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The North American Free Trade Agreement (NAFTA): Potential Changes, Effects, and What to Do Concerning the Trucking Industry

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The North American Free Trade Agreement (NAFTA) was established in 1994 to enable various industries to remain competitive in the North American market and to increase trilateral trade among Canada, Mexico, and the United States. Since Donald Trump came into office as President of the United States, there has been potential for reform of NAFTA, and the impact needs to be examined (*North American Free Trade Agreement* (*NAFTA*)). The impact of NAFTA on the trucking industry is explored in this study, as the majority of trilateral trade is conducted by trucks crossing borders, which requires freedom of transit.

President Trump intends to renegotiate trade agreements, especially with Canada and Mexico.[1] Through these negotiations, the United States seeks to support higher-paying jobs in the United States and to grow the U.S. economy by improving U.S. opportunities to trade with Canada and Mexico (*NAFTA*). On the other hand, "Mexico has asked the United States to allow its trucks on U.S. roads, and [this] was promised in the first NAFTA agreement but withdrawn by the U.S. Congress, so Mexico is also looking for an anti-corruption clause" (Amadeo, 2018). Mexico and Canada do not share the same concerns. Canada is looking for the end of tariffs from the United States on products such as lumber and dairy. Those areas would impact trade and have a trickle effect on the trucking industry, although changes are not likely since there has not been much progress in the negotiation meetings (Amadeo, 2018). It has also been said "that upwards of 60% of NAFTA trade is truck-based … so there is probably little replacement for this trade coming from anywhere since these are the U.S. land borders," although rail would be the second leading mode (US Trade Experts, 2017). Taking into account all of this information, this research explores which aspects of NAFTA would be affected more than others in a renegotiation. This study uses a strategic audit approach to make recommendations that seek to keep trucking companies involved in trade and with NAFTA.

Current Performance

According to the United States Department of Transportation, as of May 2015, 31.4 million trucks were registered and used for business purposes ("Reports, Trends & Statistics," 2015). Internationally, trucks transported 58.3% of the value of trade between the U.S. and Canada in 2015 and 70.9% of trade between the U.S. and Mexico. The value of truck-transported

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[1] Editors' note. This essay was written in early Spring 2018, months before the October 2018 conclusion of negotiations resulting in the United States-Mexico-Canada Trade Agreement (USMCA), the successor to the North American Free Trade Agreement (NAFTA). This scholarship provides scholarly insight into the subject that was available at that moment.

trade increased 4.4% to $376.6 billion with Mexico. With Canada, the value slipped 5.3% to $335.2 billion, but there were also gross freight revenues of $726.4 billion ("Reports, Trends & Statistics," 2015). In 2016, NAFTA generated a lot of cross-border trade, which was found to be worth $89 billion to the trucking industry (Roberts, 2017). With revenues come expenses, and taxes in 2014 included $39.9 billion paid by commercial trucks in federal and state highway user taxes. Employment performance in 2014 and 2015 included 7.3 million people employed in trucking-related jobs, 3.5 million of whom were truck drivers ("Reports, Trends & Statistics," 2015).

The purpose of the research was to investigate NAFTA negotiations and what could result from them for the trucking industry. Various methods were used, including organizational and industry analyses and Porter's Five Forces. Porter's Five Forces are the (a) threat of new entrants, (b) rivalry among firms, (c) substitute services, (d) bargaining power of buyers, and (e) power of suppliers. Those forces are used to explore the fact that "a corporation is most concerned with the intensity of competition within its industry, [and] the level of this intensity is determined by competitive forces, [and] the collective strength of these forces determines the ultimate profit potential in the industry" (Wheelen, Hunger, Hoffman, & Bamford, 2015, 104). The industry is scanned, and the corporation must assess the importance to its success of the five forces. The stronger the forces, the more limited companies become, but weaker forces can become opportunities for companies (Wheelen et al, 2015).

Threat of New Entrants

"New entrants to an industry typically bring to it new capacity, a desire to gain market share, and potentially substantial resources" (Wheelen et al, 2015, 105). It is not difficult to enter the industry when the barriers to entry—or the "obstructions that make it difficult for a company to enter an industry"—are low, but one must keep in mind that trucking is a lifestyle with a large initial investment and costs throughout. However, those costs do not keep many away from trucking (Wheelen et al, 2015, 105; Delco, 2015).

Rivalry Among Firms

There are roughly 500,000 trucking companies in the US. The most obvious component of trucking competition is within the US, as many companies are capable of performing the same duties. Efficiency and effectiveness are the determining factors. Small, medium, and large trucking companies face similar issues, but larger companies have an easier time executing their duties and can exhaust more resources because there are more opportunities to determine what works and what does not ("Five Frequently Asked Questions," 2010).

