

Why NAFTA?

THE BENEFITS OF NAFTA TO THE LAREDO PORT OF ENTRY AND THE COUNTRY AT LARGE BY FAR OUTWEIGH ANY SHORTCOMINGS

The North American Free Trade Agreement, commonly known as NAFTA, was approved by the governments of the United States, Canada and Mexico in the latter part of 1993 and took effect in January of the following year. While supporters of the pact in this country saw the elimination of tariffs in most products traded among the three countries as a boost for trade and of benefit to the same, from the start opponents argued that benefits to Mexico, whose per capita income was way below the other two, would result to the detriment of the United States'. Twenty-two years later, while growth in trade and its impact on the economies of the three countries is well documented – i.e., trade among the three countries increased from \$119 million in 1993 to over \$1.1 trillion in 2016, bringing along with it an increase in cross-border investment – there are those that argue that any benefits gained are outweighed by an imbalance in trade and outsourcing of jobs. Sadly, from the point of negotiation of the treaty back in the early 90's, opponents of the treaty chose to place blame for the many ills affecting U.S. manufacturing on the treaty itself. It did not matter that much of the outsourcing was going overseas or that, as many economists agree, the true impact to U.S. industry was the result of globalization and automation. NAFTA became an easy target for workers unions and political foes and, for all practical purposes, the scapegoat for those politically opposed to free trade.

Is elimination of NAFTA the answer to America's problems in 2017? Will elimination of the treaty bring back jobs to U.S. manufacturing plants and return workers to salaries of the past? Will the absence of NAFTA diminish a current imbalance of trade?

The answers to these questions are debatable. What has to be recognized is that while some American industries have been affected with loss of jobs in certain regions of the country (whether one attributes this to NAFTA or to other factors), other regions have gained as new opportunities have arisen. Southern and "sun belt" states, with Texas in particular, and the region along the U.S.-Mexico border have seen a marked impact in job creation, in trade opportunities, and in their economies in general, over the last two decades. The state of Texas has become the top exporter state in the nation over the last two decades, while communities, such as Laredo, Texas, have experienced a marked pattern of growth in trade and related industries.

As of the end of 2016, the customs district for the port of Laredo is ranked as the third largest in volume of trade processed – the ports of Los Angeles/Long Beach and New York being first and second. In 2015, the Laredo Port of Entry customs district witnessed an astounding \$284.3 Billion in trade – an increase of 1.6 percent (over the previous year) while the rest of the country experienced a 5.59 percent drop. \$273.55 Billion, the lion's share of this amount, reflected trade with Mexico. Laredo in 2017 processes approximately 40 percent of all overland trade between the U.S. and Mexico

Impact of the North American Free Trade Agreement to the State of Texas:

Texas is the one state in the union that has benefitted the most from NAFTA as reflected in the following points:

- Texas exports totaled \$247 billion in 2015 (top exporter state in the nation)
- 75 percent of U.S.-Mexico overland trade (approx. \$343 billion in 2015) crosses through a Texas port of entry
- Exports of manufactured goods supported an estimated 990,000 jobs in Texas in 2015
- From 1994 to 2015, Texas exports grew 13 percent per year, while the rest of the country grew 6 percent per year
- Texas exports to Mexico grew 236 percent from 1994 to 2015, while exports for the rest of the country grew 116 percent
- Mexico is Texas' most important market accounting for more than 40 percent of exports in 2016

(SOURCE: Federal Reserve Bank of Dallas)

Impact of the North American Free Trade Agreement on the city of Laredo

Historically, the South Texas area (the region south of I-10) and counties lying along the U.S.-Mexico border, in particular, trailed the rest of the state in every demographic track. In 1989, then State Comptroller John Sharp published a study stating that "if the Border were a state it would have the highest unemployment rate in the nation." The Federal Reserve Bank of Dallas/El Paso lists the average unemployment rate for Laredo and Webb County between 1980 and 1993 at 14 percent. Yet, by 2016, Laredo's unemployment rate dropped to 5 percent or below – well in line with (or below) state and national averages.

During the twenty-two years that followed the implementation of NAFTA, Laredo saw its population almost double from 122,899, as per the 1990 census, to 236,091, as per the 2010 census (currently projected at 260,000). Its labor force grew from 57,848 in 1994 to 116,000 at the end of 2016. During this span of time, the number of commercial crossings (by truck) over Laredo's international bridges grew from 1.5 million in 1994 to 4.04 million in 2015 – an increase of over 169 percent; the total number of imports/exports processed by the Laredo Port of Entry grew from \$30 Billion in 1995 to \$284.3 Billion in 2015.

Laredo's retail trade, heavily dependent on Mexican shoppers (the Federal Bank of Dallas estimates that approximately 40 percent of retail sales are attributed to Mexican nationals), has also experienced marked growth in the last two decades. Totaling \$1.9 Billion in 1994, retail sales for the city exceeded \$3.6 Billion by the end of 2015. Thus, as Laredo's labor force grew and its purchasing power strengthened, so did the strength of the economy for cities on the Mexican side of the Border, which indirectly impacted the city's retail industry.

As Laredo benefitted from growing industries in the import/export/transportation and retail areas during the last two decades, it was also able to capitalize on other sectors previously underserved. Its healthcare industry has gradually developed and the city's quality of life experienced a 180 degree turn. The city boasts of improved medical care, new university and community college campuses, and a variety of entertainment venues -- all post-NAFTA.

Significance of a Strong Laredo Port of Entry for the Nation

The question then remains – so NAFTA benefits Laredo and Texas, but what about the rest of the nation? In the estimation of the Laredo Chamber of Commerce, the benefits of the North American Free Trade Agreement to U.S. industry and the country's economy by far outweigh any limitations as evidenced by the following points:

- NAFTA products create jobs in the three participating countries, not necessarily at the expense of one another. While some components are manufactured in one of the three NAFTA countries, assembly or partial assembly of a final product may take place in another. Particular parts may be built in the U.S. and/or Canada and shipped to Mexico for assembly, or vice versa. Some products cross the border several times before the final assembly is completed.
- An improved Mexican economy benefits the NAFTA partnership. While the Mexican economy has experienced a few setbacks in the last two decades, overall it is a stable growing economy. The Federal Bank of Dallas concludes that job creation on cities on the Mexican side of the Border tends to result as a benefit for their counterparts on the Texas side, i.e., in the case of Laredo the FED Bank estimates a 4.6 increase in employment for a 10 percent increase in manufacturing on the Mexican side.
- Products coming from Mexico crossing through the Laredo port of entry are not destined for this community, as are not products coming from U.S. markets. Given Laredo's strategic location they are shipped through this port, processed and move on to destinations in Mexico, or to manufacturing and assembly plants throughout the continental United States. Efficient flow of traffic across Laredo's bridges guarantees *just-in-time* delivery of product to/from plants and markets across all 48 continental states.
- In addition, a comprehensive economic study conducted by the U.S. Chamber of Commerce concluded that trade with Canada and Mexico supports nearly 14 million U.S. jobs, and nearly 5 million of these net jobs are supported by the increase in trade generated by NAFTA.

Given this set of circumstances, the Laredo Chamber of Commerce attributes the growth in its economy, the creation of jobs, and the positive impact on the community as a whole over the last twenty-two years directly and indirectly to the implementation of the North American Free Trade Agreement. **While the Laredo Chamber recognizes that certain aspects of the North American Free Trade Agreement , which is now entering its 23rd year, may be in need of revision, it fully support its continuation.**