The Impact of Globalization
Pg. 128-129

Read pg. 128-129. Answer the following questions in complete sentences. No spaghetti answers.

1. When Mexico sells its oil to other countries, where do the profits go—to a company or the government? Why?

2. What would be the advantages and disadvantages of an industry being owned and run by the government?

3. Which economic sector appears to have decreased at one point during the period shown on the graph on pg. 129?

4. Which sector appears to have grown the most?

5. How might NAFTA account for the growth in agriculture between 1990 and 2009?

6. Why is tourism important to Mexico?

Put your Pro/Con Chart here (from other side):

Name________________________

Team NAFTA!

Directions: Complete the following using the information about the North American Free Trade Agreement.

NAFTA BASICS

1. What three countries signed the NAFTA treaty?

2. What are five reasons NAFTA was created?
   a.

   b.

   c.

   d.

   e.

3. Look at the "Highlights of NAFTA." Pick THREE you believe are especially important and explain why you believe they are important.

BENEFITS AND DISADVANTAGES OF NAFTA

Directions:

1. Create a "Pro/Con" chart on the back of this sheet using the "NAFTA BENEFITS" and "NAFTA DISADVANTAGES" information sheets.

2. Decide whether you believe the creation of NAFTA was a good idea. Write a paragraph to state your position and your reasons why/why not.

NAFTA BASICS

The North American Free Trade Agreement (NAFTA) is a treaty that was signed on August 12, 1991 by the United States, Canada, and Mexico; it went into effect on January 1, 1994. On that day, the three countries became the largest free market in the world—the economies of the three nations at that time was more than $6 trillion and directly affected more than 365 million people. NAFTA was created to get rid of obstacles to agricultural trade, manufacturing, and services trade between the countries. It also removed restrictions on investments that could be made in those countries, and protected intellectual property rights (e.g.: if someone comes up with an idea in Canada, it can't be stolen by someone in Mexico or the United States). The treaty also addresses environmental and labor concerns. Small businesses were among those that were expected to benefit the most from the lowering of trade barriers since it would make doing business in Mexico and Canada less expensive and would reduce the red tape needed to import or export goods.

Highlights of NAFTA included:

• Before NAFTA, the three countries used to tax each other when products were brought into the countries. After NAFTA, those taxes were stopped or reduced.

• NAFTA opened the border and interior of Mexico to U.S. as far as trade.

• The three NAFTA countries agreed to toughen health, safety, and industrial standards to the highest existing standards among the three countries (which were always U.S. or Canadian).

• To ease concerns that Mexico's low wage scale would cause U.S. companies to shift production to that country, and to make sure that Mexico's increasing industrialization would not lead to horrible pollution, special side agreements were included in NAFTA. Under those agreements, the three countries agreed to establish commissions to handle labor and environmental issues.

• Expanded telecommunications trade.

• Reduction in barriers for making clothing.

• More free trade in agriculture.

• Expanded trade in financial services.

• Increased investment opportunities.

• Increased protection of intellectual property rights. This is especially helpful in fields such as computer software and chemical production. Mexican firms will no longer be able to steal intellectual property from companies and create a "Mexican" version of a product.

BENEFITS OF NAFTA:

NAFTA Increased Trade in All Goods and Services:

- Trade between Mexico, Canada and the U.S. more than quadrupled, from $297 billion in 1993 to $1.6 trillion in 2009 (latest data available).
- Exports from the U.S. to Canada and Mexico grew from $142 billion to $452 billion in 2007.
- Exports from Canada and Mexico to the U.S. increased from $151 billion to $568 billion in 2007.

Boosted U.S. Farm Exports:

- Thanks to NAFTA, agricultural exports to Canada and Mexico grew from 22% of total U.S. farm exports in 1993 to 30% in 2007. To put this into perspective, agricultural exports to Canada and Mexico were greater than exports to the next six largest markets combined. Exports to the two countries nearly doubled, growing 156% compared to a 65% growth to the rest of the world. (Source: U.S. Foreign Agricultural Service, NAFTA)
- NAFTA increased farm exports because it eliminated high Mexican taxes. Mexico is the top export destination for U.S.-grown beef, rice, soybean meal, corn sweeteners, apples and beans. It is the second largest export destination for corn, soybeans and oils. (Source: USTR, NAFTA Facts, March 2008)

Created Trade Surplus in Services:

- The U.S. gets more than 40% of its money yearly from services, such as financial services and health care. These aren't easily transported, so being able to export them to nearby countries is important.
- NAFTA boosted U.S. service exports to Canada and Mexico from $25 billion in 1993 to $106.8 billion in 2007. Imports of services from the two countries were only $35 billion.

Reduced Oil and Grocery Prices:

- The U.S. imported $116.2 billion in oil from Mexico and Canada as shale oil. This also reduces U.S. reliance on oil imports from the Middle East and Venezuela. It is especially important now that the U.S. no longer imports oil from Iran. Why? Mexico is a friendly country, whereas Venezuela's president often criticizes the U.S.
- Since NAFTA eliminates taxes, oil prices are lower
- Food brought into the U.S. is cheaper. Without NAFTA, prices for fresh vegetables, chocolate, fresh fruit (except bananas) and beef would be higher. (Source: USTR, NAFTA Imports)

Stepped Up Foreign Direct Investment:

- Since NAFTA was enacted, U.S. foreign direct investment (an investment made by a foreign person or country into another country) in Canada and Mexico more than tripled to $357 billion in 2009, up from $348.7 billion in 2007.
- Canadian and Mexican foreign direct investment in the U.S. grew to $237.2 billion, up from $219.2 billion in 2007. That means this much investment poured into U.S. manufacturing, finance/insurance, and banking companies.

DISADVANTAGES OF NAFTA:

U.S. Jobs Were Lost:

- Since labor is cheaper in Mexico, many manufacturing industries moved part of their production from high-cost U.S. states. Between 1994 and 2010, the U.S. trade deficits with Mexico totaled $97.2 billion (this means we bought more from Mexico than they bought from the U.S.), displacing 682,900 U.S. jobs. (However, 116,400 occurred after 2007, and could have been a result of the financial crisis.)
- Nearly 80% of the losses were in manufacturing. California, New York, Michigan and Texas were hit the hardest because they had high concentrations of the industries that moved plants to Mexico. These industries included motor vehicles, textiles, computers, and electrical appliances. (Source: Economic Policy Institute, "The High Cost of Free Trade," May 3, 2011)

U.S. Wages Were Suppressed:

- Not all companies in these industries moved to Mexico. When it became a choice between joining the union or losing the factory, workers chose the factory. Without union support, the workers had little negotiating power. This decreased wage growth.
- Between 1993 and 1995, 50% of all companies in the industries that were moving to Mexico used the threat of closing the factory. By 1999, that rate had grown to 65%.

Mexico's Farmers Were Put Out of Business:

- Thanks to NAFTA, Mexico lost 1.3 million farm jobs.

Maquiladora (some of these factories are sweatshops) Workers Were Exploited:

- NAFTA expanded the maquiladora program, in which U.S.-owned companies employed Mexican workers near the border to cheaply assemble products for export to the U.S. This grew to 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. (Source: Worldpress.org, Lessons of NAFTA, April 20, 2001)

Mexico's Environment Deteriorated:

- In response to NAFTA competitive pressure, Mexico agricultural businesses used more fertilizers and other chemicals, costing $36 billion per year in pollution.
- Rural farmers expanded into more marginal land, resulting in deforestation (cutting down of the forest) at a rate of 630,000 hectares per year (about 2,432 square miles). (Source: Carnegie Endowment, NAFTA's Promise and Reality, 2004)