

Nafta and its net economic costs

Business



The economic goal of any trade agreement is to increase the gross domestic product (GDP) of the countries involved.

An increase in exports as well as imports is necessary to achieve the goal and is a measure of the achievements. The paper will analyze how NAFTA as a trade agreement has affected the GDP of Mexico and the U. S. through foreign direct investment flows and through trade inflows. Rising wage inequality and increasing international trade have renewed interest in the empirical importance of NAFTA to member states and especially to the U. S.

and Mexico. The paper thus will examine the net economic impact of NAFTA on these two countries and especially how NAFTA has affected exports & imports, wage inequality and its impact on agriculture. The paper will argue that in overall, NAFTA has impacted negatively the economies of these two countries. North American Free Trade Agreement, or simply NAFTA, was signed by President George Bush, Canada's Prime Minister Brian Mulroney and Mexico's president Carlos Salinas. It came to force in January, 1994.

It established a free trading zone among these three countries. All duties as well as quantitative restrictions were removed four years later. NAFTA has created the world's largest free trade area, linking 450 million people while producing goods and services in excess of \$ 17 trillion (USTR). The economic benefits of the three countries have been enormous. This paper will outline some of these benefits as well as key latest figures of 2009.

The aim of NAFTA was to grow the countries' national economies, create good jobs as well as generating revenues necessary to provide basic public goods like environmental protection and human health. However, NAFTA's

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task has been burdened by more than 20 years of weak economic performance that has failed to create enough jobs for a burgeoning population. Although the North American Free Trade Agreement (NAFTA) did benefit the U. S. and Mexico in some respects, the economic costs of NAFTA for the USA and for Mexico have outweighed the economic benefits.

What has been Mexico's experience after 2 decades of years of liberalization and more than a decade of NAFTA? How have the lives of Mexicans changed? Have the respective governments created in NAFTA? Audley et al. assert that NAFTA has produced a disapprovingly small net gain in jobs in Mexico (12). This paper will try to analyze the NAFTA situation by answering the above questions. But first, the paper will analyze the economic benefits that NAFTA has brought to the U. S.

and Mexico before embarking on how these two countries have lost as a result of being members of NAFTA. Economic Benefits of NAFTA In the year 1993, trade among these three countries was worth \$ 297 billion. However, since the agreement came to force, trading is now more than \$ 16 trillion, the latest figures of 2009. This simply means that the agreement boosted trade in a great way (USTR). The total value of the US exports was around \$ 400 billion while imports were worth \$ 438 billion.

This increase in trade is attributed to the elimination of tariffs and international recognition of business rights for investors. Therefore, the trading costs are reduced which encourage trade. The elimination of tariffs also reduces the cost of goods and services to the importing countries. This

in effect causes inflation. As a result, there is a sound economic growth for all countries.

For instance, it is believed that NAFTA activities contribute to about 0.5 % of the US GDP (Amadeo). This simply means that the agreement has helped improve the economies of the countries. The value of the US exports to the NAFTA partners has been rising over the years. Canada and Mexico are the two largest buyers of the US exports at \$ 248 and \$ 163 billion respectively (2010).

Over the years, these countries have been buying more and more US products than the rest of the world. For instance, the US merchandise exports (to Canada and Mexico) as of 2006 had grown rapidly by 157 %. This dwarfs the increase in the export to the rest of the world, by 108 %. This simply means that the country is generating more and more revenue as a result of the trading agreement with the following two countries. These two countries account for more than 30 % of the total US exports.

The United States has seen agricultural exports to Mexico expand over the years. The trading agreement is mutual. Canada and Mexico also were second and third exporters to the US in 2010 at \$ 276 and \$ 229 billion respectively. This signifies a 235 % growth from 1994. In total, the following countries account for 26 % of the total US imports. The US has especially been importing more and more oil from these two countries.

This simply means that Canada and Mexico have been earning more and more revenues from the United States. Therefore, three countries have had mutual benefits, earning more and more revenues each year. The agreement <https://assignbuster.com/nafta-and-its-net-economic-costs/>

has led to increased foreign direct investments. Again, all the countries have experienced more direct investments from the trading partners. The US foreign direct investments in Canada and Mexico were \$ 357 billion. This figure represents almost a 10 % increase as compared to 2008.

The investments were mostly in the manufacturing, mining, finance and insurance industries. The direct investments of Canada and Mexico in the United States have been valued \$ 237 billion, an increase of 16 % since 2008. This simply means that all countries have benefited from the agreement as they earn more revenues from the investments which have led to more tax earnings (USTR). The agreement guarantees that foreign investors will get the same protection as well as having same legal right as local investors. Additionally, the foreign investors have the right to make legal claims against a government if it does nationalize their industry (Amadeo). The agreement has boosted the employment opportunities in these three countries.

In the years 1981 to 1993, the unemployment rate was about 7. 1 % in the US. However, in the years 1994 to 2006, when NAFTA was effectively in place, the unemployment rate was 5. 1%. This simply means that the agreement played a part in reducing the figure (USTR, 2007).

The same case is experienced in Canada. It is believed that a fifth of the Canadian jobs are related to trade. It simply means that some of them are employed due to the trading with the other partners. There are more than 4 million new net jobs in Canada that were created from the years 1993 to

2008 (FAITC). This means that the agreement has contributed a lot to the job creation.

The job creation comes about due to the free nature of foreign investments. When a company launches its activities in a foreign country, it will employ the citizens who know the market better. Additionally, there are jobs that are created directly in the trading like freight workers, trucking employees and the salesmen. NAFTA also ensures that there is an integration in laws such as labor and environmental laws. These three countries make policies together that protect workers.

Such laws are applicable to all the countries and are standardized (FAITC). This encourages a free movement of workers from one country to the other as they don't have to worry about possible hostilities in the foreign countries. Such integration encourages the transfer of qualified manpower among the following countries. This increases foreign investments even further. NAFTA allows more cooperation among these three countries. This promotes the peaceful existence of the parties.

Such peaceful coexistence fosters trading as security information is shared. Additionally, the situation promotes tourism in all the countries. Tourism enables the countries even to generate more revenues. The benefits of tourism are many; cultures and languages are exchanged, the country's image is improved as well as infrastructure in the tourism zones which benefit the local community. It leads to even more job creation; tour guides, wardens among others.

Tourism promotes the local airlines as they gain more revenues. The government profits again from more taxes. The increase in exports and imports do not only intensify trading but also brings a country foreign exchange. Having a considerable amount of foreign currency in the country is important as it helps to stabilize these two currencies of the trading partners. This makes trade more balanced.

It means that the country won't pay more for imports due to a weakening currency. This reduces the expenditure of a country to a certain extent. This case is also applicable to the NAFTA parties since they all have different currencies.