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NAFTA's First Five Years (Part 1)

When the focus is trade, NAFTA clearly has had a positive impact on the economies of the United States, Mexico and Canada during the agreement's first five years.

The North American Free Trade Agreement turned 5 years old at the end of 1998 and completed a third of its 15-year implementation schedule. At this juncture it is appropriate, then, to ask if NAFTA's primary objective—increasing trade between the United States, Mexico and Canada—has been met thus far. This article, the first in a three-part series, looks at the North American economy and evaluates NAFTA's trilateral impact on trade during the agreement's first five years.

THE NORTH AMERICAN ECONOMY

The North American economy is the biggest regional economy in the world. This is not surprising since, along with Canada and Mexico, it includes the United States—the biggest single economy in the world. In 1998, these three countries had a total of 396.3 million people and a gross domestic product (GDP) of $9.53 trillion (*Table 1*). By comparison, the European Union's 15 economies represented a region of 374.6 million people and a GDP of $8.4 trillion.

More than 68 percent of North America's population in 1998 lived in the United States. Mexico had more than 24 percent of the region's population, and Canada contributed nearly 8 percent. Mexico has a much younger population than its developed-country counterparts. In 1998, more than half of the country's population—55 percent—was under the age of 25. The equivalent figures for the United States and Canada were 35 percent and 33 percent, respectively.

The North American labor force was close to 193 million in 1998. Both the United States and Canada have very similar labor-force profiles. For example, in 1998, the share between the ages of 15 and 24 in Canada and between 16 and 24 in the United States equaled 15.9 percent in each country. The share of Mexico's labor force between 15 and 24 was higher, at

Table 1
The North American Economy, 1998

	North America	United States	Mexico	Canada
Population	**396,276,000**	270,299,000	95,676,000	30,301,000
Gross domestic product (billions of U.S. dollars)	**9,530**	8,511	415	604
Labor force	**192,811,000**	137,673,000	39,507,000	15,631,000
GDP per capita (U.S. dollars)	**24,048**	31,487	4,337	19,925
Manufacturing wage (hourly compensation rate in U.S. dollars)		18.24*	1.75*	16.55*

* 1997 data.

SOURCES: Canada, Statistics Canada; Mexico, Instituto Nacional de Estadistica Geografía e Informática and Secretaría del Trabajo y Previsión Social; United States, Bureau of Economic Analysis and Census Bureau. For hourly compensation rates, Bureau of Labor Statistics.

26.2 percent. The greater availability of a younger workforce in Mexico is a reflection of its sizable young population.

Mexico's developing-country status is graphically captured by its GDP per capita, which contrasts dramatically with those of its North American counterparts. As shown in Table 1, Mexico's GDP per capita in 1998 was $4,337, while Canada's and the United States' were $19,925 and $31,487, respectively. Overall, North American GDP per capita, on a weighted average basis, was $24,048.[1] Similarly, on wages, Mexico stands in sharp contrast to its developed-country regional partners. According to the latest available data from the U.S. Bureau of Labor Statistics, Mexico's hourly compensation in manufacturing for 1997 was $1.75 per hour. The corresponding figures for Canada and the United States were $16.55 and $18.24, respectively.

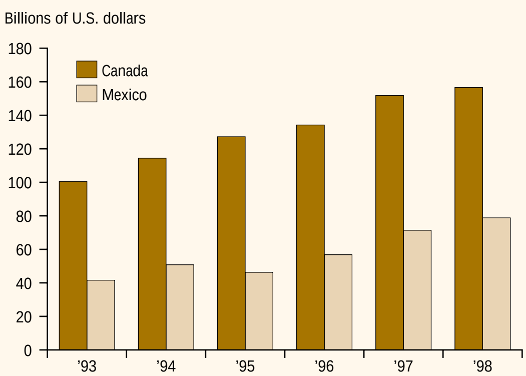
Certainly, NAFTA is only one of the factors that have impacted the region's economies since the agreement's inception in January 1994. For example, in 1995 Mexico experienced a severe economic crisis as a result of an unexpected peso devaluation in December 1994.[2] Likewise, a number of factors have affected the U.S. and Canadian economies. Yet, when the focus is trade, NAFTA clearly has had a positive impact on the three economies during the agreement's first five years.

