

The Future of the North American Free Trade Agreement

Hearing Before the Terrorism, Nonproliferation, and Trade Subcommittee
Committee on Foreign Affairs
U.S. House of Representatives

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Chairman Poe, Ranking Member Keating, and distinguished members of the Committee:

Thank you for inviting me to testify at this hearing on NAFTA, a topic that has long been of personal and professional interest and that is highly relevant for Congress at this critical juncture. **Modernization of NAFTA is both necessary and important**, a fact I believe no one disputes. The absence of digital trade disciplines is the starkest example. For my part, I am proud to say that I have been an advocate for transforming North America into a more competitive economic force for decades.

During my time as U.S. Ambassador to Mexico, I had the privilege to be involved in NAFTA's conception and negotiation. People often forget how fraught the U.S.-Mexico relationship was pre-NAFTA. Anti-Americanism was the norm, but the threat of the rise of Asian economies was real. In addition, with the fall of the Soviet Union, the economies of Eastern Europe were newly emerging, seeking to attract investment. **We hoped to be able to integrate our economies in a way that would accrue to the benefit of all three countries** – the United States, Mexico and Canada – and allow us to compete better. I will never forget my meeting with President George H.W. Bush and Secretary of State James Baker where I walked through the pros and cons of having a NAFTA. It goes without saying they green-lighted the proposal, seeing the economic and security benefits in such a strategic alliance.

While the economic and social pressures of an increasingly globalized world have made NAFTA a controversial concept since its early days, I am of the view that **NAFTA has been enormously beneficial to our country**. Renegotiation should recognize the strategic importance of our partnership within North America from both an economic and a geopolitical perspective. It should recognize that – to our mutual benefit – NAFTA institutions increased labor standards in Mexico, decreased environmental degradation in border areas, and enhanced rule of law south of the border.

We are **no longer living in the era depicted in that classic tome Distant Neighbors**, by then-New York Times correspondent Alan Riding. Suspicion and mistrust no longer rule the day. In fact, we have increasingly developed a shared sense of **security** – which only intensified after 9/11, as I saw during my time as Director for National Intelligence.

Our work with our neighbors on law enforcement, counternarcotics, and counterterrorism are key components to keeping America safe. Canada is a steadfast ally, and the United States maintains sophisticated law enforcement collaboration and intelligence exchange with Mexico to fight money laundering and jointly combat the menace posed by organized crime. We simply do not have the luxury of putting this collaboration at risk.

Economically, fourteen million American jobs depend on trade with Canada and Mexico, by far the largest export markets for the United States. Our North American partners buy more than \$600 billion in U.S. manufactured goods every year, more than the next ten largest markets combined. Since 1993, U.S. trade with Mexico has quintupled in nominal terms, while trade with the rest of the world has only tripled. Three-way trade quadrupled, creating a powerful engine for economic growth. Rather than offshoring to Asia, critical supply chains have been able to remain in North America, enhancing our country's ability to compete. **U.S. services and**

technology companies found open markets in which to operate; indeed, the United States has a services surplus in North America of \$88 billion. Comparing this strategy to that of nations like Brazil, where forced local content requirements and high tariffs have ruled the day, making manufactured exports uncompetitive and local prices on items like autos and computers astronomical, the wisdom of creating a competitiveness zone in North America seems clear.

In addition, the integration of North American **energy** markets allowed the United States to decrease our reliance on energy imports from across the Atlantic, encouraging greater energy independence in the region.

In particular, NAFTA has helped U.S. **farmers** and ranchers, boosting U.S. agricultural exports by 350%. It is important to note that many U.S. states in the heartland list Canada and Mexico as their top export destinations – this is due to NAFTA. Looking at the electoral map from the last election, it is hard to overlook that these states in great measure supported the President, making consideration of a NAFTA withdrawal not only questionable economically, but politically.

Small and medium sized enterprises have also been big winners under NAFTA. Canada and Mexico have become “test markets,” if you will, for smaller U.S. companies seeking to go global one step at a time. Indeed, we have seen that at my consulting firm, McLarty Associates, as we have helped companies to internationalize – the first step is almost always North America.

In short, NAFTA created unprecedented export opportunities for U.S. manufacturers, farmers, service providers, and, yes, even workers, building the foundation of a closer strategic trilateral partnership that has yielded economic and security benefits. At the same time, **NAFTA has long been a punching bag**, as our country has failed to effectively address the needs of communities hit by shifting market demand, enhanced globalization, and technology shifts. In many areas struck by job losses, workers find themselves underwater in their homes, unable to sell, unable to leave to pursue other economic opportunities. These are the pressing issues we must address. But withdrawing from NAFTA to attempt to address these issues is like putting a splint on your arm to try to heal a broken leg. It is not likely to work.

Do we need to modernize this agreement? Absolutely. The world has moved on since NAFTA’s January 1, 1994, entry into force. Do we need to threaten withdrawal to do so? Absolutely not.

What we have seen with the looming threat of withdrawal is companies hedging against a possible dissolution of the agreement, thus reducing NAFTA’s benefits today. Why continue to buy high-fructose corn syrup from the United States when you can lock down sugar contracts with third parties now? Why not investigate the price of Argentine wheat? This is rational economic behavior, driven by an unreasonable threat of withdrawal.

There is no doubt that the United States should come to the table ready to negotiate tough. We always do – and I can personally assure you that we did in the original NAFTA talks, as I was intimately involved. However, the uncertainty created by withdrawal benefits no one, least of all the United States. Our trading partners have already made clear that they will abandon the

negotiating table if the United States moves to withdraw, and I for one do not think they are bluffing. It would be difficult to continue after being so disrespected by such an important economic and geopolitical ally.

Further, Canada and Mexico have pursued their own agreements outside of North America. Prime Minister Trudeau was in China just last week to initiate talks, and Canada recently completed its comprehensive free trade agreement with Europe, the EU-Canada Comprehensive Economic and Trade Agreement (CETA). Mexico has advanced in trade discussions with South America. As Mexico and Canada logically hedge their bets, U.S. producers, farmers, and workers lose out. With these moves, the United States risks moving from a partner of choice for Canada and Mexico to a partner when convenient.

So, what can we do? First and foremost, it is important that Congress exercise its prerogatives in matters concerning trade and commerce. Hopefully, this hearing will be an important piece of that. Given the legal uncertainties that I understand cloud any withdrawal scenario, it is imperative in my view that Congress move swiftly to protect the agreement, stressing to the Executive Branch the opportunity costs involved in putting not only the agreement but our trilateral relationships in peril.

My hope is that the local communities threatened by a dissolution of NAFTA will be educated on the matter, so at a minimum, we can build a national consensus for the status quo, ideally for NAFTA modernization as well. And lastly, but most importantly, we must rebuild a consensus not on trade necessarily, but on competitiveness – on the need to ensure that the United States remains one of the most competitive economies in the world. This will mean engaging in real policy debates about the causes of economic struggle in certain parts of the United States, rather than deploying trade and NAFTA as a convenient scapegoat.

How ironic would it be if it were our actions that seriously harmed the North American partnership, returning our relationship with Mexico once again to that of “distant neighbors.”

Thank you again for the opportunity to testify today. I look forward to your questions.

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