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Posted on Thu, Jul. 14, 2005

Why Minnesota needs CAFTA

The growth in Minnesota's foreign exports has lagged Wisconsin's and the nation's as a whole since the passage of NAFTA.

As usual, this month's fedgazette, the publication of the Minneapolis Federal Reserve Bank, is good reading. Of particularly interest to us was an interview with University of Minnesota economics professor Tim Kehoe, who argues that Minnesota will benefit greatly from the passage of the Central American Free Trade Agreement.



The North American Free Trade Agreement, the historic pact between the United States, Canada and Mexico, not only changed the volume of trade, but the kinds of goods that were traded — unless your business is based in Minnesota. The Land of 10,000 Lakes has been a free-trade laggard when it comes to Mexico. Minnesota not only lags the rest of the country, but our neighbor to the east.

"Wisconsin has been much more successful at expanding its exports than Minnesota," Kehoe said. "Why? We found that a huge amount was accounted for by expanded exports to Mexico."

The definitive reasons are a little less clear. Partly it's because what Minnesota exports didn't change as drastically as it did for the rest of the country.

"Chemicals and allied products, rubber and plastic products, textile products, apparel, clothing, furniture and fixtures — these are all sectors where Wisconsin was experiencing something like 500 percent growth in its exports to Mexico," Kehoe said. "Minnesota did not get this kind of big expansion in the products it had not been exporting before, the same way the United States as a whole or Wisconsin had."

Kehoe also noted that the gains made by Wisconsin weren't so much by big firms, but by smaller businesses that had never before traded internationally. He suggests that looking at other successful state trade offices might be an option for Minnesota.

Speaking strictly for St. Paul, we'd suggest that the city and state leverage the new Mexican consulate as much as possible. This is, after all, one of the reasons that we have such things. But Kehoe's most important point is about what we can expect from CAFTA based on almost 10 years of NAFTA data.

"There is a huge potential for expanding our trade in Latin America," he said. "Right now, Mexico does a lot more trade than the rest of Latin America combined, even though the rest of Latin America combined is far bigger than Mexico. So if countries in Latin America, especially Brazil and Argentina, open up to U.S. trade to the same extent Mexico has, it would give us a huge opportunity for expanding our exports."

We agree. In the meantime, Minnesota needs to figure out how it can best take advantage of these

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