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February 22, 2008

## **NAFTA - - This Seasons' Political Football?**

Recently, the *Congressional Quarterly* observed that the contestants for the Democratic presidential nomination were arguing back and forth about the North American Free Trade Agreement (NAFTA), which went into effect in 1994. The Obama campaign has sought to pillory Hillary because her husband pushed the Congress to adopt NAFTA when he was President, even though it appears that she opposed the agreement at that time. (The agreement had been negotiated by the first President Bush.) Both candidates have called for tinkering with NAFTA to add more provisions on labor rights and environmental controls, and both have pretty much the same voting records on other trade issues. Yet the Obama people see NAFTA as a way of weakening the Clinton grip on the votes of workers and union members.

Why has NAFTA taken on this toxicity? One reason, of course, is the loss of U.S. manufacturing jobs in recent years. Those losses are a fact, and it is easy to attribute them to nefarious deals by the government to export jobs and wealth. But how do the facts stack up against these suspicions?

First of all, there can be no doubt that trade with Mexico has grown substantially since NAFTA came into effect, as has our trade deficit with that country. In 1994, the total trade between the two countries was about \$100 billion, with the U.S. enjoying a slight surplus. By 2007, trade had grown to \$347 billion, with Mexico holding a \$74 billion surplus. This is a big change, but the numbers pale beside the trade deficit we have with China (\$256 billion for 2007). Our overall trade deficit for 2007 was \$712 billion, making Mexico's share about 10%.

Another factor to take into account is that Mexico is one of our larger suppliers of crude oil and petroleum products, to the tune of \$35 billion in 2007. While overall imports of all Mexican products have grown about 55% since 2000, the value of crude and petroleum products more than tripled in that time.

What about manufactures imported from Mexico? By far the largest category (\$63 billion in 2007) was computers, electronics, electrical appliances and components. One might ask whether it would have been reasonable to expect production of those items to remain in the U.S., NAFTA or no NAFTA. Other categories, like textiles and apparel (\$6 billion in 2007) could be thought to fall in the same category. Finally, imports of agricultural and food products (another \$6 billion) have a somewhat tenuous connection to U.S. manufacturing workers.

Mexico is now our second largest customer. In 1994, we sold less to that country than to Japan; now we sell them more than twice as much. Our exports to Canada (our largest customer) increased 116% over those years; our sales to Mexico increased 168%. Of course, customers must have income to buy your products, so higher revenues for Mexican producers are a *sine qua non* for the growth of our exports.

Another aspect of this picture is the political. We are a country now desperate to secure our energy supplies; Mexico is our third largest supplier of crude. We are scratching our heads for solutions to our immigration problems; imagine what they would be absent the increase in Mexican jobs produced by NAFTA.

There are good trade agreements and bad ones. NAFTA is far from perfect. But the objectives of the agreement – to produce export opportunities for American companies and workers, to assist Mexican economic development and to forge tighter political relationships with that country – have been promoted, if not yet fully realized. Thus, while the agreement could be improved and probably will be, it ought not become a blot on the escutcheon of any political candidate who may once have said something nice about it.

Turning to this month's data:

- Scrap and Pig Iron. Prices eased a bit for #1 dealer bundles and #1 busheling (Chicago). Both were at \$410 per mt, a decline of \$5 for the former and \$10 for the latter. In contrast, the spot price for Brazilian pig iron (cif New Orleans) continued its climb, this month by \$20 to \$470 per mt; it is now \$105 above the previous high in November, 2004.
- Natural Gas. The Nymex spot price was up by 22¢ to \$8.06 per mcf. With crude now at around \$100 a barrel, this price seems not as high as it could be, and much lower than the \$13.86 of November, 2005.

- Ocean Freight. The Baltic Capesize Index, which dropped like a stone last month, started back up again. It increased by over 750 points to 9,490, still well below its record high last November of 15,945.
- Exchange Rates. The dollar declined last month. The euro is currently up 2¢ to \$1.47 and the pound up a penny to \$1.96. The Canadian dollar increased 3¢ to \$0.99.

We are always eager to have your comments, so be in touch. As usual, we are posting this letter on our website, [www.coreysteel.com](http://www.coreysteel.com) and on the international site, [www.steelonthenet.com](http://www.steelonthenet.com).