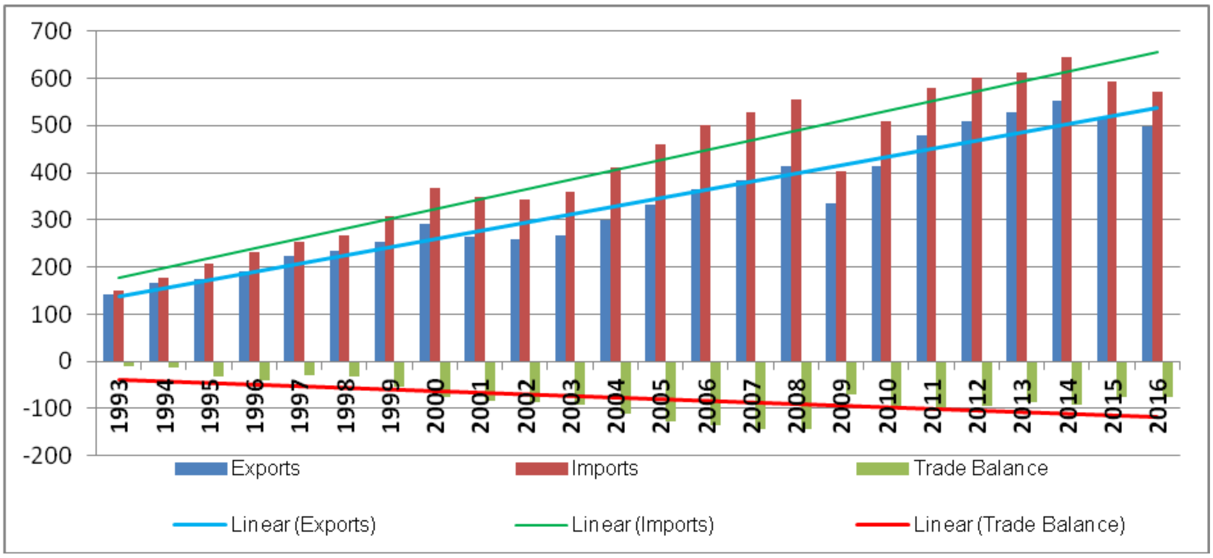
An Assessment of the Economic Impact of NAFTA

Over the years since its inception, numerous studies have developed assessing the trade and economic benefits of the trade deal. Some studies argue that NAFTA has positive impact[32]; while others argue that NAFTA has adversely impacted US job scenarios[33]. In this section, an assessment of the economic impact of NAFTA is undertaken by analyzing the trade trends in terms of exports, imports, foreign direct investments and employment generation.

Trade Trends among NAFTA Partners

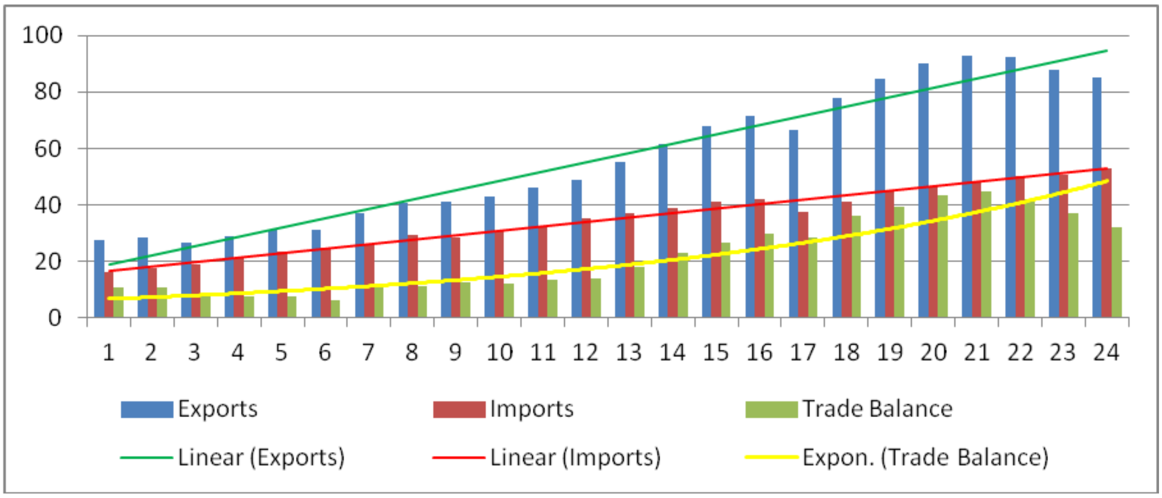
The trilateral trade among the three countries reached $1 trillion threshold in 2011. Since 1993, trade with Mexico grew faster compared to the trade with Canada or with non-NAFTA countries.[34] US trade with its NAFTA partners – Canada and Mexico – nearly quadrupled to $1.3 trillion in 2014. In 2014, the two countries purchased more than one-third of US merchandise exports ($553 billion in 2014 or 34 per cent of total export goods). [35] The total trade of NAFTA partners with the US exceeds $3.6 billion a day. Canada and Mexico are the two largest markets for US exports in the world.[36] In 2016, Canada was the leading market for US exports ($226.8 billion) and Mexico ranked second ($231 billion).[37] Figure 2 indicates that the total trade (goods) of US with NAFTA partners has increased exponentially. However, since US imports exceed its exports, the trade balance is negative. In terms of imports, US imports from the two NAFTA partners accounted for 26 per cent of total imports in 2016.[38] Two-way trade between the US and NAFTA partners grew by 279 per cent from 1993-2012, compared to 260 per cent with the rest of the world.[39] On the other side, and unlike trade in goods, US has a positive trade balance with the NAFTA partners in services trade since the agreement came into force. This indicates that service exports exceed imports to these two countries. (Figure 3)

Figure 2. US Merchandise Trade with NAFTA Members (US $ billions)



Source: US Census Bureau.

Figure 3. US Services Trade with NAFTA Partners



Source: Bureau of Economic Analysis.

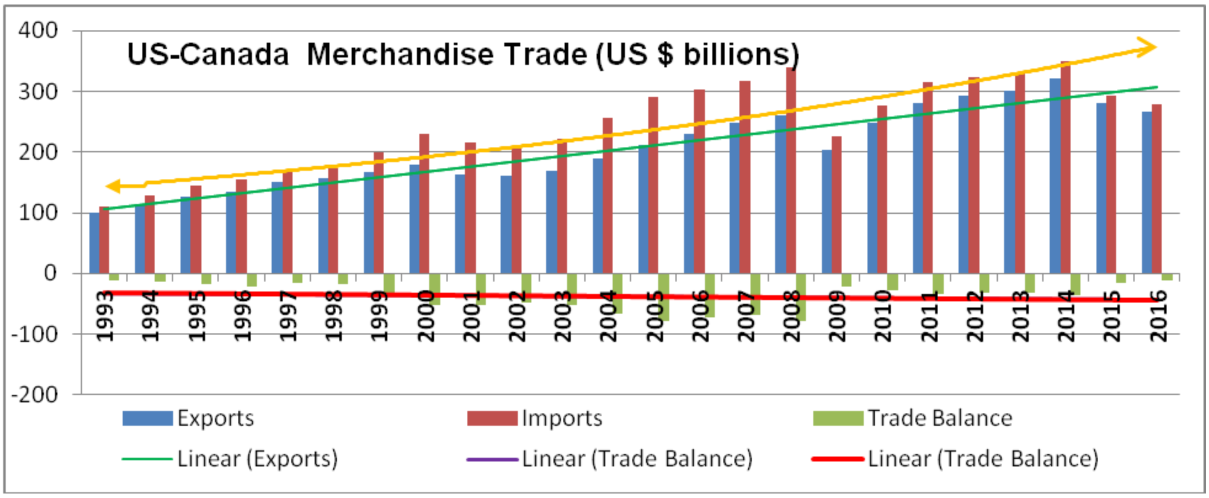
US-Canada Trade Trends

In 2016, the total US-Canada trade (goods and services) stood at $630 billion. Exports stood at $323.2 billion and imports at $307.1 billion. The US trade surplus in terms of both goods and services with Canada stood at $13.4 billion. With a two-way trade amounting to $544.9 billion, Canada was the second largest trading partner in goods in 2016. In 2016, the US had a trade deficit of $11.2 billion in goods. But, the service trade surplus with Canada was $24.6 billion. [40]

Trade in Goods

Figure 4 indicates that US-Canada trade in goods (both exports and imports) has more than doubled since the inception of NAFTA agreement. From $100.4 billion in 1993, US exports to Canada increased to $266.8 billion in 2016. US imports also increased from $111.2 billion in 1993 to $278.1 billion in 2016. In 2015, US exports to Canada account for 18.3 per cent of overall US exports and was the third largest supplier of goods import for the US.[41]

Figure 4.

