NAFTA and Strengthening Relations Between Mexican and U.S. State Governments

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Governors Doug Ducey from Arizona and Claudia Pavlovich from Sonora met to sign several bilateral accords.

Introduction

The 2016 U.S. presidential campaign was regrettable in terms of rhetoric aimed at Mexico-U.S. economic relations. The anti-North American Free Trade Agreement (NAFTA) and anti-Trans-Pacific Partnership (TPP) stances among leading Republicans and Democrats were reminiscent of the 1928 presidential campaign when Herbert Hoover emerged victorious. Shortly thereafter, Congress passed the most protectionist piece of legislation in modern U.S. history, the Smoot-Hawley Tariff Act of 1930, which helped plunge much of the world into the Great Depression.

Donald Trump's diatribes against undocumented Mexican immigrants, Mexico's trade policies, and NAFTA, buttressed by his insistence on building an impenetrable 2 000-mile great wall along the shared border, added insult to injury.

Thankfully, the bilateral economic relationship and NAFTA in general continue to move forward and north-south linkages on the North American continent have been proliferating. This article will demonstrate the importance of strong economic ties between the two neighboring countries and why governments in the 31 Mexican states and Mexico City can benefit from engaging directly with their counterparts in the 50 U.S. states.

NAFTA

On June 29, 2016, Presidents Enrique Peña Nieto and Barack Obama, hosted by Canadian Prime Minister Justin Trudeau, literally joined hands in Ottawa and trumpeted the positive contributions of NAFTA. The Canada-U.S. Free Trade Agreement went into effect in 1989, and after a request from the Mexican government, was expanded to include Mexico in 1994. NAFTA was primarily negotiated in the U.S. by the Republican George H. W. Bush administration, but after Bill Clinton defeated Bush in 1992, it was concluded by the new Democratic administration.

Some of NAFTA's major contributions are highlighted below:

1. It has created the largest free trade area on the planet. bringing together the world's largest, tenth-largest, and fifteenth-largest national economies.[1] It produces significantly more each year than the European Union (EU), which has 509 million people, compared to NAFTA's 484 million;[2]
2. The U.S. and Canada have had the world's largest bilateral relationship through most of the post-World War II period, and the U.S. continues to export more goods to Canada with its 36 million people than to the entire EU;

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3. Mexico, which lost half its territory to the U.S. in the nineteenth century, emerged from its nationalist economic shell in the 1980s and sought better ties with the U.S. This contrasted sharply with previous decades when many Mexicans lamented that their nation was "so far from God and so close to the United States." Today, Mexico is the second leading destination for U.S. exports, with Mexicans purchasing more than twice as many U.S. products annually as the Chinese do;
4. Unlike the EU, NAFTA is a limited trade arrangement that does not permit the free movement of workers from one member country to another. Each nation uses its own currency and is free to negotiate its own political and economic deals with the rest of the world;
5. Since 1989, U.S.-Canada trade in goods and services has almost tripled, and since 1994, U.S.-Mexico trade has quintupled.
6. The strengthening North American economic relationship goes beyond trade linkages. Corporate supply chains have been solidified and U.S. direct investment has poured into its two neighbors, with U.S. multinational companies providing 1.36 million jobs in Mexico and 1.19 million in Canada in 2013.[3] That same year, Canadian companies provided 554 000 jobs to workers in the U.S., and Mexican companies, 74 000 jobs;[4]
7. The three countries are also the chief destinations for each other's tourists. Canadians and Mexicans are the leading visitors to the United States and spent US$41 billion there in 2015.[5] U.S. Americans are overwhelmingly the leading foreign visitors to Canada and Mexico. U.S. visits to Mexico hit a record-setting 25.9 million in 2014, in spite of periodic State Department travel warnings linked to regional violence, and the fact that only 38 percent of U.S. Americans held passports allowing them to leave the United States;[6]
8. The North American continent is becoming a dominant energy supplier. Canada, and not Saudi Arabia, is the number one foreign supplier of oil and other energy products to the United States. Trilateral agreements will lead to greater cooperation on issues such as climate change and energy. New cross-border transmission lines will also bolster the use of electricity among the three NAFTA members;
9. Undocumented immigration remains an issue of concern to many U.S. Americans, as exemplified by the harsh rhetoric used during the 2016 U.S. presidential election campaign. In 1970, fewer than one million Mexican immigrants had settled in the United States. This number peaked at 12.8 million in 2007. However, between 2009 and 2014, 140 000 more Mexican migrants actually left the U.S. than entered it, and unauthorized immigrants were down from 6.9 million in 2007 to 5.6 million in 2014.[7] Mexicans, of course, love their country and want to stay as long as decently-paying jobs are available. NAFTA has helped in providing some of these jobs and almost half of Mexican households are considered, by some research groups, to be part of the "middle class";[8]
10. Finally, NAFTA goes beyond economic issues. In part because of growing North American linkages, in 2000, Mexico ended its autocratic political system, which had dominated the country since 1929. Relations between the U.S. and Mexico have improved significantly and in spite of worries about drug trafficking and undocumented immigration, the NAFTA countries live in a relatively safe "neighborhood," in contrast to recent developments elsewhere in the world. NAFTA is far from perfect, and U.S. security policies enacted in the aftermath of 9/11 have hindered growth in several economic sectors. However, in contrast to the Brexit saga in the United Kingdom, NAFTA has generally made a positive contribution to the well-being of most residents in the three member countries.

