



Canada's VOLUNTARY TRADE

Specialization, Trade
Barriers, Currency
Exchange, & NAFTA

STANDARDS:

SS6E5 Give examples of how voluntary trade benefits buyers and sellers in Canada.

- a. Explain how specialization encourages trade between countries.
- b. Compare and contrast different types of trade barriers, such as tariffs, quotas, and embargoes.
- c. Explain why international trade requires a system for exchanging currencies between nations.
- d. Explain the functions of the North American Free Trade Agreement (NAFTA).



Specialization

Why Trade?

- Voluntary trade occurs when different countries choose to engage in the exchange of goods with one another.
- Countries trade goods because no country has all the resources necessary to produce every single thing its people need.
- Voluntary trade is good for countries because it lets a country sell its own resources and buy the resources it needs.

Specialization

- Because countries cannot produce all of the goods/services that they need, they must specialize in what they do best.
- Specialization is an efficient way to work, and the cost of items produced is lower.
- It increases trade because a country can get what it needs at the lowest cost when produced by someone who specializes in producing that item.

How It Works

- For example, Canada's climate is too cold to grow coffee beans, so it imports them from Brazil. Canada also imports soybeans and rubber from Brazil. In turn, Canada exports airplanes and turbo propellers to Brazil because Brazil has insufficient technology in place to manufacture them.
- Specialization helps these two countries.



Airplane Assembly Line

Canada

- Canada specializes in the following exports:
 - motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, chemicals, plastics, fertilizers, wood pulp, timber, crude petroleum, natural gas, electricity, & aluminum.
 - Nearly 75% of Canada's exports are sold to the United States.

Wood Pulp & Paper Mill in New Brunswick



Trade Barriers

Barriers

- Trade barriers are natural or man-made obstacles to voluntary trade.
- Natural trade barriers include mountain ranges, deserts, rainforests, or lack of access to bodies of water.
 - In Canada, the St. Lawrence Seaway is closed for several months out of the year due to the climate. Shipping cargo is impossible during this time.
- Political trade barriers are policies passed by a government to regulate trade.



The St Lawrence Seaway is closed from November to April due to weather.

Tariffs & Quotas

- They cause the consumer to pay a higher price for an imported item (from another country), thus increasing the demand for a lower priced-item produced domestically (in our own country).
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- Tariffs are taxes placed on imported goods.
- For example, Canada could place a tariff on all imported paper products (from other countries), thus making Canadian paper products cheaper for its consumers (people buying paper in Canada).

Quotas

Quotas are restrictions on the amount/number of a good that can be imported into a country.

Embargo

- Embargoes are a political barrier to trade.
- In an embargo, a nation forbids trade with another country.
- In recent years, Canada has joined the US and European Union in an economic embargo ON Iran in regards to its nuclear program.

Currency Exchange

Currency Exchange

- Currency is something that is assigned value and can be used to purchase goods and services in a market.
- Money from one country must be converted into the currency of another country to pay for goods in that country.

Bank notes of the Canadian dollar.



Currency Exchange

- What the currency of a nation is worth in terms of another country's currency is called the exchange rate.
- For example, an exchange rate of 1.34 Canadian dollars to the US dollar means that 1.34 Canadian dollars are worth the same as 1 US dollar.
- Foreign exchange makes it easier to trade all around the world.

Nation	Currency	Exchange Rate Against US Dollar
Canada	Canadian Dollar	1.32
Mexico	Mexican Peso	18.61
Cuba	Cuban Peso	25.5
United Kingdom	British Pound	.77
European Union	Euro	.93

A large, dark gray oval with a white border is centered on the page. Inside the oval, the word "NAFTA" is written in a bold, yellow, sans-serif font. The background of the entire image is a repeating chevron pattern in shades of yellow, green, red, and gray.

NAFTA

NAFTA

- On January 1, 1994, the governments of Canada, Mexico, and the United States entered into an agreement called the North American Free Trade Agreement.
- 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.



