

The Socio-Economic Impacts of NAFTA Agreement on the Economy of United States and Canada

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Abstract:The North American Free Trade Agreement (NAFTA) is an import/export agreement between the governments of the United States of America, the United Mexican States and Canada designed to “remove most barriers to trade and investment” among nation. The agreement was implemented on January 1, 1994 effectively eliminating all non-tariff barriers to agricultural trade between the USA and Mexico. The foundational objectives of NAFTA include creating an expanded and secure market for the goods and services of each nation, improving working conditions and living standards in each nation, creating new employment opportunities, and enhancing basic worker rights. This paper discusses about the socio-economical impacts of NAFTA agreement on the economy of Canada and United States using library studies.

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Introduction:

The North American Free Trade Agreement or NAFTA is an agreement signed by the governments of Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994. It superseded the Canada – United States Free Trade Agreement between the U.S. and Canada. In terms of combined GDP of its members, as of 2010 the trade bloc is the largest in the world.

The North American Free Trade Agreement (NAFTA) has two supplements, the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC).

Following diplomatic negotiations dating back to 1986 among the three nations, the leaders met in San Antonio, Texas, on December 17, 1992, to sign NAFTA. President George H. W. Bush, Canadian Prime Minister Brian Mulroney and Mexican President Carlos Salinas, each were responsible for spearheading and promoting the agreement, ceremonially signed it. The agreement then needed to be ratified by each nation's legislative or parliamentary branch.

Before the negotiations were finalized, Bill Clinton came into office in the U.S. and Kim Campbell in Canada, and before the agreement became law, Jean Chrétien had taken office in Canada.

The proposed Canada-U.S. trade agreement had been very controversial and divisive in Canada, and the 1988 Canadian election was fought almost exclusively on that issue. In that election, more

Canadians voted for anti-free trade parties (the Liberals and the New Democrats) but the split caused more seats in parliament to be won by the pro-free trade Progressive Conservatives (PCs). Mulroney and the PCs had a parliamentary majority and were easily able to pass the Canada-US FTA and NAFTA bills. However, Mulroney himself had become deeply unpopular and resigned on June 25, 1993. He was replaced as Conservative leader and prime minister by Kim Campbell, who then led the PC party into the 1993 election where they were decimated by the Liberal party under Jean Chrétien.

Chrétien had campaigned on a promise to renegotiate or abrogate NAFTA but broke his promise and negotiated two supplemental agreements with the new US president. In the US, Bush, who had worked to "fast track" the signing prior to the end of his term, ran out of time and had to pass the required ratification and signing into law to incoming president Bill Clinton. Prior to sending it to the United States Senate, Clinton introduced clauses to protect American workers and allay the concerns of many House members. It also required US partners to adhere to environmental practices and regulations similar to its own.

With much consideration and emotional discussion, the House of Representatives approved NAFTA on November 17, 1993, 234-200. The agreement's supporters included 132 Republicans and 102 Democrats. NAFTA passed the Senate 61-38. Senate supporters were 34 Republicans and 27 Democrats. Clinton signed it into law on December 8, 1993; it went into effect on January 1, 1994. Clinton while signing the NAFTA bill stated

that "NAFTA means jobs. American jobs, and good-paying American jobs. If I didn't believe that, I wouldn't support this agreement.

After many years of operating under the guidelines of NAFTA, there are mixed reports relative to its success within the United States economy and the American business environment. The United States government tends to praise the success of NAFTA while American working people typically believe "NAFTA has thus far largely failed" and in fact has had a negative impact on many businesses [<http://www.epinet.org/briefingpapers/nafta01>, April, 2001].

The United States Government's Claim for Success

According to the United States Department of Agriculture (USDA) and the Foreign Agriculture Service (FAS), the markets created by the implementation of NAFTA have been "one of the brightest spots" for farmers, agricultural exporters and the industries that support them, claiming that more than 25% of all agriculture exports are purchased by NAFTA nations [http://www.fas.usda.gov/itp/policy/nafta/nafta_backgrunder.htm, July, 2001]. Since the implementation of NAFTA, agricultural trade between the US and Mexico has increased by 55% accounting for more than 11.5 billion dollars of business. The agricultural trade between Canada and the US also recorded increases of nearly 50% and more the 13 billion dollars of revenue.

Opponents of NAFTA point to the increased US import activities as a serious downfall of NAFTA's original promise of creating an expanded and secure market for the goods and services of each nation. The government argues that NAFTA merely assures of a free market society which has always been a foundational element of capitalism and a pillar of American business success. The government also argues that many of the "expanded" US exports opportunities would have been lost without NAFTA. In addition, the government indicates that increased import competition should be expected and in fact will have a positive effect on the US economy. As trade barriers are eliminated, trading becomes subject to open market conditions. Since the US is the largest of the NAFTA nations and has a strong and vibrant economy, it should not come as a surprise that US imports have increased. The increased imports provide the American consumer a broader array of competitively priced, high-quality products [http://www.fas.usda.gov/itp/policy/nafta/nafta_backgrunder.htm, July, 2001].

The government points to rapid increases in total employment across almost every aspect of American

business and industry between 1994 and 2000 as evidence of NAFTA's success outside of the domain of agriculture. In addition, the cheaper labor and production costs have been a great benefit to investors and financiers in most industries who are searching to increase profit margins and return of investments. The government cites the rise of the stock market over the 10,000 plateau and the prevailing strength of the US economy over the past seven years as undisputable evidence of the overwhelming success of NAFTA within the US.

