Nafta North American Free Trade Agreement Essay, Research Paper

FREE TRADE, ENVIRONMENT AND DEVELOPMENT COOPERATION BETWEEN THE UNITED STATES, CANADA AND MEXICO:

RESEARCH INTO THE NORTH AMERICAN FREE TRADE AGREEMENT

INTRODUCTION

In January 1994 the United States, Mexico and Canada entered into the North American Free Trade Agreement (NAFTA) and created the largest free trade sector and the richest market in the world. The treaty was said to benefit over 400 million consumers all over the world. Chile was even recently added to the treaty in 1995 and will become a full member within the next century.1

NAFTA is a regional trade pact that calls for the elimination of all tariffs and trade barriers existing among Canada, Mexico, and the United States. It is unique because the treaty created the largest free trade zone in the world and outlined economic policies as well as address issues like the environment and labor conditions.2 NAFTA also includes bilateral provisions intended to resolve sensitive issues between trading partners.

This regional integration is said to lead to benefits for North America like those members of the European Community, because it would create a single market for millions of people producing and consuming goods and services. For Mexico, the agreement establishes an agenda for continued progress and further economic reforms. For Canada, the treaty extends the 1989 Canadian-American Free Trade Agreement and promises additional benefits for manufacturers, consumers, and the agricultural sector. For the U.S. though, NAFTA is slightly controversial, since it allows businesses to go against labor unions, and skilled professionals to go against unskilled factory workers. This concerns many people because they are threatened on losing their jobs to Mexican laborers if US companies decide to move south. The potential loss of American jobs and the lack of environmental protections caused disagreements and reasons to reject the agreement.3

It has been five years now since the North American Free Trade Agreement was signed, and some say it failed to produce its promised benefits. NAFTA’ promoters have now acknowledged that prosperity, jobs, and environmental clean up has not unfolded. What happened to NAFTA, was it a Failure?

BACKGROUND AND FRAMEWORK OF NAFTA

NAFTA had many important goals in the beginning. Its first major goal was to reduce barriers to trade such as tariffs, licensing and quotas. This was accomplished by decreasing or removing import and export tariffs from all three countries and allowing trade goods to flow to all of the treaty members without restriction as long as the goods met the standards as outlined in the treaty.4

Another goal was to improve working conditions in North America. It was proposed that increasing trade and standards would cause working conditions to improve through increased wages and safer facilities. Creating an expanded and safe market for exports/imports and services was also a goal and is ongoing even today as more goods and services flow across the borders. Trade rules that were beneficial to all treaty members were established and have ’standardized’ the quality of all trade items as well as provided the environmental support to “clean-up” any environmental “hot spots”. The last major goal of the treaty was to foster world trade and set the example for trade cooperation in the world environment and encourage other countries to establish more free trade areas.5

Over 400 million consumers are receiving the benefits of newly opening investments and development opportunities. North American industries in particular have great opportunity with exports as the driving force, elimination of the tariffs, effective procedures to resolve trade disputes, standardization of goods between all treaty members and “free-flowing” cross border movement of goods and services. Economic growth would increase with the increase of international trade, which in turn create a more efficient use of resources, lowers costs and would promote increased competition, lowering costs for both producers and consumers. Increases in income caused by economic growth would be a powerful source to expand markets especially for Mexico because of its’ low average income. 6

Economic concerns for each treaty member were numerous at the outset of the treaty, with the number one concern for Canada and the United States of lost jobs with corresponding unemployment and the emigration of industries to Mexico with its cheaper wages and resources. Mexico was initially concerned that increased influx of Canadian and United States industries would cost it huge loss of territorial lands for the new factories and facilities. Immigration of migrants to the United States from Mexico was another concern. Assuming that the dislocation of laborers would increased competition for jobs. These major concerns proved to be less of a problem than first expected because all three countries have benefited from the treaty but not without some initial problems. Other economic concerns were higher prices in Mexico and lowering of wages in Canada and the United States. On the whole wages increased in all of the three nations, but Mexico still remains under the poverty level in some regions. 7

EXCHANGE OF GOODS AND SERVICES

The big winners under NAFTA have been large “agricultural businesses” who exploit the below-market price imports to drive down domestic commodity prices in items such as wheat, hogs and cattle.