1993–98 TRILATERAL TRADE

U.S. Trade with Mexico and Canada

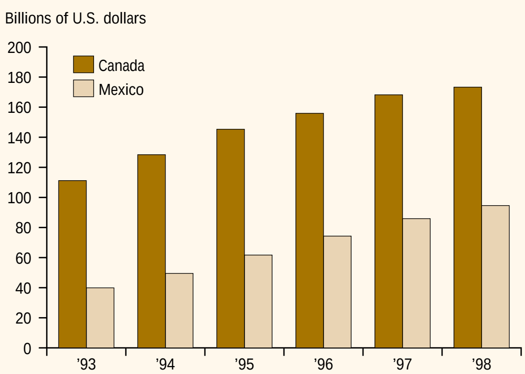
Chart 1 shows U.S. exports to Mexico and Canada during 1993–98, and Chart 2 shows U.S. imports from these countries for the same period. As can be seen, U.S. exports to both Mexico and Canada grew considerably. However, because the

Chart 1
U.S. Exports to Canada and Mexico, 1993–98



SOURCE: Bureau of the Census, Foreign Trade Division.

Chart 2
U.S. Imports from Canada and Mexico, 1993–98



SOURCE: Bureau of the Census, Foreign Trade Division.

United States and Canada already had a free trade agreement when NAFTA started in 1994, the rise in bilateral trade may be attributable to both agreements. Exports to Canada in 1998 reached $156.6 billion, up from $100.4 billion in 1993, an almost 56 percent increase. Exports to Mexico were $78.8 billion in 1998, up from $41.6 billion in 1993, an 89.4 percent increase. U.S. imports from Canada and Mexico were $173.3 billion and $94.6 billion, respectively, in 1998. These levels were up 55.8 percent and 137.1 percent, respectively, from 1993. Table 2 gives a breakdown of the top products traded between the United States and Mexico and between the United States and Canada in 1998.

Canada is the United States' No. 1 trading partner, a position it held even before NAFTA. Last year, Canada was the destination of 23 percent of U.S. exports and the source of 19 percent of U.S. imports. Before NAFTA, Mexico was already the United States' third-largest trading partner. However, four years into the agreement—in 1997—Mexico displaced Japan as the second-largest market for U.S. exports. Moreover, Mexico's share in U.S. total imports grew steadily during NAFTA's first five years, allowing the country to retain its position, behind Japan, as the third-largest source of U.S. imports. Exports to Mexico represented 11.5 percent of the U.S. total in 1998, up from 8.9 percent in 1993. Imports from Mexico were 10.4

Table 2

1998 U.S. Trade with Canada and Mexico, Top Products

(Millions of U.S. dollars)

Top U.S. Exports

To Canada		To Mexico	
TOTAL	**156,603**	**TOTAL**	**78,772**
Motor vehicles	31,306	Electrical machinery and appliances	14,341
Electrical machinery and appliances	13,981	Motor vehicles	7,861
General industrial machinery	9,543	General industrial machinery	3,762
Power generating machinery	9,269	Miscellaneous manufactured articles	3,423
Office machines and ADP equipment	7,959	Telecommunications equipment	3,354
Miscellaneous manufactured articles	7,169	Office machines and ADP equipment	3,186
Machinery, specialized	5,456	Manufactures of metals	2,705
Manufactures of metals	5,004	Apparel and clothing	2,647
Telecommunications equipment	4,697	Power generating machinery	2,544
Professional scientific instruments	4,027	Machinery, specialized	2,341
Paper, paperboard	3,058	Textile yarn, fabrics	1,959
Transport equipment	3,057	Plastics in primary form	1,939
Plastics in primary form	2,922	Professional scientific instruments	1,747
Iron and steel	2,796	Paper, paperboard	1,743
Textile yarn, fabrics	2,785	Petroleum, petroleum products	1,481

Top U.S. Imports

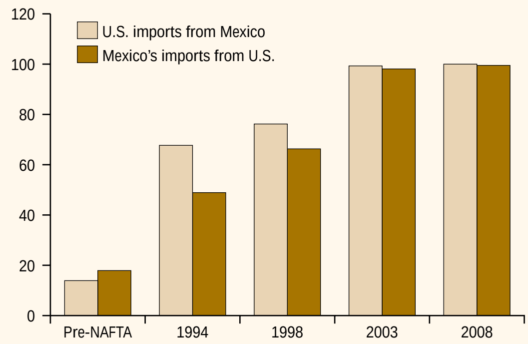
From Canada		From Mexico	
TOTAL	**173,256**	**TOTAL**	**94,629**
Motor vehicles	44,304	Motor vehicles	16,753
Paper, paperboard	8,635	Electrical machinery and appliances	13,540
Petroleum and petroleum products	7,494	Telecommunications equipment	10,882
Cork and wood	6,516	Apparel and clothing	6,813
Nonferrous metals	5,867	Office machines and ADP equipment	5,523
Gas, natural and manufactured	5,853	Petroleum, petroleum products	5,293
Electrical machinery and appliances	5,770	Power generating machinery	3,844
Transport equipment	5,417	General industrial machinery	3,166
Power generating machinery	5,178	Professional scientific instruments	2,717
General industrial machinery	4,856	Vegetables and fruit	2,647
Furniture and bedding	4,014	Miscellaneous manufactured articles	2,408
Miscellaneous manufactured articles	3,838	Furniture and bedding	2,317
Office machines and ADP equipment	3,702	Manufactures of metals	1,811
Manufactures of metals	3,587	Iron and steel	1,253
Telecommunications equipment	3,455	Textile yarn, fabrics	1,196

