How The Canadian Economy Is Dependent On The U.S Economy Essay, Research Paper

The Canadian economy is determined largely by the United States economy threw the North American Free Trade Agreement (NAFTA) and the Free Trade Agreement (FTA). The North American Free Trade Agreement was an agreement that came into effect on January 1,1995 which involves Mexico, Canada and the United States of America. This agreement is said to produce 1 billion to 3 billion dollar gains in each country. NAFTA ensures that a certain amount of goods produced and traded between the three countries has to have a minimum percentage of its parts produced in North America.

The Free Trade agreement is between the United States and Canada. The Free trade agreement came into effect in 1989 even though three fourths of trade between Canada and the United States was already free. This agreement to Canada is huge because it set up a free trade zone between the U.S and Canada, which is the largest free trade zone in the world. The Free Trade agreement is huge to Canada because 20 per cent of Canada s GDP comes from exports to the United States. This agreement eliminated all trade restrictions such as tariffs, quotas, and non tariff barriers. The Canadian economy gains access to the U.S economy that is ten times its size. While the U.S economy will gain the lower-priced Canadian goods.

These two agreements show how much the Canadian economy relies on the United States economy and threw these two agreements the Canadian producers can export and import U.S goods easily and at an affordable and profitable price. In this paper I will show you how the FTA and the NAFTA help the Canadian economy export and import into the U.S economy and will show you how much the Canadian economy needs the American economy to do business.

Why are the FTA and the NAFTA important to Canada? Considering that the United States is Canada s most important country to trade with it only seems logical that the Canadian economy would benefit from free trade that the FTA and the NAFTA give them. The FTA eliminated many things and one of those things was Tariffs. Under the FTA, one group of tariffs was eliminated on January 2, 1989 another group in 1994 and all the rest of the tariffs were removed in 1999. By eliminating the tariffs the goods that weren t being traded before between Canada and the U.S are now being traded. The goods that weren t being trade before between Canada and the U.S were petrochemicals and woven fabrics; these goods were not traded before because there was such a high tariff on them. Since Canada does a lot of exporting of raw material these materials use to have such a high tariff and were not being as traded to their potential now they are being traded frequently to the U.S because of the FTA.

The FTA has allowed Canada and the U.S to reduce trade obstacles by standardizing their product standards, testing and approval processes. The FTA now states that Canada can t restrict oil and natural gas exports to the United States therefore Canada can t charge Americans higher prices in Canada. The FTA has excluded some industries from the agreement these industries are Agricultural, Cultural Industries, Social Insurance programs and Regional development programs. Since there are so many rules and regulations under the FTA a binational panel will settle the disputes. The panel settles these disputes by determine whether each country s regulators are applying to their trade laws. Canada or the U.S can end the FTA by giving six months notice. Since U.S exports to Canada only account for a small 1.3 per cent of its GDP and Canadian exports to the U.S account for 20 per cent of its GDP, Canada can t afford to lose this agreement while the end of this agreement would hardly even effect the U.S.

The NAFTA set up free trade over North America. Since Canada already had free trade with the U.S the NAFTA set up free trade with Mexico. The NAFTA has been controversial both in Canada and in the U.S because people are afraid that Canadian business firms may leave Canada and take advantage of the lower wages and safety regulations in Mexico. The NAFTA agreement states that a certain percentage of goods have to be manufactured in North America. Canada s reasons for joining NAFTA were, because if Canada didn t join NAFTA, Canada wouldn t be allowed to be a part of future agreements between the U.S and Mexico. Canada would have been at a competitive disadvantage to Mexico. The NAFTA was also appealing to Canada because there have been talks that part of the Western Hemisphere would also become a part of NAFTA. Canada also joined because it would give Canada a lever in future trade negotiation with the European Union and Japan.

The main advantages of the FTA and the NAFTA are. Canada will gain free trade into the market that it relies on the most the U.S. These agreements are suppose to generate 3 billion dollars of annual gains. Canada will be able to obtain more total output from its scarce resources. The disappearance of tariffs will increase Canadian imports and exports into and from the U.S. That Canadian unemployment will decrease. That a percentage of parts will have to be made in North America.

The disadvantages to these agreements mostly concern the Mexico factor in NAFTA. People fear that Canadian business firms will move to Mexico and take advantage of lower wages. People also fear the American firms will move back to the U.S because the tariffs have been eliminated. Economists are also concerned that Japan and South Korea will begin to build plants in Mexico to ship goods tariff free through the U.S and into Canada, thus decreasing Canadian exports into the U.S.

The impact that the U.S economy has on the Canadian economy is huge every Canadian industry relies on the U.S in some way. From importing U.S goods to exporting Canadian goods to the U.S. When the U.S stocks are increasing so usually does the Canadian stocks, this is because Canada and the U.S are interconnected. Many of the successful United States chains have come up to Canada such as (McDonald s, Starbucks, and Wal-Mart) these chains have become very successful in Canada as a result these chains have helped the Canadian economy grow.

