Nafta: gainers and losers

Economic cooperation has been a trend in neighboring countries to promote a free-trade zone for the benefit of its constituent countries. The largest of such, the North American Free Trade Agreement, was found in 1994 by the three North American countries. The members of NAFTA are the US, Canada and Mexico which includes a total of 416 million people and a GDP totaling to $12 trillion (Pohlmann, 2006). NAFTA aimed to totally remove trade barriers between the members for 15 years, which is scheduled to be in 2009. It also reduces the non-tariff trade barriers like sanitary regulations significantly.

Although NAFTA major advantages, many are against it. Most of them are in the non-economic areas, and following are examples: US labor unions, environmentalists andMexicanfarmers. They believe that NAFTA has unfavorable effects on them. Not all Mexicans are against it, in fact some of them had high hopes that the implementation of this contract would help boost their economy (Pohlmann, 2006). The NAFTA issue is debated in the Congress, with three major subjects: employment, environmentandimmigrationfrom Mexico to the US.

Tariffs had been an important factor in NAFTA for tariffs are taxes on imports and it usually makes imported products more expensive in order top benefit local products. NAFTA participants agreed to cut down the tariffs by 50% and they also agreed to reduce tariffs to 0 in the succeeding fifteen years. Economists clearly saw the benefits NAFTA could have with all its participants. They based their reasoning with the principle of comparative advantage wherein their country would be more organized in creating their goods.

Thus each country would produce the goods wherein they are more efficient in producing and they would trade those goods with the goods of other country (which they are very good in producing in their own). However, there are those who contested the free trade contract believing that it would have certain effect on employment as well as on income.

There are those who argue that there would be a great deal of unemployment because of rivalry in Mexico. They argued that since wages are much lower in Mexico as compared to United States, then businessmen would start moving their businesses in Mexico. However, there are those who argue that the reason behind higher wages in US lies on the fact that worker efficiency is greater in US as compared to Mexico.

NAFTA proved to have great consequence in terms of employment in US. According to a study conducted by the US International Trade Commission (ITI), the US government could gain moderately from a free trade agreement with Mexico. A historical study also showed that NAFTA could produce about 134, 000 jobs in the US. However, a simple method of study conducted by Baldwin and Kahane showed the effects NAFTA could have in terms of employment. The particular study had been conducted in order to see which division would have employment gains and which would undergo job losses. A tabular data had been used in order to create two variables, that of “ gainers” and that of “ losers”. Among the gainers are electrical and non-electrical machinery alike as well as rubber chemicals. However, on the side of the losers we have textiles, glass, leather products and the like. It is important to distinguish gainers from losers and thus an explanation is provided in the quotation below.

The term GAINERS is associated to the number of employees in areas that were projected to have job gains, while the term LOSERS is related to job losses (Kahane, 1996). Thus, the effect of NAFTA allowed a rise in trade in both Canada and Mexico. There is also no clear evidence that US indeed lose jobs because of Mexico. And all in all it showed that there are industries which gained because of the NAFTA agreement while there are also those industries that had had their share of losses as had been mentioned in this paper.

Reference:

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