# Tracing U.S. Predominance In Mexico's Foreign Trade (1870-1948)

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The 1880s. The railways facilitated the aqcuisition of capital goods for setting up modern Mexican industry.

The United States' being Mexico's main trade partner is so obvious and familiar a fact that we forget that it is a historic phenomenon. The main aim of this article is to explain the process whereby the United States, despite the striking fluctuations in its participation in Mexican foreign trade up until the end of World War II, became our most important trade partner. It should be said that, more than a steady increase, it took the form of waves of differing intensity.

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Let me begin by explaining the general evolution. Graph 1 illustrates U.S. participation in Mexican imports and exports from 1870 to 1948. To simplify annual fluctuations and look at the basic trends, Graph 2 presents the same data in three-year averages. Several points are worth noting. In the first place, it is little known that in the 1870s, the United States was still only a secondary trade partner for Mexico, particularly in terms of imports. Ahead of the U.S. was Great Britain and at times France, which together represented 60 percent of Mexico's purchases abroad.

In the second place, the United States starts to play a more preponderant role after 1880, although the trade pattern was subject to strong fluctuations that suggest that this was not by any means a linear, irreversible process. In the 1890s, imports from the U.S. dropped somewhat and in the first decade of the twentieth century, so did exports. Both imports and exports dropped consistently from their maximum at the end of the first decade of the twentieth century until the end of the 1930s, rising again during World War II. Regardless of the causes of these fluctuations (to which we will return later), their very existence seems to contradict the commonly held opinion that the ties of dependency with the United States tightened progressively and that these ties were not only increasingly intense but also practically impossible to override. To the contrary, the data on the graph suggests significant flexibility in the geographic distribution of Mexico's foreign trade. One way or another, our country was capable of reorienting its exchanges and broadening out its clientele and suppliers when domestic or international conditions so demanded.

In the third place, the graphs show that U.S. participation in Mexican imports was much smaller than in exports for quite a prolonged period, at least until the first decade of the last century. There is a gap, then, between the earlier and —as of the 1880s— very high concentration of exports and the later, more moderate concentrations of imports from a single country. This differential suggests that Mexico's making a high percentage of its sales in the United States was not a consideration in its picking its suppliers on the international market. This again contradicts the image of dependency and obligatory reciprocity. This relative autonomy was neither transitory nor brief: it lasted no less than 45 years (between 1870 and 1915), and included a stage in which the concentration of Mexican exports sent to the U.S. market was almost overwhelming (over 70 percent after 1887).

## The First Wave: The 1880s

The first important U.S. presence in Mexico's foreign trade began in the 1880s. This coincided with Mexico's first opening to the international economy and is associated with the creation of certain material conditions that made the two countries' geographical proximity concretely significant. In this period, Mexico imported railroad track, machinery, rail equipment and construction tools. By the end of the decade, three important rail lines that linked the northern border with Mexico's interior had been built. These investments soon brought others aimed at mineral deposits close to the U.S. border, which translated into imports of more machinery and production goods. The railways also facilitated the acquisition of capital goods for setting up modern industry, even if it was of modest size and heavily concentrated by region.