Substitute Service(s)

A substitute service is one that does not look like the particular service in demand, but will satisfy in the same way to fulfill the customer needs (Wheelan et al, 2015). There are not a lot of substitutes to trucking, but rail and air services are often utilized in conjunction with trucking. Companies use "truck and rail or truck and air for ultimate delivery to the customer," with rail being slower and air being faster ("Competition Drives Trucking Industry," 1998; "International Shipping Costs," 2018).

Bargaining Power of Buyers

In most cases, buyers have the ability to affect an industry because they have the power to change prices.

Buyers force prices down when their demand decreases; suppliers cannot sell their products otherwise. Buyers can demand higher-quality products and more services. They also can play the competitors against each other (Wheelen et al, 2015). Buyers may be able to lower the cost of shipping, especially when threatening to use another product or supplier.

Power of Suppliers

Suppliers have more power than some would think, and this power can affect the industry. Suppliers have the power to raise prices and/or reduce the quality of goods and services (Wheelen et al, 2015). Although suppliers can technically raise prices, given the implied number of suppliers in the trucking industry, this would not be wise. If costs are passed on to consumers, there is potential for the cost of shipping to increase. In that case, the cost of the service rendered is likely to increase as well. This would make for an unfortunate chain reaction.

Methodology

This study is a synthesis of information found from scanning and assessing the external environment of the trucking industry, and it examines what a specific company's internal environment would be like. From the facts presented in each analysis, recommendations are made in order to address any issues going forward. Both the external and internal factor analysis tables below, which resemble a detailed S.W.O.T (strengths, weaknesses, opportunities, threats) analysis, present information about the trucking industry, which factor into trucking organizations, and whether they are helping or hindering the business. The tables give a visual representation of each factor, which has a weight and rating that are then multiplied to arrive at the weighted score. The weights are out of 1 (Most Important) with 0 being the least; they give a rating of the importance and level of impact of the factor in regard to the company's current and future success (Wheelen et al, 2015). The rating is on a scale of 0 to 5 with 5 being the best in regard to how well the industry or organization is responding to the factor(s). The comments are the explanations of those factors (Wheelen et al, 2015).

Industry Analysis

External opportunities and threats are used to study the trucking industry and what is helping or hindering the companies. When using this information, it is important to determine what is helping and hindering by assigning these factors to opportunities or threats respectively.

Based on the findings and calculations above, it can be noted that the threats have a greater impact than the opportunities. However, threats can be turned into opportunities if done so properly. When thinking of these external factors in a visual sense, one might consider a metaphorical seesaw. Where there is an opportunity for more jobs and increased revenue, there is also the threatening potential that jobs could be lost and revenue lost. This is because results of NAFTA cannot be thoroughly predicted without weighing both sides of every scenario. Furthermore, the proposed changes to NAFTA are more likely to harm the US agreement with Mexico than with Canada, so a threat to Mexico can be deemed an opportunity for Canada. The people working in the trucking industry are not the only ones who have concerns; consumers are affected as well because some goods and services are not important enough to some consumers to keep paying increases in prices. Even if consumers are able to pay, they may not necessarily be content to do so. The factors presented

Table 1: External Factors Analysis

External Factors	Weight	Rating	Weighted Score	Comments
Opportunities				
Potential for more jobs	.10	4	.4	If there are only NAFTA renegotiations, more jobs could be added.
Increased revenue	.10	4.2	.42	Not much change, only improvements.
Increase in cross-border trade	.10	3	.3	400% increase since NAFTA was implemented, potential for more growth.
Help Canada & Harm Mexico	.05	2.2	.11	Issues with Mexican border would pose a threat to drivers because they would not be able to cross the border for trading, but Canada seems to still be able to do so and to increase trade relations even more.
Elimination of some taxes	.05	2	.1	Potential for some taxes to be cut or eliminated which might increase trade and need for trucks.
Threats				
Loss of jobs	.15	3	.45	If there is less need for trade, there is less need for truck drivers. If the industry is dwindling, they will have less work.
Loss of revenues	.20	3.4	.68	Increase fees, loss of customers. Less sales, less use for trucks, less revenue.
More regulations	.10	4	.4	Increased tariffs harm the companies and the consumers.
Technology Advancements	.05	4.8	.24	Some are able to shop elsewhere with increased internet commerce.
Customer Relations	.10	3.5	.35	Customers might not want to or be able to purchase when prices increase. Could specifically harm Mexico and avocado trading.
Total Scores	**1.00**		**3.45**	

Source: Gillespie (2016), Lawder (2018), Roberts (2017); Schulz (2017), Ending (2018).

here are important not only for the industry, but for any consumer who knows that the products and services they utilize would not exist without a proper trade agreement. Reasons like these are why technology and customer relations are important. The trucking industry does not only need to worry about the agreement from a job and revenue standpoint, but also with regard to the other factors that affect the industry, such as technology and customers, all of which have a bearing on jobs. NAFTA may have been doing well these past few years with great increases in trade, but that does not mean it will remain. A lot of the external factors can and are likely to change, and as can be seen in the table above, those changes can either benefit or harm the industry.