President Clinton signing NAFTA into

NAFTA

- NAFTA lowered trade barriers between the three countries and became the world's largest free-trade zone.
- The agreement opened the door for free trade, ending tariffs on various goods and services, and implementing equality between Canada, USA, and Mexico.
- NAFTA greatly increased trade and economic integration in North America.



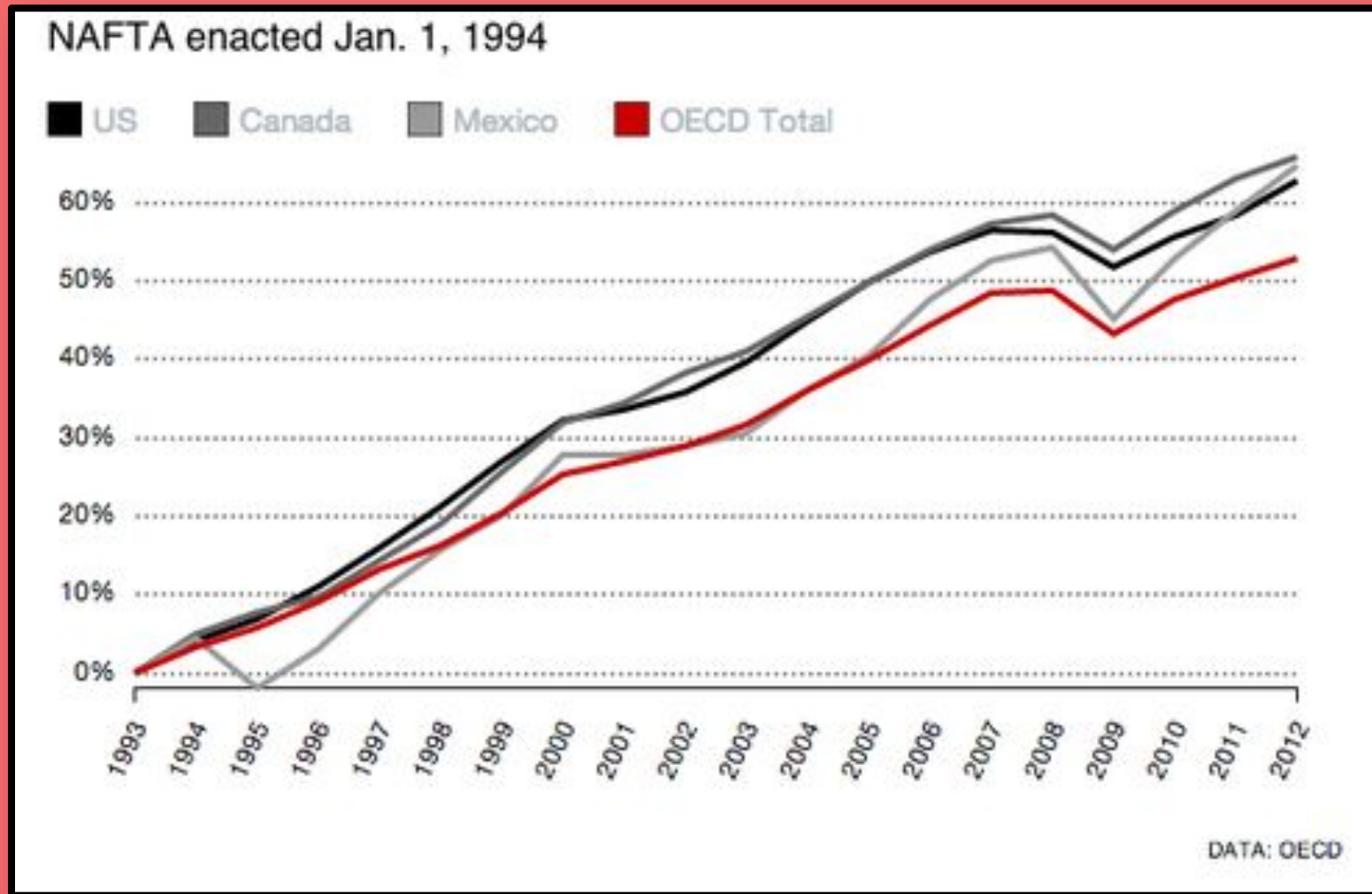
Function

- NAFTA's key functions include:
 1. Eliminating tariffs
 2. Removing restrictions on investments
 3. Removing customs barriers at border crossings
 4. Establishing tough standards for environmental, health, and safety regulations
 5. Improving working conditions



