

Free Trade. It Matters.

by Jorge Canavati

November 19 2016

Today, the United States has a record in manufacturing and exporting. International trade being a primary cause for this growth. Trade is a fundamental creator and supporter of jobs. It is not possible to manufacture and export if you do not import. Parts, raw material, technology, services; whatever component necessary to manufacture. Trade. Pure and simple. The act of moving one ocean container of imported goods at a U.S. seaport supports three jobs. 2013 numbers show that U.S. export alone supported close to 11.5 million jobs. Trade with Mexico supports an important percentage of this number. “Made in USA” jobs really matter. During that year, the U.S. exported to over 230 countries. Though more than a third of that was to Canada and Mexico. Think about that. North America supplies itself. An exemplary trade bloc.

It is very easy and popular to point fingers at other countries when there is a shift in manufacturing jobs. Don't blame other countries. Blame the R2D2's and C3PO's. Take General Motors, for example. GM is cranking out more automobiles than ever before with less workers. What is going on? More with less. This means technology and automation are the culprits for jobs fading away. Yes, manufacturing has come back from the far east, (the famous “re-shoring” term), but to highly automated manufacturing. Steel once made in China is now being made here again at very sophisticated high tech the mini-mills using scrap. By 2020 the United States will be the most competitive country in the world as it relates to manufacturing and mostly with high tech automation. The economics are better than re-training a person. And on a positive note, confidence in the U.S. economy has caused healthy foreign direct investment. The job creation caused by this in combination with other things has offset whatever jobs migrated out of the U.S.

We also like to use the term “cheap labor” when we refer to Mexico or other countries. This needs to be put into perspective. Cheap labor has a sweat shop connotation to it. Mexico, for example has very strict labor laws. And costs are more in tune to economies of scale than “cheap labor.” Ironically, as the peso slides due to the pessimism in the market triggered by the grim rhetorical climate on trade, it makes manufacturing there more cost effective.

I am a big supporter of Binational Shared Production. A plant in Mexico or the U.S. has an intrinsic supply chain value creating binational jobs and growth. Let's take Toyota Motor Manufacturing of Texas (TMMTX) for example. This plant located in San Antonio assembles Tundra trucks. The supplier of chassis is in Monterey Mexico, the chassis are brought up on rail to the plant located in San Antonio, Texas. This must be an efficient rail service for such critical components to make it on time. Air cargo services have been developed for automotive parts. The tier suppliers on the TMMTX campus and their suppliers not only supply the San Antonio plant but supply automotive plants in Mexico. Parts manufactured in Mexico supply the Toyota plant in San Antonio as well. Partially assembled components cross the border multiple times. This is not endemic to San Antonio. Other plants in Mexico and the U.S. are all interconnected to

include other areas of the world as well. Manufacturing, trade and job creation are integrated in North America

And I have yet to touch upon the most important player in all of this: the U.S. consumer. Competitive prices at retailers are due to trade. Ask Wal Mart. By the way, Wal Mart is not a retailer but a very sophisticated, well lubricated logistics machine. Therefore, your automobile costs you thirty thousand dollars and not eighty thousand dollars. Threatening manufacturers that may migrate a plant to another country with heavy tariffs only raises the cost to the consumer. The recent Ford decision to move some manufacturing to their Mexico plants was a decision based on the need for re-tooling one plant in the U.S. for a newer model. Manufacturers that have plants throughout the world have a grander vision of how things should work. It is not one against the other. Things are one. This is globalization. These organizations see what is beneficial between regions. Protectionism can make all this come to a screeching halt. Protectionism is a strong basis for abysmal recessions in economies. And South Texas should be worried.

Let's take Corpus Christi for example. In recent years, this Texas city has been a success story in attracting domestic and foreign direct investment. Over 40 billion dollars have been invested here recent years. Manufacturing and energy company from all over the world have invested here for various more many reasons: 1) a friendly business environment, 2) labor availability 3) cheap gas, 4) excellent logistics and 5) a closeness to Mexico a major trading partner. Corpus Christi is becoming a primary supplier of natural gas to Mexico and primarily to Monterrey, a top industrial center in the country and a key component to north American business. Gross shifts in trade policy can and will affect manufacturing which in turn will affect the supply of fuels to places like Monterrey. Not to mention the effect on jobs created by this foreign direct investment.

