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NAFTA: Canada's & Mexico's Viewpoints

When the Canada/U. S. free trade agreement came into effect, the

Mexican's were very impressed by the provision and opportunities that opened for

both sides. Mexico then approached the U. S., seeking to form a similar

agreement with them. This brought forth a new issue in Canada, should they let

Mexico and the U. S. form an agreement without them? Or should they participate,

thus transforming their deal with the U. S. into a trilateral agreement including

Mexico.

On June 12, 1991, the trade ministers of Canada, the United States and

Mexico met in Toronto to open negotiations for a North American Free Trade

Agreement (NAFTA). This was an historic occasion. For the first time ever, a

developing country agreed to sit down with two industrial countries to craft an

agreement that would open its economy to full competition with the other two countries. If successful, the agreement promised to make the whole North American continent into one economic zone and set an important precedent for trade and economic cooperation between the wealthy countries of the North and less developed countries of the South. The challenge before them was both exciting and daunting.

A little more than a year later, the three trade ministers met again in Washington, to put the finishing touches on a new North American Free Trade Agreement. In just over a year the negotiators from the three countries had successfully met the challenge and put together a new trading frame work for North America. The North American Free Trade Agreement (NAFTA) was set to be implied.

The North American Free Trade Agreement often raises questions regarding the new economic trading blocs around the world. The twelve-nation European

Community (EC), a Central American free trade zone, and a four-nation South

American group, as well as preliminary discussions regarding an Asian trading

bloc, all point to the fact that new economic realities already exist. NAFTA

promises to have a major impact on the people in all three nations. There will

obviously be short-term costs of adjustment, which will certainly hit some

industries, regions, and workers harder than others. There will be definite

winners in the agreement, and definite losers in the agreement. There even

might be disputes. Whether as workers, investors, consumers, or ordinary

citizens in all three countries they may be affected. The final verdict on the

North American Free Trade Agreement, may in fact not fully be realized for many

weeks, months, or even years. However, in the following essay, the advantages

to both Mexico and Canada will be analyzed, as well as the disadvantages to

Mexico. It is safe to say that the advantages clearly outweigh the

disadvantages, and that it will in fact be beneficial for both countries to be involved in this unique deal.

*** Benefits to Canada

Canada's goals in the negotiation of NAFTA were very simple. They wanted to

improve their access for their goods and services to Mexico and the United

States. Canada wanted to guarantee their position as a prime location for

investors seeking to serve all of North America. The NAFTA deal has realized

these objectives set by Canada and will supply Canada with a new and sharper

edge to their international competitiveness. The agreement has set a path for

Canada widening their trade horizons, while also giving them a bigger stage on

which to demonstrate their economic expertise and leadership.

An advantage for Canada is that the reduction of Mexican barriers will provide

new markets and opportunities for Canadian goods and services. Canadian firms

will be able to participate in, and expand sales in, sectors that were previously highly restricted, such as autos, financial services, trucking,

energy and fisheries. Mexican tariffs and import licensing requirements will be

eliminated, some immediately and others over 5 to 10 years, providing barrier

free access to 85 million consumers.

The North American Free Trade Agreement covers virtually every field of business

in Canada. NAFTA provides many provisions as well as both real and potential

advantages to Canadians in all most all places in the work place.

Agriculture products play a significant role in Canada's exports to other

countries. Canada's excellent and fertile farming land has produced many great

results. A very superior livestock and excellent crops have contributed to a

productive and prosperous trade of their agricultural products and services

around the world. Canada's total exports surpasses $13 billion a year. Under

NAFTA Canada and Mexico have worked out a separate agreement between themselves.

Over all Canadian exports will enjoy immediate access to the Mexican market

under the deal. Mexican import licenses on wheat, barley and table potatoes

will be eliminated over a period of time. Also tariffs on lentils, honey, dried

peas, millet, raspberries, rye and buckwheat will be dropped. All these items

are important crops to Canadian farmers and with these costs cut they will enjoy

a greater profit and more trade. NAFTA also opens up great opportunities for

livestock farmers. Because Mexico lacks an adequate fresh water supply their

livestock operations aren't very big. Therefore Mexico must rely on imports

from Canada. NAFTA helps Canadian farmers and farm related businesses to a much

greater ease to an ever growing market that will benefit them in the future.

There are well over 140 000 Canadians employed in the auto manufacturing

industry. As well, approximately 32 per cent of Canada's manufacturing exports

is directly related to the auto industry. The Mexican market however, is highly restricted, while 95 per cent of Mexican automotive imports enter Canada completely duty free. NAFTA addresses this imbalance, and more importantly corrects it. By the year 2003, Canada will have open access to the fastest growing automotive market in North America.