Positives

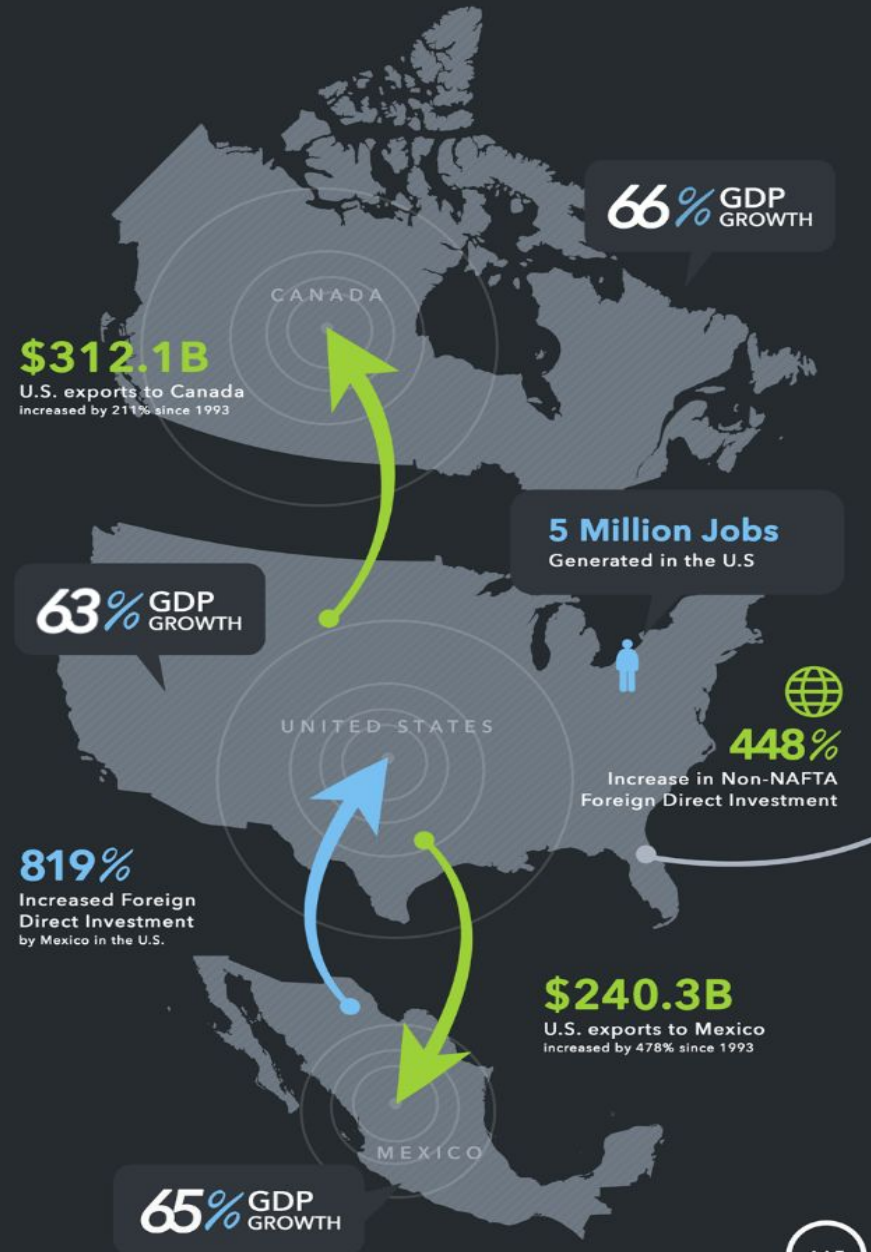
- Free trade increases sales and profits for Mexico, Canada and the U.S., thus strengthening their economies.
- Free trade is an opportunity for the U.S. to provide financial help to Mexico by making jobs available in factories located there.



