https://www.bloomberg.com/view/articles/2018-10-01/virginia-and-canada-forged-deals-through-nafta

Bloomberg Opinion (Oct. 1, 2018)

Why Trump Couldn't Kill Nafta

The uncertainty around the Canada deal has hurt relationships years in the making.

By Joe Nocera

Most policy discussions about trade tend to focus on China, which has a $337 billion trade deficit with the U.S., and which has caused President Donald Trump to impose $200 billion worth of tariffs on Chinese goods. Yet as you can see from the map, China is the largest trading partner for only five states. Meanwhile, unheralded Canada is the largest export market for 36 states; indeed, in 2017, Canada bought $340.7 billion worth of goods and services from the U.S., twice that of the Chinese.

The rationale for some of these relationships are obvious. Because of Nafta, automobile manufacturers have created cross-border supply chains, so it's only natural that Michigan and Canada would be important trading partners. New York is the financial capital of the world, and has a contiguous border to boot. If you want to import medical devices, you have to do business with Minnesota, which is the center of that industry.

But Colorado? Oklahoma? Pennsylvania? Virginia?

How did Canada become such a vital part of the state's economy? What does Virginia sell to Canada? And how much did Nafta have to do with it? To give away the punch line: Nafta had a lot to do with it.

A little context is in order. In the scheme of things, $5 billion worth of trade — $3 billion in exports, and $2 billion in imports — is not a large number given Virginia's $508 billion gross domestic product. But it's a big chunk of the state's international trade, amounting to just about one-fifth of the state's total exports. Trade with Canada is responsible for about 281,000 Virginia jobs. Some 200 Canadian companies have offices or factories in Virginia; the people they employ — and the things they make — matter to the state even if they don't show up in the trade statistics.

The case against Nafta by labor (and President Donald Trump) is that it drove American manufacturing jobs to Mexico, where worker costs are significantly lower. And, in fact, during the first few years after it was signed in 1993, that's largely what happened in Virginia. Textiles, auto parts and other manufacturers, mainly in southwest Virginia, closed their doors. Some went to China — especially the textile industry, which was in decline well before Nafta — but others went to Mexico. "There was short-term pain," says Don Beyer, a two-term Democratic congressman who represents the Northern Virginia cities of Arlington, Alexandria and Falls Church.

At the same time, though, the state's companies began to find advantages in Nafta; by 2003, a decade after the trade pact went into effect, Virginia had seen its exports to Canada and Mexico more than double, from $1.2 billion to $2.5 billion. Since the early 1980s, for instance, Volvo had built heavy-duty trucks in Dublin, Virginia. Because labor is a smaller percentage of costs for trucks than it is for cars, there was no need for Volvo to move its truck operation to Mexico.

On the contrary: Because Nafta had largely eliminated tariffs among the three countries, Volvo could consolidate its North American truck manufacturing in Virginia, where the trucks could easily be exported to Canada. Today, the plant employs 3,200 people, and its trucks have 14 percent of the Canadian market. Trucks and tractors generate $280 million in export revenue for Virginia; most of that is due to the Volvo plant.

Nafta made it easier for Virginia paper and forest products companies to compete with one of Canada's most important industries: timber. Virginia now exports more than $400 million worth of such products to Canada (and imports another $200 million or so). The same was true of other industries like aluminum, steel alloys, and heating and refrigeration equipment.

According to Paul Grossman, the vice-president of international trade for the Virginia Economic Development Partnership, the state had several other advantages that helped the trade relationship. Transporting something from Virginia to eastern Canada — or vice versa — was just a straight shot up Interstate 95. Virginia's proximity to Washington meant that Canadian companies who set up shop in the state had easy access to trade officials at the Canadian Embassy. Virginia is the northernmost right-to-work state, which foreign companies generally find appealing. Plus the language is the same (except in Quebec, of course), as are the cultural and business norms.

Here's another important factor; Virginia didn't just let trade happen to it. At least since the financial crisis of 2008, it has aggressively sought out trade deals with Canada and many other nations. This has been especially true since 2014, when Terry McAuliffe became the state's governor. As he told me the other day, Virginia was hurting when he entered office because federal budget cuts had caused the state's big defense contractors to eliminate thousands of jobs. Trade, he realized, was a means to bring the economy back.

"I went on 35 trade missions in four years," he said. "I ate chicken paws in China — but we got the Chinese to lift the poultry ban so Virginia can export chickens to China." He would

take Virginia businesspeople with him, introduce them to potential buyers, and then watch them cut deals.

“I went to Canada every year,” McAuliffe said. “We got craft beer in there, and wine, and oysters.”

Travis Croxon, the co-chief executive of Rappahannock Oyster Co., was on one of those trips. “You get face time with people,” he said. “We can show them the quality of our product and tell them about our company.” Croxon signed deals with two Canadian companies that supply seafood to restaurants. His Canadian business is still small, but overall, the revenue Rappahannock generates from trade is approaching 10 percent.

As is true in many parts of the country, the Virginia economy is now thriving — the unemployment rate is 3.2 percent. “Even in southwest Virginia, it’s around 4 percent,” said Beyer, who was a car dealer before he ran for Congress.

I asked him if Virginians believed, as Trump does, that Nafta was “a bad deal.” No, he replied. “I ran as a free-trade Democrat,” he said. “I didn’t have a single constituent complain to me about Nafta. I have been able to make the case that you cannot grow your economy solely from within. You need trade. Trade has created a lot of good jobs.”

According to early reports, it appears that Canada will ease protections on its dairy industry, which is something Trump has complained about practically since he began running for president. But the U.S. agreed to maintain a dispute resolution mechanism that Canada insisted on, and it also agreed not to impose automobile tariffs, and to lift tariffs the president placed on steel and aluminum

The media has been quick to label the deal with Canada – called the U.S.-Mexico-Canada Agreement, or USMCA – a “win” for Trump, but the truth is that for all his bluster, Nafta hasn’t been “renegotiated” so much as it’s been fiddled with on the margins.

The new Nafta – which Trump will no doubt praise – will be more or less the same as the old Nafta, which he has called “the worst trade deal in history.” Virginia will no doubt breathe a sigh of relief, as will businesses and labor unions and states across the country. They all understand that trade creates more jobs that it destroys, which is exactly what the Virginia example shows.

I asked McAuliffe what would happen if the clock were ever to be turned back, and the U.S. and Canada suddenly reimposed significant tariffs on each other’s goods. “Countries have options,” he replied. “They don't have to trade with America. They can go elsewhere.”

Although McAuliffe was hopeful that trade normalcy will resume once Trump leaves office, he worried that Trump’s penchant for erecting tariffs would hurt exporters for a long time to come. “Trump is wrecking relationships,” McAuliffe said — relationships between Americans sellers and foreign buyers that, in some cases, took years to develop. Once

companies find other ways to get the products they once got from America, they not likely to come back any time soon, no matter who's elected president next.

In the end, it wasn't just Canada that couldn't walk away from Nafta. The U.S. couldn't either.