Canada's service industry is the fastest growing sector of its economy. More than nine million Canadians, which is about two thirds of their work force are employed by the service sector. Cross border trade in services was dealt with for the first time in the Canada-U. S. Free Trade Agreement. The NAFTA deal has included provisions for this type of trade and spells out procedures aimed at encouraging the recognition of licenses and certificates through the development of mutually acceptable professional standards and criteria such as education, experience and professional development. Under NAFTA a temporary entry across the border will be available for about 60 professions. Oceanographers, geographers and statisticians are three groups who can benefit from the NAFTA

agreement.

When Canada was negotiating NAFTA one of their key objectives was to maintain

the Free Trade Agreement rules with the U. S. with respect to energy trade.

" Canada wanted to ensure that rules for investment, service and procurement

affecting the energy and petrochemical sectors in Mexico provided the same

opportunities for Canadian business as previously enjoyed in the U. S." NAFTA

contributed to the removal of many investment and trade restrictions on

petrochemicals. New opportunities will open up for Canadian business in private

power generation. Also, Canadian businesses will be able to bid for service and

drilling contracts with the Mexican state - owned company Petroleos Mexicanos

(PEMEX). The manufacturers of equipment that relates to the industry will also have easier access to the Mexican market.

More than 500 000 Canadians are employed in the " four pillars" of the financial

industry. These pillars consist of banking, insurance, securities firms and

trust companies. Mexico's financial markets have opened up for Canada due to

the NAFTA deal. " Canadian banking, insurance, and security firms will be able

to operate wholly owned subsidies that will allow Canadian businesses to service

their clients throughout the NAFTA region." Canada's financial sector, which

is already strong and hearty, will realize new opportunities under NAFTA that

will allow it to further expand and flourish. Canada's financial institutions

have a lot to offer Mexico. Canada's strength, such as its technological know-

how and it's experience in operating large, integrated banking networks, are

areas in which Mexico needs immediate and consistent strategic advice.

Foreign investment has played an important role in Canada's development as a nation. Investment is an important tool for Canada's growth and prosperity. It

will continue to aid Canada's goal of maintaining and enhancing their

competitiveness in the world marketplace. Under the free trade agreement with

the U. S., Canada agreed to raise the thresholds for the review of foreign

takeovers by U. S. investors. With NAFTA Mexico will enjoy the same access as

the U. S. investors. Canada has reserved its right to review large foreign

takeovers. In addition, the NAFTA allows Canada to continue safeguarding key

factors like culture, social services, basic telecommunications and some modes

of transportation by permitting Canada to maintain restrictions on foreign

participation.

Telecommunications is definitely going to play a crucial role in integrating the

North American economy under NAFTA. A smooth transfer of data and the

instantaneous electronic exchange of information via telecommunications networks are an essential tool of international trade. This will benefit Canada,

fore they are a recognized world leader in the telecommunications field. This

will directly provide a market for Canadian developers in services such as

electronic messaging, advanced data networks, and electronic mail. Mexico is in

the process of modernizing its services so that they are compatible with

Canadian and U. S. networks. By the year 2000, Mexico's demand for imported

telecommunications products is expected to grow by 42 per cent. Anyone can

plainly see the potential opportunities here for Canada.

1n 1991, more than one hundred and thirty five thousand Canadians were employed

by the textiles and apparel industry, mostly in Montreal, Toronto and Winnipeg.

The NAFTA sets out strict rules of origin for most yarns, fabric and clothing.

These new levels will help Canadian textile and apparel manufacturers expand

their exports of products to the profitable U. S. market. With the NAFTA, Canadian and Mexican tariffs on apparel will be eliminated within 10 years.

Many might worry in Canada and query if this is really an advantage for Canada.

Arguably it really doesn't affect Canada because Mexican apparel is geared to

cheaper, lower quality products. While the Canadian industry is moving toward

producing higher value textiles and quality designer fashions.

The North American Free Trade Agreement has " streamlined" transportation between

the three countries involved. Within six years, trucks and buses can crisscross

the North American continent with virtually no border restrictions. Under NAFTA,

for instance, a Canadian driver can take a load from Calgary, to Mexico city,

with a stop in Texas for more goods. And on the way home, the same driver can

deliver Mexican goods to both Canadian and U. S. destinations. This freedom of movement will increase the efficiency of our land carriers and will also enhance the competitiveness of our goods. *** Disadvantages to Canada:

The implementation of the North American Free Trade Agreement may have many negative connotations towards social and environmental issues involving the trading nations. " One effect from the enactment of NAFTA is the loss of manufacturing jobs which would occur from the shift of multinational corporations to Mexico." This will cause many corporations to move their plants over the border. By doing this, it will let them produce goods at lower costs. This is because Mexico has cheaper, unskilled labor due to non-existent minimum wage rates. In almost every case money usually leads the way. In NAFTA's case this is down to Mexico. With this movement of multinational corporation over to Mexico, the rate of unemployment will fall in Mexico but will rise in Canada. A rise in unemployment for Canada is not a good thing especially with the situation that already has plagued them. From a Canadian business point of view, it makes sense for them to produce there good or service

where labor is cheaper and their total costs are lower. Still, this short term

loss of jobs will be a tremendous strain to the Canadian economy. This might

cause a short term problem and still is yet to be seen if they Canada can

overcome it.