The American Worker's Claim for Failure

The greatest negative impact associated with NAFTA has been on the average American worker whose demographics suggest they are not investors. They have less than a college education and work for living, relying on a weekly paycheck to put food on the table. These people have not felt the positive affects realized by investors because they are not investors – they are the labor. As these investors invest in cheaper labor markets in Mexico and Canada, the US labor force is being forced to work for lesser wages and in many cases, move to the competing country or lose their weekly paycheck. The American labor force claims that this negative impact is in direct opposition to the original promise that NAFTA would improve working conditions and living standards in each nation. The average American worker seems to believe that NAFTA improves working conditions and living standards in Mexico and Canada, but has the inverse effect in the US.

According to Robert Scott, "all 50 states and the District of Columbia have experienced a net loss of jobs under NAFTA" [<http://www.epinet.org/briefingpapers/nafta01/impactstates.html>, April, 2001]. It is estimated that the loss of actual or potential jobs within the US during the past seven years has surpassed three quarter million. The states with the most job losses include California, Michigan, New York, Texas and Ohio. These states account for over 250,000 of the actual or potential lost jobs .

The hardest hit industries by the advent of NAFTA are manufacturing, automotive, textile, apparel and lumber. The service sector has also experienced job reduction due to NAFTA in the areas of legal, accounting and data processing. As industry moved its production to Mexico and Canada in an attempt to find cheaper labor and lower production cost, it also moved the service sector jobs associated with that production.

As these manufacturing and service jobs move to Mexico and Canada, there has been a growing income inequality and declining wages among

production workers. Opponents of NAFTA claim the growth in trade deficits since its implementation has put downward pressure on the wages of non-college educated workers thus increasing the income gap between the upper and middle classes in the US. In addition, opponents claim that the increase in displaced workers due to loss of manufacturing and service jobs has resulted in lower than average wages for all US workers. This, they claim, is a result of competing for new jobs in fields where wages are already reduced. Finally, these opponents suggest that the threats by employers to relocate jobs, outsource operations and/or purchase goods from foreign sources have effectively reduced the collective bargaining power of US workers.

Impacts of NAFTA agreement on Canadian Economy

The purpose of this part is to explore why NAFTA makes it easier than ever before for the U.S government and large American corporations to exploit the Canadian economy, its citizens, and its natural resources. This is the case even though the economic situation in Canada is presently more robust than the U.S economy. The U.S is using up Canada's natural resources and Canadians must let the government know how most of the population feels.

NAFTA, which was implemented Jan 1, 1994, has become more of a burden to the Canadian economy and citizens than previously thought. Clearly, from the statistics described further on in this paper, many Canadians are experiencing negative emotions towards the so-called "free trade" agreement, which is ending rules to protect the public and our natural resources. This is a realistic, yet tragic example of the accumulation of profits of international corporations at the expense of the lives and livelihood of Canadian citizens. Deregulation means ending the rules that protect Canadian society from U.S economic domination. The NAFTA agreements are the cause of these deregulations and the loss of economic and environmental protections. Propriety of the environment has been a major part of Canadian social ethic for the past decade. For those who think it is possible to still protect the environment under NAFTA, ask the farmers or the logging industry who are having difficulty making ends meet. Canada has environmental agreements under NAFTA, which are of no benefit to farmers, particularly, within Saskatchewan, where upwards of 60% total exports to the U.S involve wheat. The U.S industry seems to be so absorbed in the "bottom line" and attraction to large investors that they don't care about the producers behind their profits. All NAFTA does is allow the U.S to attain Canadian goods at a

very cheap price and then set tariffs on our softwood lumber and wholesale grain prices. The motivation appears to be one of greed.

The United States government, operating under the Bush Administration, appears to give no thought to enhancing its relationship with Canada and statistics show that Canadians are not happy about it. In March 2001, the Canadian government contracted EKOS Research Associates Inc. to elicit responses from Canadians. Some of the results EKOS from these responses were rather alarming. EKOS interviewed 1200 Canadians and asked them some important questions regarding our economy. When asked if Canadians felt their economy would be better in the future 23% responded that they felt it would be, which is down from 39% the previous year. EKOS also asked about confidence levels in regards to the government's ability to protect our national interest when negotiating with other countries and only 30% of Canadians felt confident. The Bush administration has not placed Canada at the top of the priority list, President Bush was reported to have said in a Globe and Mail article, "The United States has no more important relationship in the world other than the one we have with Mexico." George Bush must have forgotten that U.S exports to Canada reached over \$226-billion U.S last year alone. Canada still remains the largest trade partner with the United States, but Canada has always remained the quiet, supportive ally that requires little attention and causes few problems.

The comfortable old marriage between Canada and the United States draws little attention and under Mr. Bush, the United States appears to totally disregard Canada. Benefits from trade go mostly to large American corporations and wealthy investors, leaving little for the average Canadian. NAFTA offers little benefit to Canadians, and unless this argument is re-examined and re-negotiated with Canadian interests in mind, the American government and large corporations will continue to exploit Canadians and our natural resources.

Conclusion:

While it is clear that both the government and industry have convincing arguments, the truth of success or failure of NAFTA seems to be predicated on which sector of the economy is the focus. Agriculture, finance, and investment are clearly winners of the NAFTA policies especially in United States. This in turn, has had an immediate and positive impact on import/export activities of the US. However, this increase in import/export activities has had the opposite effect on many American workers, resulting in lost jobs, reduced, and wages and lowered standard of living. In the end, it would

appear that NAFTA benefits a minority of Americans who possess the majority of wealth and negatively impacts the majority of Americans who possess the minority of wealth in this country.

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