

**Paweł Kowalik**

Wrocław University of Economics

e-mail: pawel.kowalik@ue.wroc.pl

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## **20 YEARS OF NAFTA – TRENDS IN TRADE AND THE ECONOMIC EFFECTS**

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**Summary:** This year marks the twentieth anniversary of the largest economic grouping in history, both in terms of surface area and the generated GDP – the North American Free Trade Agreement – NAFTA. The grouping was established on 1 January 1994, with the objective of gradually doing away with the existing tariff and non-tariff barriers to trade between the United States, Canada, and Mexico. Its objectives and effects have long been under careful examination and subject to many analyses. Prognoses varied, from potentially significant benefits to anticipated losses, particularly for US economy. The paper is an attempt at presenting the twenty years of NAFTA operation, predominantly from the viewpoint of its impact on the trilateral trade exchange, unemployment, inflation, and the Gross Domestic Product (GDP) of its member states. The analyses suggest that NAFTA has proved its effectiveness in generating trade revenues for all its members, most notably for Mexico. However, its effects on individual income and employment were found to be marginal or, at best, moderate.

**Keywords:** NAFTA, economic integration, trade effects, cross-country comparative studies.

**JEL Classification:** F15, O47, O51, O54, O57.

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### **1. Introduction**

Modern changes in the approach to regional integration were reflected, among other things, in the establishment of the North American free trade zone, in the form of the NAFTA agreement (**The North American Free Trade Agreement**). The NAFTA economic treaty represents a new outlook on the potential of free trade zones, based not only on free trade exchange, but also on the liberalization of services, foreign direct investments, dispute settlement through established procedures, observance and protection of intellectual property rights, as well as environment protection and safeguarding of the employee rights.

NAFTA was also the subject of many controversies, concentrated mainly on the fact that it represented the first attempt at trade integration of two affluent and mature

economies – Canada and the USA – with Mexico, a developing country on the path to economic prosperity. The trade agreement has divided the political experts into two distinct groups. Those in favour of the agreement emphasized its potential to generate thousands of new jobs and to alleviate the income disproportions between the associating regions. The opponents, on the other hand, voiced their concerns that the agreement would result in job losses for the US economy, with companies shifting their production to Mexico with the intent of reducing their production cost.

Many trade policy experts believe that free trade agreements have the effect of increasing the economic ties between partners, stimulating the creation of more effective production processes, increasing the access to cheap consumption goods, and improving the quality of life and work (for more on these effects in NAFTA area, see, e.g.: [Hufbauer, Schott 1993, 2005; *NAFTA's Impact...* 2004; U.S. Chamber of Commerce 2012; Hufbauer, Cimino, Moran 2014]).

Others place the blame on the NAFTA agreement for failing to produce tangible increase of employment and for not sufficiently increasing the competitiveness, work standards or environment protection standards (see, e.g.: [*The Future of North...* 2009; Scott 2011; *NAFTA at 20* 2014; *NAFTA's 20-Year...* 2014]).

Many of those prognoses were found to be exaggerated. However, the same must be said about some of the economic model forecasts [Shikher 2012, 2014].

During the initial meetings in Monterrey and Agualaguas on 26-27 November 1990, the presidents of Mexico and the USA adopted the framework principles for future negotiations. The negotiation process was to commence in June 1991 and end by the summer of 1992. On 5 February 1991, the governments of Mexico, the USA and Canada issued a joint statement to mark the commencement of free trade negotiations between the countries, with the intent of establishing a *North American Free Trade Agreement* – NAFTA [Kukułka 1996, p. 658; Baer 1991, p. 132].

**Table 1.** A comparison of basic economic indexes of NAFTA, EU, ASEAN, Mercosur, Japan, Germany, Russia, and China, based on 1993 data

Specification	Surface area [in tho.]	Population [in mn]	GDP [in mn USD]	GDP <sub>pc</sub> [in USD]	Export [in bn USD]	Import [in bn USD]
NAFTA	21 577,8	386,3	7 997 196	20 699	873,55	960,31
EU	3 240,3	479,0	7 536 058	15 732	1 953,77	1 876,27
ASEAN	3 400,0	468,8	522 714	1 115	261,18	265,61
Mercosur	11 861,8	227,2	725 406	3 193	83,01	80,58
Japan	377,8	123,7	4 414 963	35 703	405,88	309,55
Germany	357,0	82,2	2 007 383	24 413	442,97	440,53
Russia	17 098,2	148,8	457 009	3 070	n.a.	n.a.
China	9 596,9	1 213,1	641 069	528	86,85	98,35

Source: own research based on the UNCTAD database and [*The World Factbook...* 2013].

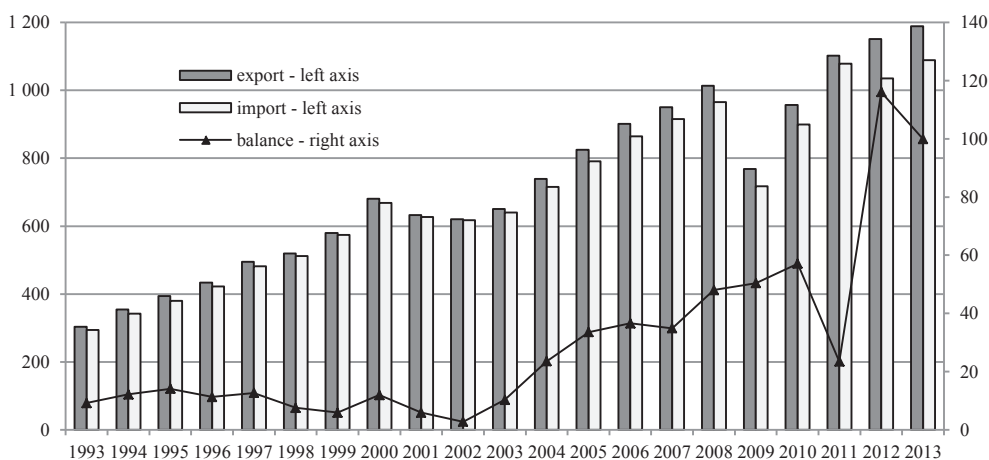
After ratification in 1993, the agreement entered into force on the day of 1 January 1994. The signing of NAFTA has led to the creation of the largest international trade market, both in terms of surface area, and the population count (Tab. 1).

