North American Free Trade Agreement

Why in news?

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U.S. and Canada pulled back from a standoff regarding the North American Free Trade Agreement (NAFTA).

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What is NAFTA?

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- NAFTA came into effect in 1994.
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- It is a successor to the Canada-United States Free Trade Agreement.
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- NAFTA is a trilateral arrangement that includes Mexico.
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- It led to lower tariffs on most goods and services traded among the countries.
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- It encouraged big business to reorganise supply chains around the North American continent.
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- This eventually made industries such as automobiles globally more competitive.
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- Overall, regional trade has expanded more than three times since NAFTA came into effect.
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- The agreement has also led to a range of rules on food safety, intellectual property rights and the settlement of disputes.
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- It has generally deepened the political relationship among the three signatories.
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What is the contention?

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- There is difference of opinion on the specific benefits NAFTA has brought to the US.
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- Trump continued to blame NAFTA for the trade deficit with Mexico.
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- He also linked it to the loss of American jobs.
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- The US President intended to sign a revised trade agreement with Mexico.
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- It was conveyed that revised agreement would be signed with Canada if it was willing.
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- Recently, the three countries began talks on overhauling the agreement.
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- They sought to address issues around labour, environment, etc.
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- Besides, changes necessitated by the expansion of new online businesses were also addressed.
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- It was soon announced that a deal had been reached with Mexico that would make NAFTA more fair.
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- But Canada was not showing any signs of consensus.
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- It was thus said the US administration would decide whether to have Canada or sign a separate deal.
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- The tussle thus threatened to lead to Canada’s exclusion from the NAFTA.
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What is the US-Mexico deal?

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- The updated deal between Mexico and the US includes some new clauses.
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- These cover intellectual property, digital trade and investor disputes.
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- It was agreed that for a product to be tax-free, 75% of it must be

manufactured in the two countries.
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- This is a higher floor than in the existing agreement.
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- The deal also says that 40-45% of every vehicle must be built by workers who earn at least $16 per hour.
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- This is to ensure that firms don’t find it profitable to move production to Mexico.
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- It's because wages are lower in Mexico than in the US, which might lead to skewed location preferences.
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Why is Canada opposing?

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- The US and Canada have been unable to agree on several issues.
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- These include:
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i. barriers that Canada places on the import of dairy
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ii. Canadian rules on movies, books and other media
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iii. the mechanism to settle trade disputes
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- Canada wants to ensure its publishing and broadcasting industries are not overrun by bigger US rivals.
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- It also wants to ensure that dairy imports did not pull down prices for its own farmers.
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- Another area of disagreement is the so-called Chapter 19 of NAFTA.
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- It deals with the mechanism for dispute resolution.
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- It allows the signatory countries to challenge one another’s anti-dumping and countervailing duty decisions before a committee.
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- The committee has members from each country that is part of the dispute.
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- Notably, in the mid-2000s, the dispute resolution panels ruled repeatedly against the US.
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- This eventually strengthened Canada's negotiating position.
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- The US has reportedly eliminated the Chapter 19 provision in the agreement with Mexico.
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- But Canada has insisted on retaining the provision.
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- It is to be noted that anti-dumping or countervailing duties can be challenged at the WTO as well.
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- However, the fact is that countries sometimes ignore WTO decisions.
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What now?

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- Despite Trump's tough stance, the US negotiators have decided to keep negotiating.
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- This is primarily due to the fact that the US Congress wanted any revised deal to include both Canada and Mexico.
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- This is because Canada is the major export destination for 36 US states.
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- So there are demands that the decisions “do no harm” to the deal.
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Source: Indian Express

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