Food safety and agriculture have also been affected by the implementation of NAFTA. US agriculture is now in a crisis. The “free market-free trade” farm policies of the 1990s have troubled US wheat, fruit and vegetable, and tomato producers. In addition, US producers are now forced to compete with products from Mexico, where agribusiness though not farm workers or consumers benefit from lower wages and less rigorous standards on pesticide residues, bacterial contamination and other potential public health threats. Meanwhile, since NAFTA, the number of small US farmers has declined 9% while the percentage of US farm households at or near the federal poverty level has skyrocketed to 93%. Consumer prices for food, however, have not dropped. 8

A consensus among farmers from all three NAFTA countries is emerging about NAFTA effects on the agricultural trade. While agricultural exports have increased under NAFTA, neither farmer in Canada, Mexico nor the US have received benefits in an increase in their standard of living. US exports to Canada and Mexico grew 35%, but net farm incomes have remained the same. In fact, 45% of US small- and medium-sized farms suffered real declines in. During that same period, Canadian agricultural exports to the US grew 57%, but net farm income in Canada hasn’t caught up to 1986 levels of production.

Over the past five years, the worldwide US agricultural trade surplus has been growing. However, since 1993, the US agricultural surplus with Mexico and Canada has declined by two thirds. Mexican tomato imports have increased 63%, while Florida tomato farmers have gone out of business and 24 packinghouses have closed. The loss of tomato farmers has cost Florida agriculture $1 billion dollars and consumer prices for tomatoes increased by 16%.

NAFTA prohibitions on import quotas and snap-back tariff (tariffs that are placed when domestic producers are threatened by dumping of commodities on the US market) have made US farmers and meat producers vulnerable to cheap imports from Canada. Canada’s currency has suffered a drastic depreciation of 11% over the past year, making Canadian agricultural imports much cheaper. This has hurt many US farmers, especially hog farmers who have watched hog prices fall 62% since 1997. Yet, consumer prices for pork remain the same, as they were last year, and have increased 6% in real terms since 1993.10

Before the 1988 Canada-US Free Trade Agreement and NAFTA, Canadian wheat imports to the US were virtually zero. After NAFTA, the US is Canada’s number two-export market for wheat. US imports of Canadian spring wheat increased 2,000%, to 1.45 million tons, from 1990 to 1997. The Canadian wheat flood has taken its toll on US wheat farmers, who are prevented by NAFTA from imposing new quotas. NAFTA market access provisions ensure that the US imports Canadian wheat even though US grain stocks are high.11

ANALYSIS: INTEGRATION OF THEORY AND FACTS

THE BENEFITS OF NAFTA

The North American Free Trade Agreement calls for several benefits in key service sectors. Due to NAFTA, Mexico has now opened its financial services markets to Canadian banks and securities firms. This action allows these new participants to establish wholly owned subsidiaries and engage in the same range of operations as similar Mexican firms. 12 By January 1, 2000, Mexico s ability to place future constraints on foreign-owned firms will be limited. Other financial services, including leasing and consumer finance, have already established operations in Mexico and are not subject to any limitations. In addition, Mexicans and Canadians are guaranteed the right to purchase financial services from firms in the United States.

Another long-term benefit from NAFTA is the new opportunities for insurance. NAFTA eliminates restrictions on US ownership and provision of services in the $3.5 billion Mexican Insurance Market.13 US insurance companies may sell cargo insurance, and reinsurance on a cross-border basis in Mexico. They may also sell life, health, and travel insurance to Mexican residents who come to the United States. It also locks in US access to Canada s already open transportation market. Currently, over 90 percent of US trade with Mexico are shipped by land.14 The automotive industry has benefited greatly from NAFTA with exports to Mexico and Canada increasing drastically due to lowering of restrictions and elimination of tariffs (Mexico had a 20% tariff on imported automobiles prior to NAFTA). Toyota Motor Company for example, has built a 450 million-dollar expansion plant in Canada. These new plants mean more jobs for Canadians, Americans and Mexicans. With the reduction and the eventual elimination of trade barriers, increased investment incentives and liberalized investment rules coupled with the “rules of origin”, United States parts and vehicle manufacturers have become more efficient and competitive in the North American market.15

Economic activity has increased since NAFTA and enhanced prospects for textile and apparel producers in the United States and Canada by improving productivity and concentrating on specialized products. NAFTA has enabled United States and Canadian producers to optimize production and manufacturing investments in North America, which has resulted in a shift of production from the Far East to North America, strengthening North American textile and apparel trade on the worldwide market.