This paper is an attempt of presenting the effects of the NAFTA agreement across the 20 years of its operation, mostly from the viewpoint of its impact on trade exchange, unemployment, inflation, and Gross Domestic Product figures, by country. The author also evaluates the impact of the global economic crisis on the trilateral trade exchange among NAFTA members.

## 2. NAFTA Trade Exchange

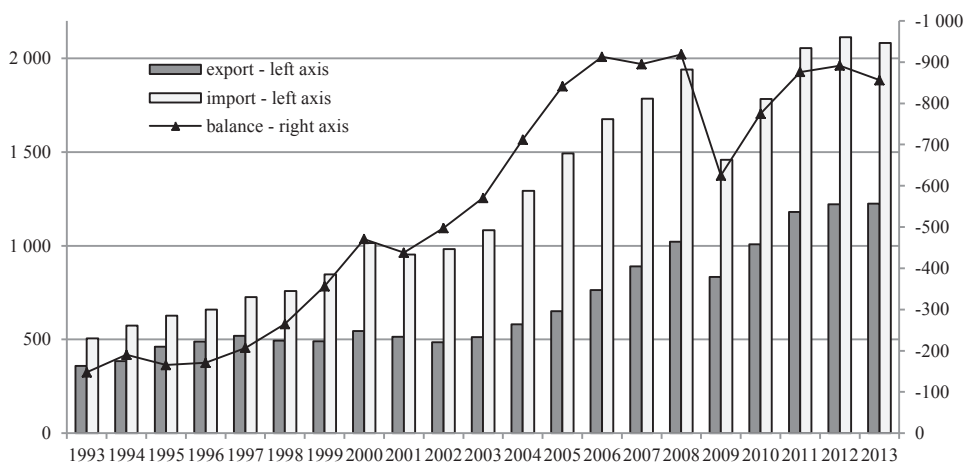
Since 1993, total export value among NAFTA member states increased from 303.6 bn USD to 1189.1 bn USD in 2013. This represents an increase of 291.6%. The annual increase of regional export over the 20 years of agreement was at 7.59%. NAFTA member states' export of goods to the internal market is valued in excess of 3.25 bn USD, daily. Over the same period, the increase of export to external markets was registered at 242.1%. Since 1998, the intra-regional export had been in excess of the extra-regional export, up until 2007. In 2008, both export values were at a similar level. Since 2009, the external export has been found slightly in excess of the internal one (Figs 1, 2).

The increase of internal goods import in the period of 1993-2013 reached 269.97%. In 2013, the value of goods imported within the grouping amounted to 1089.2 bn USD. Compared to the data for 1993, the value of intra-regional import increased by 794.8 bn USD. In the years 1993-2013, the inter-regional import increased by 283.9%, and was in excess of the intra-regional import (Figs 1, 2).



**Figure 1.** Goods trade and intra-regional trade balance within NAFTA, in USD bn

Source: own research based on *International Trade Statistics* (various editions, see in Literature) and UNCTAD database.



**Figure 2.** Goods trade and inter-regional trade balance NAFTA with the rest of the world, in USD bn

Source: own research based on *International Trade Statistics* (various editions, see in Literature) and UNCTAD database.

Total goods turnover within NAFTA, for the whole period of the trilateral trade agreement, increased by 281%, from 598 bn USD in 1993 to 2278.3 bn USD in 2013 (Fig. 1).

Trade of NAFTA commodities with the rest of the world increased from 863.8 bn USD in 1993 to 3307.3 bn USD in 2013 (Fig. 2), representing an increase of 282.9%.

The trade balance within the grouping has been kept at positive values. From 2002 to 2010, it grew steadily, and it reached the value of 57.1 bn USD in 2010. In the year 2011, it dropped down to 23.4 bn USD. The years 2012 and 2013 mark another increasing trend in the trade balance within the grouping, amounting to 116 and 100 bn USD, respectively (Fig. 1). On the other hand, NAFTA trade balance with the rest of the world has always been in negative values. Initially, it was in the range of 200 bn USD, increasing to 450 bn in 2000, and doubling in value in the year 2006. Save for the year 2009, when it dropped to 625 bn USD, it has been fluctuating at a relatively steady value of ca. 900 bn USD (Fig. 2).

### 3. NAFTA and the USA

Between 1993 and 2013, the United States increased their intra-regional export from 141.8 bn USD to 526.3 bn USD. Export to Mexico increased by 443.2%, and export to Canada by 199.6%. It must be noted that the Mexican crisis resulted in a sizeable drop of US export to that country by 4.5 bn USD in 1995. Over the same period, the US export to other trade partners increased by a mere 225.6% (Tab. 2).

In the year 1993, 30.5% of the US export was directed to the region of the future NAFTA agreement, including 8.96% to the Mexican market, and 21.55% to Canada.

Taking into account the NAFTA region itself, Mexico's share in the US export was 29.36%, and Canada's share was 70.64%. Apart from the two markets, most of the US export was directed to the European Union – 21.83%, Japan – 10.31%, and Mercosur – 2.29%. The largest share of US export to the NAFTA market was observed in the period of 1999-2005, and was found in excess of 36% (Tab. 2).

**Table 2.** US commodities export in the period of 1993-2013, in USD bn

Year	Mexico	Canada	NAFTA	EU	EFTA	Japan	China	Mercosur	Other	Total	Outside NAFTA
1993	41.6	100.2	141.8	101.5	8.1	48.0	8.8	10.6	146.1	464.9	323.0
1994	50.8	114.3	165.1	107.8	7.0	53.5	9.3	13.1	156.7	512.4	347.3
1995	46.3	126.0	172.3	126.9	7.7	64.3	11.7	21.9	178.1	583.0	410.6
2000	111.7	176.4	288.1	168.5	11.8	65.3	16.3	26.8	203.6	780.3	492.2
2005	120.0	211.4	331.5	187.5	13.2	55.4	41.8	27.3	247.6	904.3	572.9
2006	134.1	230.2	364.4	215.1	17.2	59.6	55.2	34.6	290.9	1037.0	672.7
2007	136.5	248.4	384.9	247.9	20.7	62.7	65.2	42.8	338.2	1162.5	777.6
2008	151.5	260.9	412.4	275.7	25.9	66.6	71.5	55.9	392.0	1299.9	887.5
2009	129.0	204.7	333.7	221.3	20.6	51.2	69.6	43.6	316.7	1056.7	723.0
2010	163.3	248.2	411.5	240.5	24.1	60.5	91.9	56.7	391.8	1277.1	865.6
2011	197.5	280.7	478.3	269.6	28.7	66.2	103.9	69.1	464.0	1479.7	1001.5
2012	216.3	291.7	508.0	266.1	30.0	70.0	110.6	75.5	485.4	1545.6	1037.6
2013	226.2	300.2	526.3	263.8	31.9	65.1	122.0	72.1	496.6	1578.0	1051.7

Source: own research, based on the UNCTAD database.