There are many advocates of free trade. Since NAFTA was introduced, a

plethora of companies have left Canada and relocated in Mexico. This loss of

jobs in Canada might force Canadians to become more innovative and

entrepreneurial. These new ventures will require new technology, new investment,

new capital and new infrastructure. These new innovations could only improve

Canada's global competitiveness. In comparison to other industrialized

countries, Canada spends considerably less on research and development.

*** Benefits to Mexico:

The movement of companies to Mexico has some positive long term effects

on environmental and human rights. Under NAFTA, North American countries will be working together. With all the new expansion to Mexico this will help to

stabilize the Mexican economy. A lot of Canadian and American businesses will

relocate across the Mexican border. Employment and environmental regulations

are lacking in Mexico, but with a rapid expansion over the Mexican border will

help stabilize and develop regulations. A result of this Mexico's future labor

and environmental problems will decrease.

There are five important conditions stemming from the NAFTA deal. These

conditions are intended to increase the degree of Mexico's competitiveness.

These five conditions are, " certainty of rule, economies of scale, economies of

scope, wide choice of technologies, and finally, availability of a wide range

of services at reasonable cost" .

The first condition mentioned was certainty of rule. The reason that

this makes Mexico a more competitive nation is due to the fact that their

business people are able to operate in a stable environment. They know the

" rules of the game", and do not have to worry about them changing in the future.

This is the only way that they can make wise and proper decisions on how to best

allocate their resources. They must know that the rules are permanent, and that

there will be permanence, stability, and continuity in economic policies.

The second condition that is important for Mexican competitiveness is

economies of scale. This gives Mexico the ability to lower average costs by

serving a extremely larger market. In fact, NAFTA will create the largest

regional market in North America. 360 million people and more than $7 trillion

in regional production will therefore allow North American firms to grasp the

advantages of lower average production costs. It is also important for the

competitiveness of everyone involved in the deal to know exactly when tariffs

will be eliminated, so particular firms will know when they are able to enter

the larger market. For example, since day one of the deal, over forty per cent of Canadian exports entering Mexico were duty free. Tariffs on the remaining sixty per cent will be phased out over the next ten years or so, with the majority of them being eliminated within the first five years of the deal. These timetables will not change, so individual firms will know exactly when a particular market will be fully open. This is a very important competitive element.

The third element is directed towards Mexico's smaller, and medium-sized firms, that do not have the resources to take advantage of economies of scale.

NAFTA offers these smaller businesses something called economies of scope. Economies of scope is the ability of these " smaller" firms to become very competitive by specializing in a given segment of the market, and knowing that segment " inside-out". The best example of this area is the market niche Mexico has created selling refrigerators to the United States. It may be hard to comprehend but Mexico is the largest supplier of refrigerators in the United

States. One may query why and how did this happened, and think that the U. S.

would be the number one supplier, however Mexico is very proud of what they

accomplished. They selected a niche in the American market and acted upon it.

They started supplying smaller refrigerators to offices, businesses and colleges

of dorms. By specializing in this one niche, a small Mexican firm can react

quickly and efficiently to changing tastes, technologies, and trends. Allowing

the firms to stay competitive in a ever growing market.

Surprisingly, with NAFTA in place a lot of niches like the one mentioned

above will open up around North America. The typical Mexican consumer is a lot

different than the Canadian consumer in a lot of respects. In Canada there are

numerous niches based on income levels, taste, and culture. NAFTA will give

firms in Mexico a greater margin of competitiveness than they are already

enjoying.

The fourth element, and arguably the most important one, is the ability to have a wide choice of technologies. It is for this element that the lessons learned from Japan come into effect. People often believe that the reason for Japans great competitiveness is the quality of Japan's work force, and the attitude of Japanese management. Although this is all true, what is often overlooked is that 35 per cent of Japan's exports are made through production

sharing. In other words, Japan is taking advantage of a wide range of technologies. The whole concept to this is very simple. If a job is labor-intensive, a firm should have access to adequate labor. If, on the other hand, a job is capital-intensive, a firm should have access to capital.