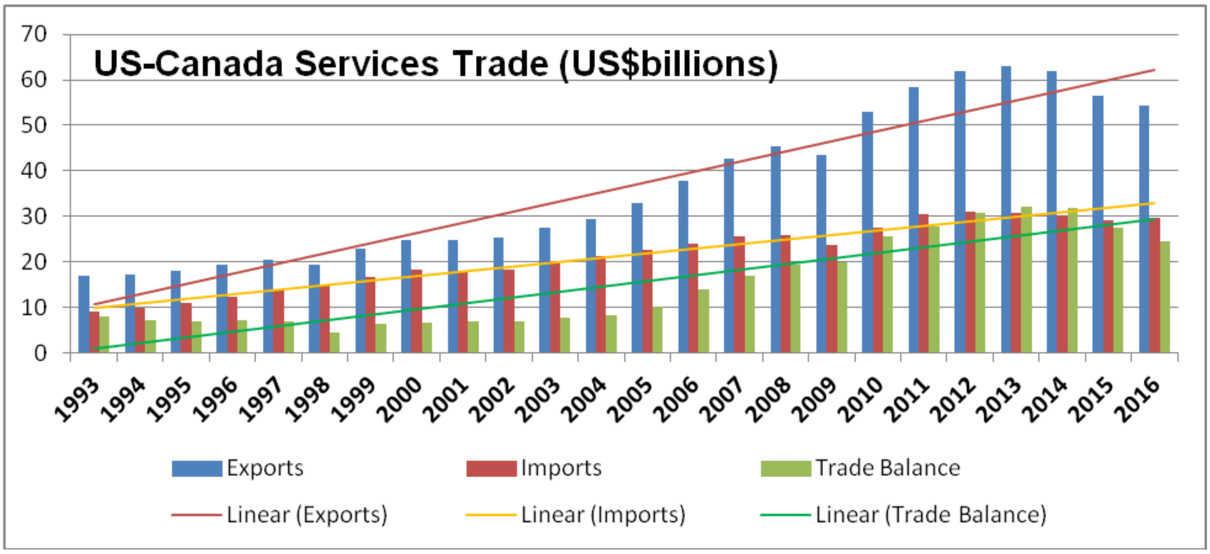


Source: US Census Bureau.

Trade in Services

In 2016, US-Canada trade in services (exports and imports) was $83.8 billion in 2016. Services exports were $54.2 billion while services imports were $29.6 billion. The US services trade surplus with Canada was $24.6 billion in 2016. Figure 5 shows that US services exports has grown from $17 billion in 1993 to $54.2 billion in 2016, and that of imports from $9.1 billion in 1993 to $29.6 billion in 2016. As exports of services exceed imports, US trade balance has also seen a surplus - an increase from $7.9 billion to $24.6 billion.

Figure5.



Source: Bureau of Economic Analysis.

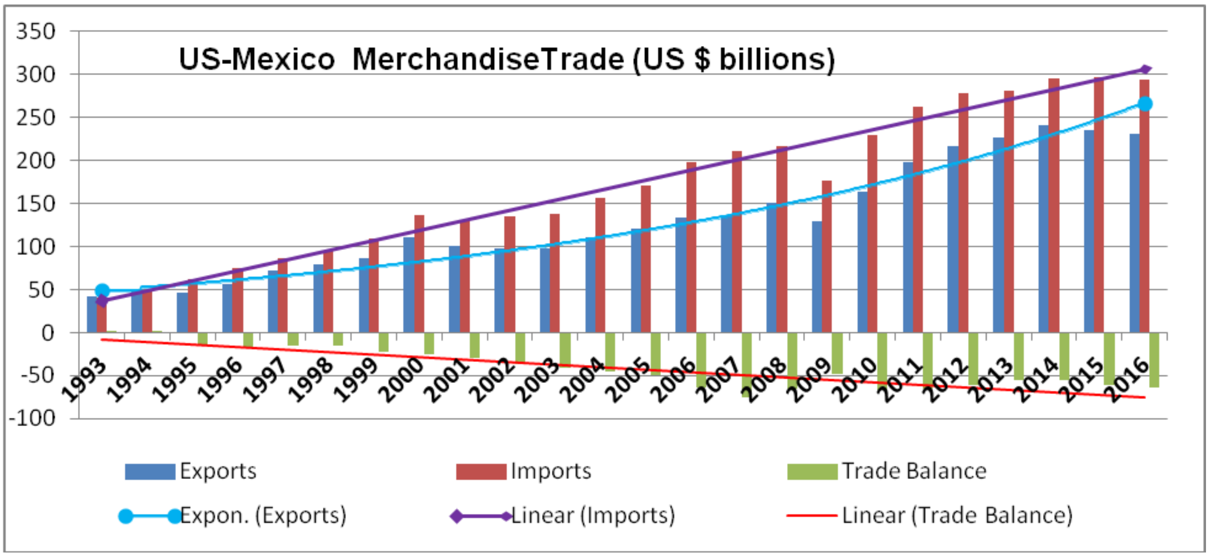
US-Mexico Trade Trends

US-Mexico goods and services trade stood at $579.8 billion in 2016. Exports totalled $262.1 billion while imports were $317.7 billion. The US goods and services trade deficit with Mexico was $55.6 billion in 2016. With a total of $525.2 billion in total (two way) goods trade during 2016, Mexico was the third largest goods trading partner in 2016. While, on one hand, the US goods trade deficit with Mexico was $63.2 billion in 2016, on the other, the US services trade surplus with Mexico was $7.6 billion in 2016.[42]

Trade in Goods

Figure 6 indicates that US-Mexico trade in goods (both exports and imports) has seen a significant increase since the inception of NAFTA agreement. From $41.6 billion in 1993, US exports to Mexico saw more than five-fold increase to $231.0 billion in 2016. Simultaneously, US imports also increased from $39.9 billion in 1993 to $294.2 billion in 2016, which is almost a seven-fold rise. Mexico was the second largest goods export market as well as supplier of US good imports in 2016. In 2015, US exports to Mexico account for 15.9 per cent of overall US exports and 13.4 per cent of overall US imports in 2015.[43] Mexico is highly reliant on the US as an export market with approximately 80% of its total merchandise exports going to the US in 2016[44].

Figure 6.

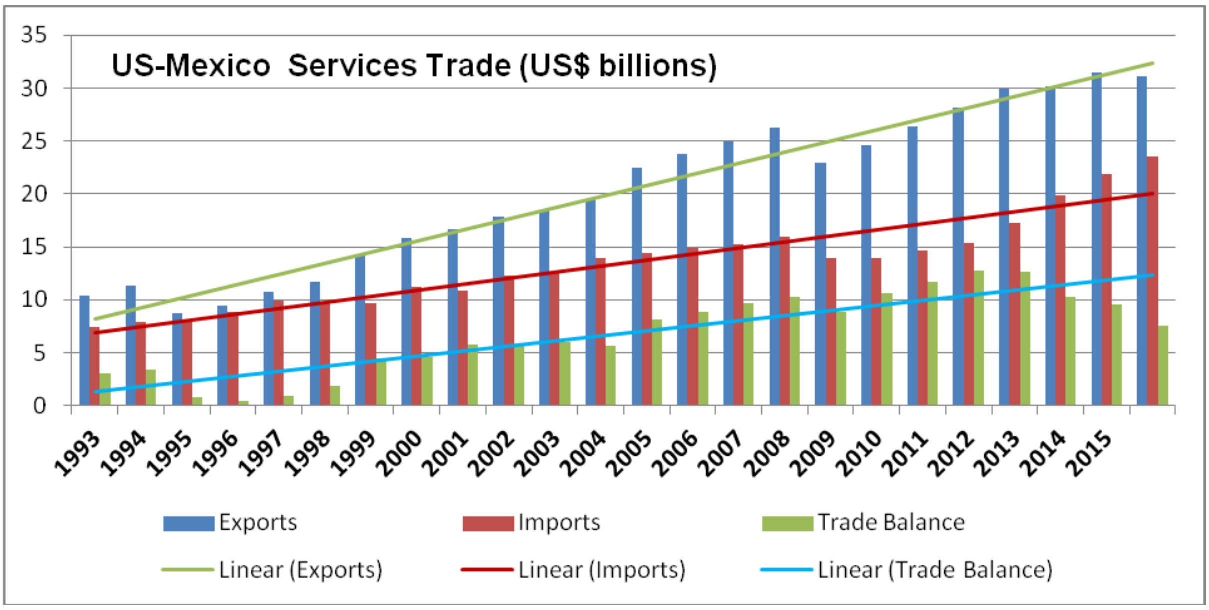


Source: US Census Bureau.