**Table 3.** Commodities import to the USA in the period of 1993-2013, in USD bn

Year	Mexico	Canada	NAFTA	EU	EFTA	Japan	China	Mercosur	Other	Total	Outside NAFTA
1993	39.9	110.9	150.9	105.6	8.2	107.3	31.5	17.3	159.8	580.5	429.6
1994	49.5	128.9	178.4	119.5	9.0	119.1	38.8	19.3	179.7	663.8	485.4
1995	62.7	148.3	211.0	139.8	11.4	127.2	48.5	22.2	210.6	770.8	559.8
2000	137.4	232.7	370.1	234.8	16.9	150.6	107.6	38.1	339.9	1258.1	888.0
2005	172.5	291.9	464.3	320.0	20.8	142.0	259.8	67.6	457.7	1732.3	1268.0
2006	200.5	307.7	508.2	341.8	22.4	152.2	305.8	71.7	516.9	1919.0	1410.8
2007	212.9	317.5	530.4	364.4	23.1	149.4	340.1	74.0	535.8	2017.1	1486.8
2008	218.1	339.1	557.1	376.9	26.1	143.4	356.3	91.7	613.3	2164.8	1607.7
2009	178.3	227.6	405.9	287.0	22.4	98.4	309.5	54.8	423.9	1601.9	1196.0
2010	231.9	279.3	511.2	326.7	26.9	123.6	383.0	63.4	531.9	1966.5	1455.3
2011	265.3	319.1	584.4	376.0	33.7	132.4	417.3	82.4	636.4	2262.6	1678.1
2012	280.0	327.5	607.5	389.5	33.3	150.4	444.4	79.4	629.3	2333.8	1726.3
2013	283.0	336.7	619.7	396.3	34.8	142.1	460.0	68.0	607.3	2328.3	1708.6

Source: own research, based on the UNCTAD database.

In 2013, more than 33.4% of total commodities export was directed to the NAFTA market, with 19% to Canada and 14.3% to Mexico. Compared to 1993, Mexico's share in the US NAFTA export increased to 42.97%, and Canada's decreased to 57.03%. After 2000, there was a rapid increase of US export to countries of Mercosur, EU, and China. In the years 1993-2013, the increase of US export to China was nearly 1300%, and close to 580% for Mercosur countries (Tab. 2).

Total value of imported commodities in 2013 reached 2328.3 bn USD. Compared to 1993 data, the import value increased by 301%. The US commodities import from Mexico reached the value of 283 bn USD in 2013. In 1993, import value was 39.9 bn USD, representing an increase of 608%. Import from Canada increased from ca. 111 bn in 1993 to 336.7 bn in 2013, representing an increase of 203.5%. In total, the US import from NAFTA partners increased by 310.8%. The increase of import from within the NAFTA grouping was slightly higher than that of import from the rest of the world (the latter amounted to 297.7% in the period under study) (Tab. 3)

In 1993, some 26% of US import came from the region of the future NAFTA agreement, including 6.88% from Mexico, and 19.11% from Canada. Taking into account the NAFTA region itself, Mexico's share in the US import amounted to 26.47%, and Canada's share was 73.53%. Apart from the two, most of the US import came from the European Union – 18.19%, Japan – 18.48%, China – 5.43%, and Mercosur – 2.98%. The largest share of US import from NAFTA partners was registered in the period of 1998-2002; it was in excess of 29% (Tab. 3).

In 2013, 26.62% of total commodities import was from NAFTA markets, with 12.16% from Mexico and 14.46% from Canada. As evident from the above data, between 1993 and 2013 there was no significant difference in the US import share from NAFTA partners. The only change was in the structure of the partners' share. Mexico was a clear beneficiary, with the US import from the country increasing by 608%, compared to mere 204% for Canada. Compared with the 1993 data, in 2013 the share of Mexico in the US import from NAFTA region increased to 45.67%, while Canada registered a decrease down to 54.33%.

With respect to the US import of commodities from outside the NAFTA region, the most pronounced increase was registered for China – 1358.5%, EFTA – 327.4%, and Mercosur – 292.4%. Despite the value increase, the share of EU, EFTA and Mercosur in the US import remained virtually unchanged. A decrease was registered for Japan (from 18.5 to 6.1%), and a significant increase was observed for China (from 5.4 to 19.8%) (Tab. 3).

Trade balance with Mexico, from the surplus in 1993 and 1994 (1.7 and 1.3 bn USD, respectively) turned into a deficit at the level of ca. 16-17 bn USD over the period of 1995-1998. From 1999, it increased gradually and peaked at the value of 76.4 bn USD in 2007. In the following years, it decreased marginally.

The trade balance with Canada in the period of 1993-2013 was still in negative values. The peak was registered in 2005 (at –80.4 bn USD) and 2008 (at –78.2 bn USD) (Tabs 2, 3).

In 2013, the USA exported and imported commodities valued at 3906.3 bn USD. Of this, 1146.1 bn represented intra-regional trade turnover within NAFTA. Intra-regional trade increased more rapidly than that with the rest of the world. Compared with 1993, it saw an increase of 291.6%. In the same period, trade with other partners increased by 266.7% (Tabs 2, 3).