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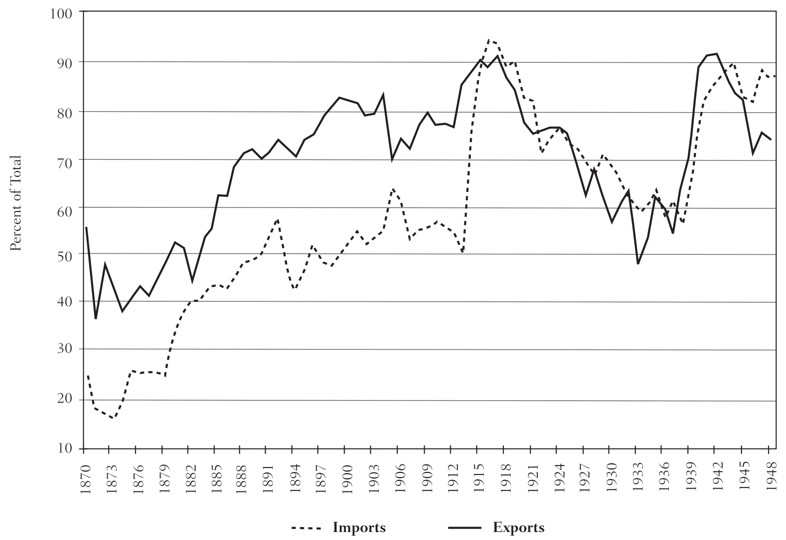
The modification in import patterns not only implied a drastic change in their origin, but also in their composition; the traditional basket of luxury consumer items began to combine with more machinery and inputs for production. The latter went from 26 percent in 1880 to 40 percent in 1882 and 60 percent in 1892, compared to less than 30 percent in the previous 50 years.

The case of exports is different since the United States was traditionally more important for Mexico as a market than as a supplier: by the 1870s, the U.S. was buying 45 percent of Mexican exports for different reasons. On the one hand, an important number of them were precious metals used for making payments abroad. The United States was the main destination for these resources since it was Mexico's financial intermediary with the rest of the world. In terms of trade in goods proper, a large part of Mexican exports were made up of articles produced in coastal areas: hemp, coffee, vanilla and tinctorial woods, all items that could be easily shipped by sea so that the lack of land transportation would not interfere with their commercialization in the United States.

During the 1880s, U.S. participation in Mexican exports rose considerably: from the 45 percent of the 1870s to 60 percent in the 1880s and around 74 percent as of the 1890s. This jump should be associated with the participation of U.S. capital in railway construction and the wave of investments that this produced. The railroads made it possible to mine Central-Northern Mexico's ore deposits and opened vast areas of the country to production for export. Exports by land to the United States went from U.S.$1 million in 1877 to U.S.$12 million in 1890.

Naturally, this process also implied a progressive change in the composition of exports: starting with a modest mix of precious metals and a few agricultural goods, it began to broaden out to include minerals and metals with different degrees of refinement: first lead-silver compounds, then copper and later zinc. Other traditional exports, such as cat-

**GRAPH 1**
**U.S. PARTICIPATION IN MEXICO'S FOREIGN TRADE (1870-1948)**
**(ANNUAL PERCENTAGES)**




**Sources:** For the years 1870-1929, figures of Mexico's main trade partners reconstructed by the author; for the years 1930-1948, Mexican government trade figures.

tle and animal skins, increased with the availability of rail transport. At a certain point, the diversification of exports made it possible to decrease the importance of the transfer of metals that had traditionally served to cover the trade deficit.

In summary, the proximity of Mexico and the United States and the rise of the railroads were historic phenomena that made it possible for the U.S. to achieve the absolute, insurmountable advantage in trade with Mexico vis-à-vis its traditional European partners.

## THE SECOND WAVE: THE TEENS

In the first decade of the twentieth century, U.S. presence in Mexico's foreign trade seemed to stabilize at about 76 percent of all its exports and 60 percent of imports, despite cyclical fluctuations. Nevertheless, in the following decade, World War I caused a severe break in international trade patterns. The war led the European powers to concentrate their production and energies on military objectives, interrupted the circuits of inter-oceanic commercial traffic and reoriented a large part of maritime transport to wartime use. The United States became the great distributor of goods, concentrating an unusually large portion of world trade. This was felt throughout Latin America, although in Mexico, where this had already been happening before the war, the impact led the concentration of trade to extreme levels: in 1917, 91 percent of Mexican exports went to the United States, while 93 percent of its imports came from there.

