



# NAFTA's Functions

North American Free Trade Agreement

# 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 1<sup>st</sup>, 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.



**“It was on Oct. 7, 1992, under an old oak tree in downtown San Antonio that Mexican President Carlos Salinas, U.S. President George Herbert Walker Bush and Canadian Prime Minister Brian Mulroney signed the historic treaty that dropped trade barriers on the continent.”**

# Free Trade

- 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.

# 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.