During the first five years of the NAFTA partnership, employment rate increased by more than 7%, generating 12.8 million new jobs [Malinowski 1999, p. 12]. Within seven years, it grew by 12%, generating 15 million new jobs [*NAFTA at Seven...* 2001, p. 2]. From January 1993 to December 2000, some 22 million new jobs were created, with 92% generated by the private sector [*FY 2002 Economic Outlook...* 2001, p. 18]. As confirmed by the U.S. Chamber of Commerce, based on the commissioned economic analyses, the trade turnover with Mexico and Canada resulted in the generation of 14 million new jobs (net value) in the USA, with 5 million generated by the NAFTA trade increase alone. This resulted in the creation of more than 100000 new jobs in 17 states [U.S. Chamber of Commerce 2012, pp. 1, 16-17].

Following the NAFTA agreement, the rate of unemployment decreased steadily and reached 4% in the year 2000, representing the lowest recorded value for this indicator since 1969 [Kamerschen, McKenzie, Nardinelli 1991, p. 143]. Due to internal and external market perturbations, the unemployment rate increased to 6% in 2003. In the following years, it saw a sizeable decrease up until the crisis of 2007, with the resulting increase to 9.6% in the year 2010. The subsequent reforms had an effect on the gradual decrease of the unemployment rate to the level of 7.4% in 2013 (Tab. 4).

**Table 4.** Selected macroeconomic indicators for the USA in the period of 1993-2013

Specification	1993	1994	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inflation	2.95	2.61	2.81	3.38	3.39	3.23	2.85	3.84	-0.36	1.64	3.16	2.07	1.46
Unemployment rate	6.9	6.1	5.6	4	5.1	4.6	4.6	5.8	9.3	9.6	9	8.1	7.4
Change in annual GDP	2.76	4.04	2.72	4.11	3.32	2.64	1.77	-0.30	-2.79	2.49	1.84	2.76	1.88
FDI inflow	50 663	45 095	58 772	314 007	104 773	237 136	215 952	306 366	143 604	197 905	226 937	167 620	193 361
FDI inflow as % GDP	0.73	0.61	0.76	3.03	0.79	1.70	1.48	2.07	0.99	1.32	1.43	0.98	1.11
Per capita GDP	26 007	27 345	28 360	35 906	43 646	45 759	47 374	47 720	46 331	47 644	49 055	50 880	

Source: own research, based on the UNCTAD database.

Inflation was kept on a relatively constant low level, in the range of 1.5-4.0%. In 2009, a deflation trend was observed of -0.36%. (Tab. 4).

The change of annual GDP was in the range of 2.7-4.8% in the period of 1993-2000. Following the 9.11 events of 2001, the recorded GDP growth rate was at its lowest, and amounted to just under 1%. From 2002, the annual GDP change

increased steadily, to a value of 3.76% in 2004. From 2005 on, the GDP growth rate declined, with 2009 marking the GDP decrease by 2.79%. In recent years, the GDP growth rate has been kept at the level of ca. 2% (Tab. 4).

The inflow of Foreign Direct Investments (FDI) intensified steadily up to 2000, when it reached the level of 3.03% GDP. In 2003, it shrunk to 0.46% GDP. In 2008, it rose again to the level of 2.07% GDP. From 2009, it has fluctuated in the range of 1-1.5% GDP (Tab. 4). By 2008, *per capita* GDP increased from 26007 USD to 47720 USD. In 2009, it dropped by 1189 USD, and grew again in the subsequent years. In 2012, *per capita* GDP amounted to 50880 USD (Tab. 4).

#### 4. NAFTA and Canada

In 1993, 81.74% of Canada's export was sold to the region of the future NAFTA partnership, with 81.31% directed to the US market, and 0.43% to Mexico. Other major directions of Canada's export included the European Union (5.76%) and Japan (4.56%). The share of Canadian export to the NAFTA region increased up until 2002, peaking at 87.74%, with 87.13% sold to the US. Between 2003 and 2011, it dropped steadily to the value of 74.88%. In the subsequent years, it saw a marginal increase.

In the period of 1993-2013, export of Canadian commodities to NAFTA markets and that to countries outside the region followed very different paths, particularly in the first decade of NAFTA partnership. The volume of intra-regional export increased steadily, peaking at 243 bn USD in the year 2000, representing a 111% increase in relation to 1993 figures. In the years 2001-2003, it was slightly lower. The year 2004 marked another increasing trend, with the initial value at 270.2 bn USD. By 2008, it reached the value of 359.3 bn USD. The percentage value for the period of 2002-2008 was at 62%, compared to 212% for the period of 1993-2008. In 2009, it dropped by more than 118 bn USD. In the following years, the increasing trend returned, bringing the value to the level of 351 bn USD in 2013, slightly less than the peak value of 2008. The share in 2013 was at 76.91%. With respect to Canadian export to NAFTA countries, the share of the US in Canadian export was 99.5%, with 0.5% for Mexico in 1993. The figures for the year 2013 were 98.5 and 1.5%, respectively.

As for Canadian export outside the NAFTA region, the trend followed a separate pattern, with clear stages. The initial stage covers the first two years of NAFTA partnership, with inter-regional export increasing by a small margin. The year 1995 marked the onset of a stagnation period, with inter-export valued at ca. 39 bn USD, and even a slight slump in 1998. Up to 2002, the value of Canadian inter-regional export fluctuated in the range of 31-34.1 bn USD. The rapid growth of this value was observed since 2003. By 2008, its value tripled and reached 96.3 bn USD. Parallel to the intra-regional export trends, Canadian export outside NAFTA decreased in 2009, by 22.6%. The growing trend returned and continued up till 2011, peaking at the level of 113.1 bn USD for that year. The next two years marked a marginal decrease



of inter-regional export. Over the period of 1993-2013, the value of Canadian export to NAFTA increased by 205%, while inter-regional export increased by 310%. Total value of Canadian export to Mexico increased from 0.6 bn USD in 1993 to 5.3 bn USD in 2013, representing an increase of 780%. Even more impressive increase was registered with regard to Canadian export to China. Over the period of 1993-2013, its value increased from 1.3 to 19.9 bn USD, representing an increase of 1433% (Tab. 5).

