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North American Free Trade Agreement

To begin with, the North American Free Trade Agreement (NAFTA) was established to facilitate trade among the United States, Canada, and Mexico. On January 1, 1994, the agreement went into effect, removing most tariffs on trade between the three nations. Between January 1, 1994, and January 1, 2008, innumerable tariffs were subsequently phased out, especially those on agricultural products, textiles, and automobiles (Mundi, 2020). It is one of the most important treaties in the world. It dominates the whole spectrum of North American trade and has at its core unprecedented hemispheric interaction.

Moving on, the primary source that I selected to analyze is the text source “North American Free Trade Agreement, Preamble (September 6, 1992).” This source has described the Preamble for the agreement and stated that it was “was negotiated by President George H. W. Bush and passed by Congress during the presidency of his Democratic successor, Bill Clinton” (Foner, 2014). Besides, the aim of NAFTA was to promote trade between North America's three world’s largest economies: Canada, the United States, and Mexico. The agreement's supporters argued that it would favor the three countries included by encouraging freer trade and lower tariffs between them.

Basically, around a quarter of all U.S. imports, like crude oil, machinery, gold, automobiles, fresh produce, poultry, and processed foods, come from Mexico and Canada, the country's second and third largest sources of manufactured products, accordingly, as of 2019 (Mundi, 2020). Furthermore, Canada and Mexico account for roughly one-third of all US exports, especially machinery, vehicle parts, mineral fuel/oil, and plastics. Since exports play such a large role in U.S. economic development, the Clinton administration assumed that signing NAFTA into law in 1993 would result in the creation of 200,000 jobs in two years and one million jobs in 5 years.

As a result of the decrease in tariffs, the administration expected a significant rise in U.S. imports from Mexico. NAFTA did a lot of things right away, including eliminating a significant number of tariffs on goods exported between the three nations (Mills, 2021). The majority of American exports were marketed to Canada and, in particular, Mexico, with a high tariff attached. The products were not sold in North America because Mexico and Canada refused to pay the tariffs. Mexico, in particular, has imported far more products from the United States as a result of NAFTA than it had previously. This saves money for both Mexican and American businesses on imports and export shipping prices. Canada has gained from this as well, but not to the same degree as Mexico.

Besides that, several analysts have analyzed both the favorable and unfavorable results of NAFTA. Though after accounting for the 1994–1995 economic downturn, several claims that NAFTA has been beneficial to Mexico, which has observed poverty rates decline and real income increase (Mundi, 2020). Whereas several claims that while NAFTA has benefited businessmen and capitalists in all three nations, it has had negative consequences for Mexican farmers, who have seen food prices drop because of the cheap imports from US agribusiness, and for US workers in production and assembly sectors, who have lost employment.

On top of that, critiques also claim that NAFTA has led to rising inequalities in the United States and Mexico (Mundi, 2020). Some analysts say NAFTA is insufficient to achieve economic balance or significantly decrease poverty rates. Some argue that in order to completely profit from the deal, Mexico needs to invest more in education and encourage infrastructure and agricultural development. In reality, Mexico faces a significant challenge in addressing rural poverty. Numerous Mexicans live in absolute poverty because they relied on agriculture. Furthermore, Mexican farmers are concerned that a flood of low-cost agricultural imports from the US would rob them of their meager incomes and put an end to their traditional way of life centered on small-scale farming. NAFTA has already affected Mexican agriculture.

Apart from that, NAFTA's immediate goal was to boost cross-border trade in North America, and it succeeded in doing so by lowering or removing tariffs between its three nations (Foner, 2014). It benefited small and mid-size companies in particular since it reduced costs and eliminated the need for a corporation to have a physical presence in a foreign nation in order to do business there. Moreover, the majority of the increase came from trade between the United States and Mexico or the United States and Canada, though trade between Mexico and Canada also increased. From 1993 to 2015, trilateral trade totaled $1.0 trillion, a 258.5 percent rise in nominal terms (125.2 percent, when adjusted for inflation) (GAC, 2021). In all three nations, real per-capita gross domestic product (GDP) increased marginally, with Canada and the United States leading the way.

