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What happens to Texas if the U.S. withdraws from NAFTA?

It would be a political and economic disaster, says **Mike W. Peng**

What happens if the United States withdraws from NAFTA? The answer obviously boils down to what NAFTA has brought to the United States — and to Texas.

In two decades, merchandise trade among the three member countries grew from \$290 billion in 1993 to \$1.1 trillion in 2016 — a nearly fourfold increase. An astonishing \$2 million of goods and services cross the borders every minute. Mexico alone imports more U.S. goods than China, and absorbs more U.S. imports than Britain, France and Germany combined. Canada imports even more made-in-USA goods.

What about jobs? Approximately 300,000 U.S. jobs — an average of 15,000 per year — were lost due to NAFTA in its first two decades, but about 100,000 jobs were added. The net loss was small, since the U.S. economy generated at least 25 million new jobs during the same period. At present, 8 million U.S. jobs depend on trade with Canada and another 6 million on trade with Mexico.

In fact, NAFTA has allowed U.S. firms to preserve more U.S. jobs, because 40 percent of the value of U.S. imports from Mexico and 25 percent from Canada are actually made in the U.S. This means many components are first made in the United States, exported to Mexico and Canada for final assembly, and then shipped back to us as imports. In comparison, only 10 percent of the value of U.S. imports from China is made in the U.S. Without NAFTA, entire industries may be lost, rather than just the labor-intensive portions.

Blessed by its location, Texas lies near the geographic center of NAFTA. Dallas is about equidistant from Mexico City and Toronto. Thanks to NAFTA traffic, Laredo — which is not even a seaport — has become the country's third-largest port in terms of total dollar value.

Growing by leaps and bounds, the Lone Star State has been the country's champion state in merchandise exports since 2001. Some 380,000 jobs in Texas depend on trade with Mexico, and over 2 million jobs are trade-related — most in manufacturing.

The Federal Reserve Bank of Dallas estimated that NAFTA accounted for a quarter of Texas' sixfold increase in exports to Mexico since 1994. Greater diversification and stronger NAFTA integration have brought another intangible, but crucial, benefit to Texas: Our economy is no longer so susceptible to crises induced by the collapse of oil prices.

What if the United States withdraws from NAFTA?

First, relax: Not all of the benefits will go away. After all, NAFTA represents artificial, man-made rules of the game. Geography, history and economics dictate that the three North American neighbors will not stop trading. They will still gain by trading, but the gains will be smaller. We can still enjoy plenty of yummy avocados from Mexico, but we will have to cough up more money for our beloved guacamole.

Second, if the Trump administration unilaterally imposes "a big border tax," Canada and Mexico will certainly respond in kind. As a state, Texas has benefited the most from NAFTA's contributions and will suffer the most from NAFTA's collapse. Thousands of jobs in manufacturing, logistics and other services will disappear.

NAFTA has served as a foundation of economic growth and job creation throughout the country, but particularly in Texas. While NAFTA is not a perfect solution, dismantling it would be disastrous economically and politically.

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