Mexico-U.S. Trade Relations and The Prospects for Integration

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The United States has been Mexico's main trade partner since the 1930s. Exports and imports to and from the U.S. make up more than three-quarters of Mexico's foreign trade. Tourism to and from the United States accounts for around 80 percent of all the country's tourism. Mexico shares with the United States a 3,000-kilometer-long land border, two seas and two large rivers. Most foreign investment in Mexico comes from the United States, as do the maquila plants and recently opened franchises. Both inward and outward capital flows either come from or go to U.S. banks or financial institutions. The country's private and public foreign debt is mostly with U.S. banks. Legal and undocumented migrants, mostly Mexicans, crossing Mexico's northern border all head for the United States.

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As a result, since Mexico's economic opening starting in 1983 and really intensified after the North American Free Trade Agreement (NAFTA) came into effect in 1994, it seems natural that a process of economic integration between Mexico and the United States began, with its resulting broadening and deepening of bilateral economic relations. This is even more understandable when the central aim of Mexico's liberalization and de-regulatory policies was to stimulate economic growth through exports, that is, "outward" growth, and financing via foreign investment.

Mexico's commercial and financial exchange abroad over the last two decades has been marked by the reform that has been NAFTA. Its pros and cons can be summarized as follows:

Favorable:

a) Mexico's exports have grown extraordinarily, today making up almost one-third of the country's gross domestic product (GDP). Of these exports, three-quarters are manufactured goods. This has had a positive effect on employment in Mexico's export sector in the first years of NAFTA. Today, Mexico is the world's third largest exporter to the United States, surpassed only by Canada and China. On a world scale, only China has increased its penetration of world markets more.

b) The trade balance with the United States is positive and has been growing since 1995; in 2007 came to more than US$82 billion.

c) Net flows of foreign direct investment (FDI) have been positive and have remained high. This has made it possible to set up export and maquila plants in the country and, financially, has prevented the deterioration of the balance of payments and allowed the country to accumulate international reserves of foreign currency, currently totaling almost US$80 billion. Last year, the net FDI flow was US$23 billion, an amount comparable only to the remittances sent by Mexican workers living in the United States or to revenues from oil exports.

d) Low-priced imports have contributed to decreasing inflationary pressure inside the country and to improving competitiveness in some branches of industry, thus favoring exports.

Unfavorable:

a) The spurt of exports has been uneven. Some branches of industry have increased their presence in the international market, while others have lost market share. On a company level, the favorable effect has been concentrated: there are 300 important exporters, almost all linked to multinationals.

b) Total imports have also grown extraordinarily, making up more than one-third of aggregate supply. They have displaced local industries, causing unemployment, and, above all, they have structurally linked Mexico's manufacturing sector with the U.S. economy, transferring some trade benefits there.

c) The sum of these trends translates into an increased structural dependency of the Mexican economy on the outside world. An example of the gravity of this situation is that, to be able to keep up the rhythm of imports needed for the economy to grow and at the same time maintain a manageable trade deficit, exports have to grow 15 percent a year, a difficult if not impossible feat.

d) While direct and indirect jobs created by exports increased significantly, this only partially compensated for the im-

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port-related loss of formal jobs. The country's formal employment rate has not grown as expected because the impact of exports on general economic activity is small compared to the low level of domestic market activity.

e) The growth of the work force requires that the Mexican economy create more than one million jobs a year. Since this has not happened despite the increase in exports, migration to the United States, estimated at 500,000 persons a year, has increased. NAFTA lacks favorable rules to regulate migration, which occurs because of the lack of opportunities in Mexico and the demand for cheap labor in the United States.

f) The terms of NAFTA are unfavorable for Mexico in several ways:

- With regard to the agreement's legal jurisdiction: in Mexico's case, it is applied nationwide, whereas in the United States, some states of the union put their own laws above NAFTA. In this sense, we are at a disadvantage.

- In the agricultural sector, the United States maintains its subsidies, while Mexico committed to withdrawing them and kept its promise.

- The format for controversy resolution is unfavorable because there is no way to prevent products with U.S. labels from entering Mexico tax-free from the U.S., but which do not comply with rules-of-origin requirements because they were actually manufactured in Asia.

