

Name

Instructor

Subject

Date

The Revision of NAFTA

INTRODUCTION

Free Trade is an idea popularized by the economist David Ricardo back who encouraged free trade between two nations with little to no limitations and restrictions as possible. In Free-Trade countries, both the economies can prosper and have higher growth rates due to the exchange of manufactured goods with each other. It is as efficient as trading between neighboring states, cities, and towns.

Free Trading allows each country to produce and manufacture goods that they excel at, which gives them a comparative advantage overall. The comparative advantage idea was made popular by the economist David Ricardo in the book “On the Principles of Political Economy and Taxation.” Adam Smith, who is known as the father of capitalism also advocated the division of labor, in which each laborer who specializes in a certain skill gets to provide his services to the enterprise.

Every country has an advantage of producing goods that they are better at making compared to another country. Instead of the U.S producing everything, including the things they aren't good at can be very costly and bad for the economy, whereas if they provide their specialization to another country while asking for theirs in return, it benefits both the economies at much lower cost and maximum returns. For Example, both Japan and America are good at manufacturing cars, but if someone in Japan prefers American cars over the Japanese, and if

someone in America prefers Japanese cars over American, it benefits both the countries. If Mexico has avocados that the U.S can't grow in abundance, and the U.S provides corn in return, it benefits both the countries due to the comparative advantage. Free trading helps both economies grow without spending too much and using as little resources as possible. (Driesen)

Although, today free trade has a different meaning as no country in the world practices 100% free trade, as each country has its own sets of limitations and restrictions. The U.S has the NAFTA agreement which is a free trade agreement between Canada, Mexico, and the U.S to practice free trade. What Free-Trade means now is that a country which sets as few limitations as possible when it comes to trading between two countries. Each country has its own set of taxes (tariffs) that they set on each import, and there are limitations to how many goods can be imported into the country, also known as quotas.

There are mixed opinions on whether Free Trade is a good idea or bad. Some people who are against the idea of capitalism say free trade only makes the corporations richer while promoting inequality among the poor. If free trade grows wealthier, the poor do not get to benefit from it as much as the rich corporations. Free Trading worries people in rich countries that their jobs could be taken away from them and moved to overseas whereas the developing countries worry that by giving control to these corporations their economies could be under the control of the richer countries. Some developing countries see it as a good opportunity as it helps them promote development. People who are for Free Trade say it brings Comparative Advantage (Golob).

NAFTA AGREEMENT

The United States is a trading partner with several countries all over the world, but two of its biggest trading partners are Canada and Mexico. All three countries can trade freely without

any tariffs on the imports and exports under NAFTA (North American Free Trade Agreement). The NAFTA agreement deal was drafted back in 1987 under President Ronald Reagan, but the NAFTA agreement was signed back in 1994, it was an agreement signed by US president George H.W Bush, Mexico's President Carlos Salinas and Canada's Prime Minister Brian Mulroney.

Today, due to NAFTA agreement almost \$1.4 billion worth of goods cross the Mexico-U.S border each day. Corporations can also move their operations between these countries without any hassle. The NAFTA agreement made free trade possible between the three countries without there being as fewer limitations and restrictions as possible. All three countries were able to provide their specialties to one another without any hassle. NAFTA was formed so all three countries could boost their economies and see faster growth. If a country wants to withdraw from the NAFTA agreement, it has to give a six months' notice (Caliendo).

THE USMCA TRADE DEAL

President Donald Trump has recently negotiated the NAFTA deal and renamed it to USMCA agreement. Other than the name not much has changed in the free trade deal. President Donald Trump had been keen on renegotiating the NAFTA deal because he said it had cost the Americans millions of jobs. During his electoral campaign, he often criticized NAFTA for being the worst trade deal ever and claimed to pull out of the NAFTA agreement as soon as possible and negotiate with the respective countries in the NAFTA agreement. He believed that Canada got more advantage from the NAFTA deal, and it cost the U.S more loss.

The U.S had a huge trade deficit with Canada costing them billions of dollars. Canada and the United States have had many tensions regarding the NAFTA deal as compared to U.S and Mexico, and Trump wanted to renegotiate this deal. The deal was renegotiated on 30th

September after severe pressure from President Trump, although, the deal would come into effect in 2020 the U.S hopes that the trade deficit with Canada and Mexico can be lowered (Landler and Rappeport).