Trade in Services

As Figure 6a indicates, US-Mexico trade in services (exports and imports) stood at $54.6 billion in 2016. Services exports were $31.1 billion and services imports were $23.5 billion. The US services trade surplus with Mexico was $7.6 billion in 2016. US service exports have increased from $10.4 billion in 1993 to $31.1 billion in 2016 while service imports grew from $7.4 billion in 1993 to $23.5 billion in 2016.

Figure 6a

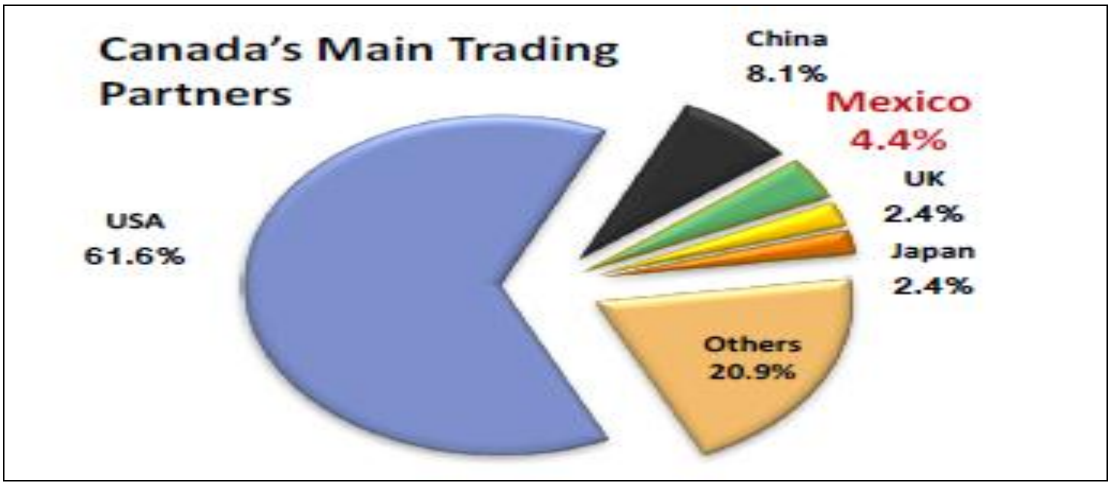


Source: Bureau of Economic Analysis.

Canada-Mexico Trade Trends

Bilateral trade between Canada and Mexico is less compared to bilateral trade of these two countries with the US. Though comparatively negligible, Canada-Mexico bilateral trade has also seen almost a nine-fold increase since NAFTA. Mexico is the 3rd largest trade partner of Canada after US and China, representing 4.4 per cent of Canada's market.[45]

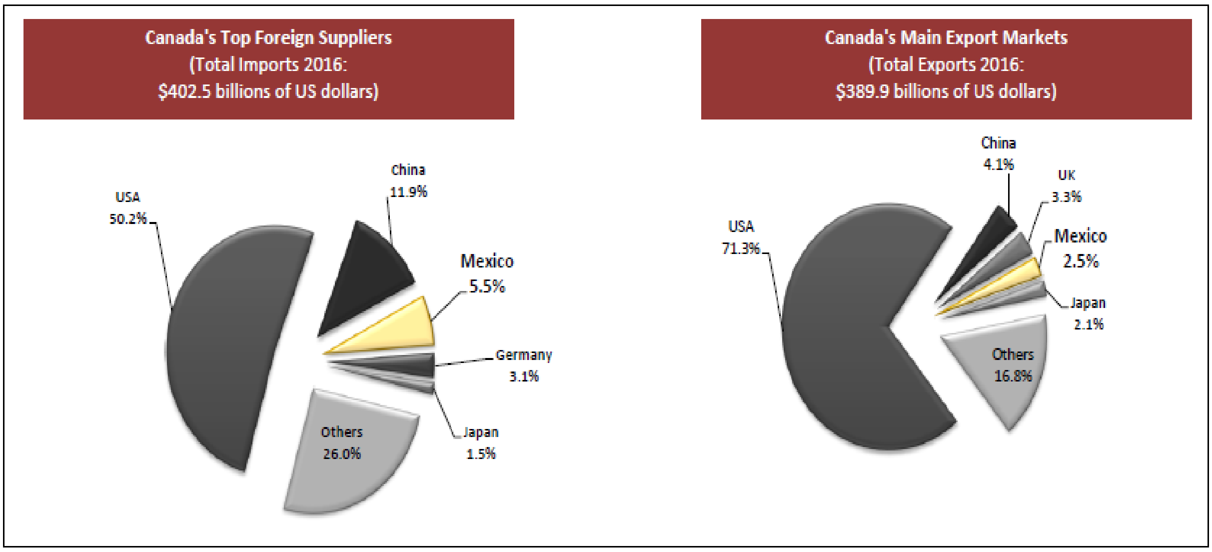
Figure 7



Source: Mexico-Canada Trade Report 2016, Secretariat of Economy, Mexico

In terms of exports, Mexico was the 4th largest export market for Canada, representing 2.5 per cent of the total export in 2016. In terms of imports, Mexico is the 3rd largest partner of Canada, representing 5.5 per cent of the total import market of Canada.[46]

Figure 7a

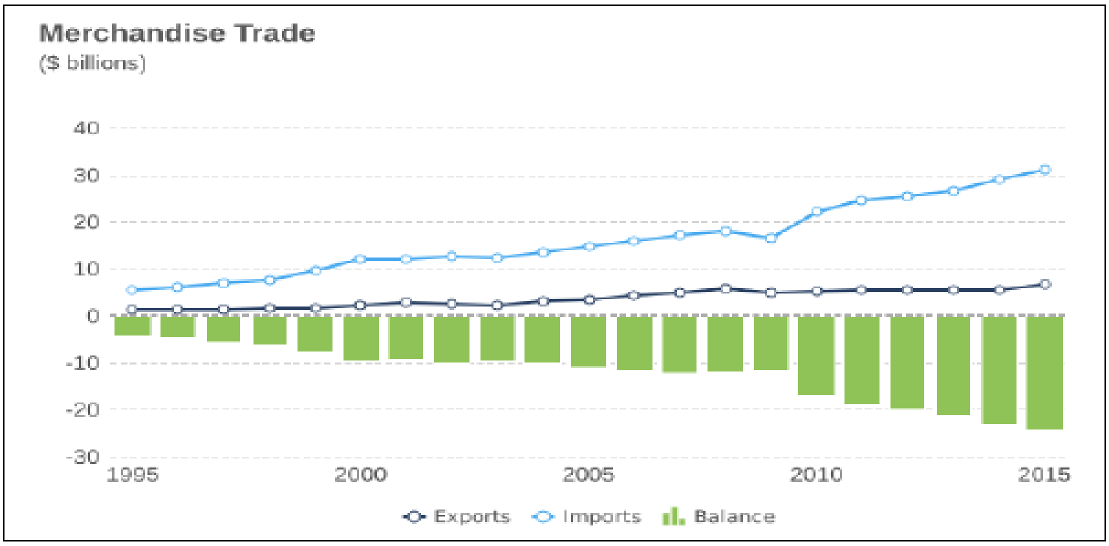


Source: Mexico-Canada Trade Report 2016, Secretariat of Economy, Mexico

Trade in Goods

Canada-Mexico bilateral merchandise trade has increased from $6.5 billion in 1995 to $37.8 billion in 2015. In 2015, exports were $6.6 billion, an 18.6% increase from 2014 and imports was $31.2 billion, an 8.2% increase from 2014. Canada's trade deficit with Mexico in 2015 was $24.6 billion, an increase from $23.3 billion in 2014.[47]