- Existing compensatory mechanisms are not regularly applied, and when they are, they have no real effect.

g) The trade balance with the rest of the world is increasingly unfavorable to Mexico, particularly with Asian countries like China and Hong Kong, Japan, Korea, Malaysia and Singapore.

h) Fifty percent of exports originate with maquiladora plants, which contribute only 3 percent of the country's total employment and do not use nationally produced raw materials. No state-regulated or sponsored program is currently operating.

i) The entry and exit of capital in hard currency, nationally or foreign owned, is totally unregulated, therefore completely freeing up the entry of speculative capital and Mexican capital flight abroad. It is estimated that Mexican citizens have more than US$65 billion dollars on deposit in banks abroad.

j) Trade and exchange rate policies are no longer utilized as state instruments to foster and regulate foreign trade.

Like with any international trade agreement, NAFTA sparks passionate debates about its merits, risks and results. This is due to the fact that despite official rhetoric, far from always being a win-win game, free trade tends to create winners and losers among the countries involved.

Debates about NAFTA recently became front-page news in Mexico when on January 1, 2008, the grace period agreed upon in the treaty ended and the time came to reduce tariffs to zero and/or eliminate non-tariff barriers on grain imports, particularly corn.

The peasant organizations said this was yet another blow to their precarious economic situation, which might result in increased migration to the United States if more peasants become unemployed. Just in the period from 1994 to 2004, 1.3 million jobs were lost in the Mexican countryside, which is why this is considered the main cause of emigration.

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To call the attention of both the public and the government to their demands, a few weeks ago, peasant organizations held a giant march and rally in Mexico City. They made an urgent call on the federal government to review NAFTA, particularly the clauses referring to trade in corn and beans. The producers of these grains complain that trade with the United States is unequal, since they receive no government subsidies and U.S. farmers do.

There are also NAFTA opponents in the United States. This issue has been a thorny one in the presidential primaries. Opponents say that one million jobs have been lost there in the last 14 years, all in manufacturing, and that trade with Mexico has caused downward pressure on the average wage.

Environmental groups also complain that large commercial firms both inside and outside the United States have not complied with NAFTA 's environmental stipulations due to the weakness of the regulatory institutions created by the agreement itself, whose norms lack both teeth and money for monitoring compliance.

Experts analyzing NAFTA's prospects think that the next step in the integration process should be the unification of the three countries' trade and monetary policies. This implies, on the one hand, establishing a customs union, and on the other, creating a common currency, just like the European Union. Although the two measures could be implemented relatively independently of each other, several obstacles would make it difficult, at least with regard to Mexico. Among the many complicated trade policy issues, one important one is Mexico's tariff structure, which differs from that of the United States, and the unavoidable fact that there would be no way of negotiating an intermediate structure given the asymmetry of power of the interest groups in the two countries.

The same is true of monetary policy. In this case, the problem of the loss of sovereignty goes beyond any worn-out nationalism: Argentina's experience is indelibly etched on the minds of the rest of the hemisphere.

For Mexico, it is very important to take a step forward in integration regarding the mobility of productive factors through a migratory agreement that would be part of the overall treaty, as was done in the European Union. This should be seen as the need to regulate a social phenomenon that is both unstoppable and affects both countries.

In the United States, politicians seem to be taking on board the demand to review NAFTA, believing that job losses in their country are due to the trade deficit with Mexico. This viewpoint completely ignores the gigantic U.S. deficit with Japan, China and the European Union.

The other issue that the United States must review is climate change and its effects on NAFTA, so that appropriate measures can be taken to stop pollution and prevent the adverse economic effects that come with it.

Any attempt to change NAFTA by the governments of the countries involved must take into account the asymmetry in the living conditions of the Mexican, U.S. and Canadian peoples. More than forced integration, these asymmetries demand the collaboration of the three nations in really solving the problems of lack of jobs, health care, education and housing.

This must be uppermost in the minds of negotiators, taking precedence over the interests of the large corporations that have been the biggest beneficiaries of the agreement in all three countries. VM