The nafta: canada, mexico and the usa

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INTRODUCTION

The North American Free Trade Agreement (NAFTA) came into effect in the year 1994; it is a huge landmark in the history of international trade. Fifteen years ago, The United States, Mexico and Canada brought forward the world’s biggest free trade area under the North American Free Trade Agreement (NAFTA). It was the first trade agreement to incorporate the issues of the labor adjustment and the environmental policies. The key purpose of NAFTA was to increase the FDI and the Trade by reducing the tariffs and other hindrances for businesses between Canada, Mexico and The United States. These three countries are brought together into a trilateral trade and investment agreement mainly in the field of health, security, migration and environmental issues.

The agricultural industry was one of the most government secluded industries in the olden times. The United States, Mexico and Canada had many trade barriers before NAFTA came into force. Subsides, tariffs and quotas are the most common trade barriers which cuts down the free flow of goods and services across borders. Subsidies are fund providers for the domestic markets which enable the suppliers to produce more which causes a boost in the price and reduction in the demand of quantity. The tariffs are taxes imposed on imported goods which decreases the imports by laying too much of tax on foreign countries on their exports which results in the increase of the domestic supply. The quotas are restrictions made on the quantity of the goods imported. The main purpose of NAFTA was to increase the FDI opportunities.

Effect's of NAFTA

MEXICO

During the 1980's the Mexican economy was significantly deepened into poverty but today it has the strongest economy in the whole of Latin America. This improvement is mainly due to the economic policies laid in1998 by President Carlos Salinas in introducing liberalization rules for privatization and FDI. Since then, the GDP of Mexico has grown in spite of the inflation. The country has managed to bring down the inflation rate from 25% to 6% in 2004 making a positive growth rate in its GDP. It has improved its export trade, mainly to the United States which looks upon Mexico for its 25% of all the imported vegetables and fruits. And now, Mexico has become the foremost region for foreign investments. The climate for international investment has grown favorable for Mexico in the recent years. Though there were strict restrictions in the 1970's for FDI, the rules which were employed in the year 1989 reversed all the strict controls which resulted in the increasing inflow of the foreign investments which paved the way for the

MNE's to invest in Mexico. The country has also made changes in their investment laws which now permit the foreign investors to have the major equity which is one of the main reasons for the increase in the FDI.

Mexico was considered as a country with a large inflow of the international investments and gained the confidence of the foreign investors due to its positive economic growth influenced by NAFTA. Though NAFTA has brought several benefits to Mexico as a whole, they are unevenly distributed throughout the country. Mexico stands closer to United States and Canada in level of its development and NAFTA has brought a positive impact on the Mexican manufacturers in adapting the technical innovations of the United States resulting in the increase of employment. NAFTA's effect on the agricultural sector increased the amount of workforce more when compared to the other sectors of the economy. Since NAFTA came into effect there was no major intervention by the government on the prices of exported crops and are expected to remain the same. Mexico's productivity of the irrigated lands increased after the intervention of NAFTA, but the non-irrigated agricultural sector remained the same. A number of foreign companies have also invested and established new factories in order to take benefits and advantage of NAFTA.

A survey conducted in the year 2006 showed that a large number of the Mexican's favored the trade liberalization with Canada and United States. Even though there are certain divisions wish to renegotiate NAFTA and whether to continue the trade agreement with other countries, the Mexican citizens have a positive view on globalization.

