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The U.S. - Mexico Trade Agreement Impact on U.S. Manufacturing

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The North American Free Trade Agreement (NAFTA) has been in the news recently, which is not surprising since President Trump signed an executive order to renegotiate the existing agreement back in January 2017. The original NAFTA agreement instituted a trade agreement between the United States, Canada and Mexico that removed trade barriers, eliminated most tariffs, and increased investment opportunities between the aforementioned nations.

On August 27, 2018, the existing NAFTA agreement was replaced with a tentative agreement between the United States and Mexico. This agreement, the U.S. – Mexico Trade Agreement, includes updates to provisions surrounding the digital economy, automobiles, agriculture and labor unions. Currently, Canada is on the outside looking in, and it remains to be seen whether the U.S. – Mexico Trade Agreement will become a trilateral pact between the three nations, or if talks of an agreement will go a different route.

As the U.S. – Mexico Trade Agreement currently stands, there appears to be benefits for the U.S. manufacturing industry. The new agreement encourages U.S. manufacturing and economic growth by requiring that 75% of auto content be made in these two countries and that 40% to 45% be made by workers earning at least $16 per hour. With the stipulation of higher wages, some of the work could theoretically shift from Mexico to the U.S. It remains to be seen what the overall impact of the new agreement will be and how talks with Canada will go, but early indications include potential increases in manufacturing in the U.S., particularly in the automotive industry.

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