Organizational Analysis

Internal strengths and weaknesses are used to study the specific factors related to the trucking industry. Each sector is determined to be a strength or weakness to aid in the evaluation of what is helping or hindering the company and why. Internal information makes it easier to pinpoint room for change and problem areas. Companies with the ability to exploit their resources have greater capabilities. Those closer to the border are likely to garner more business if their performance has been positive. Companies that are able to provide good client service and anticipate consequences, while also demonstrating great risk management, have excellent core competencies (White, 2016). Competitive advantages include knowing how to maximize the market and how to use good marketing with clear objectives (White, 2016). It is easier for larger companies than for an independent worker to gain the resources and capabilities necessary to support a competitive challenge. It is less challenging for more experienced workers to handle customers, trucks, and orders because the knowledge is ingrained in them. Synergy, or cooperation among those who work for the company, those who run the company, and those who are delivered to, is important because when companies or organizations are able to work together well, processes run more smoothly. Synergy is what keeps the trucking industry going and growing (Wheelen et al, 2015).

The findings and calculations above suggest that the strengths have a greater impact than the weaknesses in the trucking industry. This is opposite to the conclusion made concerning the opportunities and threats. Strengths are something a company or industry already possesses, while an opportunity is something it do not necessarily have but can take proper advantage of. The focus on the table above is clearly strengths and weaknesses, and it is important to take note of the fact that the industry has many strong points, but anything can happen in this case because the negotiations are still happening.

Since it is clear that Mexico is likely to be harmed more than Canada, most of the weaknesses are related to what could happen with Mexico. If Mexico is out the agreement, NAFTA really is not the same anymore. However, what Canada and the United States do with it may still benefit them and would still exemplify the strengths and weaknesses above. They may be able to lessen their weaknesses and turn them into strengths over time. There are many internal factors to consider here and it is made clear from the data that anything can happen. Nonetheless, if everything remains the same, NAFTA could still be successful. If the renegotiations lead to great change, then NAFTA could fall apart, and these strengths would not be enough to keep the industry going, and the weaknesses could worsen.

Table 2: Internal Factors Analysis

Internal Factors	Weight	Rating	Weighted Score	Comments
Strengths				
Access to many border zones	.05	3	.15	Not only operate near the border.
Experienced, qualified, and safe	.15	4	.6	Regulations put in place to ensure safety.
Highly Integrated	.10	4.3	.43	Elements are properly coordinated, easier to meet needs.
Country relations	.10	3.5	.35	Trade relationship is good but could deteriorate soon.
Movement of goods is key	.10	4.8	.48	One of the only options to move goods: promotes economic success.
Weaknesses				
Mile Restriction	.15	2	.3	Cannot go further than 20 mi from the border; otherwise trucks do not meet US safety standards.
Highly sensitive	.15	3.5	.53	Sensitive to any disruption in industry.
Subject to fallout	.05	3.7	.19	If Mexico, loss of all relations and revenue. If Canada, could suffer from the US-Mexico fallout. Mexico and Canada are highly integrated.
Global Positioning	.10	2.2	.22	Hard to cross border, let alone keep relations with Canada if US leaves.
Not Internet Based	.05	2	.1	Internet Commerce on the rise.
Total Scores	**1.00**		**3.35**	

Source: Amadeo (2018), Roberts (2017), Yeung (2017).

Results: Strategy Formulation

The focus here is to pinpoint the most important strengths, weaknesses, opportunities, and threats in order to explore the external and internal factor combination. This aids in the selecting of the most promising strategies in order to help the company. Strengths are used to exploit opportunities in order to have the company gain the best results. The Strategy Formulation Analysis table below is used to provide a visual representation summary of the most important factors from the internal and external factor analysis tables. Each factor is specified as a strength, weakness, opportunity, or threat once again, but the rating for each factor remains the same, with the weight being altered to make sure the total equals 1 (Wheelen et al, 2015). From this table strategies are formulated in order to make recommendations for dealing with any issues at hand. In this case, that would be NAFTA renegotiations.