Graph of Economic Growth since
1993.

THE BENEFITS OF NAFTA

Since entering into force, NAFTA member countries have experienced higher economic growth, job growth, and investment growth.





EFE

Negatives

- 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.

Negatives

- Mexico does not have as strict environmental regulations as 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, while others feel the borders should be closed.



Pollution and Debris from a Mexican Maquiladora



Poverty in a Boomtown Near a Maquiladora

- Unfortunately, NAFTA created 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 12 million.
- There is major pollution in the boomtowns that have grown up around the maquiladoras.

NAFTA explained by avocados. And shoes.

<https://youtu.be/DwKR08t5BGA>

NAFTA 2.0

What is the USMCA
and how does it
affect our country?

NAFTA 2.0

- In October of 2018, the Trump administration placed tariffs on Canadian imports of steel and aluminum. This action upset Canada and Mexico which led to talks to come to a new trade agreement.
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- Canada exports 84% of its aluminum to the US.
[\(Chapell, Bill NPR, U.S. Will Lift Tariffs On Steel And Aluminum From Canada And Mexico, May 17, 2019\)](#)
- On November 30, 2018 Canada, the US and Mexico signed the USMCA (US, Mexico, Canada Agreement). However, the agreement would not be official until all nations' legislatures ratified it.
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Today

- The Trump administration lifted those tariffs in May 2019, which led to further progress toward a ratified agreement.

Kirby, Jen. "USMCA, Trump's New NAFTA Deal, Explained in 500 Words."
<https://www.vox.com/2018/10/3/17930092/Usmca-Nafta-Trump-Trade-Deal-Explained>, VOX, 30 Nov. 2018,
Accessed 27 Jan. 2019.

Sands, Christopher. "Unpacking the USMCA for Congressional Approval in 2019." *CSIS.org*, Center for
Strategic and International Studies, 8 Jan. 20182019,
www.csis.org/analysis/unpacking-usmca-congressional-approval-2019. Accessed 27 Jan. 2019.

USMCA

What are some key points of the updated USMCA trade agreement?

FARMERS

- US now has greater access to Canadian dairy farms.

MEDICINE

- Medicine produced in any of the countries is protected from being remade by generic companies for 10 years.

USMCA

INTELLECTUAL PROPERTY (like digital property of pictures, videos, research)

- Copyright protection for 70 years (used to be 50)
- No taxes on music or e-books and protects internet companies from being liable for any content that their users produce (think YouTubers)

USMCA

- One industry that has been greatly affected by NAFTA and the USMCA is the auto industry.

AUTOMAKERS

- In order to have a zero tariff, cars must have at least 75% of their parts made in North America (under NAFTA it was only 62.5%)
- The parts also have to be made by workers who make \$16 or more per hour.

USMCA vs NAFTA, explained with a toy car

<https://www.youtube.com/watch?v=371CRxnGkA8&feature=youtu.be>

USMCA

What about the environment and workers?

- The agreement is supposed to have environmental protections.
- “Mexico has also agreed to pass laws giving workers the right to union representation, extending labor protections to migrant workers, and protecting women from discrimination. The countries can also sanction one another for labor violations.”
(Jen Kirby; VOX.com)

USMCA

- It will be reviewed every 6 years and will be renegotiated at 16 years.
- President Trump signed it into law on January 29, 2020 after Congress voted to ratify the new agreement.
- [NPR news report](#) (AUDIO)

As of February 2020, Canada's Parliament still has to ratify the agreement.