**Table 5.** Canada commodities export in the period of 1993-2013, in USD bn

Year	Mexico	USA	NAFTA	EU	EFTA	Japan	China	Mercosur	Other	Total	Outside NAFTA
1993	0.6	114.4	115.0	8.1	1.0	6.4	1.3	1.0	7.9	140.7	25.7
1994	0.7	133.1	133.8	8.1	1.0	6.9	1.6	1.0	8.8	161.1	27.3
1995	0.8	151.4	152.2	12.4	1.0	8.8	2.5	1.8	12.4	191.1	38.9
2000	1.4	241.6	243.0	13.1	0.9	6.1	2.5	1.3	10.3	277.1	34.1
2005	2.8	302.2	305.0	20.7	2.2	7.6	6.0	1.7	17.5	360.6	55.6
2006	3.9	316.6	320.4	25.8	2.8	8.3	6.9	2.1	22.0	388.2	67.8
2007	4.6	331.6	336.2	32.5	4.9	8.6	8.9	2.4	26.4	419.9	83.7
2008	5.5	353.8	359.3	34.3	3.9	10.5	9.9	3.8	34.0	455.6	96.3
2009	4.2	236.5	240.7	26.2	2.7	7.3	9.8	2.1	26.4	315.2	74.5
2010	4.9	289.4	294.3	33.5	4.0	8.9	12.9	3.5	29.5	386.6	92.3
2011	5.5	331.8	337.3	40.3	4.0	10.8	17.0	4.1	36.9	450.4	113.1
2012	5.4	337.8	343.2	38.5	3.2	10.4	19.4	3.7	35.0	453.4	110.2
2013	5.3	345.7	351.0	32.0	3.8	10.4	19.9	3.5	35.8	456.4	105.4

Source: own research, based on the UNCTAD database.

Up to the year 2000, the increase of Canadian import from NAFTA region was more pronounced than that from outside the organization. In 2001-2002, the import value dropped slightly. From 2003 onwards, there was a dynamic increase of inter-regional import. Between 1993 and 2013, intra-regional import increased by 198.5%, compared to the 331.2% increase in inter-regional import (Tab. 6). At the onset of NAFTA partnership, Canada import from future NAFTA partners represented 67.02% of total import, with the US share of 65.05%. In 2013, only 58.46% of total Canadian import was from NAFTA partners. Import from Mexico increased by 872.5% (from 2.7 to 25.9 bn USD). With regard to NAFTA trade alone, in 1993, the US share in Canadian import was 97.05%, with 2.95% for Mexico. The respective figures for 2013 were 89.2 and 9.6%. There was a marked decrease of import from Japan, from 6.12 to 2.89%, accompanied by a significant increase of import from China, from 1.8 to 11.1%. The increase of import from China over the whole period of 1993-2013 was in excess of 2000%. The most pronounced increase was observed in the years 2002-2008, with import values increasing from 10.2 to 40.2 bn USD.

**Table 6.** Commodities import to Canada in the period of 1993-2013, in USD bn

Year	Mexico	USA	NAFTA	EU	EFTA	Japan	China	Mercosur	Other	Total	Outside NAFTA
1993	2.7	87.8	90.4	12.7	2.0	8.3	2.4	1.0	18.2	134.9	44.5
1994	3.1	99.6	102.8	14.4	2.0	8.2	2.8	1.3	20.0	151.5	48.8
1995	3.9	109.8	113.7	16.9	2.4	8.8	3.4	1.4	17.8	164.4	50.7
2000	8.1	154.5	162.6	25.6	3.9	11.2	7.6	2.3	26.9	240.1	77.4
2005	12.0	177.6	192.6	38.0	6.8	12.2	24.4	4.6	38.8	314.4	121.8
2006	14.1	192.2	209.3	43.2	6.7	13.5	30.4	4.7	45.3	350.3	141.0
2007	16.1	206.4	226.0	46.1	7.2	14.4	35.8	5.2	49.4	380.6	154.7
2008	16.9	214.0	234.4	51.1	8.9	14.4	40.2	4.6	58.8	408.8	174.4
2009	14.5	164.2	181.7	39.9	6.2	10.9	34.9	3.8	46.8	321.2	139.5
2010	21.5	197.5	222.9	46.6	5.7	13.1	43.2	5.7	58.9	392.1	169.3
2011	24.8	223.2	252.0	52.6	7.6	13.2	48.7	7.3	73.2	450.6	198.6
2012	25.5	234.0	262.9	50.6	7.4	15.0	50.8	6.8	72.2	462.4	199.4
2013	25.9	240.7	269.9	51.6	7.6	13.3	51.2	6.0	65.5	461.8	191.9

Source: own research, based on the UNCTAD database.

Trade turnover with the US increased from 202.2 bn to 586.4 bn USD, representing an increase by 190%. Turnover with Mexico increased from 3.3 bn to 31.2 bn USD, by 855.5%. The continued surplus in Canada's trade with the US peaked in 2007 at the value of 125.2 bn USD. With respect to Mexico, Canadian import remains in deficit, and the trend is growing. In 2013, it amounted to 20.6 bn USD (Tabs 5, 6).

In 1992, inflation in Canada was reduced to the level of 1.5%. Canadian government lay down the recommended inflation bracket of 1-3%. As shown in the available reports (Tab. 7), those recommendations were kept with success. The highest rates were registered in 2003 (2.8%) and 2011 (2.9%). Unemployment rate dropped right at the onset of NAFTA agreement, and, in the year 2000, reached the lowest recorded level since 1974 [*Trade Update...* 2001, p. 3]. Over the next four years, the rate of unemployment rose by a slight margin. In 2005, the decrease was even more pronounced than in 2000, and continued to drop, reaching 6% in 2007. The global crisis resulted in a marked increase of unemployment rate, peaking at 8.3% in 2009. In recent years, the declining trend returned (Tab. 7).

In the first seven years of NAFTA partnership, employment in Canada increased by 16%, generating some 2.1 million new jobs [*NAFTA at Seven...* 2001, p. 2]. In the period 1993-2008 4.3 million new jobs were created in Canada [www.naftanow.org/facts].

In 1991, Canadian economy was in recession. The real GDP growth rate was at -2.1%. Over the next few years, the growth trend returned. In 1994 alone, GDP growth rate was registered at 4.8%. The Mexican crisis caused it to drop to the level of 2.8 and 1.6% in the subsequent years. Following that, the growth continued at

a rapid pace. Growth levels in the range of annual 4.1-5.5% were curbed to 1.8% in 2001. Between 2002-2007, GDP growth rate fluctuated at 1.9-3.1%, annually. Canadian economy was also affected by the global economic crisis. In 2008, GDP growth rate was only 0.7%, and dropped to -2.8% in the following year. Since 2010 onwards, Canada has returned on the path of rapid growth (Tab. 7).

