



Our editorial: Update NAFTA, don't weaken it

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NAFTA is not broken. It has not ravaged the American economy and destroyed opportunity for workers. And it is not a one-sided deal that favors other countries over the United States.

The myth that the North American Free Trade Agreement has been a disaster for the U.S. and its workers is promulgated by American Firsters on the right — including President Donald Trump in the White House — and by labor unions on the left.

The reality is the pact between the U.S., Canada and Mexico has churned out considerable economic benefits for all three countries.

Since 1993, when NAFTA was approved, trade with Canada and Mexico has topped \$1 trillion. A detailed analysis by the libertarian CATO Institute finds that the benefits are hardly one-sided. Direct foreign investment by Canada in the United States grew to \$269 billion in 2015 from \$40.4 billion in 1998, and by Mexico to \$16.6 billion from \$1.2 billion.

From a local perspective, NAFTA has made automobile building more efficient through the development of regional supply chains. And rather than kill manufacturing jobs, they actually increased by 800,000 in the first five years after NAFTA went into effect, while the pace of overall job decline remained unchanged.

Trump pushed for reopening NAFTA as part of his overall distrust of trade pacts and his mistaken belief that free trade hurts American workers.

Still, the pact is a quarter-century old, and the renegotiation that begins today provides an opportunity to adapt it to reflect the tremendous leap in technology and its impact on the economy since NAFTA's signing.

And that's where the focus should be, rather than on adopting tariffs and other protectionist measures in a misguided attempt to tilt the advantage to U.S. companies.

The CATO analysis recommends separating the negotiations into three categories: tackling new issues that weren't in the agreement, fixing any flaws that have emerged since the signing, and "liberalizing trade where liberalization was not politically possible at the time."

For example, since the signing, changes in technology have had a substantial impact on trade. E-commerce was not a factor in the late 1990s, when NAFTA was being bargained; today it is a major piece of the world economy.

Assurances should be written into the pact to guard against restrictions and duties on electronic transactions, to protect proprietary software and to safeguard personal information.

It became quickly evident that the trade pact lacked a satisfactory method for resolving disputes. Stronger enforcement measures are needed, as well as a fair and transparent process for addressing complaints.

The goal of a rewritten NAFTA should be to further commit to liberalizing trade. That will mean, for example, that Canada must become less protective of its dairy industry, and the United States less so of its softwood lumber producers. As with any trade pact, nations will have to give to get.

What should not be included are more stringent rules of origin governing whether a product originates in a region. The Trump administration has pushed for stronger content rules to determine whether a product is actually American made. This would hurt the auto industry by making compliance more cumbersome and slowing down the delivery of goods.

In addition, a cross-border tax on parts that move from one country to another should be a non-starter. Again, it will drive up the cost of building cars and trucks, no matter where they're made.

And there is no need for additional tariffs on goods and services within the free trading zone.

Negotiations should begin today on the very firm principle that free trade is desirable and broadly beneficial. The goal should be to liberalize it further.