NAFTA PowerPoint Notes

**SS6E2 The student will give examples of how voluntary trade benefits buyers and sellers in Latin America and the Caribbean and Canada.**

c. Explain the functions of the North American Free Trade Agreement (NAFTA).

What is NAFTA

* NAFTA stands for “**North American Free Trade Agreement**”.
* It is an agreement between the countries of North America: Canada, United States, & Mexico.
  + NAFTA was signed in 1993 and went into effect on January 1st, 1994.
  + NAFTA was written to create a Free Trade Area in North America.
  + “Free Trade” means that countries may freely trade goods with each other without having to pay a tariff (tax) on those goods.
  + In other words, “free trade” means no trade barriers.
* **Explain how specialization encourages trade between countries.**
* With trade, the volume of a country’s production of a good can be substantially higher than what its internal (domestic) market can use, increasing the opportunity for that country to make money. A larger market means that goods can be produced more cheaply too. Free trade gives countries the incentive to produce goods that will make money on the world market. This may encourage competition and innovation, to the ultimate benefit of all.
* Specialization Encourages Trade
* Each person or country makes money from something they are really good at.
* They specialize in what they do well which creates a division of labor.
* Dividing the work into different parts is more efficient and cost-effective.
* Less equipment is needed, time is saved, and generally better products are produced.
* People/countries trade for other items that are needed.
* Examples**:**
* OPEC- organization to influence price of oil – Saudi Arabia, Iran, Iraq, **Venezuela**, Kuwait,… Nigeria, Indonesia…
* Cuba = tobacco and sugar cane
* Brazil = coffee, oranges, soybeans, etc.
* Venezuela = oil & natural gas
* Mexico = oil & silver
* The purpose of the agreement is to:
  + Allow free movement of goods and services among the countries.
  + Promote competition in the free trade areas.
  + Protect the property rights of people and businesses in each country.
  + Be able to resolve problems that arise among the countries.
  + Encourage cooperation among countries.
* The agreement opened the door for free trade, ending tariffs on various goods and services, and implementing equality between Canada, USA, and Mexico.

Pros

* Free trade increases sales and profits for Mexico, Canada and the U.S.A., thus strengthening their economies.
* Lack of tariffs has allowed Mexico to sell its goods in the USA and Canada at lower prices.
* This makes Mexican products more competitive in these markets and increases Mexico’s profits as it tries to develop its economy.
* Free trade is an opportunity for the U.S. to provide financial help to Mexico by making jobs available in factories located there.
* Positive: Increase in trade
* Trade between the NAFTA signatories tripled, from $297 billion in 1993 to $903 billion in 2007. Specifically,
* U.S. goods exports to Canada and Mexico grew 157%, from $142 billion to $364.6 billion.
* Exports from Canada and Mexico to the U.S. grew 231%, from $151 billion in to $501 billion.

Cons

* Free trade has caused more U.S. job losses than gains, especially for higher-wage jobs.
  + People work for lower wages and there are fewer labor regulations in Mexico, so American factories have moved across the border.
  + Factories, called Maquiladoras, are built on the Mexican border and workers are hired there to make goods at a much lower wage than workers would be paid in the U.S.A.
* Mexico does not have as strict environmental regulations like Canada & U.S., so when factories move across the border, they are contributing to North America’s pollution problem.
  + Some argue that our borders should be open like the EU does in Europe.
  + That makes some people angry because they feel the borders should be closed.

US Business Owners

American business owners have enjoyed many benefits from NAFTA:

* They can move their factories to Mexico and ship the goods to the US with no tariffs.
* They do not have to pay the workers in Mexico as much as in the United States.
* There are not as many labor and environmental regulations for factories in Mexico.
* They can sell their product for cheaper, but still make a good profit.
* They have a greater area to sell their product in.

Mexican Business Owners

* Most Mexican business owners have mixed feelings about NAFTA.
* They like NAFTA because they can trade freely.
  + They can ship & sell their products across the continent without having to pay tariffs.
  + They have a greater area to sell their products in.
  + They do not like foreign owned factories because they would create competition.

MAQUILADORAS

* NAFTA caused an increase of the maquiladora program, in which U.S. owned companies employ Mexican workers near the border to cheaply assemble products for "export" to the U.S. This now comprises 30% of Mexico's labor force. These workers have "no labor rights or health protections, workdays stretch out 12 hours or more, and if you are a woman, you could be forced to take a pregnancy test when applying for a job," according to Continental Social Alliance.

Mexican Government Official

* In the early 1990s, Mexico owed a lot of money to the World Bank, to private banks, and to other countries.
  + Government officials decided the only way out was to completely restructure Mexico’s economy and to focus on exporting.
* They believed NAFTA would be good for the economy of Mexico.
* They knew that the maquiladoras would provide jobs for Mexicans.

Mexican Factory Worker

* Mexican factory workers have benefited from NAFTA because it has provided jobs in a country where there were not enough jobs.
* Unfortunately, the wages are very low and the working conditions are rough.
  + Most workers barely make enough money to provide food for their families, even though they work very long hours.

American Consumers

* American consumers have benefited from NAFTA.
* Goods made in Mexico cost a lot less because labor is cheaper there.
* Goods are also cheaper because there are no tariffs placed on imports.

Negatives

Mexican Farmers lose out

* NAFTA has had negative impacts on farmers in Mexico who saw food prices fall based on cheap imports from U.S. This is due to better resources and more technology for US farmers.

US Factory Workers

* As a result of NAFTA, many U.S. manufacturers moved their operations south of the border where employees were cheaper and environmental standards lower.
* Many American factory workers lost their jobs because of this.
  + Unemployment in the US rose after NAFTA went into effect.

Environmentalists

* Building factories creates pollution. An environmentalist would want to make sure the US, Canada, and Mexico all had laws to protect the environment. Because all three countries are neighbors, air pollution from one affects them all.

* Unfortunately, NAFTA didn’t establish any multinational environmental regulations when it was signed 20 years ago.
* It created the Commission for Environmental Cooperation, based in Canada.
  + It accepts complaints from citizens of the U.S., Mexico or Canada who believe their government is not enforcing environmental laws.
  + It takes a very long time for anything to be investigated and solved. One American-owned maquiladora continued polluted for 10 years after a complaint was filed!

20 years Later

* NAFTA now links over 450 million people producing $17 trillion worth of goods and services.
* It has met many of its goals:
  + It created jobs in the maquiladoras of Mexico and helped build up Mexico's middle class through jobs and cheaper consumer goods.
  + Trade between US, Mexico, & Canada has more than tripled since 1994.
* Unfortunately, NAFTA still has its problems.
* Small farmers in Mexico were put out of business by cheap U.S. agricultural exports.
  + They were forced to move to bigger cities, adding to poverty, pollution, overcrowding, and illegal immigration to the U.S.
  + The population of illegal immigrants in the U.S. in 1990 was 2 million, now it's around 11 million.
* There is major pollution in the boomtowns that have grown up around the maquiladoras.

Who supports NAFTA

* Government – they voted for it
* Industry OWNERS – factory owners that moved their factories in Mexico
* American Farmers that are benefiting from NAFTA exports
* Shipping industry

Who Opposes NAFTA

* Industrial States – loss of jobs
* Humanitarians
* “Patriots” – don’t like buying foreign goods
* MOST AMERICANS!