The new deal benefits the auto companies like Ford as it allows the USMCA trade partners to manufacture all components within the zone. The new agreement does not change much, but it benefits the U.S workers the most. If a worker makes \$16, he must put 40% of the labor that goes into manufacturing the car. The new NAFTA agreement also forces Canada into reducing tariffs on dairy products, etc. The rich corporations have praised the deal whereas the labor class sees no difference whatsoever; to everyone else, it's just a rebranding of the previous deal (Blecker).

PROS AND CONS OF NAFTA

The NAFTA agreement has some advantages and disadvantages. The Economic policy institute stated that America lost over 700,000 jobs till 2013, and Michigan, Texas, and California were the states that suffered the most. The report stated that each year millions of Americans lose their jobs due to the plants being shut-down or relocation of the operations. The pros outweigh the cons as the NAFTA agreement has made the U.S the superpower it is today, due to the NAFTA agreement the U.S is considered to be the world's largest economies competing with China and Europe.

Like President Trump says Americans lost over a million jobs, without the NAFTA agreement people would've lost even more jobs, especially after the 2008 financial crisis. Free Trade is very important for the United States if they want to remain one of the largest economies in the world. Although, NAFTA did cost the United States over a million jobs and the legal immigrants coming to the U.S increased too, but it wouldn't have been stopped even without the

NAFTA agreement. Many economists say that employment was in decline even before NAFTA came into effect and the reason for that is the automation in the industries, more and more industries are even now replacing laborers with automation. And due to the increase in Chinese export America suffered heavily with or without the NAFTA agreement. Most economists agree that the U.S has suffered the most damage to China as compared to Canada and Mexico, which is why the U. S-China trade wars would not disappear anytime soon. China is the biggest rival of the United States in a trade. (Howse and Trebilcock)

TRADE-WAR WITH CHINA

The United States has been in a trade war with China for a long time now, but things have escalated even more in the past few months as Trump has imposed a 25 % tariff on all Chinese imports worth \$250bn this year. President Trump has warned China that he would force even more Tariffs as time goes by. Almost all of the Chinese Exports will have duty on them if China retaliates. Trump is doing that so more, and more people in America buy American instead of Chinese since Chinese goods are usually cheaper compared to American. He wants American businesses to move back to America to that more and more jobs are created.

After renegotiating the NAFTA deal, Trump believes that it is too early to talk with China because they aren't ready to talk, as they have been ripping them since decades." He is slowly taking steps so that China would eventually agree to their economic trading terms. The more tariffs he implements on the Chinese goods more people would prefer buying American, which would boost the economy and support for the local businesses. President Trump also withdrew from the TPP (Trans-Pacific Partnership Trade Pact, which had existed for over decades. Since the Trump Government, the U.S has been in a trade dispute with almost every country, the EU imposed tariffs worth \$2.8bn on U.S products in retaliation, whereas, Mexico

imposed tariffs on Cheese, Whiskey and other products. Canada also imposed tariffs worth \$16.6bn in retaliation. Economists say that this trade war would affect both China and the U.S from achieving overall growth, and could affect 0.81% of the global GDP. The United States imports more products from China, so China could be affected the most but China might retaliate by making it difficult for American businesses to operate in China since it requires the cheap labor that they provide (BBC.Com).

President Trump has started an economic war with China by negotiating a deal with Canada and Mexico as well as developing economic ties with South Korea and Japan, which would either result in benefitting the U.S or either affect them. The U.S is trying to keep the Chinese products out of the U.S market, including the leading phone companies like Huawei and Oppo. At least, Trump does not want to isolate the U.S and still keep trade going on with countries (Lau, Chen and Cheng).

CONCLUSION

To sum it all up, the new NAFTA deal could prove to benefit the United States and also make China eventually give in to trade negotiations set by the United States. As the new NAFTA deal would likely make the American economy stronger, and the goods would be mostly American so the people would not have to buy Chinese products that were cheaper before. Since China is the biggest exporter to the United States, it would be costly for China, but if China retaliates, they could make life harder for the companies functioning in China on cheap labor. Only time would tell how the Trump Government's new NAFTA agreement could help shape the global economy, but one thing is for sure that China would have to take measures to ensure that they remain at the top of the global trade.

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