

The north american free trade agreement and canada politics essay



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The North American Free Trade Agreement (NAFTA) was ceremonially signed by the leaders of Canada, the United States, and Mexico on December 17st, 1992. After deliberations in each country's democratic hall of power, it officially came into effect on January 1st, 1994.

NAFTA is first and foremost an economic agreement between its three member countries. Its primary goal is to remove trade barriers and subsidies for national industries in order to create a truly free North American market which would better foster competition, thus increasing wealth and productivity. With those changes in effect, its effect was expected to be an increase in income and a higher standard of living for the citizens of each country. At the same time, NAFTA would theoretically allow the member nations to leverage the advantages of a large free trade bloc in order to become more powerful internationally. Essentially, NAFTA was created with the vision of making Canada, the United States, and Mexico, more competitive internationally and within their borders, for the benefit of their governments and citizens.

Looking specifically at the United States and Canada, there was previously an economic precursor to NAFTA - a bilateral agreement simply called the Free Trade Agreement (FTA). This agreement came into force approximately 5 years before NAFTA, on October 4th, 1988. It shared the same principle vision as the future NAFTA agreement; to reduce trade barriers such as government barriers to competition, and liberalize the climate for investment thus allowing the easier facilitation of trade between the two countries.

Reading economic reports and the opinions of pundits, you'll find a lot of different opinions regarding NAFTA. One thing is known - there is still a large amount of uncertainty and a lack of consensus as to whether NAFTA has been, in sum, a positive thing for Canada. Famous economists such as Nobel Winner Paul Krugman have stated that NAFTA has had a near zero effect on the Canadian economy, whereas economic reports such as one by Martin A. Anderson come out in contrary to Krugman's belief, supporting its enactment. Further in this summary, we will explore the central issues of NAFTA and its effect on Canada and its people.

NAFTA and Economic Growth

As previously mentioned, NAFTA remains a divisive issue. In truth, it is extremely difficult to isolate NAFTA as a variable in economic growth and other key metrics of society due to the interwoven nature of our economy. With the plethora of variables considered, it is challenging to prove NAFTA as a cause for improving economic conditions. However, it does seem that the a large amount of papers come out in support of NAFTA as an engine of economic growth, citing its positive effect on the Canadian economy by highlighting the general trend in lower unemployment rates and higher income from trade.

Cited is an entry into the Journal of Economic Development with an article concerning which NAFTA member country has benefitted most from the treaty. It states that its effect on US Gross Domestic Product (GDP) has been minimal, whereas Canada's GDP has experienced a statistically significant increase due to the agreement. The paper goes on to theorize that this may be due to Canada's reliance on trade for its economy - especially trade
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between NAFTA members. It goes on to say that the lack of effect on the US GDP may be due to the fact that its economy is much larger than our own, and that changes are not as clearly visible due to its scale. To put the scale of Canadian trade with the United States in perspective, in 1999, 82% of Canadian trade was trade between NAFTA nations. More recently, in 2009, 73% of Canadian exports went to the United States. The effect on such large parts of our economy being export dependent will be discussed later in this summary.

Some more key metrics of changes in the Canadian economy, comparing 1995 to 2005:

The unemployment rate decreased from 8.3% (1995) to 6.8% (2005).

Canadian GDP was \$721.26 billion in 1995 and \$1024.92 billion in 2005 (values adjusted for inflation), a 42% increase.

Interprovincial trade has increased 15.29% due to NAFTA since 1994.

Notably, interprovincial trade increased in Alberta by 30.1%, Prince Edward Island and Newfoundland by ~24%. Interestingly, British Columbia's interprovincial trade share decreased by 30.39%.

Trade with the United States increased by 20.41% in Saskatchewan, and 17.77% in Manitoba. Most notably, Prince Edward Island increased trade with the United States by 67.07%. In contrast, British Columbia's share of trade to the United States increased by only about 1%.

Some of these values may have changed due to the changing economic climate of the past 5 years. For example, the unemployment rate has since increased to a current value of 7.9%. However, when interpreting these results, a trend becomes visible – the Maritimes seem to have enjoyed a much larger share of trade than prior to NAFTA.

