The effects on members and non members economics essay

1. NAFTA (North American Free Trade Agreement)

NAFTA

2. Members: Canada; Mexico and United States. The United States has linked with Canada and Mexico to form a free trade zone, the North American Free Trade Agreement (NAFTA).

3. Aims: The NAFTA agreement covers environmental and labour issues as well as trade and investment, but United States unions and environmental groups argue that the safeguards are too weak. Plans to include the rest of Latin America creating a Free Trade Area of the Americas (FTAA) have been put on hold following opposition from key countries like Brazil. The main aims of NAFTA or the North American Free Trade Agreement, which was created in 1987, was created to eliminate all tariffs and trade barriers between the United States of America and its northern neighbor and closet trading partner, Canada. The agreement was eventually expanded into a tri-lateral agreement with Mexico (another key figure in the US market). Mexico was very eager to be added to the agreement as the US represented a significant amount of their foreign export, and saw that the formation of the agreement would be both advantageous to their economic development. The leaders of these three countries signed the agreement and it was ratified into effect on January 1, 1994.

4. The effects on members and non-members:

1. Members: The impact of NAFTA on trade in the member countries is that trade relations among Canada, Mexico, and the United States have broadened substantially since NAFTA's implementation. According to data

from the office of the U. S. Trade Representative (USTR), the overall value of intra-North American trade has more than tripled since the agreement's initiation. The USTR adds that regional business investment in the United States rose 117 percent between 1993 and 2007, as compared to a 45 percent rise in the fourteen years prior. Trade with NAFTA partners now accounts for more than 80 percent of Canadian and Mexican trade, and more than a third of U. S. trade. The agreement opened the door for open trade, ending tariffs on various goods and services, and implementing equality between Canada, USA, and Mexico. NAFTA has allowed agricultural goods such as eggs, corn, and meats to be tariff-free. This allowed corporations to trade freely and import and export various goods on a North American scale. Since the implementation of NAFTA, the countries involved have been able to do increase exports, imports, trade balance. This has even allowed higher investment in NAFTA countries. This also has lead to better industries, better environment, better agriculture and increased mobility of people, better services, of NAFTA members. But , NAFTA has many disadvantages. First and foremost, is that NAFTA made it possible for many U. S. manufacturers to move jobs to lower-cost Mexico. Since labor is cheaper in Mexico, many manufacturing industries moved part of their production from high-cost U. S. states. Between 1994 and 2010, the U. S. trade deficits with Mexico totaled $97. 2 billion, displacing 682, 900 U. S. jobs. (However, 116, 400 occurred after 2007, and could have been a result of the financial crisis.) Nearly 80% of the losses were in manufacturing. California, New York, Michigan and Texas were hit the hardest because they had high concentrations of the industries that moved plants to Mexico. These industries included motor vehicles, textiles, computers, and electrical appliances. Then workers in these industries, without union support, the workers had little bargaining power. This suppressed wage growth. Between 1993 and 1995, 50% of all companies in the industries that were moving to Mexico used the threat of closing the factory. By 1999, that rate had grown to 65%. In response to NAFTA competitive pressure, Mexico agribusiness used more fertilizers and other chemicals, costing $36 billion per year in pollution. Rural farmers expanded into more marginal land, resulting in deforestation at a rate of 630, 000 hectares per year. Overall, the advantages outweigh the advantages and in conclusion NAFTA is beneficial for member countries.

2. Non-Members: A key concern of trade analysts is whether an FTA results in trade shifting from nonmember countries to members of a trade agreement because the tariff preferences have allowed them to become the lowercost producers. This has the effect of switching trade from more to less efficient trading partners. The World Bank Study found no significant evidence of trade diversion in NAFTA, particularly with respect to textile and apparel producers in neighboring Central America and the Caribbean.

A customs union requires members to eliminate trade barriers with each other and takes economic integration a step further by establishing identical barriers to trade against nonmembers, most often in the form of a common external tariff. For many years the European Community, now the European Union (EU), was the world’s most well-known customs union. The European Community created a common agricultural policy (CAP) for all member states. The CAP was (and still is) characterized by a variable levy system which limits most agricultural imports from nonmember countries by applying a common import duty.

Trade creation occurs when domestic production of one member nation is replaced by lower-cost imports from another member nation. Member countries eventually specialize in producing those items, for which they have a comparative advantage. A trade-creating Preferential Trade Agreement (PTA) may also increase the economic well-being of nonmembers, since some of the increase in its economic growth will produce real increases in income that will, in turn, translate into increased imports from the rest of the world. Trade diversion occurs when lower-cost imports from a nonmember nation are prevented from entering the PTA by tariff or nontariff barriers, and are replaced by higher-cost imports from a member nation.

Trade diversion reduces world economic well-being since it shifts production from more efficient producers outside the PTA to less efficient producers within the PTA. The international allocation of resources becomes less efficient, and production shifts away from the pattern suggested by comparative advantage. In reality, most attempts to create PTAs contain both trade creation and trade diversion effects and may increase or decrease member welfare depending on the relative strength of the two opposing forces. PTAs will most likely lead to trade creation and increased economic well-being of member nations under the following conditions. High pre-PTA trade barriers increase the probability that trade will be created among members, rather than diverted from nonmembers to members. Preferential trading arrangements have been growing in importance in recent years. Trading blocs account for about three-fourths of world trade. By their nature, PTAs favor trade among member nations and discriminate against nonmembers. Trade among members grows at the expense of the rest of the world. PTAs function legally within the framework of previous GATT rules. Because of the vague nature of these rules, nations have been able to discriminate rather freely against nonmember nations with little fear of retaliation. Whether or not this situation is allowed to continue under the new World Trade Organization remains to be seen.

5. Reference section

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