In the case of Mexico an additional factor contributing to this concentration was the Mexican Revolution, whose most severe stage of civil war took place between 1913 and 1916. It was very difficult for European partners to cover the particular needs of the Mexican market in that context (arms, munitions, horses, explosives and basic consumer items like grain, suet and soap). In addition, the border became more penetrable given the world situation. To obtain these goods, Mexico had to orient a large part of its exports to the U.S. market. In addition to the difficulties of international traffic, the needs created by the Mexican Revolution imposed greater concentration of trade with the United States. As a result, for the first time export patterns matched import patterns and the United States acquired absolute domination over Mexico's trade abroad.

In contrast with the first wave, on this occasion, the factors that explained trade dependence on the U.S. were not economic, but derived from political-military conditions and therefore were transitory: they ceased just as soon as international trade routes reopened in 1919. Mexican imports from the United States plummetted from 90 to 72 percent in only three years and despite certain fluctuations, they continued to drop throughout the decade until they reached 60 percent in 1933. Changes in exports were even more surprising since from being 85 percent of Mexico's total in 1919, they dropped to 63 percent in 1927 and only 48 percent in 1933. This put the U.S. at its lowest share of Mexican exports since 1877.

## THE DECLINE: 1920-1938

It is easy to suppose that the end of World War I would signal a return to pre-war trade patterns. However, the first surprising piece of information is that Mexico's dependence on imports from the U.S. between 1915 and 1919 reversed itself to the extent that in the mid-1930s they had only the same relative importance as in the first decade of the twentieth century. That is, the extreme concentration of Mexican trade (91 percent on the average between 1915 and 1919) did not create lasting dependence on U.S. suppliers since it was a reversible trend in the medium term.

It is even more noteworthy that in the 1920s and 1930s there was an important de-concentration of exports with regard to the main trade partner, which is significant for several reasons. First of all, because it was the first time there was a drop of this magnitude and duration since the appearance of U.S. domination of Mexico's foreign trade. Secondly, because this de-concentration of exports lent a kind of authentic bilateral character to the exchange with the U.S., in which trade in both directions evolved similarly. It was not that Mexico sold the United States the same amounts that it bought from it, but that the proportion of Mexican trade that went to the U.S. was now very similar both in exports and imports.

In the third place, the duration of this phenomenon was very significant. It was a gradual transition consistent with greater geographical diversification of foreign trade. This trend was reinforced by the effect of the international crises of 1921 and 1929 on the U.S. economy but lasted longer than they did, as can be seen in the fact that the drop in U.S. presence in our foreign trade did not stop after 1933. In fact, the lowest participation of the U.S. in a normal year was in 1937 (56 percent) for exports and 1938 (58 percent) for imports. It was, then, a trend that lasted almost 20 years, something unexpected in view of the closeness of previous decades.

We should ask ourselves why this descent was so drastic and prolonged. One of the reasons was obviously the reactivation of trade with Europe, the reappearance of traditional partners (Great Britain, France and Germany) and the emergence of new partners, among whom Belgium, Italy, Holland and Sweden took on certain importance. In the second place, the relative importance of the United States diminished as of the 1920s as a result of U.S. trade policy. Between 1922 and 1930, the U.S. government established protectionist trade tariffs and signed different trade agreements and treaties with countries with similar exports to Mexico's. After the 1929 crisis, these restrictive policies accentuated, with the establishment of quotas for copper, oil and other imports that were basic components of Mexico's exports.

In addition, Mexico's revolutionary governments' domestic policies contributed to this result in at least two ways. On the one hand, relations between Mexico and the United States became very tense between 1920 and 1925 mainly because of the former's 1917 legislation about property and labor rights and the continual threat of making the Constitution retroactive. On the other hand, the regimen that came out of the Revolution was nationalistic in its economic orientation and channeled some of its energies into reducing dependence on its dominant trade partner. In fact, in some cases there appears to have been the express purpose of redirecting Mexican exports toward Europe, whether to lessen vulnerability of the given sector with regard to the U.S. economy or to strengthen Mexico's negotiating position with regard to prices and supply. Thus, for example, in 1922 Yucatán hemp growers were given the privilege of exporting a certain amount of their product without paying export duties on it under the condition that it be shipped directly to Europe.