The secondary sector of the Canadian economy concerns itself with manufacturing and general industry. Following the enactment of the FTA and NAFTA, the Canadian manufacturing industry had started to experience drastic changes. Because they were no longer as insulated to international competition, labour intensive industries such as Quebec's textile industry started to decline as cheap goods from other countries began to enter the market. Though many labour intensive jobs have shifted away to cheaper outsourced locations, there are large sections of Canadian industry that are more resilient to such shifts. One of these is the high-tech sector, which employs a large amount of skilled labour and creates advanced goods such as aircraft, new types of metal alloys, and intellectual property such as software. Industries such as biotechnology are much harder to outsource given their advanced nature, allowing Canada's relatively educated populace to contribute to the growth of these sectors resulting in a net gain of employment. Most of these high-tech firms are located in Canada's industrial core – Southern Ontario and Quebec.

Ontario's location is greatly conducive to creating a good environment for trade. Northern Ontario produces many primary resources, such as forest products and minerals. Exports from Ontario to the United States were about the same value as its exports within Canada. By 1998, Ontario's exports to <https://assignbuster.com/the-north-american-free-trade-agreement-and-canada-politics-essay/>

the United States increased to 2.5x the value of trade to the rest of Canada. The automobile industry is often cited as Ontario's most important export industry as it accounts for a large share of its trade, creating an environment of dependence upon that industry. Quebec is also heavily trade dependent, with exports of 25% of Canada's information technologies, 55% of aerospace production, 30% of pharmaceuticals, 40% of biotechnology, and 45% of high tech exports. Prior to 1989, about half of Quebec's trade went to other parts of Canada, and the other half was exported. By 2002, approximately 65% of Quebec's trade leaves Canada.

NAFTA's Controversies

Though NAFTA has clearly influenced our economy, most visibly with an increase in our exports and GDP, many believe that this trend presents a double-edged sword. The basic question put forward is "to what length do we want our exports to increase?". A more globalized, or 'north-Americanized', economy also increases the risk of encountering economic repercussions due to recessions or the booms and busts of other countries. The most notable example of this would be the current economic recession, which many argue is only affecting Canada because of lower demand stemming from the economic uncertainty in the United States. With increasing globalization, it is becoming apparent that the intertwining of economies will continue and that our ability to insulate ourselves from global economic conditions will continue to decrease.

It can be argued that NAFTA intertwines more than our economies. A

controversial statute of the agreement - Chapter 11 - grants corporations

the right to sue the signatory countries for compensation if their investments
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are adversely affected through regulatory means, especially if those regulations favour local businesses or constituents.

One notable case of Chapter 11 use:

Ethyl Corporation (USA) v. Government of Canada. Sued over Canada's federal ban over the gas additive MMT, which some studies have linked with neurotoxic effects. Canada was forced to overturn the ban and pay Ethyl Corporation in excess of \$19million in compensation.

Sun Belt Water, Inc (USA) v. Government of Canada. Sun Belt Water filed a claim for \$105 million arguing that Canadian legislation thwarted its plans to export bulk quantities of fresh water from Canada. This claim has yet to be settled.

Another important issue of concern is the so-called ' softwood lumber dispute' between the United States and Canada. The dispute has carried significant implications for British Columbia, as the province accounts for over half of the total logging output of Canada. In 1982 the US lumber industry logged its first complaint. Tariffs have been fluctuating since 1986, and in 2001 duties on softwood lumber imported into the United States have reached as high as 27%. Both a NAFTA panel and the World Trade Organization have issued non-binding resolutions siding with Canada against the United States. Unfortunately, the tariffs remain despite these rulings and it appears that NAFTA's ruling against the United States has not influenced its policy. As recently as 2006 a new agreement has been reached in which import duties of \$4billion that were charged will be returned (a total of \$5billion in duties has been collected), however, Canada will be forced to <https://assignbuster.com/the-north-american-free-trade-agreement-and-canada-politics-essay/>

increase export taxes on its own lumber if its price falls below US \$355 per thousand board feet, in order to protect US companies.

NAFTA has presented several environmental concerns to Canadians. As having one of the world's largest capacities of freshwater, Canada has been under pressure to commoditize the resource in order to allow for its trade. The case mentioned above (Sun Belt Water, Inc v. Canada) goes to show this pressure. For the time being, legislation and political will has generally opposed the bulk sale of Canadian freshwater.

Final Notes

In the end, it can be said with some confidence that the North American Free Trade agreement has significantly altered the Canadian trade landscape. Though trade between NAFTA nations appears to have become more pervasive, questions remain about whether the continuing integration of other national economies is truly a good thing for Canada. Some believe that our very democracy is at stake now that foreign corporations have the power to overturn Canadian policy; which at a basic level is overturning the decisions of our elected politicians - the only representatives of the Canadian people.