Figure 7b: Canada-Mexico Merchandise Trade

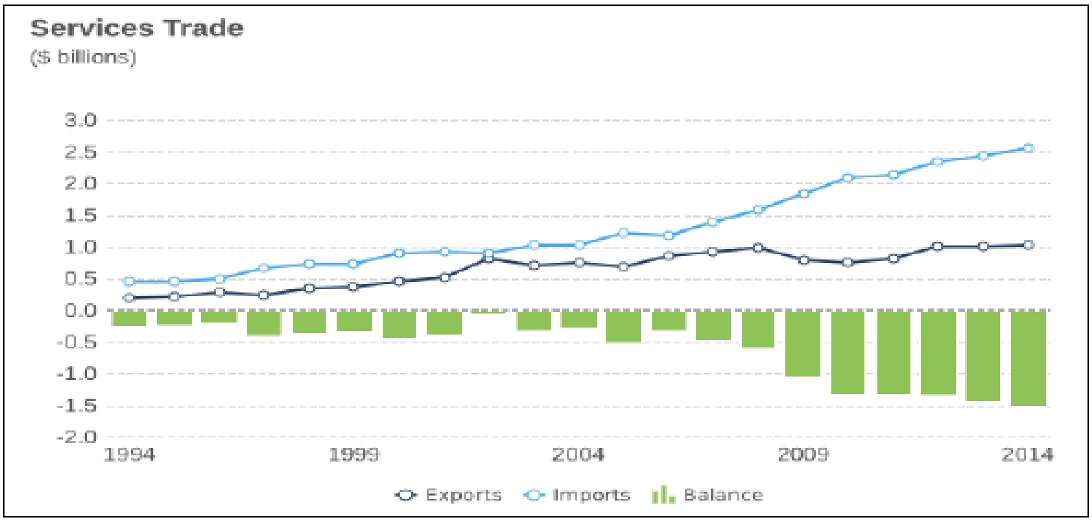


Source: Dylan Gowans (2016)

Trade in Services

Bilateral services trade between Canada and Mexico has also seen an increase from 0.64 billion in 1994 to \$3.6 billion in 2014. In 2014, total exports were \$1.0 billion, a 4.3% increase from 2013 and total imports was \$2.6 billion, a 5.1% increase from 2013. Canada's trade deficit with Mexico in 2014 stood at \$1.5 billion, an increase from \$1.4 billion in 2013.[48]

Figure 7c: Canada-Mexico Services Trade

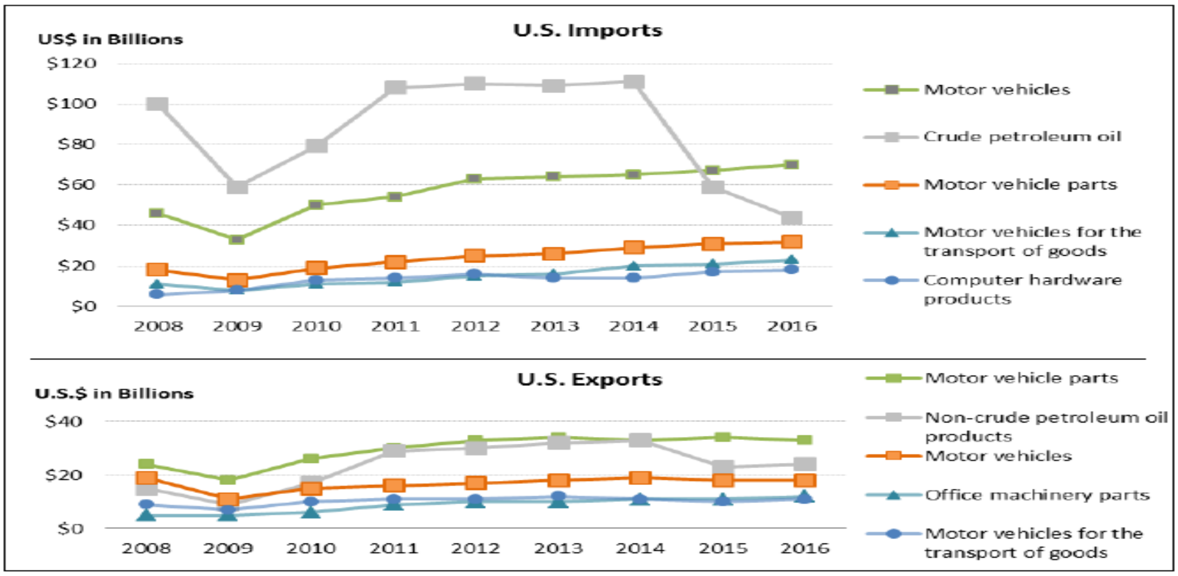


Source: Dylan Gowans (2016)

Trade by Product between NAFTA Partners

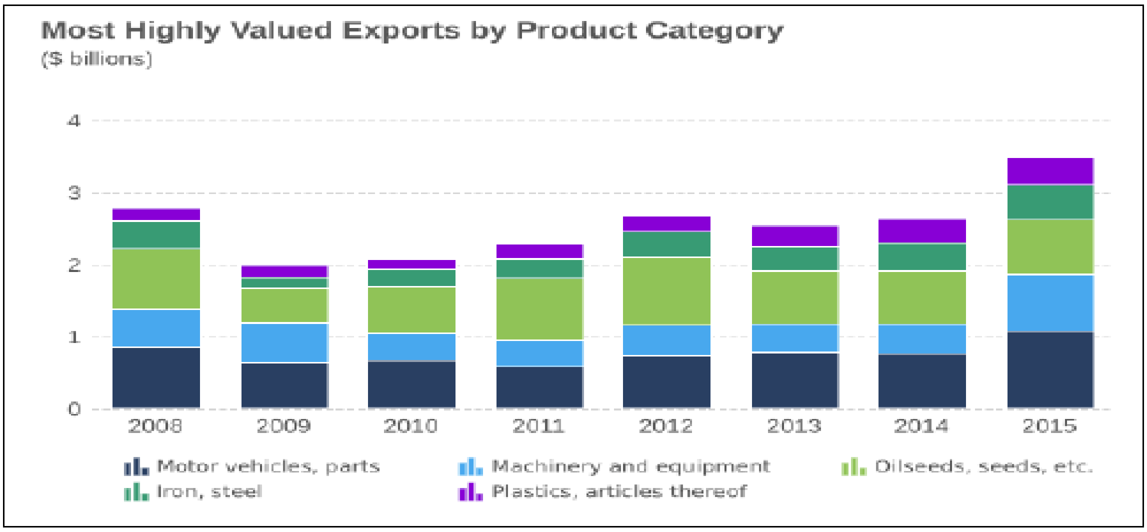
As Figure 8 indicates, the major products of US export to NAFTA countries include motor vehicles parts, non-crude oil products, motor vehicles, office machinery parts and motor vehicles for transport goods. The major imports include motor vehicles, crude petroleum oil, motor vehicle parts, motor vehicles for transport of goods and computer hardware. Figure 8a exhibits that the most highly valued export products in Canada-Mexico bilateral trade include plastic articles, iron and steel, oilseeds, machinery and equipments, and motor vehicles. The highest valued import products between Canada and Mexico include specialized instruments, furniture, machinery and equipments, electrical and electronics, and motor vehicles. (Figure 8b)

