Nafta research paper

Finance, Investment

The North American Free Trade Agreement (NAFTA) – An Exposé

Economic integration has fast become a staple in international business markets. Over the years, governments and business organizations have entered into various treaties and agreements to enable them overcome their differences in trade and enhance the movement of trade, investment, and services across national boundaries more freely. The ground breaking definition of economic integration was presented by Balassa (1961), who defined it as a voluntary process of increasing inter-dependence of different national economies separated into areas or regions, which is exhibited in different ways. There are various levels of economic integration which take place between two or more nations. This can be explained in the form of a continuum, as shown below.

Level 1. Zero integration – characterised by a lack of systematic economic interdependency primarily because there is little if any economic or social motive for trade; eg. Outer Mongolia and the USA. Level 2.

Bilateral treaties of limited scope – characterised by permissive agreements covering specific sectorial trade flows; eg. Commerce and Friendship Treaty between the USA and Australia. Level 3. Free Trade Areas (FTA) – characterised by the abolition of custom rights and quantitative restrictions between the participating countries, with no common set of external tariffs, and individual national trade policies prevailing; eg. North American Free Trade Agreement (NAFTA). Level 4.

Customs Union (CU) – characterised by the suppression of discrimination in relation to merchandise movements inside the Union, as well as a Common External Tariff (CET). It also requires the creation of far more pervasive supranational institutions; eg. the Common Market of the South or Mercado Común del Sur (MERCOSUR). Level 5.

Common Market (CM) – characterised by not only the free movement of goods internally and common external tariffs among member countries, but also full factor of production movement (labour, investment and capital). It implies a far more complicated legal and economic system with substantial supranational coordination; eg. the Economic Community of West African States (ECOWAS). Level 6.

Economic Union (EU) – characterised by a common market, as well as a unification of the monetary, fiscal and social policies with the establishment of a supranational authority whose decisions are obligatory for all the participating states. It is the highest level of integration, short of merging members into one single political entity; eg. European Union (EU). Its worthy to note, however, that the depth of economic integration, might overlap across the various levels of integration in certain circumstances. These varied levels of economic integration require the individual countries to sacrifice some portion of their autonomy in economic policy making and abolish discrimination among participating member states for the purposes of economic gain (Cardoso & Ferreira, 2000). In essence, economic integration is not an end in itself, but rather according to Molle (1997), serves as a means to a higher end for countries that are involved. There are a number of these functioning in many parts of the globe, including the EU (European Union), which is the world's largest trade bloc; ASEAN (Association of Southeast Asian Nations); SAARC (South Asian Association for Regional Cooperation) and NAFTA, the North American Free Trade Agreement, which is the world's largest free trade area.

The formation of NAFTA, heralded intense debate with regard to its impact on each of the member countries involved, particularly Mexico (Blecker & Esquivel, 2009). Portions of the debate were centred on Mexico, and the possible economic impacts of the USA and Canada engaging in a free trade agreement with a highly asymmetrical partner, that could either destroy domestic industries or generate massive job losses. Yet, advocates of the economic integration shelved these fears, and rather emphasized the numerous benefits of free trade that member countries stood to gain under NAFTA (Taplin, 2003). NAFTA was selected because of its exclusive position as the world's largest free trade area, and the fact that it has had a relatively significant impact on trade between the U. S., Canada and Mexico (Shikher, 2012). Hence the objective of this paper is to provide an exposé into the background of the North American Free Trade Agreement (NAFTA), the provisions of the agreement, as well as some criticisms levelled against, and some benefits that have accrued to the member countries since its inception.

The outline of the paper is as follows: The first section covered the introduction of the paper. Section two shows a brief background on regional trade agreements. This is followed by the background, provisions, criticisms and benefits of NAFTA. The conclusion is then presented as the ultimate section of the paper.