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Federalism and Economic Opportunities

All three NAFTA countries have federal systems, and state and provincial governments are working more closely together to tackle cross-border problems of mutual concern. In October 2015, a North American summit for Mexican and U.S. state and Canadian provincial government leaders was held in Colorado. Unfortunately, attendance was sporadic, but perhaps this will set the stage for greater collaboration among state and provincial governments in North America.[9]

Mexican states have an opportunity to expand their interactions with U.S. states in order to improve their economic development prospects. Figure 1 is my annual map of the United States, which puts in the name of countries instead of states. These countries produce slightly more annually in goods and services than the states which they have replaced, measured in nominal U.S. dollars. Some countries are repeatedly mentioned, such as Algeria, because, according to the World Bank, their gross domestic product (GDP) was the closest approximation to that of several U.S. states.

Notice that California has been replaced by the United Kingdom, which in 2015 had a slightly higher GDP than did California. However, because of Brexit and the subsequent decline in the value of the British pound, in 2016, California is likely to surpass the UK and become the fifth largest "national" economy in the world, trailing only the rest of the U.S., China, Japan, and Germany.

In total, in 2015, 2 U.S. states, California and Texas, ranked among the 10 largest economies in the world; 13 states among the top 25 national economies; 28 among the top 50; and all 50 states and the District of Columbia among the top 98 nation-states as measured by the World Bank.

As Figure 2 illustrates, Mexico is already a leading source of global imports for individual U.S. states. Mexico ranks only behind China in providing exports to California and was number one in 2015 in sending goods to Texas, Arizona, Kentucky, and Utah. In all, Mexico was among the top four foreign suppliers of goods to 37 U.S. states. It might seem surprising that Mexico is the second leading supplier to Michigan, which borders with Canada; but Mexico has quietly emerged as the fifth leading global manufacturer of motor vehicles and parts, so the supply-chain linkages between Detroit and the Mexican vehicle sector is quite understandable. The three leading goods exports from Mexico to the United States are motor

