

Why NAFTA Matters

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(Left to right) Nadia Theodore, Consul General of Canada, Javier Díaz de León, Consul General of Canada, and Laura Dawson of the Woodrow Wilson Center Canada Institute were on a panel about North American trade moderated by Atlanta Fed president Raphael Bostic (far right). Photo by David Fine

The stakes are high for the Southeast as the United States tries to work out new trade agreements with Mexico and Canada.

The talks are intended to update the North American Free Trade Agreement (NAFTA), the treaty between Mexico, Canada, and the United States that took effect in 1994. The United States reached a [preliminary accord with Mexico](#) in late August, and trade discussions are continuing with Canada.

At a World Affairs Council of Atlanta forum held at the Federal Reserve Bank of Atlanta last month, consuls general from Mexico and Canada explained that although NAFTA has increased jobs and produced other benefits for the three trade partners, it should adjust to reflect changes in the way business is conducted globally in the wake of technological advances. Electronic commerce, for example, has altered how we buy goods and services.

"The internet was not around when we negotiated NAFTA," Nadia Theodore, consul general of Canada in Atlanta, said during the August 21 panel discussion.

Rules of engagement

"NAFTA has defined the rules of international trade," said Atlanta Fed president Raphael Bostic, who moderated the panel discussion. He also said trade agreements can have "significant impact" on U.S. monetary policy given the Fed's mission to foster maximum employment and stable prices.

The rules of engagement set by trade agreements such as NAFTA can affect companies' input costs and their ability to get the products they need, as well as the prices at which goods and services can be sold, Bostic said. "Many of Georgia's businesses are global in scope," he added.

TRADE WITH CANADA

	Exports	Imports	TOTAL
Tennessee	\$9.0B	\$4.5B	\$13.5B
Georgia	\$6.3B	\$4.2B	\$10.5B
Florida	\$3.6B	\$4.4B	\$8.0B
Alabama	\$4.2B	\$2.6B	\$6.8B
Louisiana	\$2.7B	\$2.2B	\$4.9B
Mississippi	\$2.3B	\$0.9B	\$3.2B
TOTAL			\$46.9B

Sources: Foreign Trade Division, U.S. Census Bureau; U.S. Commerce Department; Mexico's Ministry of the Economy, Trade and NAFTA Office; wisertrade.org

"In Canada, there were some companies that probably would have gone out of business because they couldn't manufacture high-tech parts that were needed" because of high labor costs, said Laura Dawson, director of the Canada Institute at the Woodrow Wilson Center. "But working with Mexico and the United States, they have skills, they have investments, and they have demand for their products."

Business boost for Southeast

NAFTA has given a big boost to the Southeast, the consuls general said. Last year, total trade between the states that make up the Federal Reserve's Sixth District—Georgia, Alabama, Florida, and parts of Tennessee, Mississippi, and Louisiana—and Canada came to \$47 billion, and the overall value of those states' exports and imports with Mexico was \$49.4 billion, according to 2017 data from the three nations (see the table).

In addition to bolstering international trade for the region's states, NAFTA "has brought diverse investment opportunities for companies on both sides of the border and the strengthening of several supply and production chains," Diaz de Leon said.

Each of the southeastern states has more than tripled its exports to Mexico since the trade agreement was implemented, according to data from the Trade and NAFTA Office of Mexico's Ministry of Economy.

"There are over 300,000 jobs that depend on trade and investment with Canada right here in Georgia," Theodore said. Diaz de Leon said trade with Mexico has created more than 150,000 jobs in the state of Georgia and added that Alabama's exports to Mexico have risen 10 percent a year since NAFTA took effect.

He noted that how businesses respond to trade affects employment, output, and standard of living. "To the extent that [employment, output, or standard of living] weakens or becomes imperiled, it has potentially adverse impacts on our productive possibility and potential," Bostic said.

Javier Diaz de Leon, the Atlanta-based consul general of Mexico, said industrial groups and manufacturers in the Southeast have expressed concern about challenges they would face competing globally without the preferential market access that NAFTA has provided.

Diaz de Leon said NAFTA created conditions for his country to evolve from a traditional, commodity-based economy into a major manufacturing hub with a well-trained workforce. "The Mexican capacity to build and produce highly technological products is totally different than before," he said.

The panelists also said the integrated supply chain fostered by NAFTA supports jobs at home and helps lower the cost of goods they produce. Many U.S. companies rely on imports of goods from Canadian and Mexican suppliers to produce their products.

TRADE WITH MEXICO

	Exports	Imports	TOTAL
Tennessee	\$4.7B	\$7.0B	\$11.7B
Georgia	\$3.6B	\$6.8B	\$10.4B
Florida	\$3.1B	\$6.6B	\$9.7B
Louisiana	\$7.4B	\$1.2B	\$8.6B
Alabama	\$2.9B	\$3.6B	\$6.5B
Mississippi	\$0.9B	\$1.6B	\$2.5B
TOTAL			\$49.4B

Sources: Foreign Trade Division, U.S. Census Bureau; U.S. Commerce Department; Mexico's Ministry of the Economy, Trade and NAFTA Office; wisertrade.org



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