NAFTA preserved intangible assets such as intellectual property, developed dispute-resolution mechanisms, and enforced labor and environmental protections through the NAAEC NAALC) side agreements (Foner, 2014). It improved the US's international competitiveness by "exporting" higher US occupational safety and health standards to other countries. Despite the supplementary NAALC, NAFTA critics were worried from the start that the deal would result in the relocation of American employment to Mexico. Many corporations did, in reality, relocate their manufacturing operations to Mexico and other nations with lower labor costs, affecting tens of thousands of Americans in the auto and garment industries. Nevertheless, NAFTA may not have been the driving force behind any of these changes.

The agreement has resulted in increased trade, increased employment, and provided customers with more choices at very affordable rates by removing trade barriers (Mills, 2021). Furthermore, the three-party states have seen a rise in growth. Tariffs are removed, which reduces the prices of imports, resulting in lower inflation. The cost of doing business has also decreased, resulting in increased investment in the free trade zone. NAFTA has resulted in lower oil prices in the United States. In a similar manner, the agreement assisted the United States in reducing its reliance on oil imports from the Middle East and Venezuela (Mundi, 2020). In reality, the United States no longer imports oil from Iran. Import costs are low because tariffs on imports have been reduced.

Sadly, the deal had flaws of its own. NAFTA has resulted in the loss of 1.3 million agricultural workers in Mexico. The United States subsidized her agribusiness by as much as 40 percent, and when the tariffs were removed, the Mexican farmer found it difficult to survive as the United States' goods went for lower prices. In contrast to the United States, the cost of labor in Mexico is comparatively low. As a result, several manufacturing firms moved their operations to Mexico, resulting in the loss of over 600,000 workers in the United States (Mundi, 2020). It was clear that the businesses that moved were responsible for over 80 percent of job losses in the United States. Many who were fortunate enough to maintain their jobs had their salaries cut to keep up with the factories in Mexico.

Aside from this, increased trade liberalization, according to labor rights activists, would put the Canadian economy at risk of competing with low-wage jobs in Mexico and the southern US. This was expected to drive investment out of Canada, particularly in low-skilled sectors, leading to factory closures and unemployment (GAC, 2021). It was also stated that the competitive market would result in lower wages. The deal's overall effects were optimistic, but they will be minor for both Canada and the US, as the number of jobs produced as a result of increased exports is marginally higher than the number of jobs lost as a result of increased imports.

Additionally, employment growth would be at the top of the wage scale, whereas job losses, which may be substantial in some industries, would be at the bottom. Critics may claim that this is harmful to the economy because there are more individuals employed in low-wage jobs in Canada than in high-wage jobs. When low-wage employees are unable to find jobs, they are forced to seek social assistance, like unemployment insurance (GAC, 2021). This will cost the government more as tariffs would be eliminated, fewer citizens would pay income tax, and the government would have to fund the unemployed with unemployment benefits and other welfare services. Nonetheless, this was not the case since NAFTA has had little impact on unemployment; in reality, Canada's job rate has risen since NAFTA's implementation.

Conclusively, NAFTA is a sign of globalization and free trade in several ways (Foner, 2014). As a result, opinions and assessments of it are often interpreted through the prism of public opinion regarding these topics. The effect of NAFTA on its signatory nations is still being debated. There were some major improvements, some massive losses, and some findings that were difficult to decipher. While the US, Canada, and Mexico have all witnessed increased trade, economic development, and increased salaries (primarily in the northern countries) since the introduction of NAFTA, analysts differ about how much, if any, the agreement contributed to U.S. production, employment, immigration, and consumer goods prices (Mundi, 2020). NAFTA hasn't had the same impact on all three of its member countries in the same way.

In conclusion, NAFTA is often blamed for events that aren't specifically related to it, or that would have occurred anyway. Finally, NAFTA established a structure for trade among North American countries. Although the creation of the free trade agreement has both positive and negative consequences, the rise in cross-border trade is undeniable. Eventually, older deals can be hard to keep relevant over time, and NAFTA was ultimately renegotiated with the intention of changing the trade agreement—paving the way for the USMCA.

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