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America's Free Trade Agreements….Not Dead Yet

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During the presidential election campaign of 2016, one of president-elect Donald Trump's principal targets for criticism was free trade agreements, most notably NAFTA. His attacks on NAFTA were vehement and incessant; and on numerous occasions he called it "the worst trade deal ever" and declared his intent to tear it up.

While there is no empirical evidence that NAFTA or any other free trade agreements the U.S. signed is a "disaster" as the president asserts (there have been marginal gains and losses only), his crusade against these deals struck a responsive chord among voters—ignoring the fact that technology, globalization, and improvements in supply chain management are the real reasons many workers in the manufacturing sector have suffered job losses. Scapegoating trade agreements worked--Mr. Trump triumphed in the Rust Belt and garnered the electoral votes needed to win the presidency.

Does this mean the imminent death of America's free trade agreements? Initially financial markets—worldwide—took a dive but have since recovered. Mexico continues to suffer a decline in the value of its currency, its investment community and manufacturing sector ridden with fear and anxiety, and Mexican exporters (including U.S. subsidiaries) frightened that the Trump administration will be devastating for them.

Given this scenario, is there any reason to be hopeful that Mr. Trump will not fully deliver on his pledge to rip up NAFTA and pull out of other free trade agreements? Indeed there are. In fact there are several:

1. *Congress.* In recent announcements, Republican trade subcommittee chairman Dave Weichert and Democrat Representative Ron Kind, member of the Ways and Means committee, warned that withdrawing from NAFTA would be unwise economically. Senate Finance committee chairman Ron Portman (R-OH) supports updating chapters on e-commerce, labor, and the environment. At present, the overall sentiment is refine NAFTA, not scrap it. Ironically, many are urging their fellow legislators to consider incorporating

many of the stronger and more comprehensive provisions of the dead-in-the-water Trans-Pacific Partnership into a revamped NAFTA accord.

2. *U.S. firms operating in Mexico.* The United States is the largest source of FDI in Mexico. The stock of U.S. FDI increased from $17.0 billion in 1994 to $92.8 billion in 2015. The abrogation of NAFTA would jeopardize not just multinationals with operations there, like GE, Hewlett-Packard, and Ford, but medium size U.S. firms as well. Tariff increased on U.S. car imports from Mexico are a good example. The Mexican-assembled Chevrolet Impala, Dodge Charger, and Ford Taurus have 65%-70% of their content made in the U.S.! Furthermore a Peterson Institute study concludes that greater Mexican-bound investment is associated with net increases in U.S. jobs and investment—and that these increases can be tied directly to the outbound investment.

3. *Security issues*. Mexico is a vital partner of the United States on issues that hugely impact both countries, most notably drug trafficking, illegal immigration, arms smuggling, human trafficking, and the environment. While it is inconceivable that the government of Mexico would cease working with the U.S. on any of these issues, retaliatory measures could include actions (or rather inaction) to render less than full cooperation in areas of monitoring and enforcement. Without a vigorous commitment to clamp down and strive to eradicate these seemingly enormous problems on the part of Mexico, it is the U.S. that will lose the most.

4. *Mexican business activity in the U.S.* Mexico's business activity in the U.S. is on the upswing following the global financial crisis of 2007-2008, and Mexico is the 16th largest investor in the U.S., overtaking Norway, Belgium, Ireland, and Singapore. Since NAFTA Mexican FDI in the United States increased eight-fold, from a mere $2.069 billion in 1994 to $17.6 billion in 2013. Firms like Gruma, Bimbo, Cemex, and Softtek are highly competitive global leaders. Only Canada accounts for more foreign tourists coming to the U.S., and Mexico is among the top 10 countries sending students to U.S. colleges and universities. Abrogating NAFTA will surely impact negatively U.S.-Mexico commercial and financial relations along with art, culture, and educational ties. Mexicans may decide to vacation in the Dominican Republican in lieu of Miami Beach, study abroad in Canada, and invest in real estate back home or in the Caribbean instead of the U.S. Billions of dollars are at stake here.

Just as the proposed border wall may morph into a series of fences, NAFTA will be subjected to cosmetic surgery not a physical amputation. Tearing up NAFTA is the equivalent of a circular firing squad. Far too much is at stake in a world that is and must be increasingly interdependent.

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