



NAFTA: It's Here

Without a great deal of fanfare, on January 1, 2008, the final aspects of the North American Free Trade Agreement were implemented, 14 years after the United States-Canada Free Trade Agreement was expanded and enhanced to include Mexico. Despite the name, NAFTA includes neither the Caribbean nor Bermuda, which are geographically part of North America.

Globally, NAFTA is the world's largest free trade agreement and is considered one of its most successful. By the standards of the World Trade Organizations (WTO), we are also a remarkably happy region with few disagreements—most of these having small financial impact.

Economists are divided about the economic benefit to Canada and the United States, but most agree the impact on Mexico has been significant, as poverty rates have plummeted and a remarkable era of economic stability has benefited the nation, indeed the region, in many ways. It has been estimated that in 2006, for example, 24% of timeshare sales in Mexico were to Mexican nationals whereas the market was originally envisioned as almost exclusively for foreign buyers. In Acapulco, the figure is estimated at near 90%.

Effects on Our Industry

A unique aspect of NAFTA that has influenced resort developers is The North American Agreement on Environmental Cooperation (NAAEC), which strives to help the three countries achieve consistent environmental regulation, supported by the North American Development Bank (NADBank). The bank assists with investments in pollution reduction and has financed 36 projects in Mexico to date, mostly in water improvements.

Because of NAAEC and NADBank, NAFTA has been called the “greenest” trade agreement in the world, well before such concerns were as high in the public and corporate consciousness as today.

Also of note to operators of large resorts is another component: The North American Agreement on Labor Cooperation (NAALC). While not specifically intended to achieve harmonization in salaries and productivity, most economists agree that NAALC has been responsible for a steadily increasing convergence of labor standards across the three countries by promoting cooperation among labor unions and social organizations.

If you are considering an investment in one of the NAFTA countries, check with your attorney about the controversial Chapter 11 of the agreement (not to be confused with the United States' bankruptcy code of the same name). Chapter 11 allows corporations or individuals to sue Mexico, Canada, or the United States for compensation when actions taken by those governments—including provincial/state and municipal governments—have adversely affected their investments. This chapter has been invoked in cases where governments have passed laws or regulations with intent to protect their constituents and their resident businesses' profits.

Putting out the Welcome Mat

The free-flow of people across the borders was envisioned for 2010, a concept made impossible by the security concerns following the terrorist attacks of September 11, 2001. Northbound border-crossings by automobile today can take up to several hours, although new technologies for high-frequency crossings, such as by

professionals with dual offices in San Diego and Tijuana (“Century Pass”) or Buffalo and Toronto (“Nexus Pass”), are under discussion or in development.

This past April, with little media notice, the North American Transportation Trilateral Ministerial Declaration was signed in Tucson, Arizona, by representatives from the three countries. This was quite an historic occasion where, for the first time ever, the leaders of three countries' transportation departments met. For air transportation, the goal is completely “open skies” by 2017. One month earlier, the United States and Canada signed a bilateral skies agreement allowing airlines to make route decisions between the two countries on almost purely economic reasons with minimal government input. As an additional critical point, this means allowing flights to third countries, so, for example, a Canadian airline could land in the United States, board passengers, and continue to Mexico.

Brother, Can You Spare an “Amero”?

Rumors of a common currency, first publicly proposed by a brave Canadian economist in 1999 and dubbed the “amero,” seem to be just that. All three governments have officially stated their lack of interest in a North American financial union.

Despite this, Mexican political leaders, including former president Vicente Fox, have publicly voiced their support for an eventual common currency. Mexico's interest in the idea, vehemently opposed by most Canadians, may be reflected in the fact that Aruba, Barbados, Cuba, El Salvador, and Panama already tie their currency to the U.S. dollar; and Ecuador has adopted it as the country's own currency.

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Building Bridges, Roads, Ports

The “NAFTA Highway” or “NAFTA Supercorridor” are terms often applied (and sometimes misrepresented by conspiracy theorists) to America’s Interstate 35, which connects the continent’s two busiest border crossings: Detroit-Windsor to the north and Laredo-Nuevo Laredo to the south.

Cities, counties, states/provinces, and private sector representatives along the corridor in all three countries have banded together in a non-profit affiliation known as NASCO (www.nascocorridor.com) in an effort to “maximizing the efficiency and security of their existing trade and transportation infrastructure.” This includes the continent’s two largest inter-modal inland ports: Detroit and Laredo.

Speaking “North American”

It would surprise many Americans and Mexicans to know that more than one in five Canadians speaks French as their first language, and one in ten speak Chinese. Americans and Canadians probably don’t realize that 3% of Mexicans don’t speak Spanish fluently (a million Mexicans are fluent only in English, twice that number in native dialects).

Over 80% of Americans speak English as their first language, a far higher percentage than in Canada, and 10% choose Spanish. The remaining percentage speaks primarily Asian languages, but nearly two million Americans speak French as their first language and more than one million speak German.

A Look Ahead

What changes will the next 14 years of NAFTA bring the resort development community? We asked some

experts in the North American business community to hazard an estimate of what 2022 might hold.

“Trade will develop along a stronger North-South axis compared to the traditional East-West focus here in Canada,” predicts David Gough, chairman of the Atlantic Chapter of The American Chamber of Commerce in Canada. “Transactions between the Atlantic provinces and New England, for example, could grow as a percentage of the total versus trade with the Pacific region.”

“Progress in greater efficiency and productivity, along with the added focus on cross-border commerce facilitation and infrastructure development should strengthen the competitiveness of NAFTA from within, and improve our trade options with the rest of the world,” affirms Eric Rojo, executive vice president of the United States-Mexico Chamber of Commerce. “Active participation in these initiatives is the best option to enjoy continued

growth and be able to successfully navigate current threats of an economic downturn.”

Pierre Genest, director of sales for Travelers Acceptance Corporation in Ontario, sees the continental future in terms of travel and demographic changes.

“Leisure travel has long been a key component of cross border flow that has been fostered by NAFTA,” Genest says. “In Canada, we call the population that migrates to the States and Mexico in the winter our ‘snowbirds.’ This flock will not only grow in sheer numbers, but their migration period will steadily stretch beyond extreme weather months. The average age of Canadian snowbirds will also come down, as more and more Boomers and Echoes discover and invest in vacation ownership. NAFTA will continue to provide a jet stream to lift the trend.”

Bob Craycraft, RRP, is vice president of industry relations for ARDA. His e-mail is bcraycraft@arda.org.

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