**Graph 2**
**U.S. Participation in Mexico's Foreign Trade (1870-1948)**
**(Three-Year Averages)**


**Sources:** For the years 1870-1929, figures of Mexico's main trade partners reconstructed by the author; for the years 1930-1948, Mexican government trade figures.

The trends of the 1920s accentuated after the 1929 crisis, so that in the 1930s, until the outbreak of World War II, the United States saw its presence decline even further in Mexican foreign trade. Among other factors are the political variables, like the sharpening of tensions between the Mexican government and foreign companies due to the expropriations of 1936 to 1938 and the semi-embargo on trade that followed. The oil expropriation sparked a strong reaction among corporations, a reaction backed up by the U.S. government, which, among other things, suspended purchases of Mexican oil as well as the negotiations for a trade treaty between the two countries.

## The Third Wave: World War II

By the end of the 1930s, trade relations between Mexico and the United States were at a considerably low point compared to the standards established in the last decades of the nineteenth century and the first decades of the twentieth. Bilateral trade represented a bare 60 percent of Mexico's foreign trade, a proportion that had been normal for imports in the first decade of the twentieth century, but which had been surpassed for exports since 1884. What is even more significant is that this situation did not seem to be transitory or extraordinary, but, rather, the result of a deterioration that had lasted 15 years. Given the intensification of trade with Europe and a certain opening with regard to other countries of the world, there was nothing to suggest that the state of bilateral trade with the United States would change radically in the short run. Everything seems to indicate that the factors that brought about the third wave of U.S. presence were again exogenous; more specifically, they were linked to the international situation created by World War II.

This war broke traditional trade links even more radically than had the previous world war. It turned the United States into the only country capable of sustaining trade in the hemisphere. The U.S. actively took on this role and promoted the creation of the Development Commission for Latin America to foster trade both with the United States and among the Latin American nations. In the case of Mexico, other factors favored an increasing U.S. presence. Mexico's declaration of war on the Axis in 1942 severely restricted its trade with Europe. Shortly thereafter, Mexico and the United States signed a cooperation agreement and the first trade agreement in the history of their bilateral relations. As a result, Mexican exports to the United States went from 56 percent of total exports in 1937 to as much as 91 percent in 1941 and 1942. Imports from the U.S. increased from 58 percent of the total in 1938 to 90 percent in 1944.

At the end of World War II, a new decline in U.S. presence in Mexico's foreign trade began, suggested by the trade figures, which began to decline in the last years that this article covers (1948). On the one hand, this was due to the fact that Mexico's trade balance had deteriorated by the end of the war; on the other hand, the Mexican government had embarked on a project of industrialization through import substitution. In order to move ahead with this project, the government began to restrict trade, leading to the joint cancellation of the bilateral trade agreement in the mid-1950s and a protectionist policy that would last several decades.

## Conclusions

The United States was a secondary trade partner for Mexico until the last third of the nineteenth century. After that its importance increased until it became Mexico's main partner in the international market. Initially, the factors that brought this about were the construction of railroads and the direct investment of U.S. capital that reoriented part of Mexico's exports to the United States. Despite everything, it is significant that the U.S. was for a long time much more important as a market for Mexican exports than as a supplier of imports. This disparity is noticeable to the extent that it suggests that Mexico maintained a relatively broad spectrum of suppliers and preserved its autonomy in selecting them despite the growing concentration of its exports in the U.S. market.

On the other hand, although the U.S. predominates Mexico's foreign trade from the end of the nineteenth century, historically it was subject to more or less severe fluctuations. This questions the broadly accepted idea that the growing U.S. predominance in Mexico's trade was continuous. Far from it, the evidence shows that in these years, trade patterns were very malleable and adapted to changing conditions on the domestic level, in bilateral relations and in the world's economy. This means that patterns in international trade depend on many different factors, which makes it wrong to attribute their evolution to the simple will of one of the participants, even if that participant is the dominant partner. VM