



TRADE POLICY ► NAFTA

Why NAFTA's Six Advantages Outweigh Its Six Disadvantages

BY [KIMBERLY AMADEO](#) Updated June 11, 2018

The [North American Free Trade Agreement](#) created the world's largest free trade area. It links 450 million people. Its member economies generate \$20.8 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 advantages](#). First, it **quadrupled trade** between [Canada](#), [Mexico](#), and the United States.

The agreement eliminated [tariffs](#). Trade between the three countries increased to \$1.14 trillion in 2015.

Second, greater trade **increased economic output**. NAFTA boosted U.S. growth by as much as 0.5 percent a year. Three industries benefited the most from increased [exports](#). They were agriculture, automotive, and services such as [health care](#) and [financial services](#).

Third, stronger growth **created jobs**. U.S. exports to the other two countries led to almost 5 million new American jobs. In NAFTA's first four years, manufacturers created 800,000 jobs.

Fourth, **foreign direct investment** more than tripled. U.S. businesses invested \$452 billion in Mexico and Canada. Companies in those two countries invested \$240.2 billion in the United States. That helped U.S. manufacturing, insurance, and banking companies.

Fifth, NAFTA **lowered prices**. U.S. oil imports from Mexico cost less because NAFTA got rid of tariffs.

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That reduces America's reliance on oil from the [Middle East](#). Low-cost oil reduces gas prices, which reduces transportation cost. As a result, food prices are lower.

Sixth, the agreement **helped with government spending**. Each nation's government contracts became available to suppliers in all three member countries.

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That increased competition and lowered costs.

Cons

[NAFTA has six disadvantages](#). First, it led to the **loss of 500,000-750,000 U.S. jobs**. Most were in the manufacturing industries in California, New York, Michigan, and Texas. Many manufacturing companies moved to Mexico because labor was cheap. The automotive, textile, computer, and electrical appliance industries were impacted the most.

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. The program grew to employ 30 percent of Mexico's labor force.

Fifth, U.S. companies **degraded the Mexican environment** to keep costs low. [Agribusiness in Mexico used more fertilizers](#) and other chemicals. The result was \$36 billion more per year in pollution. Rural farmers were forced into marginal land to stay in business. They cut down 630,000 hectares of forests per year. 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.

Chart of NAFTA Pros and Cons

List	Pros	Cons	Worth It?
Trade	Increased.		Yes
Jobs	Created 5 million U.S. jobs.	682,900 U.S. manufacturing jobs lost in some states.	Yes
Wages	Average wages increased.	Remaining U.S. factories suppressed wages.	Yes
Immigration		Forced jobless Mexicans to cross the border illegally.	No
Workers		U.S. unions lost leverage. Mexican workers were exploited.	No
Environment		Canada exploited shale fields. Mexican environment deteriorated.	No
Oil	Costs less in the United States.	Improved Mexican economy.	Yes
Food	U.S. costs lower	Mexican farmers went out of business.	No
Services	U.S. finance and health care exports increased.	Put Mexican companies out of business.	Yes
FDI	Increased.	None.	Yes
Government Spending	More competitive bidding on government contracts.		Yes

NAFTA's Pros 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 significant. NAFTA may also be responsible for environmental damage along the border.

But from an economic perspective, NAFTA is a success. Without it, the United States would not be [European Union](#) or [China](#). That's critical now that both the United States and the [world's largest economies](#).

The impact of NAFTA on the [2008 financial crisis](#). Even more people would have been laid off.

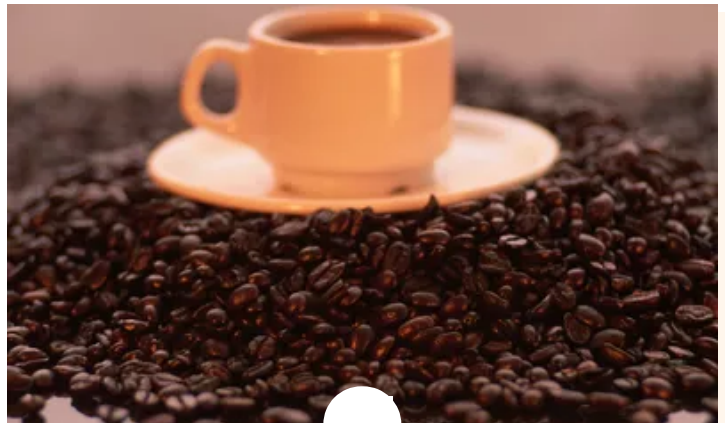
Perhaps NAFTA is a success with better protections. At the same time, [free trade](#) in the United States when competing in an ever more global market.

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6 Negative Effects of NAFTA



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Fast Facts About the World's Largest Trade Agreement