Finally, the fifth condition for competitiveness is to have available a range of services at a reasonable cost. In a modern economy we have to recognize the importance of services, like transportation, telecommunications,

and financial services. In a second world country like Mexico, these services still carry a very high cost, which puts Mexico at a competitive disadvantage. But NAFTA will have to play a dramatic role in lowering the cost of services because it achieves the most comprehensive opening of the services market of any

trade agreement. One example of the availability of services as a result of

NAFTA is, that it opens land transportation throughout the entire region. Prior

to the deal if certain cargo had to go from Mexico to Canada, it would have to

travel to the border, then sit there while the cargo was re-loaded onto a

Canadian or American truck, then shipped to Canada. The Mexican merchant who

had to ship the cargo is thus placed at a competitive disadvantage. Now, under

new NAFTA rules, that truck is able to go directly from the Mexican plant,

straight to it's final destination, thus saving both money and time.

A second example is in the area of telecommunications, such as phones,

faxes, and other information services. This is most definitely becoming more

and more important in the production process of modern society, and NAFTA opens

the North American market in this area as well. This will make industries more competitive by providing reasonable priced and reliable communications.

A very important issue that is always featured in the NAFTA debate is

the environment. Developed countries like Canada often take for granted, that

environmental protection requires considerable economic resources. A Princeton

University study confirmed that, " When a country is very poor, there is no

pollution because there is no industry. As a country's industry grows and it's

per capita income begins to rise, environmental degradation comes into effect."

True, this has been the recent history in Mexico, However, a country ultimately

reaches the turning point, where it has grown to the level where it has the

resources to devote to environmental protection. As well, the agreement itself

contains many environmental provisions. It is often called the " Greenest"

multilateral trade agreement ever negotiated. NAFTA specifically prohibits any

of the three countries involved from loosening environmental rules in order to attract new investments.

*** Mexico's Disadvantages:

" NAFTA will simply compound the ills created by the administrations

policy of monopolistic free trade." In the short run the U. S. and Canada would

hardly feel any effect, while Mexico would face great disruptions as a result of

opening its borders. This is because of the small size of the Mexican economy

would barely create a crease in the economies of its northern neighbours. The

problem is that unemployment may soar in Mexico because of the large inflow of

manufacturers from its new trading partners. Indeed, Mexico's economy could

collapse. In fact, in the last two years the number of unemployed in Mexico has

increased by more than 1. 1 million, while salaries have lost more than 41. 6% of

their dollar value. In 1993, 8. 5% of the economically active population of

Mexico earned less than the minimum salary; today 11. 9 percent find themselves

in the very same position.

Much like East Germany, Mexico suffers from " backward technology and

inefficient, bloated state monopolies. The trauma of exposure to giant northern

firms could be fatal to Mexican manufacturing." NAFTA proposes to open Mexican

markets to Canada and the U. S. gradually, thus constraining the " foreign

onslaught," however, the short run suffering that Mexico would endure would be

massive. Especially since Mexico which has been buried in a deep slump since

1982, will not, unlike East Germany, receive huge financial aid.

The biggest disadvantage incurred on Mexico as a direct result of the

deal is the amount of money and capitol needed to be spent on up grading their

telecommunications, equipment in the workplace, as well as their transportation

routes. This needs to be do done in order to become competitive in the North

American Market. This however, may not be viewed upon as a benefit, fore it is

going to increase it's productivity in the global market. What ever short term

disadvantages are induce due to the deal, will eventually be nullified over the

long run.

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Mexico's role in the North American Free Trade Agreement, looks to be a

great step in their country's potentially great future. For Mexico to stay with

NAFTA they have to continue the dramatic turnaround their country has

experienced in the past decade. The economy in Mexico is growing faster than

their population, and with NAFTA they could only expect better things to come

their way. Inflation is under control, foreign debt has been reduced, more than

1, 000 state owned industries have been privatized. Mexico is finally showing a

fiscal surplus for the first time in a quarter of a century. With NAFTA it will help Mexico consolidate these economic reforms, secure the confidence of the

world's investors and allow Mexico's economic turnaround to continue for many

more years.

Economic integration initiatives like NAFTA offer positive benefits to

Canada and to other trade partners. They promote efficiency of scale, eliminate

expensive and time consuming trade restrictions between nations, and discourage

government intervention. " NAFTA in particular is in tune with the twin

imperatives of globalization and global development. It embodies the historical

logic of earlier movements toward Canada/U. S. economic alliances." True, the

deal is not perfect, but to retreat from it now would be a step backwards.

In conclusion, we feel that when all the pros and cons have been weighed,

and all has been said and done, NAFTA will eventually become a positive step in

North America's future.