North American Free Trade Agreement

On January 1, 1994, the United States, Canada, and Mexico entered into an agreement called the North American Free Trade Agreement, or NAFTA. The purpose of this agreement was to make trade between countries in North America easier and less expensive. The agreement was also meant to increase trade between these neighboring countries and make them more competitive when trading with other nations around the world.

The trade agreement eliminates tariffs. Tariffs are taxes on items being imported or exported between countries. This allows items to be sold at a lower price. Trade between the United States and its NAFTA partners has soared since the agreement went into effect.
North America

Some industries have seen large increases in their trade. For example, before NAFTA, exports of American cars were less because they often had tariffs of up to 20 percent. The agricultural industry also saw increased trade between countries because food and livestock could more easily be traded and shipped between countries. In addition, the textile and clothing industries strengthened between the countries in NAFTA. The result was that North America became more competitive in the worldwide clothing market.

The trade agreement had some disadvantages as well. Some jobs in the United States were lost because the cost of labor, or worker’s pay, was less in Mexico. Several companies in the United States moved to Mexico. There, goods could be made more cheaply because employees did not earn wages as high as those in the United States.

Mexican farmers also had a hard time competing under the new trade agreement. Agriculture from the United States became much less expensive to produce and sell, and Mexican farmers had trouble growing and selling their products at the same or even lower costs.

Thinking Economically

Directions: Use the text and the map to answer the following questions.

1. Explaining What was one way that the trade agreement made goods less expensive to import and export?

2. Drawing Conclusions Looking at the map, what types of transportation are most likely used to move goods between the United States, Canada, and Mexico?

3. Inferring Why might some consider the advantages of NAFTA to outweigh the disadvantages?