Figure 8. US Trade by Product with NAFTA Partners



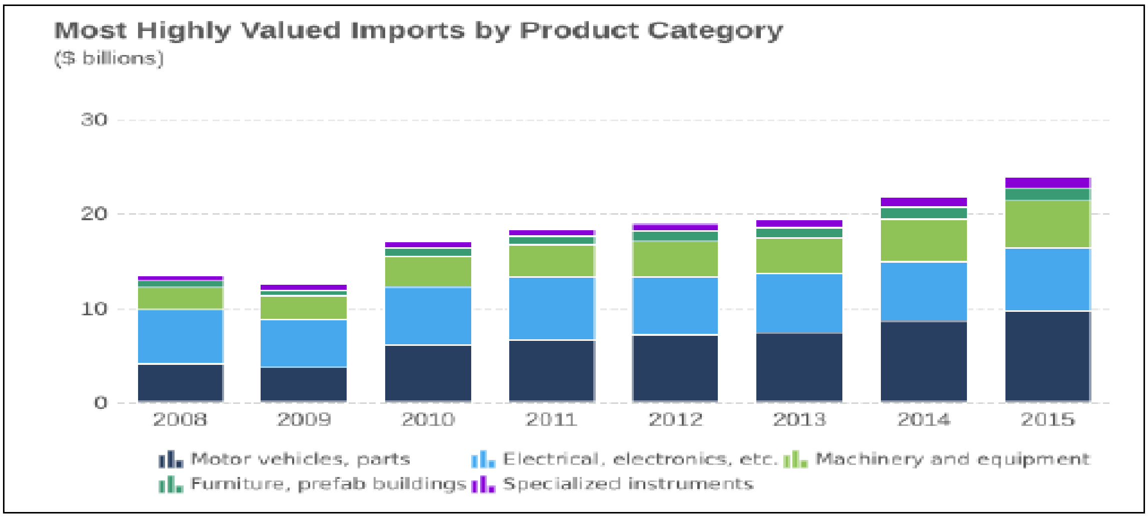
Source: M. Angeles Villarreal and Ian F. Fergusson, 2017.

Figure 8a. Canada-Mexico Trade by Product (Exports)



Source: Dylan Gowans (2016)

Figure 8b. Canada-Mexico Trade by Product (Imports)



Source: Dylan Gowans (2016)

Foreign and Domestic Value Added to US Exports and Imports

The foreign content of US exports was 15 per cent in 2011 while domestic value added to gross exports of US stood at 85 per cent.[49] The United States contributes the highest share (10 per cent) of its own value added to its imports of final goods, which is also the world's highest share. Interestingly, the United States share of its own value added return from abroad comes largely through regional North American supply chains. One-quarter of US imports from Canada consist of value added from the United States itself, and a huge 40 per cent of US final good imports from Mexico consist of its own value added. Together, these two NAFTA partners account for three quarters of all US value added returned from abroad. Over 96 per cent of the returned U.S. value from Canada and Mexico was exported directly to these countries, so relatively a very small share of this value involves third countries.[50] This reflects that the three NAFTA countries are very tightly integrated into North American production networks.

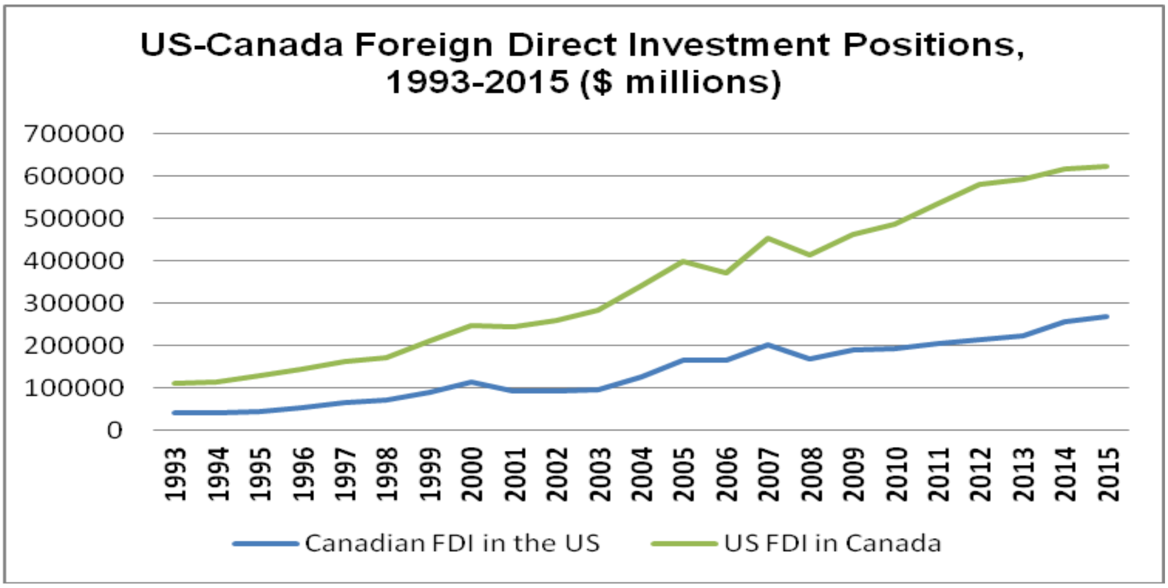
Foreign Direct Investment (FDI) and NAFTA

Foreign Direct Investment (FDI) has been an integral part of the economic relationship between the United States and the NAFTA partners – Canada and Mexico. There has been marked increase in US FDI in both the two countries since its implementation. The share of US FDI is the largest in both Canada and Mexico, but the share of FDI from NAFTA partners to the US is low, and much lower for Mexico.

US-Canada Foreign Direct Investment Positions

Figure 9 indicates that the two-way investment between the US and Canada has seen an upward trend since 1993. The US is the largest source of FDI in Canada with investment reaching $352.9 billion in 2015, which is a five-fold increase from a total stock $69.9 billion in 1993. For Canada, the US was the largest destination of FDI in 2015 with a stock of $268.9 billion, up from a stock of $40.3 billion in 1993. US investment in Canada represents 49.9 per cent of the total stock of FDI globally and Canadian investment in the US represents 42.2 per cent of the total global stock.[51]

Figure 9.

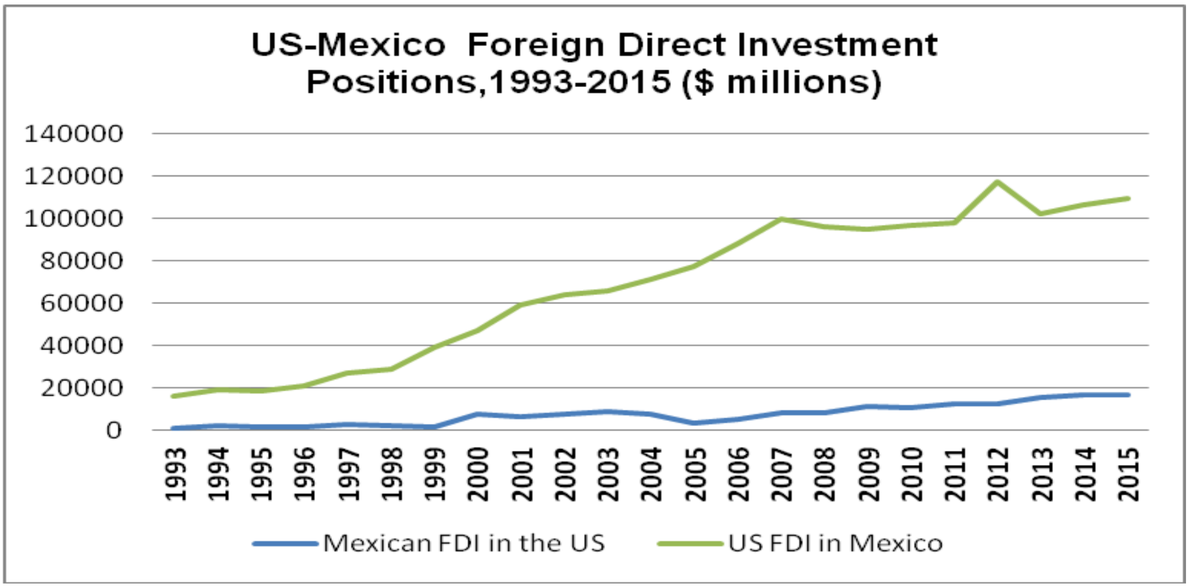


Source: Bureau of Economic Analysis.