Other advancements in binational trade will certainly be damaged. Let's take for example, the U.S. Customs-Mexico Aduana recent protocols. Though both countries have shared cooperative protocols in the past, such as binational agricultural export inspections. The most recent agreements regarding customs has special significance. For the first time in history Mexico customs is on U.S. soil clearing automotive parts at the Laredo International Airport bound for Mexico. Though this operation is small it has teeth. First, it is air cargo which basically guarantees non-tampering security in pre-cleared goods. The goods arrive to Mexico already Mexico customs cleared. This project is a prototype and by no means is it endemic to Laredo. In the foreseeable future, this project may very well be done on intermodal transportation from other parts in the U.S. such as Chicago. In other words, Mexico customs will clear goods from the manufacturing or distribution source in a secure location in Chicago, then the cargoes will be securely transported to destination within Mexico already customs cleared. And by the same token, U.S. Customs is now in Chihuahua clearing cargoes bound for the U.S. and for the first in history though under very strict conditions and protocols, the U.S. agents are armed. Mexico adjusted laws for this to happen. Until recently this was unheard of. Great examples of binational cooperation in trade. This could all vaporize under a protectionist umbrella.

It is also very naïve and foolish to believe that other countries will be willing to buy U.S. goods without reciprocal arrangements. The rhetoric today is very confusing to people. We hear how

the incoming government will support U.S. agriculture. And at the same time, we hear of the abandonment of the trans Pacific Partnership which is a huge booster to U.S. agriculture. By the way, agriculture in the U.S. is suffering due to a lack of U.S. workers *willing* to do the jobs. U.S. farmers are obliged to bring in workers from Mexico and other places on temporary HIB-A work visas to get the fruits and vegetables to your table. Go figure.

A renowned air conditioning company has their plant in Monterrey with the distribution center in San Antonio. This not only helps consumers keep their homes cooled here at complete prices but it has more than supported various U.S. trucking companies in business in transporting the units to the U.S. market the drivers are thankful for the work and jobs. I attend the San Antonio Transportation Association monthly luncheons as much as I can. And without fail, the trucking companies attending are always looking for drivers. There is a lack of drivers in the United States. And as manufacturing and trade grows so will the need for these jobs. These are good paying, honorable jobs. So, if a manufacturing plant migrates, re-training is in order. As well as reassignments. Jobs abound in the United States. Ed Rendell, the former governor of Pennsylvania has a precise view on this. But to be honest, the part of society involved in open and free trade which is a minority, has done a very poor job in educating and sharing information with John and Jane Q. Public. Me included. We have behaved like elitists. We have done too little too late in promoting and marketing trade in a way that is acceptable to society. And this is when populism rattles its sabre.

####

Sources:

- “Why Robots, Not Trade, Are Behind So Many Job Losses”, Paul Wiseman AP Nov 4, 2016
- “The Role of Exports in the U.S. Economy” An economic report of the U.S Department of Commerce May 2014
- U.S. Trade Representative website.

Jorge Canavati is the principal at J. Canavati & Co. LLC. An international consulting, agency and commercial representation firm. He lives in San Antonio, Texas

Mr. Canavati has over 30 years of experience in International Trade, multimodal transportation, air cargo and logistics. He is the author of various articles and editorials on Mexico and world trade and transportation issues.

Mr. Canavati is on the board of various international trade organizations and is the official U.S. representative of the National Importers and Exporters Association of Mexico (ANIERM). He serves on the Border Trade Advisory Committee (Texas Transportation Commission) appointed by Texas Secretary of State Hope Andrade and re-appointed by Secretary John Steen. He serves on the Camino Real District Export Council, appointed by the U.S. Secretary of Commerce. He was recently appointed to the board of the San Antonio-Mexico friendship council and nominated to the San Antonio Business Journal Who’s Who list in Energy Logistics.

He lectures at various universities and participates on various high level panels per year at international trade events. He has been married for 33 years to Daisy Miriam and has two children, Jorge Mauricio 30 and Gabriela Sofía 28 and a gorgeous granddaughter Penelope Michelle of 7 months.

Jorge Canavati

Email jc@jcanavati.com

www.jcanavati.com