

Renegotiate a NAFTA Suited for Modern Business and Trade

Introduction

NAFTA is Canada's single most important international free trade agreement. On May 18, 2017, the United States formally notified the U.S. Congress of its intention to initiate negotiations related to NAFTA with Canada and Mexico.

Canada must be prepared to renegotiate a NAFTA that reaffirms our commitment to free and open trade and that reflects the needs of modern business.

Background

According to the US Chamber of Commerce the value of NAFTA is \$1.3 trillion (US) annually, impacting 125,000 American businesses and 15 million jobs.

U.S. goods and services trade with Canada totaled an estimated \$627.8 billion in 2016. Exports were \$320.1 billion; imports were \$307.6 billion. The U.S. goods and services trade surplus with Canada was \$12.5 billion in 2016.¹

This trade agreement is critical for all three NAFTA partners, affecting each and every Province, Territory and State across North America.

In recent months, NAFTA has been oversimplified to emphasize trade deficits in what is too often portrayed as isolated bilateral import-export product exchanges. This view is misguided. North America's trade flows in fact demonstrate the extent of our highly integrated and globally competitive supply chains.

78% of imports from Canada to the United States are raw materials, parts and components and services used to make other goods and services in the United States. In a wide range of instances those raw materials, parts and components are moved up the value chain, sold domestically and/or exported abroad, including back to Canada.

Canadian inputs represent around 3% of the value of US exports to the rest of the world while U.S. inputs represent 10% of the value of Canadian exports to the rest of the world.

The above figures attest to the valuable contribution that international trade, regional and global, has to job creation, sustaining the livelihoods of millions of Canadians, Americans and Mexicans.

There is little doubt that NAFTA needs to be modernized. Our smart phones, nowadays crucial to day to day business, did not even exist when the agreement was originally signed. GPS and internet-enabled cars did not either. Correspondingly, the calculation methods for NAFTA's rules of origin are no longer suited for today's trade.

More and more, business is impacted by the rapid growth of digital trade and trade in services.

"...the economy has undergone a radical transformation in the nearly 25 years since the North American free-trade agreement was signed... Cross-border flows of goods, and even services, have slowed in recent years. But data-based trade is exploding. Cross-border data flows already contribute more to the global economy than trade in goods, according to a recent McKinsey Global Institute study."²

A new NAFTA must reflect the needs of modern business exchange. Moreover, it can serve as a reaffirmation of North America's commitment to free and open trade. A blueprint for multilateral trade agreements two decades ago, NAFTA can once again provide that standard for trade in the 21st century.

¹ Office of the United States Trade Representative, Executive Office of the President

² McKenna, Barrie, "Is Ottawa ready for a New Economy version of NAFTA?"; The Globe and Mail, 4 06, 2017; <https://www.theglobeandmail.com/report-on-business/rob-commentary/is-ottawa-ready-for-a-new-economy-version-of-nafta/article35199086/>

Recommendations

That the federal government:

1. Ardently opposes any move toward greater protectionism within NAFTA.
2. Work to modernize NAFTA, recognizing modern business practices and the important contributions of the knowledge economy to Canada's GDP and exports.
3. Seek more, not less trade liberalization among the NAFTA partners.
4. Look to relieve administrative burdens to North America's businesses, with regulatory cooperation and trade facilitation being two important areas for improvement.