**Table 7.** Selected macroeconomic indicators for Canada, in the period of 1993-2013

Specification	1993	1994	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inflation	1.84	0.19	2.17	2.72	2.21	2.00	2.14	2.37	0.30	1.78	2.91	1.52	0.94
Unemployment rate	11.4	10.4	9.5	6.8	6.8	6.3	6	6.1	8.3	8	7.5	7.2	7.1
Change in annual GDP	2.61	4.55	2.74	5.12	3.16	2.62	2.01	1.18	-2.71	3.37	2.53	1.71	2.01
FDI inflow	4 732	8 204	9 255	66 795	25 692	60 294	116 820	61 553	22 700	29 086	41 386	45 375	62 307
FDI inflow as % GDP	0.82	1.42	1.54	9.03	2.21	4.60	8.01	3.99	1.66	1.76	2.23	2.36	3.43
Per capita GDP	20 046	19 867	20 550	24 088	36 095	40 195	44 197	46 226	40 614	47 297	51 573	52 283	

Source: own research, based on the UNCTAD database.

The FDI inflow increased until 2000, reaching 9.03% GDP. In 2004, it was down to -0.04% GDP. In 2007, it elevated to the level of 8.01% GDP. Since 2008, it was registered at the range of 1.66-3.99% GDP (Tab. 7). By 2008, *per capita* GDP increased from 20046 to 46226 USD. In the following year, it went down to 40 614 USD, and increased again in the following years. In 2012, it was registered at 52283 USD (Tab. 7).

## 5. NAFTA and Mexico

In the early 1980s, Mexico was affected by a deep economic crisis. First reforms were introduced by president Miguel de la Madrid in the mid-80s. With Salinas de Gortari coming into power in 1988, the reforms were radicalized. The government departed from the earlier strategy of import substitution supported by strong interventionism and protecting the economy from external competition, and introduced pro-export measures to open up the economy. One of the most important elements of the structural reforms was the reduction of national sectors, coupled with the deregulation of many areas of national economy. Opening up the economy through courageous reforms and consistent policies helped Mexico combat the crisis and increase the potential for future economic growth. NAFTA proved to be a critical item in Mexican economic strategy, and helped the country integrate more fully with global economy. Following the signing of NAFTA, Mexico entered into many bilateral and multilateral trade agreements<sup>1</sup>.

<sup>1</sup> Based on reports of the Mexican Ministry of Economy [www.economia.gob.mx/trade...], the country is a partner in 10 free trade agreements with 45 countries, 30 mutual cooperation and invest-

In 1993, 85.7% of Mexican export was directed to the region of the future NAFTA agreement, with 82.67% to the US market and 3.03% to Canada. Other major export destinations included the EU (5.4%), Mercosur (1.95%), and Japan (1.32%). The Mexican export share to NAFTA increased to over 90% in 1999, 2000 and 2004, to drop again until 2008. In the following two years, it rose marginally, only to decline again in 2012. In 2013, nearly 82% of total Mexican export was directed to NAFTA region, with 79.26% to the US market (Tab. 8). With regard to NAFTA markets alone, in 1993, the US share in Mexican export was at 96.5%, with 3.5% to Canada. The figures for 2013 were almost identical, at 96.6 and 3.4%, respectively.

Mexican export to NAFTA markets increased at a decidedly more rapid pace than that to the rest of the world. Intra-regional export increased steadily, reaching the value of 150.2 bn USD in the year 2000, representing a 238% increase compared to 1993 figures. From 1993, export to the US increased by 242%, and to Canada – by 128%. In 2001, there was a decline of intra-regional export, by 7%. Between 2003 and 2008, the intra-regional export increased more rapidly than that to the rest of the world. In 2009, the export volume dropped significantly by 19.6% to NAFTA region, and by 28.6% to the rest of the world. Interestingly enough, the decline of intra-regional export was registered mainly in the trade exchange with the US, since the value of export to Canada reached 1.1 bn USD in 2009, and continued to increase up until 2012.

Over the whole period of 1993-2013, Mexican export to NAFTA markets increased by 602%, with 603% increase to the US, and 570% increase to Canada. In the same period, the inter-regional export increased by 822% (Tab. 8). This was the result of signing of the trade agreements with the EU – a 560% increase, EFTA – a 658% increase, and Mercosur – 908%. The increase of export to China was, again, impressive, by 14357%.

The increase of Mexican export in the first seven years of NAFTA agreement contributed to the growth of the real GDP by more than 50% [*NAFTA at Seven...* 2001, p. 2]. In 2000, Mexico became the main exporter in Latin America, the second largest trade partner for the US, and the 13<sup>th</sup> largest global commodity exporter, in the world. If we exclude the intra-regional export in the EU area, Mexico rises to the rank of the 11<sup>th</sup> largest commodities exporter in the world, based on 2012 figures [*World Trade Report 2013*, p. 34]. Total value of export for that year was at 371 bn USD (Tab. 8).

In 1993, 71.09% of Mexican import came from the region of the future NAFTA agreement which came into force on 1 January 1994, including 69.29% from the US, and 1.8% from Canada. Other major partners included Germany, Japan, and South Korea. In 1995, the share of NAFTA import increased to 76% and was kept at that level till 1999. In 2000, the first decline of import from NAFTA was observed, down to the level of 73.4%. That year marked the first year of the decline trend,

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ment protection agreements, and 9 detailed agreements within the framework of the Latin American Integration Association – ALADI.