Strategies would include increasing the domestic customer base in each respective country, which would mean more coast-to-coast transportation in the US; however, that would increase competition with rail service. Such a change would favor trucking companies that are able to adapt in business. Consumers would still receive the goods they need; however, the US does not produce as many goods as are consumed, meaning it would cost more to acquire them. Although this strategy has its positive aspects as expressed above, there are setbacks as well. The setbacks would be a loss in revenue to producers and less need for some trucking companies by the border, especially the companies involved with taking loads from Mexican trucks and transporting them from the border.

A second strategy would be accepting the changes and adapting when the proposed tariffs and taxes increase. If the border remains open, which is likely, there will be constant trade, although there may be a slight decrease. When costs increase, generally the end consumer is impacted most. NAFTA is vital to trucking, which could mean that revenues would increase because of the increase in tariffs and taxes and allow for job retainment. An example of how these changes would affect consumers and the industry is the sale of avocados, as they are grown in Mexico. It would be harmful to both the US and Mexico if the trading of avocados were made almost impossible. Avocados cannot easily be grown in the US, yet there is a strong market for them, meaning any increase in cost would not deter many consumers, especially given the trend among millennials of consuming avocado in various forms whether, it be on toast or at Mexican restaurants.

Conclusion

The purpose of this research was to perform a strategic audit and provide recommendations that the trucking industry could utilize in regard to the changes in NAFTA, whether the treaty is renegotiated or eliminated. The major finding in regard to renegotiation is that taxes and tariffs would likely increase; the recommended course of action would be to take the changes and adapt and keep a close eye on NAFTA negotiations. Organizations within the trucking industry must also create several contingencies. NAFTA will most likely be kept in some shape or form. However, the cost of shipping will be increased if tariffs and taxes are increased, affecting consumers and causing difficult issues for products in lower demand. Another way to adapt to the changes without deterring the organization too much would be to lobby Congress intensely. If the trucking industry puts enough pressure on Congress, they may not enact certain changes.

Table 3: Strategy Formulation Analysis

	Strategic Factors	Weight	Rating	Weighted Score	Comments
S3	**Highly Integrated**	.10	4.3	.43	Elements are properly coordinated, easier to meet needs.
S5	**Movement of goods is key**	.10	4.8	.48	One of the only options to move goods; promotes economic success.
W1	**Mile Restriction**	.10	2	.2	Cannot go further than 20 mi from the border (MEX); otherwise trucks do not meet US safety standards.
W2	**Highly sensitive**	.15	3.5	.53	Sensitive to any disruption in industry.
O1	**Potential for more jobs**	.10	4	.4	If there are only renegotiations jobs could increase.
O2	**Increased revenue**	.10	4.2	.42	Not much change, only improvements.
O3	**Increase in cross-border trade**	.10	3	.3	400% increase since NAFTA was implemented, with potential for more growth.
T1	**Loss of jobs**	.15	3	.45	If there is less need for trade, there is less need for truck drivers. If the industry is dwindling, then they will have less work.
T2	**Loss of revenues**	.10	3.4	.34	Increased fees leads to loss of customers. Lower sales = less use for trucks and lower revenue.
	Total Scores	**1.00**		**3.55**	

Source: Amadeo (2018), Roberts (2017), Schulz (2017).

The companies that will be most impacted by renegotiation or elimination of NAFTA are those that specialize in cross-border trucking. This industry is highly sensitive to change, and until a clearer picture emerges of where renegotiation might go, companies must be prepared for several alternatives: reduced business, no business, or business as usual. Jobs will be lost if the cost of shipping is too high because eventually consumers will be unwilling to pay. The potential changes to NAFTA are more likely to harm the consumers than the industry, but trucking companies cannot remain successful without customers. This is a new era with President Trump in office, and a lot can occur, particularly in regard to NAFTA. The research presented here shows that essentially anything can happen. That said, it looks like what will happen is not too harmful for the trucking industry. It is important to note the relevance and importance of any changes because NAFTA has been in place since the 1990s and trade is a major form of commerce.

Limitations

Given the short amount of time President Trump had been in office at the time of this research, and given that the talks about NAFTA are fairly new, there were limitations to the research. They include a lack of available data and lack of prior research on the topic. Many of the information explored does not pertain to the trucking industry specifically, or does not pertain to NAFTA, both necessary for the case at hand. There is not a lot of literature on the topic yet because the renegotiations have only been occurring for a few months. Although there are news articles and various sources explaining what is happening, the topic is subject to frequent changes.

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