TRADE POLICY NAFTA

Six Problems With NAFTA

NAFTA's 6 Negative Effects

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NAFTA has been criticized for taking U.S. jobs. While it has also done good things for the economy, the North American Free Trade Agreement has six weaknesses. These disadvantages had a negative impact on both American and Mexican workers and even the environment.

1. U.S. Jobs Were Lost

Since labor is cheaper in Mexico, many manufacturing industries withdrew part of their production from the high-cost United States. Between 1994 and 2010, the U.S. trade deficits with Mexico totaled $97.2 billion. In the same period, 682,900 U.S. jobs went to Mexico. But 116,400 of those jobs were displaced after 2007. The 2008 financial crisis could have caused them instead of NAFTA.

Almost 80 percent of the losses were in manufacturing. The hardest-hit states were California, New York, Michigan, and Texas. They had high concentrations of the industries that moved plants to Mexico. These industries included motor vehicles, textiles, computers, and electrical appliances.

2. U.S. Wages Were Suppressed

Not all companies in these industries moved to Mexico. But some used the threat of moving as leverage against union organizing drives. When workers had to choose between joining the union and losing the factory, workers chose the plant. Without union support, the workers had little bargaining power. That suppressed wage growth. According to Kate Bronfenbrenner of Cornell University, many companies in industries that were moving to Mexico used the threat of closing the factory. Between 1993 and 1999, 64 percent of U.S. manufacturing firms in those industries used that threat. By 1999, the rate had grown to 71 percent.

3. Mexico's Farmers Were Put Out of Business

Thanks to NAFTA, Mexico lost nearly 1.3 million farm jobs. The 2002 Farm Bill subsidized U.S. agribusiness by as much as 40 percent of net farm income. When NAFTA removed trade tariffs, companies exported corn and other grains to Mexico below cost. Rural Mexican farmers could not compete. At the same time, Mexico reduced its subsidies to farmers from 33.2 percent of total farm income in 1990 to 13.2 percent in 2001. Most of those subsidies went to Mexico's large farms. These changes meant many small Mexican farmers were put out of business by highly subsidized American farmers.

4. Maquiladora Workers Were Exploited

NAFTA expanded the maquiladora program by removing tariffs. Maquiladora is where United States-owned companies employ Mexican workers near the border. They cheaply assemble products for export back into the United States. The program grew to employ 30 percent of Mexico's labor force. The workers had "no labor rights or health protections," according to Continental Social Alliance. In addition, the "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."

5. Mexico's Environment Deteriorated

In response to NAFTA's competitive pressure, Mexican agribusiness used more fertilizers and other chemicals, costing $36 billion per year in pollution. Rural farmers expanded into marginal land, resulting in deforestation at a rate of 630,000 hectares per year.

6. NAFTA Called for Free U.S. Access for Mexican Trucks

Another agreement within NAFTA was never implemented. NAFTA would have allowed trucks from Mexico to travel within the United States beyond the current 20-mile commercial zone limit. A demonstration project by the Department of Transportation was set up to review the practicality of this. In 2008, the House of Representatives terminated this project. It prohibited the DOT from implementing it without Congressional approval.

Congress worried that Mexican trucks would have presented a road hazard. They are not subject to the same safety standards as U.S. trucks. U.S. truckers' organizations and companies opposed it because they would have lost business. Currently, Mexican trucks must stop at the 20-mile limit and have their goods transferred to U.S. trucks.

There was also a question of reciprocity. The NAFTA agreement would have allowed unlimited access for U.S. vehicles throughout Mexico. A similar arrangement works well between the other NAFTA partner, Canada. But U.S. trucks are larger and carry heavier loads. They violate size and weight restrictions imposed by the Mexican government.

USMCA

Partially because of these disadvantages, the United States, Mexico, and Canadarenegotiated NAFTA on September 30, 2018. The new deal is called the United States-Mexico-Canada Agreement. It must be ratified by each country's legislature before going into effect.

The Trump administration wanted to lower the trade deficit between the United States and Mexico. The new deal changes NAFTA in six areas. The most important is that auto companies must manufacture at least 75 percent of the car's components in the USMCA's trade zone.