

Purpose of nafta and criticism faced by the organization

[Economics](#)



The global economic environment is always changing. Central to this observation is an appreciation of the economic impact regional and international trade has had on world regions. This phenomenon is mainly attributable to the adoption of free trade economic policies favoring such trade. NAFTA (North America Free Trade Agreement) is an exemplifies the significance of such commerce. A closer analysis of its history reveals relatively positive and negative impacts.

History of NAFTA

NAFTA owes its origin to President Ronald Reagan's pursuit for a common market in North America, through with Congress passed the Trade and Tariff Act in 1984 (Ustr. gov). This law was crucial in availing the presidency powers to fast-track free trade agreement negotiations with other North American countries. The law also limited Congress' role, allowing it to either approve or disapprove negotiated trade proposals. Mulroney, Canadian Prime Minister, began negotiations to effect a free trade agreement with the U. S. The agreement was reached in 1988 and realized in 1989.

Later, Mexico and the US liberalized trade between the two nations through negotiations between President Bush and his Mexican counterpart, Salinas. These negotiations aimed at reducing Mexican import tariffs, which were relatively higher compared to the United States'. In 1991, Canada proposed a trilateral agreement between the U. S, Canada, and Mexico, which led to the formation of NAFTA. In the following year, the three countries signed the trade agreement deal, with respective legislative amendments being made to accommodate the protocol (Ustr. gov).

Purpose of NAFTA

Article 102 of the NAFTA agreement stipulates the goals and missions of the organization. NAFTA's broad objective was the removal of barriers to trade to improve business and create new trading opportunities in North America. Specifically, this would be achieved through the successive lowering of import tariffs between Mexico and U. S/Canada. This measure, it was envisioned, would increase the flow of goods and services across member states' borders (Ustr. gov).

Secondly, NAFTA aimed at liberalizing capital transfers. Foreign and domestic investments would be equalized. This initiative would involve partially expanding corporate investment for financial institutions. Banks would be granted insurance rights in partner states. This measure would have the beneficial effect of improving access to health insurance services for citizens of the three countries. Liberalization would also contribute to labor mobilization. While the unskilled and semi-skilled labor remained largely ignored by the agreement, exemptions were allowed for the transfer of highly skilled labor. This exemption was allowed because it was considered that skilled labor, given its rarity and hence high demand, was more significant to the common economic interest of member states (Ustr. gov).

Thirdly, NAFTA partners aimed at enhancing the protection of the North American Environment. The Commission for Environmental Cooperation (CEC) was formed as NAFTA's environmental branch, responsible for trilateral environmental cooperation. Its primary role was designing a blueprint for the attainment of environmental objectives over a period of five years. Issues covered included illegal trade in hazardous waste, protection of <https://assignbuster.com/purpose-of-nafta-and-criticism-faced-by-the-organization/>

endangered animal species, eradication of toxic pesticides such as chlordane DDT, and trilateral cooperation in attaining clean border environments (Ustr. gov).

The pro-NAFTA perspective

NAFTA proponents defend their position on the premises of the theory of comparative advantage. This theory proposes that trading in a competitive market environment results in a symbiotically profitable relationship in which all participating countries benefit. According to this theory, states ought to specialize in the production of goods and service in which they have a comparative advantage. Applied to the context of NAFTA, exporting such products to other countries where demand is high results in higher joint returns; importing nations gaining value in the form of goods and services and the exporter in the shape of export income (Council on Foreign Relations).

Secondly, trade experts credit NAFTA for its role in enhancing production for the United States. The trade agreement has created improved manufacturing process due the technological exchange between the countries. More so, access to outside market spaces has reduced the product discovery curve, with markets opening to a wider variety of cheaper consumer goods. Economic gains from saved expenditures offered by lower-priced goods have allowed consumers within the region to redirect financial efforts to other crucial economic demands of education, health, and insurance. The net effect has been improved standards of living (Council on Foreign Relations).

Supporters of NAFTA introduce a nationalistic approach into the examination of NAFTA's implications in the United States. This argument roots on a nationalistic notion of preserving the U. S's global economic influence. They point to the increasing number of world nations adopting regional and international trade, especially pointing to China's emergence as a world economic force. They argue that the United States might lose this status if it fails to adopt this international trend, considering the obvious benefits regional trade has to other world nations. The status quo is maintainable only if the U. S exploits NAFTA's economic advantages. NAFTA offered an avenue for a symbiotic business relationship with countries sharing a trade agenda generates economic growth. For example, the textile and apparel industry improved following the U. S's shift towards the optimization of industrial investment in North America. This improvement resulted in textile production moving from the Far East to the NAFTA region, with textile and apparel industry value increasing from \$6 billion to \$12 billion between 1993 and 1996. Proponents attribute this phenomenon of NAFTA's open, rule-based trade (Datta and Kouliavtsev 173).