SOURCE: Bureau of the Census, Foreign Trade Division.

percent of U.S. imports, up from 6.9 percent. Considering total trade though—both exports and imports combined—Mexico in 1999 replaced Japan as the United States' second-largest trading partner.

Trade with the United States is a more significant share of total trade for both Canada and Mexico than what each of these countries represents in total U.S. trade. Moreover, the United States gained greater ground in Canada's and Mexico's total trade during NAFTA's first five years. In 1998, exports to the United States were 83.6 percent of Canada's total, up from 78.4 percent in 1993; imports from the United States were 77 percent of Canada's total, up from 73.5 percent. Similarly, a considerable majority of Mexico's trade is with the United States. Exports to the United States represented 87.6 percent of Mexico's total in 1998, up from 82.7 percent in 1993. Imports from the United States were 74.3 percent of the country's total, up from 69.3 percent.

Chart 3
NAFTA Tariff Elimination Schedule for U.S.–Mexican Trade



SOURCE: International Trade Commission.

Canadian–Mexican Trade

Trade between Canada and Mexico was not significant before NAFTA, but it increased considerably after the agreement's implementation. In 1998, Canada's imports from Mexico (Mexico's exports to Canada) reached $5.2 billion, up almost 79 percent from their 1993 level of $2.9 billion. Canada's exports to Mexico (Mexico's imports from Canada) rose to $876 million, an increase of almost 37 percent from $640 million. Despite these noteworthy increases, however, Canada represented only about 2 percent of Mexico's world trade in 1993 and throughout NAFTA's first five years. Similarly, Canada's imports from Mexico represented 2.1 percent of the country's total imports before NAFTA in 1993; by 1998, this share had grown only slightly, to 2.5 percent. Canada's exports to Mexico remained at 0.4 percent of the country's total during NAFTA's first five years. Table 3 provides a breakdown of the top products traded between Mexico and Canada.

Table 3
1998 Canadian–Mexican Trade, Top Products

(Millions of U.S. dollars)

Canadian exports to Mexico	
TOTAL	**876**
Colza seeds	148
Wheat and maslin	102
Steering wheels	56
Machinery for rubber or plastic molding	33
Motor vehicle parts and accessories	28
Powdered milk	25
Alkylbenzenes, alkylnaphthalenes	24
Wheels, parts and accessories	23
Electrical apparatus for line telephony or telegraphy	17
Textile fabrics	16
Vehicles with cylinder capacity exceeding 3,000 cc	14
Sulfur	12
Reserved for special uses	11
Coal briquettes	10
Semichemical wood pulp	10

Canadian imports from Mexico	
TOTAL	**5,153**
Motor cars and vehicles	654
Wire, cable and other electric conductors	527
Television sets	292
Automatic data processing machines	281
Seats and seat parts	206
Petroleum oils and mineral oils	136
Motor vehicles for transport	125
Seat belts	121
Stampings	107
Steering wheels	98
Spark-ignition, wiring sets	87
Vehicles with cylinder capacity between 1,500–2,500 cc	77
Automatic data processing machines, others	68
Electrical apparatus for line telephony or telegraphy	66
Centrifuges for liquids or gases	60

SOURCE: Statistics Canada.

Tariff Reductions

Trade among the United States, Canada and Mexico has grown essentially because of the elimination of tariffs dictated by NAFTA. The agreement specifies a 15-year tariff-elimination schedule on trilateral trade. Chart 3 shows this schedule for U.S.–Mexican trade. As can be seen, within the agreement's first five years, 76.2 percent of U.S. imports from Mexico and 66.3 percent of U.S. exports to Mexico were slated to become duty-free. The corresponding shares prior to NAFTA were 13.9 percent and 17.9 percent, respectively.

