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# HOW IMPORTANT IS NAFTA FOR THE NORTH AMERICAN ECONOMY

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The North American Free Trade Agreement (NAFTA) was signed on December 1992 and came into effect in January 1994. In the last 23 years, we have seen accelerated growth in the region's economies, particularly in the office, industrial, and retail sectors. If the three countries do not reach an agreement and decide to terminate NAFTA, the whole region would see a broken supply chain, increase in goods cost, and an unemployment rate spike.

## Broken Supply Chain

Manufacturers in all regions will be affected, as the supply chain is very well integrated under the NAFTA rules and has had 23 years to mature. Some companies will decide to increase any additional cost that might come from shipping goods back and forth across the border before they can get it to the consumer. This will impact the flexibility that companies currently have to be more cost efficient.

In the automotive industry, there are some parts that are made in the United States and shipped to Mexico or Canada where the car is assembled, before it's sent back to the U.S. to be sold by retailers. The same car could increase its prices by up to 10 percent if new tariffs are put in place, reducing demand in the auto industry.

## More Expensive Goods

If NAFTA is no longer in place, the new rules for commerce will be under

GATT (General Agreement on Tariffs and Trade) dictated by the World Trade Organization. This will cause an increase on tariffs in the commerce between all countries. Cars built in Mexico will be more expensive in the U.S. and software developed in the U.S. will be more expensive in Canada and so on. The impact on tariffs, from Mexico to the U.S. can go from 7.5 percent to 150 percent in some products like meat and poultry, while from Mexico to the U.S. the increase would average 3.5 percent.

This could cause inflation spikes in all the region and the demand of goods would slow down while everybody gets used to the new prices.

## Job Loss in North America

There are an estimated 14 million jobs that rely on trade with Mexico and Canada and close to 200,000 export-related jobs. Some of these jobs will be lost in all countries if the agreement doesn't continue.

NAFTA critics attribute the manufacturing job loss to this treaty, meanwhile, studies indicate that the main reason for the decrease in manufacturing jobs was China joining the WTO in 2001. Another factor in the reduction in manufacturing jobs has been, and will continue to be, automation – we can see examples of this on every day activities like banks, fast food restaurants, airports, etc.

## Conclusions

The NAFTA agreement has been cause for concern for every businessman in North America in the last months as the negotiations continue. Important expansion plans have halted as the rupture might implicate changes in the rules of the game.

The agreement has some areas for improvement, but in general it has been beneficial for all parties. Trade went from around 290 billion in 1993 to 1 trillion by 2016 between all three countries. Agricultural exports to Mexico have doubled and Canada's exports have increased by 50 percent. The North American auto industry has been more competitive by taking advantage of the supply chain that has integrated the three countries.