

"NAFTA Pros and Cons: Why Its Six Advantages Outweigh Its Six Disadvantages" June 25, 2019

NAFTA's Pros and Cons: Why Its Six Advantages Outweigh Its Six Disadvantages

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The North American Free Trade Agreement created the world's largest free trade area, covering the United States, Canada, and Mexico. In 2017, its member economies generated approximately \$22.2 trillion in gross domestic product.

NAFTA is also controversial. Politicians don't agree on whether the free trade agreement's advantages outweigh its disadvantages. Here they are so you can decide for yourself.

Pros

NAFTA has six main advantages. According to a Congressional Research Service report prepared in 2017, the act has more than tripled trade between Canada, Mexico, and the United States since it was enacted. The agreement reduced and eliminated tariffs.

Second, greater trade increased economic output. While it is challenging to weigh the impact of NAFTA given the variety of factors involved, experts estimated that full NAFTA implementation would U.S. growth by as much as 0.5 percent a year.

Third, while there are varying estimates, stronger growth created jobs. According to a 2010 report, U.S. free trade agreements – the lion's share of which stemmed from the NAFTA agreement – directly supported 5.4 million jobs, while trade with these countries supported 17.7 million.

Fourth, foreign direct investment (FDI) more than tripled. The U.S. increased FDI in Mexico from \$15.2 billion in 1993 to \$104.4 billion in 2012, and from \$69.9 billion in Canada in 1993 to \$352.9 billion in 2015. Mexico ramped up investment in the U.S. by 1283% over the same time period, while Canada's FDI increased by 911%.

Fifth, NAFTA lowered prices. U.S. oil imports from Mexico cost less because NAFTA got rid of tariffs. That reduces America's reliance on oil from the Middle East. Low-cost oil reduces gas prices, which reduces transportation cost. Food prices are lower in turn.

Sixth, the agreement helped with government spending. Each nation's government contracts became available to suppliers in all three member countries. That increased competition and lowered costs.

Cons

NAFTA has six main disadvantages.

First, certain estimates indicate that it led to job losses. A 2011 report from the Economic Policy Institute estimated a loss of 682,900 jobs. Other estimates estimate a loss of 500,000-750,000 U.S. jobs. Most were in the manufacturing industries in California, New York, Michigan, and Texas. Though the estimated job gains exceed those lost, certain industries were particularly impacted, including manufacturing, automotive, textile, computer, and electrical appliance industries.

Second, job migration suppressed wages. Companies threatened to move to Mexico to keep workers from joining unions. Without the unions, workers could not bargain for better wages. This strategy was so successful that it became standard operating procedure. Between 1993 and 1995, half of all companies used it. By 1999, that rate had grown to 65 percent.

Third, NAFTA put Mexican farmers out of business. It allowed U.S. government-subsidized farm products into Mexico. Local farmers could not compete with the subsidized prices. As a result, 1.3 million farmers were put out of business, according to the Economic Policy Institute. It forced unemployed farmers to cross the border illegally to find work. In 1995, there were 2.9 million Mexicans living in the United States illegally. It increased to 4.5 million in 2000, probably due to NAFTA. The recession drove that figure to 6.9 million in 2007. In 2014, it fell to 5.8 million, roughly double where it was before NAFTA.

Fourth, unemployed Mexican farmers went to work in substandard conditions in the maquiladora program. Maquiladora is where United States-owned companies employ Mexican workers near the border. They cheaply assemble products for export back into the United States. Employment in maquiladoras rose 120,000 in 1980 to 1.2 million in 2006.

Fifth, U.S. companies degraded the Mexican environment to keep costs low. Agribusiness in Mexico used more fertilizers and other chemicals, resulting in increased pollution. Rural farmers were forced into marginal land to stay in business, resulting in increased deforestation rates. That deforestation contributes to global warming.

Sixth, NAFTA allowed Mexican trucks access into the United States. Mexican trucks are not held to the same safety standards as American trucks. Congress never allowed this provision to go into effect.

NAFTA's Pros May Outweigh Its Cons

NAFTA's disadvantages are significant. Can anything justify the loss of entire industries in New York or Michigan? Worker mistreatment in the United States or in the maquiladora program is also concerning. NAFTA may also be responsible for environmental damage along the border.

But from an economic perspective, many believe that NAFTA is a success and that without it, the impacts of competition from the growing economies of the European Union or China would be

worse. That's critical now that both of these trade areas rank above the United States as the world's largest economies.

While some argue that NAFTA helped the U.S. fare the 2008 financial crisis, other analysis suggests NAFTA may have contributed to it. In addition, some of the ill effects associated with NAFTA may be attributable to other causes, such as China joining the World Trade Organization in 2001.

Evaluating NAFTA's value is not an easy or simple question. However, many experts believe that free trade agreements are a necessity for the United States when competing in an ever more globalized world.