The actual trade shares that are currently duty-free are higher, however, than what this original tariff-elimination schedule shows. This is because the NAFTA countries have taken advantage of a provision of the agreement that allows for tariff reductions ahead of schedule. The first of these rounds of accelerated tariff eliminations became effective July 1, 1997; the second round

NAFTA Trade Disputes

The NAFTA Secretariat is charged with administering the dispute settlement provision of the North American Free Trade Agreement. The secretariat comprises the Canadian, U.S. and Mexican sections, each with its own office in Ottawa, Washington, D.C., and Mexico City, respectively.

The secretariat administers the NAFTA dispute resolution process under Chapter 11 (investment disputes), Chapter 14 (financial services disputes), Chapter 19 (antidumping [AD], countervailing duty [CVD] and injury determinations) and Chapter 20 (AD and CVD decision appeals and law amendment) of the agreement.

Since the start of the agreement in 1994 through September 16, 1999, 35 Chapter 19 cases and two Chapter 20 cases have been completed; 17 Chapter 19 cases and two Chapter 20 cases remain active (see table).

Responsibility for antidumping and countervailing duty determinations is as follows:

- **Canada.** Revenue Canada Customs and Excise makes final AD and CVD determinations. The Canadian International Trade Tribunal makes final injury determinations.
- **United States.** The Department of Commerce makes final AD and CVD determinations. The International Trade Commission makes final injury determinations.
- **Mexico.** The Secretaría de Comercio y Fomento Industrial makes final AD and CVD and injury determinations.

Completed Chapter 19 Trade Disputes

Origin of dispute	Product	Agency's determination	Appeal	Outcome
United States, 1995	Fresh cut flowers from Mexico	Antidumping duty	Mexican producers	Panel unanimously remanded the agency's determination
United States, 1997	Steel wire rod from Canada	Countervailing duty	Canadian producers and government of Quebec	Panel review terminated by joint consent of participants
Canada, 1995	Certain malt beverages from United States	Rescinded injury finding	Canadian producers	Panel unanimously affirmed the agency's determination
Canada, 1997	Concrete panels from United States	Injury finding	U.S. producer	Panel unanimously affirmed the agency's determination
Mexico, 1994	Flat coated steel products from United States	Antidumping duty	U.S. producer	Panel unanimously remanded the determination to the agency
Mexico, 1995	Seamless line pipe from United States	Antidumping duty	U.S. producer	Panel review automatically terminated by sole requester

NOTE: For a complete list of all trade dispute cases, see <www.nafta-sec-alena.org/>.

SOURCE: NAFTA Secretariat.

took effect August 1, 1998. A third round was initiated in July 1999 and has yet to conclude.[3]

Moreover, as overall duties on U.S.–Mexican trade have dropped, this has lowered the average tariff each country applies to goods from the other country. Thus, the average Mexican tariff on U.S. products dropped to less than 2 percent (1.68 percent) in 1998, down from 10 percent in 1993. The average U.S. tariff on Mexican goods—which, at 4 percent, was low even before NAFTA—dropped to less than 1 percent (0.46 percent) in 1998.[4] Because the reduction in the average Mexican tariff on U.S. goods was greater than the reduction in the average U.S. tariff on Mexican goods, the United States has especially benefited from NAFTA.

Trade Disputes

NAFTA has not prevented trade disputes among the three countries. But the agreement provides a mechanism to address and resolve any trade disputes that surface between the NAFTA parties (see box titled "NAFTA Trade Disputes."). Given that trade among all three countries advanced considerably during the agreement's first five years, trade disputes have been the exception rather than the rule.

CONCLUSION

It is clear that during NAFTA's first five years, the agreement's main objective—of increasing trade among the United States, Mexico and Canada—was met since trilateral trade was substantially higher in 1998 than in 1993 before the start of the agreement. The next issue of *Business Frontier* will explore the U.S.–Mexican trade relationship further. Part 3 of this series will look at NAFTA's impact on maquiladoras.

—Lucinda Vargas

NOTES

Jesus Cañas contributed to this article.

1 North American GDP per capita was derived from the weighted average of the three countries' GDP per capita, using the population of each country as the weights.

2 For a look at the different effects of NAFTA and the peso devaluation on the Mexican economy, see David Gould, "Distinguishing NAFTA from the Peso Crisis," *Southwest Economy*, Federal Reserve Bank of Dallas, Issue 5, September/October 1996, pp. 6–10.

3 See Grace Victoria Chomo, "NAFTA Accelerated Tariff Eliminations," forthcoming in *International Economic Review*, U.S. International Trade Commission.

4 See *1999 Trade Policy Agenda and 1998 Annual Report of the President of the United States on the Trade Agreements Program*, Office of the U.S. Representative, March 1999, p. 159.

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