US –Mexico Foreign Direct Investment Positions

Figure 9a shows that the United States is the largest source of FDI in Mexico. The stock of US FDI increased from $15.2 billion in 1993 to $92.8 billion in 2015, with the year 2012 witnessing the highest FDI stock of $104.3 billion. Thereafter, US FDI stock has scaled down to $86.4 billion and gradually rose in the next two years. The likely cause of such downward trend could be the global economic crisis of 2008 or increased violence in Mexico.[52] While Mexican FDI in the United States is much lower than US investment in Mexico, it has also increased since NAFTA, reaching $16.5 billion in 2015.

Figure 9a.



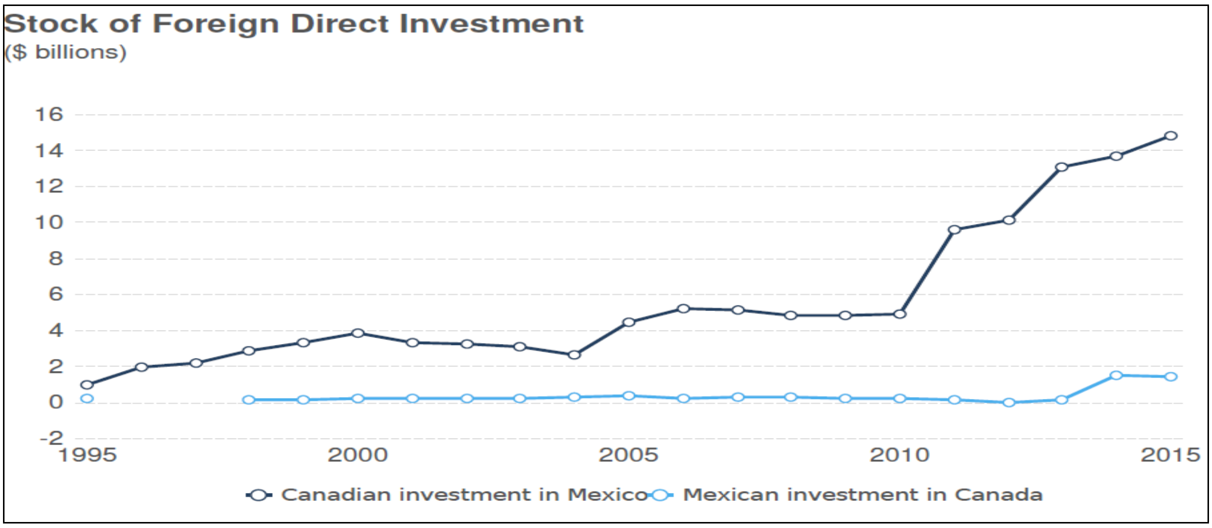
Source: Bureau of Economic Analysis.

Canada-Mexico Foreign Direct Investment Positions

Figure 9b shows that the share of Canada's investment in Mexico is higher than Mexico's investments in Canada. Canada's investment in Mexico has seen an upward trend since 1995.

The stock of Canadian FDI increased from $0.95 billion in 1995 to $14.8 billion in 2015. Though Mexico's investment in Canada has grown from 0.12 billion in 1998 to 1.4 billion in 2015, the increase has been negligible.

Figure 9b: Canada-Mexico Foreign Direct Investment Postions, 1995-2015



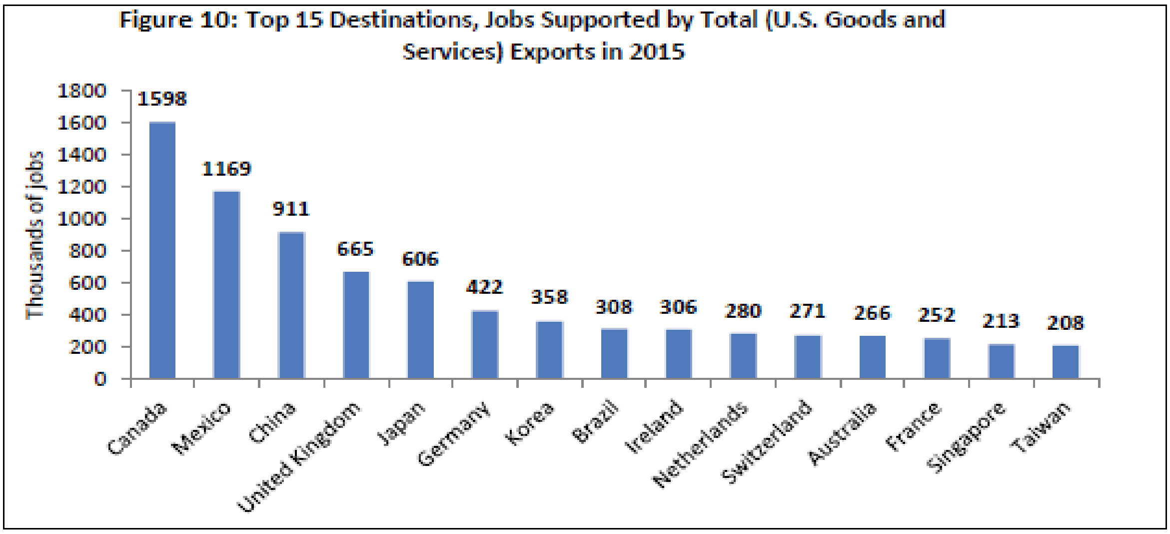
Source: Dylan Gowans (2016)

Role of NAFTA in 'Manufacturing' Jobs

One of the grounds, provided by the US administration, for re-negotiation of NAFTA is to bring back the jobs that have been lost due to NAFTA, particularly in the manufacturing sector. In this section, an attempt is made to analyze the employment generation in the US on account of trade with its NAFTA partners. The estimates provided by most studies on the number of jobs created by NAFTA vary widely but these studies agree that NAFTA has been effective in employment generation.

According to a study conducted by International Trade Administration, in the period 2009-2015, the total number of jobs supported by US exports (both goods and services) grew by almost 1.9 million, with the largest increase supported by exports to China, followed by Mexico, Canada, Korea and Brazil. In 2015, the greatest number of jobs in the US was supported from exports to Canada (1.6 million), followed by Mexico (1.2 million jobs); China (910,000); the UK (665,000); and Japan (606,000).[53] Therefore, NAFTA supported a combined 2.8 million jobs for the US in 2015.

(Figure 10)

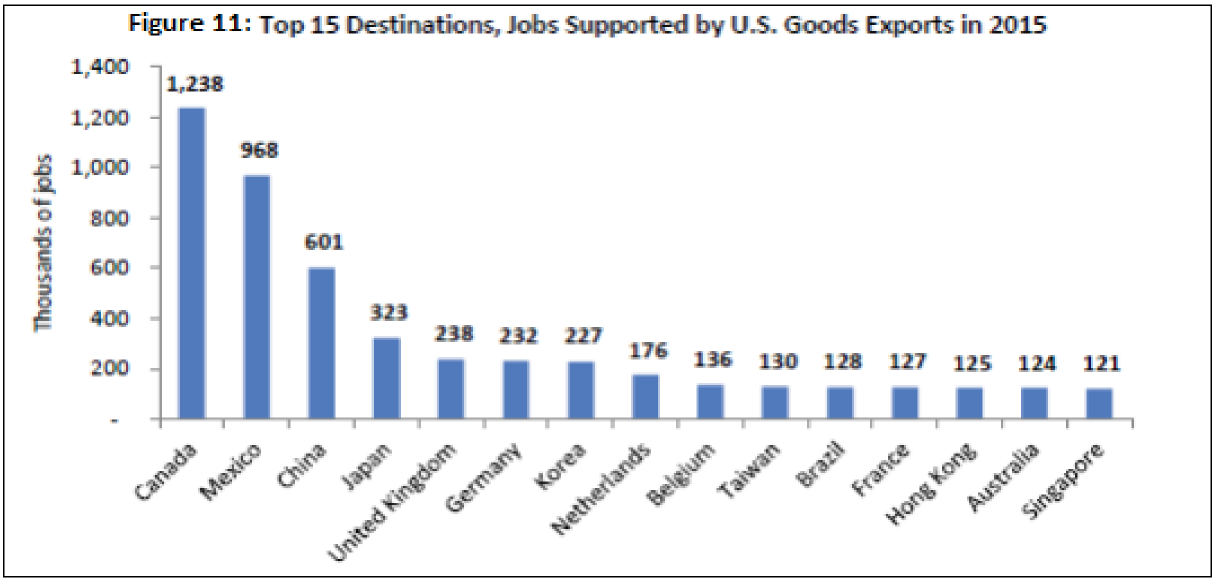


Source: Rasmussen & Xu, 2016.