UNITED STATES

United States has the world's third largest population and the world's fourth largest land mass. It has the strongest economies which account almost 30% of the world's GDP. It is given a unique position among all the other countries due to its political stability, size and accounting for about one eighth of the world's trade and services. It is the principal market for both higher and lower income countries. NAFTA was the first most important agreement signed by the US for major immigration purposes. It paved the way for the country to do " free trade", i. e. free flow of good without any border restrictions along with services and free flow of people across borders. It was marked as the first and foremost trade agreement to bring in environmental policies in the history of the US. After the implementation of NAFTA, the agricultural exports of United States to Mexico have increased thrice the amount resulting in about $10. 6 billion. Since, the effect of NAFTA over the United States and Mexico trade is small; the US labor market is also relatively small. NAFTA has benefitted the US agricultural consumers and the producers to use the comparative advantage in a more effective way according to the economic conditions. The impact of NAFTA on the US had both positive and negative effects; however, it has benefitted the country more positively than in the negative way. The main impact of NAFTA on Unite States was the increase in its exports to Mexico. Since NAFTA, the United States agricultural exports have been growing enormously, it has been recorded that 75% of Mexico's Agro products are being supplied by the US. It has also improvised the transportation systems in the country; transportation has been very important due to the increase in the growth of the agricultural products. After the agreement, the job opportunities in the field of agriculture have also increased and as a result of high income, the funds were used for the betterment of the environmental policies.

CANADA

A country with the world's second largest land mass, Canada has a vital economy accounting for 37% of its GDP in 2004 of $980 billion. Since NAFTA was implemented, Canada has become the chief exporter of goods to the US; it has experienced a tremendous growth in its economy. Due to the large productions and the economic activities enhanced in the country, lots of jobs opportunities were created for the Canadians, almost 4. 3 million new jobs were created in between 1993 and 2008. Most of the jobs in Canada are related to trade. The employment rate has also increased from 14. 9 million to 15. 7 million in the last decade. One of NAFTA's biggest impacts on Canada was its bilateral agricultural flow making Canada the world's leading importer of United States and the Exports from US to Canada increased twice the fold between 1994 and 2003. Canada exceeds the exports of United State by exporting the live animals to US, and thus Canada has a stronger comparative advantage than that of US and Mexico. The western grain transportation act was eliminated; it was a subsidy on Canadian prairie grain transportation and other crops. Canada faces larger adjustments in agriculture as its production is high when compared to its size. Vegetable products are the major source of Canada's imports, remarkable increase occurs with poultry, fruits and meat also. Though Canada has a free market capitalist economy, it has also adapted interventionist economic policies. The small scale manufacturing enterprises produces solely with high tariffs for the local market, these small scale enterprises are protected by Canada.

These plants brought in more jobs for the Canadians and as a result the prices were high for the consumers which led to unproductive portion of the resources. The Canadian government has provided its citizens with a social safety net together with a government owned National Health Service; the citizens pay high tax to avail this service. The Canadian private industries do not provide any cover for health care.

Even though the country suffers from problems of production in other economic sectors, it has the most competitive automotive plant in the North America. In order to improve the access of the United States wines, Canada has also agreed to liberalize the distribution practices, the wine listing and also the pricing of the wines. Due to Canada’s legal systems, political stability and its immediacy to the vast U. S. market, the global investors have long been attracted by Canada.

NAFTA has improved the country’s future prospects in the field of investment and trade by making the rules and procedures strict throughout the entire continent.

CONCLUSION

NAFTA’s aim is built on lowering the tariffs, which are imposed on most of the goods that are being traded among all the three countries, the United States, Canada and the Mexico and gradually eliminating them.

While The United States, Canada and Mexico experienced a trend for a net trade creation, NAFTA drastically improved and also amplified the bilateral trade flow in between Canada – United States and Mexico – United States.

Due to the small share of trade to its larger economy, the impact of NAFTA on United States' GDP (Gross Domestic Product) appeared insignificant. On the other hand, NAFTA's impact on Canada's GDP was high due to larger role played by the country in trade, especially with the other members of the NAFTA and thus Canada's economy was improved.

The Presidential elections of the United States 2008 brought in consideration on the talks of the North American Free Trade Agreement (NAFTA) the tri trade block uniting the three countries namely the United States, Canada and Mexico.

Since the accomplishment of NAFTA, the trade relations among the three countries have broadened and all the three countries have also grown in their economic level, Canada in its fastest average rate and Mexico at the slowest rate.