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NAFTA Turns Twenty: So Far, So Good?

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MILESTONES

By Forrest Jones

Few things polarize policymakers like free-trade agreements, especially the North American Free Trade Agreement (NAFTA) linking the United States, Canada and Mexico. Critics of the agreement feared it meant jobs and industries would relocate to underdeveloped countries where labor was cheaper. Proponents said the agreement would create new markets and level playing fields.



As NAFTA celebrates its 20th anniversary this year, many are asking whether it is a success. Economists sound a largely positive note. The bulk of serious scholarly evidence has shown that [NAFTA] has been positive, says Joydeep Mukherji, senior director, sovereign ratings, Latin America at Standard & Poors.



Twenty years on from NAFTA and the United States exports more to Mexico than to China

According to Mukherji, FTAs should be viewed as a new highway linking countries. Its one thing to build a road, he says, but more importantly, policymakers must cultivate investments that produce new and quality products and services to travel on the road.

Youve got the highway; its easy to ship something down the road. So now, what are you actually going to make? Mukherji says, adding that countries involved in bilateral trade accords with the United States face similar pressures, especially when broader FTAs unfold, such as the Trans-Pacific Partnership (the TPP is a proposed trade agreement between Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam).

Critics of FTAs fear that such policies could mean wider trade deficits for the United States, but that hasnt always been the case, says Victor Herrera, Standard & Poors managing director and office head, Mexico City.

While the United States runs trade deficits with its NAFTA partnersaround \$60 billion with Mexico and \$30 billion with Canadathe gap pales, Herrera says, in comparison with the deficit with China (around \$300 billion), with whom the United States does not have a trade agreement. Furthermore, exports do rise, deficits notwithstanding.

The United States exports more to Mexico than to China and Japan put together, and it exports the same amount to Mexico that it does to all of the European Union, Herrera says. Its not only about deficits.

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