It is also estimated by a study conducted by the Wilson Centre, Mexico Institute in 2017 that if trade between the United States and Mexico were to cease, 4.9 million Americans would be out of work.[54] Another study by the same institute in the year 2011 estimated that 6 million jobs were supported by US-Mexico trade in 2008. This means one in every twenty-four American workers depend on trade with Mexico to maintain their employment.[55]According to another study by US Chamber of Commerce in 2010, NAFTA trade represents 92 percent of the net employment gains associated with the 14 FTAs in 2008, which was nearly 5 million jobs.[56]

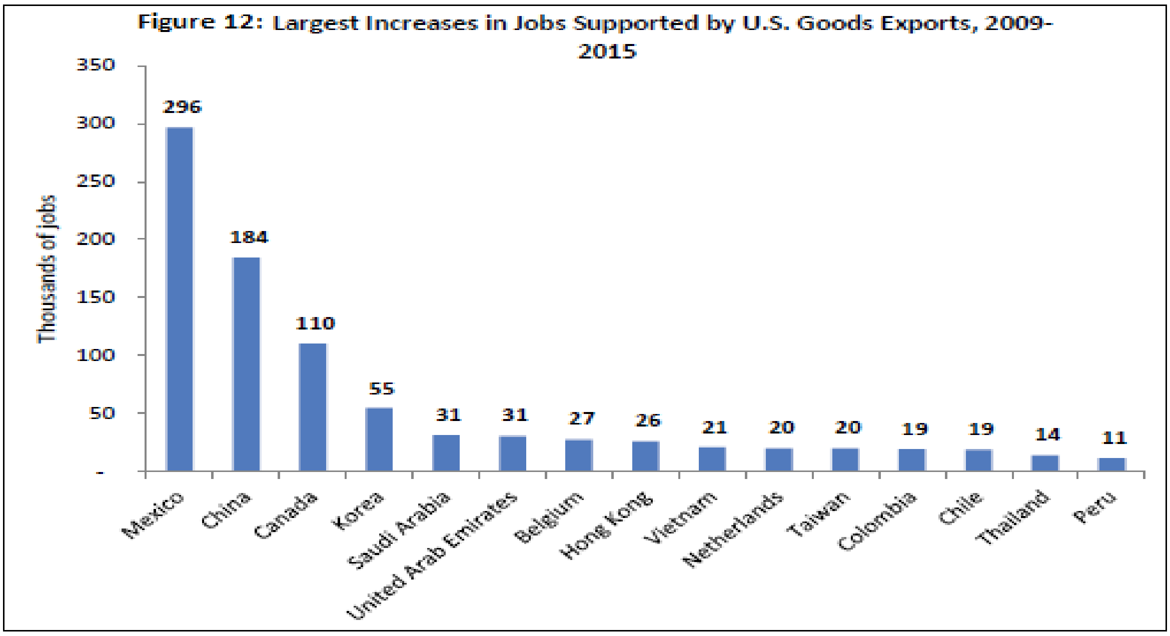
Jobs supported by Exports of US Goods

In 2015, out of the 6.7 million jobs supported by US goods exports to the world, goods exports to Canada (1.2 million) supported the greatest number of US jobs followed by Mexico (968,000), China (601,000), Japan (323,000) and the United Kingdom (UK) (238,000) (Figure 11). NAFTA partners accounted for almost one out of every three jobs supported by the exports of goods.



Source: Rasmussen & Xu, 2016.

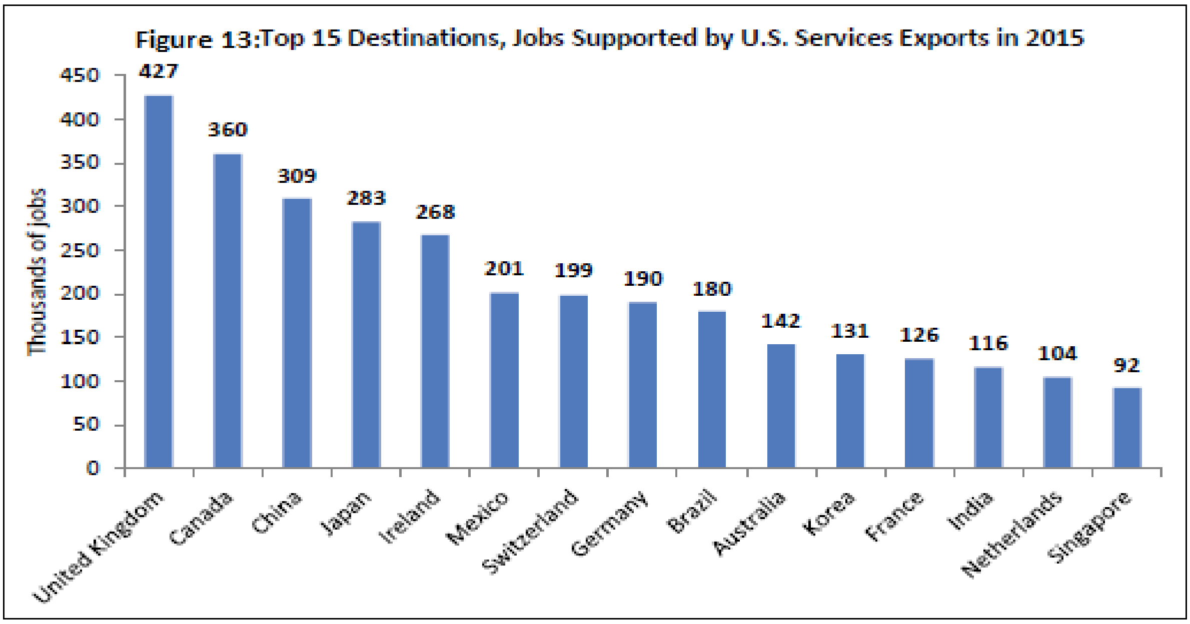
Since 2009, the largest increases in jobs supported in the US were associated with goods exports to Mexico (296,000 jobs supported, or one-third of the total increase), followed by China (184,000), Canada (110,000) and Korea (55,000). (Figure 12)



Source: Rasmussen & Xu, 2016.

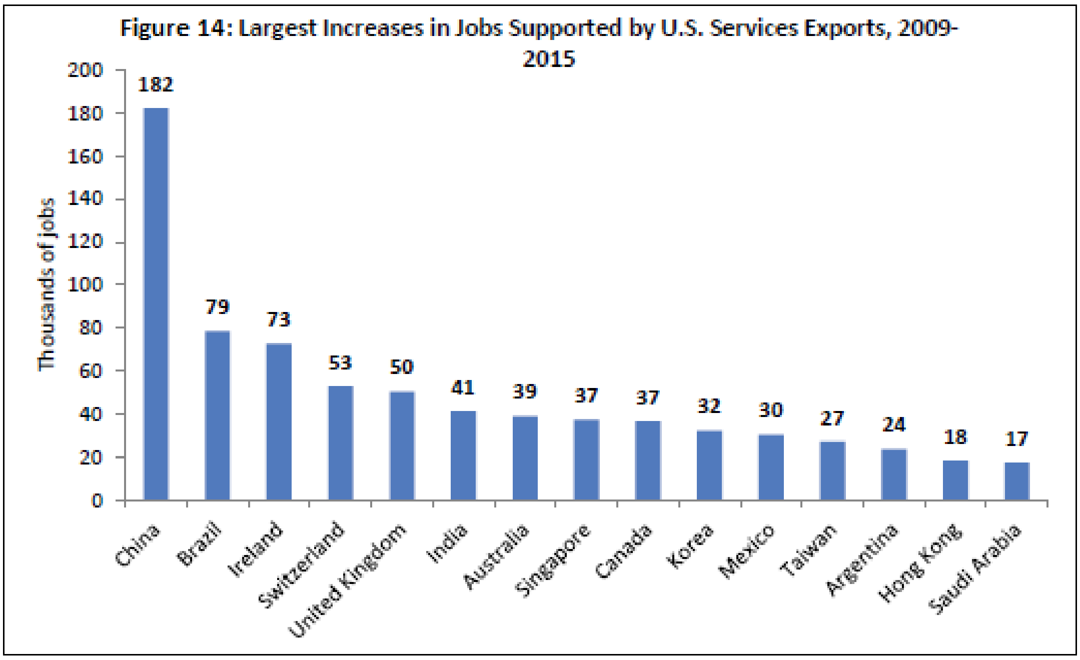
Jobs supported by US Services Exports

As far as US services exports is concerned, the United Kingdom supported the greatest number of jobs in 2015 with 427,000 jobs, followed by Canada (360,000), China (309,000), Japan (283,000), Ireland (268,000) and Mexico (201,000). (Figure 13)



Source: Rasmussen & Xu, 2016.