NAFTA has created jobs for American, Canadian and Mexican workers in export related industries, which are higher in productivity and pay thirteen to sixteen percent more than the average wage. NAFTA has created new coalitions, which cross borders and political party lines and affect workers, farmers, environmentalists, consumers and religious groups. Banks have now marketed mutual funds to all treaty countries, which also make North America more appealing to foreign investment. 16

THE PROBLEMS WITH NAFTA

One of the greatest impacts on Canadian and United States economies has been loss of jobs and decreased wages. Even though NAFTA has created jobs in the export sector, other production industries have moved their facilities to Mexico where wages are lower and operating costs are lower. Also, wages in Canada and the United States have in some cases been lowered by the threat of job loss associated with companies moving to Mexico. On a whole, it is perceived that workers rights have diminished somewhat because employers hire “cheaper labor” to help decrease production costs and increase profits. In the United States and Canada some wages are stagnating if not declining somewhat. In essence, the larger corporations and businesses have benefited from NAFTA while smaller companies have lost money or gone bankrupt. 17

The influx of immigrants from Mexico has also increased. This act may be temporary but it has led to the loss of jobs or wages for Americans since immigrants work for minimum wage more readily and generally do not have the “power heavy” unions to protect them.

NAFTA has also contributed to an environmental and health catastrophe along the 2000-mile US-Mexican border. NAFTA has intensified severe problems of water and air pollution, hazardous wastes dumping, and increased the incidence rates of certain diseases and birth defects in the border region. 18

CONCLUSION

Since its implementation, NAFTA has eliminated tariffs and other barriers to commerce and allowed consumers to benefit by the law of supply and demand and made available products that would otherwise be tied up by barriers to commerce (tariffs & regulations). Areas in which NAFTA has provided significant benefit are Agricultural Trade, Automotive Industry and Textiles and Apparel. The United States is the world’s largest exporter of agricultural products. NAFTA has stimulated a trend toward a more efficient and productive agricultural sector in America and has integrated North American agriculture into the NAFTA marketplace. United States farm income is also expected to increase. Consumers are benefiting from more access to more sources of supply. United States agricultural exports throughout North America have increased dramatically since NAFTA went into effect, and will increase in the next few years if they continue their current trend. Also, the United States, with its’ production enhancing technologies will be a key factor in competition.

The development of NAFTA was originally to benefit the three countries of North America. It may have instead led to unemployment, environmental devastation, and serious health problems but not without giving benefits to corporations whom have reduced their costs and largely control the free market. The North American Free Trade Agreement must be revised in order to counteract for the problems that have occurred such as pollution along the US-Mexican border, public health issues due to lax environmental and food importing laws, and “cheap labor”. The hope of job creation has not yet even effectively occurred.

POLICY PROPOSAL:

There are many aspects of NAFTA that must be reviewed. First, Policymakers should reinvent safeguards for US farmers from the dumping that has resulted from recent shocks like the currency depreciation in Canada and the suppression of worldwide demand for commodities caused by the Asian financial crisis. Secondly, Foreign investors from outside the North American market should look upon a Canadian location as an entry into regional markets of the NAFTA countries in order to serve the American market from Canadian subsidiaries. More concern should be taken in terms of pollution prevention and agricultural pesticides. As for the issues of workers, investors and consumers their problems may exists in the short-run, because the advantages clearly outweigh the disadvantages. This is most true for Mexico, because they represent a developing country with an emerging market. In the coming years, there will probably be more vacillations as the economy goes through periods of rapid growth and then slows to keep inflation under control.

Overall, there has been benefit to Canada, U.S. and Mexico trade. The continent- wide transportation system that binds this market together is efficient and cost-effective. The need for provisions and safeguards are the only solutions to helping the unemployed workers in the U.S. and the agricultural farmers. There are too many good incentives brought about by NAFTA, especially with strongly encouragement to other countries in Middle and South America to make efforts to reform in order for them to qualify to enter into the agreement. Most countries will not be able to meet these reform goals very rapidly, but by stimulating reform, NAFTA brings a stabilizing effect to the region.