Most recently Wal-Mart has invaded Canada and in a short period of time it has become a very successful chain. Wal-Mart is believed to have some 200 stores in Canada in 1997. Wal-Mart is a highly profitable organization in Canada where it is believed that Wal-Mart will make 125 billion dollars by the year 2000. Wal-Mart a United States corporation has set up camp in Canada and has made Wal-Mart Canada. Wal-Mart Canada has created numerous Canadian jobs and are supporting Canadian manufactures. With a huge successful United States corporation coming up to Canada it has produced many jobs for Canadians and has made Wal-Mart Canada, which is run by Canadians and staffed with Canadians, a successful business.

Industries in Canada have access to 363 million consumers in North America and which 70 per cent of that 363 million are consumers from the United States of America. Canada exports and imports heavily into the U.S. Canada exports to the U.S made 269,496,600 million dollars which most of these exports coming from the auto-sector and natural resources. Compare that number of exports to the next highest country that Canada exports to which is the European Union, Canada exports 17,798,100 million dollars of goods to the EU (European Union). You can see how much Canada needs the United States to export. Canadian exports to the U.S produced 125.5 billion dollars in merchandise trade since NAFTA came into effect. Canada exports automobiles heavily to the United States where Canada exports 90 per cent of its production. With the recent U.S and Canadian economic booms it is believed that Canadian automakers are on track to produce 3.1 million vehicles this year. That would mean that 310,000 more automobiles were made in 1999 then in 1998. This boom is said to make an extra 6.2 billion in vehicle shipments. Because of this strong demand for automobiles in the U.S it is said that some 160,000 workers employed in Canada on either assembly lines or parts production. The economic boom has helped the major car manufactures in Canada. Where Honda s output leaped 54 per cent to 197,155 vehicles while Toyota s production climbed to 32.5 per cent to 160.172. General Motors production increased 28.6 pre cent to 681,446 automobiles. Chrysler increased 8 per cent 10 594,917 and Ford s output grew 15 per cent to 520,081. With this recent 16.5 per cent increase in exports to the United States Canada now depends on the U.S markets for 87 per cent of its exports. This 87 per cent is the largest kind of demand of a product in the world. This has also meant that the Canadian dollar has increased and the surplus in the auto market alone has produced some 9 billion dollars in eight months.

The auto sector is just one of the many industries that rely on the U.S market to make profit. Other industries that also rely on the U.S market is exporting of chemicals, machinery, natural resources, which include wood pulp, timber, crude petroleum, natural gas, aluminum, and telecommunications equipment. With the largest being automobiles, pulp and paper, meat processing, oil refining, sawmill and planing mill products. All of these industries do most of their business across the border to the United States.

Canada also relies on the U.S for imports, Canada imports 233,634,800 million worth of goods in 1998 alone. Canada imports mostly automobile parts, chemicals, machinery, crude petroleum, durable consumer goods, computers, telecommunications equipment and parts. Since NAFTA came into existence the Canada has spent 96.6 billion on imports. Canada imports automobile parts mainly from the U.S. As with exports commodity imports are dominated my automotive product. With about 30 per cent of automotive parts bought from importing around 87 per cent of that comes from the U.S.

Next to automobile parts is industrial machinery, communications and electronic equipment. With about 70 per cent of these products are being imported from the United States. With imports growing at the same rate as exports. This rate of growth is caused because of the high demand for U.S based goods. Out of all the goods imported from abroad 77 per cent of these goods came from the U.S. Therefore you can see how much Canada needs the U.S for importing goods and without the U.S huge market and easy access, the Canadian industries wouldn t be increasing as rapidly as they are now ever since the NAFTA and the FTA agreements came into effect.

The Canadian economy relies totally on the United States of America. With the two free trade agreements the NAFTA and the FTA, Canada does 70 per cent of its exporting and importing from the U.S. The NAFTA and the FTA agreements make exporting and importing of goods to and from the U.S non-tariff free.

Every Canadian industry relies on the American consumers to sell their product to and the Canadian industries rely on the goods that they import from the U.S. Take for example the Canadian auto sector without the high U.S demand for their products many of these auto industries wouldn t be as profitable as they are now. The Canadian auto sector sells 87 per cent of its product to the U.S that is the highest percentage in the world. With major U.S corporations invading Canada it is just seems that most of the chains in Canada are American owned.

Everything in Canada seems to be interconnected with the U.S and because of the high percentage of trading that these two countries do, when the Canadian economy experience a boom it is due to the fact that the U.S economy is also experiencing a boom as well. When you compare the TSE and the Dow Jones the same usually occurs, when the Dow Jones increases so to will the TSE. As you can see the Canadian economy needs the U.S economy, the two have become interconnected. The Canadian economy needs the high population and the high incomes that the U.S has to offer. While the U.S economy needs the Canadian auto sector and the fast natural resources that the Canadian economy has to offer.