FIGURE 1
IF U.S. STATES WERE NATIONS, 2015 GDPs

FIGURE 2
MEXICO'S RANKING AS A FOREING SUPPLIER
OF GOODS TO U.S. STATES, 2015

Alabama 3	Montana 3
Alaska 7	Nebraska 4
Arizona 1	Nevada 4
Arkansas 4	New Hampshire 4
California 2	New Jersey 8
Colorado 3	New Mexico 2
Connecticut 4	New York 11
Delaware 6	North Carolina 2
Florida 2	North Dakota 3
Georgia 4	Ohio 3
Hawaii not in top 25	Oklahoma 3
Idaho 7	Oregon 6
Illinois 3	Pennsylvania 5
Indiana 4	Rhode Island 2
Iowa 2	South Carolina 3
Kansas 4	South Dakota 4
Kentucky 1	Tennessee 3
Louisiana 7	Texas 1
Maine 7	Utah 1
Maryland 4	Vermont 13
Massachusetts 3	Virginia 7
Michigan 2	Washington 8
Minnesota 3	West Virginia 4
Mississippi 2	Wisconsin 3
Missouri 3	Wyoming 3

Source: U.S. Census Bureau, "State Trade Data: Exports and Imports-The Top 25 Trading Partner Countries for Each State, 2015."

vehicles, motor vehicle parts, and oil and natural gas. The leading U.S. exports of goods to Mexico are motor vehicle parts, petroleum and coal products, and computer equipment, semiconductors, and other electronic devices.[10]

Without any doubt, a Mexican state strategy for exporting more goods and attracting more inward direct investment and visitors from the United States will favor the border states and the larger more prosperous states south of the border region. The border states of Baja California, Sonora, Chihuahua, Coahuila, Nuevo León, and Tamaulipas can take advantage of cross-border organizations such as the Border Governors Conference, the Border Legislative Conference, the California-Mexico Border Relations Council, the Arizona-Mexico Commission, the California Senate Select Committee on California-Mexico Cooperation, and the CaliBaja and AriSon Megaregion groups, plus other state-to-state or multi-state border organizations.

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On the other hand, state governments throughout Mexico can participate in the national or regional groupings of the U.S. Council of State Governments (CSG) and other related institutions. The U.S.-Mexico State Alliance Partnership involves a few U.S federal agencies, the CSG, the National Lieutenant Governors Association, the Woodrow Wilson Center, and other state-level organizations, with a mandate to work with as many Mexican state governments as possible. Individual Mexican state governments can also collaborate with their federal authorities in Mexico City and their own regional state-level organizations to orchestrate trade and investment missions to the United States. In addition, Mexico is the second leading destination for U.S. state offices or representatives, trailing only China. With 23 U.S. state offices or representatives located in Mexico, Mexican state officials may be able to arrange special projects with individual U.S. states that could be mutually beneficial.[11]

With growing political and economic uncertainty in various parts of the world, more U.S. companies are looking at Mexico as a destination for direct investment, both in the form of greenfield investments and mergers and acquisitions. Mexico offers political stability, an attractive currency, competitive wages, access to abundant energy and resources, a disciplined work force, and very close proximity to the U.S. marketplace. Global and regional supply chains are also expanding in North America and many of them offer special opportunities for small and medium-sized Mexican companies.

Tourism by U.S. Americans to Mexico can also expand beyond the relatively small number of destination resorts. In 2014, they made nearly 26 million visits there, ranking Mexico as their leading foreign tourism destination. Many U.S. Americans will be looking for new places to visit in Mexico for their return trips. Moreover, a vast network of U.S. universities, both public and private, are sponsoring residency programs in Mexico, and they are more interested in leading historical, cultural, and educational sites than in areas adjacent to resorts.

Finally, residents of the United States with Mexican roots now number about 36 million, up more than 400 percent since

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1980, and another 19 million have other Hispanic backgrounds.[12] In California and New Mexico, Hispanics in general now outnumber the so-called "white" population.[13] Individual Mexican state governments can work closely with their expatriate communities in facilitating a number of business, educational, cultural, and other cross-border initiatives. Furthermore, Mexican businesses can segment the vast U.S. market and target potential consumers based on geographical proximity, language, product preferences, lifestyles, and other factors.

In order to make progress, individual state governments need to be very blunt in assessing their relative advantages and disadvantages in penetrating the U.S. marketplace. They need action plans and indicators for ascertaining the success or lack of success of each potential initiative. In the past, the Oaxaca state government has worked with the large expatriate community in California, and other states have pursued fairly similar programs. What works and what doesn't? What have been the results of overall export, inward direct investment, supply-chain connections, and inward tourism initiatives on the part of individual Mexican states?[14] What can be done in the future to attract funding and cooperation from federal authorities, local business communities, and even expatriate groups in the U.S. that maintain close ties to individual Mexican states, cities, and even towns?

