

[Print](#)

North American Free Trade Agreement

[Article View](#)

On the File menu, click Print to print the information.

North American Free Trade Agreement

North American Free Trade Agreement (NAFTA), pact that calls for the gradual removal of tariffs and other trade barriers on most goods produced and sold in North America. NAFTA became effective in Canada, Mexico, and the United States on January 1, 1994. NAFTA forms the world's second largest free-trade zone, bringing together 365 million consumers in Canada, Mexico, and the United States in an open market. The largest free-trade zone is the European Economic Area (which includes the members of the European Union and the European Free Trade Association), which also became effective in 1994.

NAFTA was built upon a 1989 trade agreement between the United States and Canada that eliminated or reduced many tariffs between the two countries. NAFTA called for immediately eliminating duties on half of all U.S. goods shipped to Mexico and gradually phasing out other tariffs over a period of about 14 years. Restrictions were to be removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks) and outlined the removal of restrictions on investment among the three countries. Provisions regarding worker and environmental protection were added later as a result of supplemental agreements signed in 1993.

In December 1992 NAFTA was signed by the leaders of the three countries—Brian Mulroney of Canada, Carlos Salinas de Gortari of Mexico, and George H. W. Bush of the United States. Despite approval from national leaders, the agreement would not be made effective until the legislatures in all three countries had also voted to accept it. In the United States, the debate over NAFTA divided members of both the Democratic and Republican parties and ignited fierce opposition from environmental and labor groups. Many feared that jobs would be lost because the agreement would facilitate the movement of U.S. production plants to Mexico, where plants could take advantage of cheaper labor and lax enforcement of environmental and workers' rights laws. Environmental groups were concerned that pollution and food safety controls would be more difficult to enforce and could be challenged and eliminated on the grounds that they were trade barriers. In response to these concerns, two supplemental agreements were added to the formal treaty; one addressed labor issues and the other environmental issues. The Congress of the United States narrowly approved NAFTA in November 1993, during the term of President Bill Clinton.

The most innovative yet controversial aspects of NAFTA are its environmental provisions, which are included in the agreement itself as well as in a separate Supplementary Agreement on the Environment. These provisions make NAFTA the most environmentally conscious trade agreement ever negotiated. The Supplementary Agreement established a Commission on Environmental Cooperation (CEC), composed of senior environmental officials from each North American country. All three countries are prohibited from relaxing their environmental regulations in order to attract additional investment, and both citizens and governments are permitted to file complaints with the commission if they believe that a country is not enforcing its own environmental laws.

NAFTA's environmental impact has been mixed. On the one hand the CEC created an action plan to phase out four dangerous pollutants in North America and established systems to improve the monitoring of various measures of environmental quality. It has also investigated a number of complaints, but the results have been inconclusive. There has been measurable improvement in the enforcement of environmental laws in Mexico, but that country's economic problems have made it difficult for many smaller firms to improve their environmental performance. As a result both air and water pollution remain serious problems in Mexico. NAFTA's most conspicuous failure has been the lack of significant improvement in environmental conditions along the Mexican-American border, in large measure due to the unwillingness or inability of the American and Mexican governments to devote adequate financial resources to address this critical challenge. On balance, American environmentalists have been disappointed by the impact of NAFTA's "green" provisions.

Formal negotiations to expand NAFTA to include Chile began in 1995, but the administration of President Bill Clinton was unable to conclude them. Shortly after assuming office in January 2001, President George W. Bush announced his support for the creation of a "Free Trade Area of the Americas" that would include virtually all countries in the Western Hemisphere. Many trade experts believe that such an agreement is likely to prove difficult to negotiate.

Reviewed By:

David Vogel, B.A., Ph.D.

Professor, Business and Public Policy, Haas School of Business, University of California at Berkeley.

"North American Free Trade Agreement," Microsoft® Encarta® Online Encyclopedia 2008
<http://encarta.msn.com> © 1997-2008 Microsoft Corporation. All Rights Reserved.

© 1993-2008 Microsoft Corporation. All Rights Reserved.