Mexico | Both before and afterwards, NAFTA is advantageous for all three economies

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In the past few days the protectionist rhetoric wielded by several members of the US government, starting with president Donald Trump himself, has begun to be ratcheted up again. Once again the spurious argument has been peddled that the North American Free Trade Agreement (NAFTA) has been detrimental to the US economy and that this is borne out by the fact that the United States is running a trade deficit with Mexico. This does not stand up to economic logic for various different reasons.

Firstly, it is based on erroneous mercantilist notions which take it as a given that exporting is good and importing is bad, and that a trade deficit is something undesirable, while a surplus is something positive. If president Trump were to speak to the finest economists at the top universities in his country, he would be hard-pressed to find even one to endorse this line of thinking. Both exports and imports can create economic well-being. When a country imports more, what actually happens is that its consumers are buying goods that are cheaper or of better quality (otherwise they would not buy them).

If the intention is to assess the impact that NAFTA has had on the economic well-being of its member countries, the idea should not be to look at whether any particular country has a trade deficit or not. What should be examined is the extent to which overall trade among its members has increased. Each county should see how much the sum total of its exports and imports has risen by, since both of these are drivers of well-being. And if the United States delves into this, it will see that its trade with Mexico has multiplied several times over since NAFTA was signed. Even from the myopic standpoint that only exports are good, it can safely be concluded that they have been considerably boosted by the trade agreement and could decline without it.

Secondly, as I have already mentioned on another occasion, the United States does not only have a trade deficit with Mexico. It has one with the rest of the world. And this deficit cannot be accounted for by trade agreements, but is instead attributable to macroeconomic factors: The United States saves less than it invests, and this is the root cause of its current account deficit. It should be pointed out here that the fact that a country saves less than it invests is not necessarily a bad thing either, as this could indeed turn out to be a positive, if investment is directed at enhancing the economy’s productive capacity.

Thirdly, the figure for the US trade deficit with Mexico is not an accurate reflection of the nature of trade relations between both countries. Manufactures represent about 85% of trade between them. And in most cases these are not straightforward exports from one country to the other, but rather products which are made across both economies along complex value chains. It is very often the case (particularly with respect to the automotive industry) that Mexico is the last link in the production chain for manufactured goods, which means that when these are finally sold in the US market they are recognised in the accounts as Mexican exports when they really comprise products made by both countries.

At BBVA Bancomer we have calculated that on average total manufactured exports from Mexico to the United States contain some 44% of US input components. This confirms that NAFTA has been a decisive factor in developing value chains in the manufacturing industries in the United States and Mexico which allows them to be more competitive. In the absence of such chains the United States would experience higher production costs and therefore lose out on market share worldwide, which would lead to job losses instead of any revival of employment.

NAFTA has been beneficial for all three of its member countries. Revoking it would be a mistake with harmful repercussions for Canada, Mexico and the United States.

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