NAFTA has provided Mexican and Canadian businesses privileged access to the U.S. market, an access not available to any other nation-states in the world. The proposed TPP, which involves all three NAFTA countries, may reduce but not totally eliminate some of these advantages available to Mexico and Canada. In addition, Mexico now has favorable exchange rates for the peso versus the U.S. dollar in terms of exports and inward investment and tourism. The largest marketplace in the world measured in nominal dollars is right across the northern border. The time is propitious for Mexico to accelerate its pursuits linked to exporting, playing a greater role in supply chains, attracting new direct investment, and expanding its share of international tourists. With federalism emerging in Mexico as a reality rather than the twentieth century's window dressing, state governments can be expected to play a more pivotal role in facilitating these economic development activities. VM

NOTES

[1] World Bank, "Gross Domestic Product 2015," measured in nominal U.S. dollars.

[2] Using the same World Bank estimates, the combined GDP of the NAFTA countries in 2015 was US$20.7 trillion versus US$16.4 trillion for the 28-member European Union.

[3] Sarah P. Scott, "Activities of U.S. Multinational Enterprises in 2013," *Survey of Current Business*, August 2015, p. 8.

[4] Rita Ismaylov and Ricardo Limés, "Activities of U.S. Affiliates of Foreign Multinational Enterprises in 2013," *Survey of Current Business*, November 2015, p. 9.

[5] U.S. Department of Commerce, International Trade Administration, National Travel and Tourism Office, "Top 10 International Markets: 2015 Visitation and Spending," 2016, tinet.ita.doc.gov/pdf/2015-Top-10-Markets.pdf. In 2015, Canadians made 20.7 million visits to the U.S. and spent US$22.7 billion. That same year, Mexicans made 18.4 million visits there and spent US$19.7 billion.

[6] U.S. Department of State, Bureau of Consular Affairs, "U.S. Passports and International Travel," 2015, travel.state.gov/content/passports/en/passports/statistics/html.

[7] Ana Gonzalez-Barrera, "More Mexicans Leaving than Coming to the U.S.," *Pew Research Center Report*, November 19, 2015.

[8] "Mexico's Middle Class 47 Percent of Households," *Mexico News Daily*, October 30, 2015. This is based on research by Euromonitor International, which defines annual middle-class household income in Mexico as between US$15 000 and US$45 000. Euromonitor International estimates that 14.6 million Mexican households were in the middle class in 2015, versus 9.1 million 15 years earlier.

[9] Earl H. Fry, "The Importance of the North American Summit," October 12, 2015, unpublished paper.

[10] M. Angeles Villarreal, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications* (Washington, D. C.: Congressional Research Service, 2015).

[11] U.S. Council of State Governments and Earl H. Fry, "The Role of U.S. State Governments in International Relations: 1980-2015," *International Negotiation* (forthcoming). U.S. state governments with one or more offices or representatives in Mexico in 2015 included Arizona (2), Colorado, Delaware, Florida, Georgia, Idaho, Illinois, Iowa, Kansas, Maryland, Michigan, Missouri, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, Utah, Washington, and Wisconsin.

[12] Jens Manuel Krogstad and Mark Hugo Lopez, "Hispanic Population Reaches 55 Million but Growth Has Cooled," *Pew Research Center Fact Think Tank*, June 25, 2015.

[13] Renee Stepler and Anna Brown, "Statistical Portrait of Hispanics in the United States," *Pew Research Center Hispanic Trends Report*, April 19, 2016.

[14] Rafael Velázquez Flores, Earl Fry, and Stéphane Paquin, eds., *The External Relations of Local Governments in North America after NAFTA: Trends and Perspectives* (Mexicali: Autonomous University of Baja California Press, 2014).