**Table 8.** Mexico commodities export in the period of 1993-2013, in USD bn

Year	USA	Canada	NAFTA	EU	EFTA	Japan	China	Mercosur	Other	Total	Outside NAFTA
1993	42.9	1.6	44.4	2.8	0.2	0.7	0.0	1.0	2.7	51.8	7.4
1994	51.6	1.5	53.1	2.8	0.2	1.0	0.0	0.9	2.8	60.8	7.7
1995	66.3	2.0	68.3	3.4	0.6	1.0	0.0	1.6	4.6	79.5	11.2
2000	146.6	3.6	150.2	5.8	0.1	1.1	0.3	1.7	7.0	166.3	16.1
2005	183.8	4.2	188.1	9.2	0.2	1.5	1.1	3.0	11.2	214.2	26.1
2006	212.1	5.2	217.3	11.0	0.2	1.6	1.7	4.0	14.2	250.0	32.7
2007	223.4	6.5	229.9	14.4	0.3	1.9	1.9	5.7	17.8	271.8	42.0
2008	233.8	7.1	240.9	17.2	0.6	2.0	2.0	7.4	21.1	291.3	50.4
2009	185.4	8.2	193.7	11.7	0.5	1.6	2.2	5.2	14.9	229.7	36.0
2010	238.9	10.7	249.5	14.5	0.9	1.9	4.2	7.5	19.8	298.3	48.8
2011	275.0	10.7	285.7	19.1	1.3	2.3	6.0	9.0	26.3	349.6	63.9
2012	288.2	10.9	299.1	22.0	0.9	2.6	5.7	10.3	30.1	370.6	71.5
2013	301.3	10.5	311.8	18.4	1.2	2.3	6.5	10.2	29.8	380.2	68.4

Source: own research, based on the UNCTAD database.

which continued till 2007, dropping to ca. 52%. The trend was continued up till 2013. With regard to the NAFTA trade alone, in 1993, the US share in Mexican import was 97.5%, and 2.5% for Canada. In 2013, the figures were 95% and 5%, respectively (Tab. 9).

**Table 9.** Commodities import to Mexico in the period of 1993-2013, in USD bn

Year	USA	Canada	NAFTA	EU	EFTA	Japan	China	Mercosur	Other	Total	Outside NAFTA
1993	45.3	1.2	46.5	7.8	0.5	3.9	0.4	1.7	4.5	65.4	18.9
1994	57.0	1.6	58.6	9.1	0.5	4.8	0.5	1.9	3.9	79.3	20.7
1995	54.0	1.4	55.3	6.8	0.4	4.0	0.5	1.0	4.4	72.5	17.1
2000	127.7	4.0	131.7	15.1	0.9	6.5	2.9	2.6	19.8	179.4	47.7
2005	119.0	6.2	125.1	25.9	1.3	13.1	17.7	7.6	31.2	221.8	96.7
2006	130.8	7.4	138.2	29.1	1.4	15.3	24.4	8.6	39.0	256.1	117.9
2007	139.9	8.0	147.9	33.9	1.5	16.3	29.7	8.6	43.9	281.9	134.0
2008	151.7	9.4	161.2	39.3	1.7	16.3	34.7	7.8	47.7	308.6	147.4
2009	112.8	7.3	120.1	27.3	1.4	11.4	32.5	5.4	36.3	234.4	114.3
2010	145.5	8.6	154.1	32.6	1.7	15.0	45.6	6.4	46.1	301.5	147.4
2011	174.9	9.6	184.5	37.7	1.7	16.5	52.2	6.4	51.7	350.8	166.3
2012	185.7	9.9	195.6	41.0	1.7	17.7	56.9	6.1	51.8	370.8	175.2
2013	189.7	10.0	199.6	41.0	1.9	17.3	62.1	6.4	52.6	381.0	181.3

Source: own research, based on the UNCTAD database.

Total value of imported commodities in 2013 amounted to 381 bn USD. Compared to the 1993 figures, Mexican import increased by 483% (with total value at 65.4 bn USD).

Intra-regional import increased steadily up until the year 2000, followed by a decrease. By 2005, it failed to reach the value of 131.7 bn USD. Only in 2006, import volumes were at 138.2 bn USD and grew in the following two years, reaching the peak of 161.2 bn USD in 2008. In 2009, the value of intra-regional import declined by 25.5%. In the following years, Mexico registered another revival of intra-regional trade. Over the whole period of 1993-2013, import from NAFTA increased by 330%, with US figures at 318.7%, and Canadian import by 748.8%.

In 1995, import from outside NAFTA was registered below the values of 1993, and represented a decline by nearly 3.6 bn USD compared with the 1994 figures. From 1996, inter-regional import increased at a steady rate, reaching the value of 147.4 bn USD in 2008. In the following year, it dropped by 22.5%. In 2010, the value returned to the level registered two years earlier, followed by a period of growth. Over the whole period of 1993-2013, inter-regional import increased by 860%. In the last decade, the share of Chinese import grew at an impressive rate. In 2013, it was registered at 16.3% of total import volumes (Tab. 9).

In 2013, Mexico exported and imported commodities valued at 761.2 bn USD. Of these, 511.5 bn represented intra-regional trade within NAFTA. The trade balance with the US, from deficit in the years 1993 and 1994, grew into a surplus at the level of ca. 12 bn USD, reaching 15.1 and 18.9 bn in the years 1999 and 2000, respectively. The trend continued in the following years. In 2007, the volume reached 83.5 bn USD. Over the next two years, it dropped again to the levels of 82 and 72.7 bn USD, respectively. The growth trend returned in the following years, with 2013 values at 111.7 bn USD. The trade balance with Canada is kept at a relatively steady level. A slight surplus was registered over some periods (0.4 bn USD in 1993, 0.3-0.6 bn USD in the period of 1995-1997, 0.5-2.1 bn USD in the period of 2009-2013), and an equally slight deficit in others (0.1 in 1994, 0.4-2.5 in the period of 1998-2008) (Tabs 8, 9).

Early in the 1990s, Mexico managed to greatly reduce its inflation rate which had been registered at steep levels following the crisis of 1982. However, the crisis of 1994 resulted in the next increase, with inflation rate reaching the level of 35% in 1995. From 1996, the inflation rate reduction returned, reaching 3.6% in 2006. The following years marked an increase of inflation rate to the level of 5.3% in 2009, and a little lower in the next few years. The unemployment rate was kept relatively low, with rising trends registered in the crisis years (Tab. 10).

In the first seven years of NAFTA partnership, employment in Mexico rose by 28%, generating some 2.7 million new jobs [*NAFTA at Seven...* 2001, p. 2]. In the period 1993-2008 in Mexico was created 9.3 million new jobs [www.naftanow.org/facts].

