"NAFTA: The pros and cons of trade agreements"

By Tommy Williams, CFP®

They're all on the pro rodeo circuit. They all grow corn and soybeans. They're all home to renowned universities. In addition, according to *The Economist*, Texas, Iowa, Nebraska, Mississippi, Alabama, and Michigan are likely to experience the biggest increase in tariffs – as a percent of state GDP – if and when the North American Free-Trade Agreement (NAFTA) is revised.

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Under NAFTA, goods are imported to and exported from Mexico and Canada without tariffs, which are essentially taxes on imported goods. Tariffs typically increase the cost of imports, making them less attractive to consumers. This can help support the market for domestically produced goods and help protect domestic jobs and industries. Currently, the United States sends about $240 billion worth of goods to Mexico each year. Mexico exports even more to the United States.

The Economist's analysis measured potential increases in tariffs, in tandem with the volume of state exports to Mexico, to determine the possible impact on a state's economy. (The analysis did not include Canadian exports, even though Canada is also a NAFTA participant.) While the effect on the majority of states' economies would be relatively small, the impact on others could be more significant:

"In 2015, Iowa's farmers shipped $132M of high-fructose corn syrup to Mexico. Without NAFTA, Mexico would slap a tooth-aching 100 percent tariff on the stuff…Among this group, Texas stands out. It faces an average tariff of only 3 percent, but its exports to Mexico are worth nearly 6 percent of its GDP (compared with 1.3 percent nationally)…Michigan also fits this category. Its exports of cars and parts – many of which end up back in America – would attract tariffs averaging only about 5 percent. But, with such shipments totaling $4.1B, the bill would be painfully large."

No one yet knows how renegotiating NAFTA may affect any of the countries involved because talks are not expected to begin for several months. However, according to *Bloomberg*, delaying negotiations isn't ideal:

"Mexico's current chief trade negotiator, Economy Minister Ildefonso Guajardo, said last month that extending talks past early 2018 would be 'irresponsibly injecting uncertainty after uncertainty' due to the Mexican elections, and the U.S. mid-term

congressional vote in November 2018. Modernizing this type of agreement could be expected take three to seven years, said Gordon Ritchie, a Canadian negotiator of the Canada-U.S. Free Trade Agreement, a Nafta precursor. 'It'd be amazing if the negotiations could be completed within a year, whenever they're started,' he said."

While many Americans firmly promote renegotiation, some worry its gains are being overlooked. According to the *Council on Foreign Relations*,

"…economists like Gary Clyde Hufbauer and Cathleen Cimino-Isaacs of the Peterson Institute for International Economics (PIIE) emphasize that increased trade produces gains for the overall U.S. economy. Some jobs are lost due to imports, but others are created, and consumers benefit significantly from the falling prices and often improved quality of goods created by import competition. A 2014 PIIE study of NAFTA's effects found that about 15,000 jobs on net are lost each year due to the pact – but that for each of those jobs lost, the economy gains roughly $450,000 in the form of higher productivity and lower consumer prices."

Clearly, we hope that President Trump delivers on what he promises for our future. Responsible for signing NAFTA into law, former President Bill Clinton once said, *"Promising too much can be as cruel as caring too little."* The one thing we can know for sure is that the implications for change in all existing international agreements are for more complex than the sound bites we've heard in political speeches.

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