Additionally, supporters argue that NAFTA benefits the United States' labor market. For example, it is estimated that an improved export economy in the U. S directly contributed to increased job opportunities from 311, 000 to 2 million in 1993 to 1996 (Scott 473). These opportunities resulted in increased employment within NAFTA, with the cumulative effect of reducing income disparity among social classes. of crucial importance is the appreciation that jobs supported by export paid 13 to 16 percent above the average U. S wages. They also present the argument that despite losing low-income jobs

to Mexico whose cheaper labor force invites multinational manufacturing companies, the United States stands to gain more high-income jobs. The argument is that Mexican workers, apparently with lower skill levels and experience in established manufacturing industries, present educated U. S citizens with unrivaled advantage in the skilled labor market (Gambrill 103).

The anti-NAFTA perspective

NAFTA's critics contend that regional trade and investment indirectly contributes to worker exploitation, especially in Mexico. They argue that Mexico's population is relatively poor and lacking in technical experience as compared to the economic powers that are the United States and Canada. Resultantly, Mexico is in an economically vulnerable position. As (Gambrill 103) notes, given Mexico's higher poverty and unemployment indices, NAFTA's free market organization unfairly favors large business corporations seeking cheap labor. As such, the organization does not protect laborer's interest. Again, (Pena-Sanchez 107) argues that Mexico is more likely to acquiescence to unfair labor rates with and demand less for exports, while simultaneously paying more for imported goods and services.

NAFTA is unfavorably skewed to benefit the U. S and Canada. The free market trade organization involves two developed countries and a developing country – Mexico. Opponents argue that such a structure is uneconomically imbalanced given the lower economic prowess Mexico has in comparison to its partners. According to (Pena-Sanchez 107), this exposes Mexico to economic exploitation. The United States and Canada possess stronger voting power over NAFTA's decisions, regardless of the perceived equality of members implied by NAFTA's constitution. As such, significant
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economic decisions and policies unfavorable to Mexico' socio-economic situation may be implemented.

Critics also fault NAFTA for its impact on the political nationalism and cultural identity of laborers. They claim that labor transfer has generated a situation in which large corporations import workers from their native countries with better with better wage offer. While such provides citizens across NAFTA with reasonably beneficial income opportunities, social and cultural consequences are such that people lose their national identities, which robs nations their sovereignty (Ustr. gov).

NAFTA is criticized for its inefficient quality assurance of agricultural products. The perception is that the U. S has been exporting unsanitary agricultural products to Mexico, with adverse effects on human and ecological health. They blame NAFTA's overly competitive free trade environment tempting businesses for producing cheap, low-quality agricultural products for sale in the new open markets in pursuit of profit (Scott 473).

Reaction to criticism

In response to the perception that the Mexican agricultural sector has declined due to imports from the U. S, NAFTA has responded with the argument that the U. S remains the single-largest importer of Mexican agricultural products. In fact, 78% of all Mexican agricultural products enter the U. S market – a double increase since the constitution of NAFTA in 1994 (SOTO 472). Also, NAFTA has contributed to increased earnings from the agricultural sector through job creation in food processing industries. NAFTA

also distances itself from blame, citing that the Mexican agricultural sector's structural challenges existed before NAFTA. Such challenges include high access to credit, poor marketing, high production cost and logistical complexities. These issues are being addressed bilaterally between the U. S and Mexico in cooperation with the private sector through the Partnership for Prosperity organization (Spann 46).

As regards claim that U. S agricultural imports are environmentally unsafe, NAFTA has pointed to insufficient evidence proving such claims. They argue that the U. S's food supply is one of the safest globally. The idea is that critics lack the moral authority to criticize its food exports, given that Mexican standards are poor. More so, export channels for food for domestic use and food for export remain undifferentiated (Carpentier 260).

Conclusion

Despite criticism of NAFTA, the organization has provided a level platform for participating nations, increasing cross-border trade. Benefits overlap demerits to a large extent with improved access to markets, more job opportunities, technological exchange and cooperation on environmental conservation. Achieving NAFTA's full potential, however, requires a reexamination of NAFTA's policies.