**Table 10.** Selected macroeconomic indicators for Mexico, in the period of 1993-2013

Specification	1993	1994	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Inflation	9.75	6.97	35.00	9.49	3.99	3.63	3.97	5.12	5.30	4.16	3.41	4.11	3.81
Unemployment rate	3.4	3.6	6.3	2.5	3.6	3.6	3.7	4	5.5	5.4	5.2	5	4.9
Change in annual GDP	1.95	4.73	-5.76	5.30	3.03	5.00	3.15	1.40	-4.70	5.11	3.96	3.91	1.32
FDI inflow	4 389	10 973	9 526	18 282	24 449	20 292	31 380	27 853	16 561	21 372	21 504	12 659	35 188
FDI inflow as % GDP	0.87	2.08	2.77	2.68	2.85	2.16	3.09	2.57	1.94	2.22	2.00	1.49	3.03
Per capita GDP	5 499	5 637	3 604	6 582	7 824	8 624	9 191	9 579	7 687	8 916	9 800	9 795	

Source: own research, based on the UNCTAD database.

As already noted the rapid growth of Mexican GDP was slumped in 1995, as a result of the 1994 crisis. The decline of real GDP was registered at 5.76%. The following years brought back the growth trend, with annual GDP growth in the range of 4-7%. The trend was stifled again in the years 2001-2003. It seems that Mexico was the most evident victim of the declining position of US and Latin American markets, as the share of these markets in Mexican trade exchange was kept relatively high due to various bilateral and multilateral agreements. The following years (2004-2007) mark the return of the economic growth for Mexico, at 3-5%, annually. The recent global crisis, again, contributed to the decline of GDP growth, down to the level of 1.4% in 2008 and -4.7% in 2010. Following that, Mexico returned on the path of prosperity, with *per capita* GDP increasing from 5499 USD in 1993 to 9795 USD in 2012 (Tab. 10).

## 6. Conclusions

Total economic impact of NAFTA is difficult to assess, since both trade and investment are clearly dependent on many volatile economic variables, such as the economic growth rate, inflation, foreign exchange rates, and the fluctuating prices of commodities and raw materials, particularly oil prices.

Over the course of NAFTA agreement, the associated countries have been subjected to many economic factors outside the scope of the NAFTA partnership. These include the so-called Tequila crisis and the associated devaluation of the peso<sup>2</sup>, the Internet bubble, the WTC attack of 9-11, China's access to the World Trade Organization, and the impact of the present technological progress.

NAFTA cannot be considered the sole basis and the only source of economic benefits for the associated parties. Without doubt, the agreement has had the effect of facilitating trade liberalization, but many of those changes could have been obtained otherwise. Nonetheless, NAFTA should be considered an important step, since it

<sup>2</sup> According to Shikher [2014], the effects of this particular factor on the macroeconomic indicators continued till 2008, and have waned ever since.

was the most comprehensive free trade agreement of that era, and included many landmark decisions in such areas as environment protection and intellectual property rights.

NAFTA has contributed to the redistribution of economic activities through foreign direct investments, particularly in Mexico. Prior to economic liberalization of the late 1980s, economic activities were centred in capital cities and their immediate neighbouring areas. After liberalization and following the development of the maquiladoras sector, large parts of economic activities were shifted to the northern states of Mexico. After the signing of the NAFTA agreement, the economic boom spread throughout the country. One may risk a thesis that NAFTA, to some extent, alleviated the drastic division into the poor South and the rich North in Mexico. Its impact on production, employment and export was decidedly more pronounced in the northern states. The agreement was also crucial in preserving the high level of income, particularly in the years following the crisis of 1994.

NAFTA's impact is not limited to the growth of trade and investment, but it is also evident in many other aspects of the economy, directly contributing to the economic growth. These include:

- global competition incurred by the NAFTA agreement has contributed to the increase of productivity,
- it served as an instrument for the initiation and consolidation of reforms, not only in various sectors of economy, but also in the spheres of political and social life,
- it contributed to the stability and consolidation of economic and political relations between Mexico, the US, and Canada, as well as opening those economies to global challenges, bringing permanence and solidity to Mexico on the global arena,
- it has stimulated the progress in such areas as government purchases, intellectual property rights, and conflict resolution,
- it served as a protective measure for foreign investments in Mexico (particularly after the crisis of 1994),
- it stimulated the signing of other trade agreements with third parties, to facilitate their access to the NAFTA market.

The growing number of bilateral and multilateral trade agreements, as well as the growing position of China in Latin America may have their consequences in the trade policies of NAFTA partners. Some of the proponents of open trade based on clear principles of exchange maintain that further development of economic cooperation will have the effect of generating economic growth. The opponents, on the other hand, believe that NAFTA has resulted in the transfer of workforce and, as such, requires "a new approach and further expansion". One of such postulated expansions is the Trans-Pacific Partnership – TPP. The negotiation process for the new initiative began in the autumn of 2008.



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## 20 LAT NAFTA – TRENDY W HANDLU I EFEKTY GOSPODARCZE

**Streszczenie:** 20 lat temu powstało na świecie największe ugrupowanie gospodarcze pod względem powierzchni i wytwarzania PKB – the North American Free Trade Agreement – NAFTA. Celem tego porozumienia, które weszło w życie 1 stycznia 1994 roku było stopniowe zniesienie wszystkich barier taryfowych i pozataryfowych w handlu między USA, Kanadą i Meksykiem. Jego cele i efekty były i są przedmiotem wielu dyskusji. Prognozy wahały się od bardzo dużych korzyści do znacznych szkód, jakie mogła wywołać, w szczególności dla gospodarki USA. Artykuł jest próbą przedstawienia 20 lat funkcjonowania tego ugrupowania, głównie z punktu widzenia wpływu tego porozumienia na wymianę handlową, bezrobocie, inflację i produkt krajowy brutto (PKB) w poszczególnych krajach członkowskich, a także próbą odpowiedzi na pytanie, na ile kryzys wpłynął na wymianę handlową między krajami członkowskimi. Jak pokazuje analiza, NAFTA wygenerowała duże efekty w handlu towarami między członkami, a największym „zwycięzcą” jest Meksyk. Niestety NAFTA miała mały lub umiarkowany wpływ na dochody i zatrudnienie.

**Słowa kluczowe:** NAFTA, integracja gospodarcza, efekty handlu, badania porównawcze krajów.