As Figure 14 shows, from 2009-2015, Canada and Mexico supported 37,000 and 30, 000 US jobs, and ranked 9 and the 11 respectively. (Figure 14)



Source: Rasmussen & Xu, 2016.

Jobs supported by Investment

As is evident from Figure 9, Mexican foreign direct investment in the United States has nearly doubled since 2007. It is estimated that businesses supported by Mexican investment in the United States employ more than 123,000 jobs, which impact all fifty states and include a diverse group of industries, from construction and mining to television and financial services.[57] From 1990-2009, a 10 percent increase in employment at US companies' operations in Mexico resulted in about 131 jobs in Mexico i.e. 1.3 percent increase in employment per MNC in the United States, and a 1.7 percent increase in exports from the United States. Accordingly, for the average US firm, adding 131 jobs in Mexico created 333 new jobs in the United States at that same firm.[58]

Jobs in manufacturing sector

According to Bureau of Labour Statistics US manufacturers have employed 16.8 million workers after NAFTA came into force in 1994. This increased to 17.8 million in 1998, and then started to decline to as low as 11.4 million in 2010. The decline in employment was attributable to recession experienced by the US during 2001-02 and 2007-09 respectively. Thereafter, employment in manufacturing recovered to 12.3 million by mid-2016. Noteworthy, Canada and Mexico purchased $487 billion of US manufactured goods in 2014, representing 34.7 per cent of all exports produced by the 12.3 million Americans employed in manufacturing. This means NAFTA generates export revenue to the tune of nearly $40,000 for each of the factory worker in the US. In between 2008-2014, US ran a cumulative trade surplus of more than $79 billion in manufactured goods with its two NAFTA partners.[59] In 2016, manufactured goods represented 28.69 per cent of the total trade of manufactured goods in the US. Total US exports of manufactured goods to Canada and Mexico stood at $ 445 billion, representing 35.2 per cent of overall exports of manufactured goods.[60] In general, there has been stagnation in employment in manufacturing in the US. However, the underlining reason for the large decline in national manufacturing production as well as disruption in employment and earnings across manufacturing regions of the United States is attributed to the recession of 2007-09. Also, almost 88 per cent of the job losses in manufacturing are attributed to productivity growth owing to technological advancement. This means that while widespread use of technology has led to productivity in the manufacturing, but it has been at the same time the reason for job losses.[61]

V

Concluding Observations

The discussion so far has revealed a high level of interdependence among the three NAFTA countries in terms of exports, imports, investments and employment generation, particularly in the case of the US. This high level of economic interdependence is driven by the tightly knitted supply chains created due to NAFTA. The trade and production integration under NAFTA have resulted in sustained investment flows, which otherwise might have been re-directed to emerging economies where marginal return on capital is high.[62] The general trends of the analysis above are as follows:

i. The US has an overall trade deficit (goods) with its NAFTA partners. However, US increasingly benefits in terms of services trade with the two NAFTA partners, enjoying a trade surplus.

ii. Canada and Mexico are the two largest markets for US exports in the world. In 2016, Canada was the leading market for the US exports, which stood at $226.8 billion. This was followed by Mexico with $231 billion worth of US exports.

iii. In 2016, the total US-Canada trade (goods and services) stood at $630 billion. Exports stood at $323.2 billion and imports at $307.1 billion. The trade surplus of US for both goods and services with Canada stood at $13.4 billion.

iv. US-Mexico goods and services trade stood at $579.8 billion in 2016. Exports totalled $262.1 billion while imports were $317.7 billion. The US goods and services trade deficit with Mexico was $55.6 billion in 2016.

v. Canada-Mexico bilateral merchandise trade has increased from $6.5 billion in 1995 to $37.8 billion in 2015. Canada's trade deficit (in goods) with Mexico in 2015 was $24.6 billion, an increase from $23.3 billion in 2014. Bilateral services trade between Canada and Mexico has also seen an increase from 0.64 billion in 1994 to $3.6 billion in 2014. Canada's trade deficit (in services) with Mexico in 2014 stood at $1.5 billion, an increase from $1.4 billion in 2013.

vi. The analysis of value-addition reveals that domestic value added to gross exports of US stood at 85 per cent. The United States contributes the highest share (10.0 per cent) of its own value added to its imports of final goods. One-quarter of US imports from Canada consist of value added from the United States itself, and 40 per cent of US final good imports from Mexico consist of its own value added. Together, these two NAFTA partners account for three quarters of all US value added returned from abroad. Over 96 per cent of the returned US value from

Canada and Mexico was exported directly to these countries, with a very small share of this value involving third countries.

vii. In terms of FDI, there has been marked increase in US FDI in two countries since the implementation of NAFTA. The share of US FDI is the largest in both Canada ($352.9 billion in 2015) and Mexico ($92.8 billion in 2015). But the share of FDI from NAFTA partners to the US is low, and much lower for Mexico ($16.5 billion in 2015).

viii. As far as Canada-Mexico FDI is concerned, the share of Canada's investment in Mexico is higher than Mexico's investments in Canada. The stock of Canadian FDI increased from $0.95 billion in 1995 to $14.8 billion in 2015. Though Mexico's investment in Canada has grown from 0.12 billion in 1998 to 1.4 billion in 2015, the increase has been negligible.

ix. In terms of employment generation, millions of US jobs depend on trade and investment with Canada and Mexico. The various studies analyzed in this paper provide different estimates on the number of jobs created by trade with NAFTA partners, but these studies confirm that NAFTA has helped in the job creation in the US. The International Trade Administration data estimates that NAFTA supported a combined 2.8 million jobs for the US in 2015. According to the study on job creation by US Chamber of Commerce in 2010, NAFTA trade represents 92 percent of the net employment gains associated with the 14 FTAs in 2008, which was nearly 5 million jobs.

x. As far as jobs in manufacturing is concerned, the analysis indicates that that US manufacturers have benefitted from trade with the NAFTA partners instead of incurring job losses. Infact job losses are attributable to both 2007-09 economic crisis as well as productivity growth associated with technological advancement rather than trade with NAFTA. The analysis of available data reveals that manufactured goods represented 28.69 per cent of total US trade with NAFTA and employment in this sector stood at 12.3 million in 2016. This facilitated to generate export revenue to the tune of nearly $40,000 for each of the factory worker in the US.

xi. Overall, the analysis suggests that the US, Canada and Mexico are economically very integrated in terms goods, services and investments under the NAFTA. Also, NAFTA has been effective in augmenting trade, investment and employment among three NAFTA countries, creating a regional system of production, particularly in manufacturing, enabling them to utilize their comparative advantages and enhancing their ability to compete on the global stage.

Given such deep-rooted economic relations, the US has much to lose from a unilateral withdrawal from the NAFTA. NAFTA has generated increased trade and investment over the years among the three members, particularly through the intertwined supply chains. A withdrawal could result in disruption of this established production chains and lead to further job losses. For instance, and as mentioned earlier, it is estimated that if trade between the United States and Mexico were to cease, 4.9 million Americans would be out of work. In the meantime, the decision to re-negotiate NAFTA is reflective of the fact that a 'requiem' is no longer a preferred option for the US. But, a 'revival' based on modern standards is the priority of the re-negotiation process. However, the future of NAFTA would depend on the way the negotiations progress during and after the 90-day Congressional notice period.

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Disclaimer: *The views expressed are that of the Researcher and not of the Council.*

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