

# MARKET COMMENTARY

## WHY BALANCE IS IMPORTANT

On a recent trip to the grocery store, while walking past the strawberries, I was reminded of the impact that global trade has on everyday life. Have you ever considered what our grocery stores would look like if we did not have the consistent supply and variety of produce that we have come to enjoy?

With all the talk about trade agreements, NAFTA in particular, this question came to mind: what would the renegotiation of this agreement mean for those of us in the US? When NAFTA was enacted in 1994, the intention was to create free trade flow between Canada, the US and Mexico by eliminating the majority of tariffs between the new trading partners. The result was the generation of trade flows to and from the US to Canada and Mexico. What does NAFTA have to do with strawberries? Take a closer look at the label. In many cases, Mexico is the country of origin where strawberries are grown this time of year.



To better understand some the impact of NAFTA, here are a few facts. “In 1995, the amount of US direct investment into Mexico was \$15 billion. Today that investment stands at \$100 billion, while exports from Mexico into the US have grown 370% during the same time”. (Northern Trust) See the chart on the following page for more facts on NAFTA.

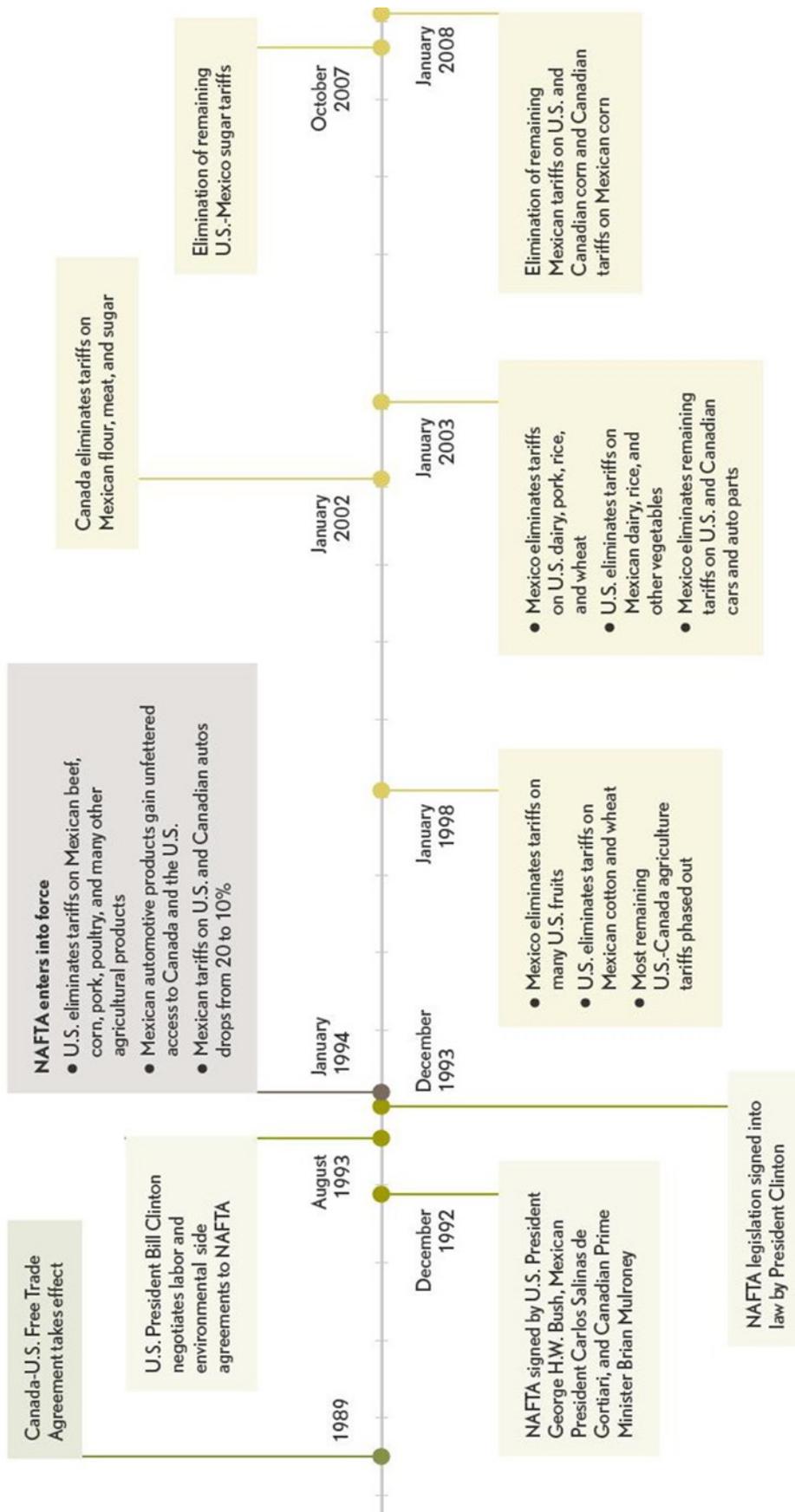
The cross-border trading with Mexico has resulted in lower consumer pricing for the US, which has been beneficial for our economy. At the same time, it has created better corporate profits, leading to higher stock prices. In addition, the Mexican consumption of American goods has escalated. Finally, approximately 5 million American jobs depend on trade with Mexico.

A common theme regarding NAFTA’s negative impact on the US is the number of jobs lost. Since the implementation of NAFTA, there has been a decline in American manufacturing jobs. While there are certainly many examples of US jobs being lost to factories in Mexico, automation is an equal threat. Despite the auto industry often being mentioned when discussing NAFTA, the primary driver of job loss has been the advancement of robotics and the overall automation of the production of cars. Driven by the need for profits, the assembly line in automotive manufacturing has employed technology to improve the product while at the same time driving down costs.

What could happen if NAFTA is undone? For starters, the Mexican economy would most likely contract. The peso has already rapidly declined in value this year, and interest rates in Mexico have begun to rise. “America is the destination of 80% of Mexican exports sold. That . . . represents 27% of the economic activity in Mexico”. (Northern Trust) As consumers of those exports, we benefit from lower prices on cars, food, produce, and clothes, to name just a few. A prolonged contraction of the Mexican economy could have a negative economic impact on the US.

On the other side of the trade ledger, American companies have also benefited from the establishment of supply chains in Mexico. These supply chains have assisted US corporations in remaining competitive on a global pricing scale, while maintaining competitive quality.

# NAFTA MILESTONES



Credits: James McBride, David Foster

Sources: "Nafta Revisited" (Hufbauer/Schott), NAFTA treaty text, US Trade Representative, The Wilson Center