A Review of NAFTA's Record On Its Second Anniversary

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The North American Free Trade Agreement is now two years old. And even though the 1994-1995 period was a difficult one for Mexico, a great deal has been accomplished since the historic trade agreement came into force on January 1, 1994.

For Mexico, NAFTA has been a central piece of its modernization strategy, which involves far-reaching free market and trade liberalization policies. It consolidates our trade relationship with the U.S., Mexico's largest export market, and provides incentives for a closer trading relationship with Canada.

NAFTA promotes greater economic integration and cooperation among the United States, Canada and Mexico, through the elimination of barriers to trade in goods and services and investment over a period of 15 years, and by establishing a clear and predictable framework that encourages increased business partnerships among North American firms.

The partnership forged through NAFTA is beneficial to all the countries and ensures that North America, as a region, remains a standard-bearer of international competitiveness. Trade and investment liberalization encourage coproduction schemes and other strategic alliances that have flourished and will continue to do so across North America. For North America as a whole, the development of these joint ventures fosters business growth and employment opportunities and promotes our worldwide competitiveness.

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In 1995, NAFTA proved to be instrumental in facilitating Mexico's economic recovery. Secured access to the U.S. and Canadian markets stimulated Mexican exports, which along with the creation of strategic alliances and joint production ventures, cushioned the effects of the economic crisis and helped mitigate job losses during 1995.

While NAFTA is relatively new when compared to other free trade agreements —and its benefits will be fully realized in the long run—, it has already yielded significant positive results in its first two years of implementation.

Mexico and NAFTA in 1994

NAFTA's first year was characterized by rapidly increasing trade flows; trade among the three NAFTA countries increased 17 percent, surpassing all expectations. This 50-billion-dollar expansion in trade among Mexico, the U.S. and Canada is equivalent to the GNP of a country like Ireland. In 1994, total trade among NAFTA members reached approximately 350 billion dollars.

Bilateral trade between Mexico and the U.S. grew at an even faster rate of 20.7 percent and surpassed 100 billion dollars for the first time. In 1994, trade flows were remarkably balanced: total U.S. exports to Mexico amounted to 54 billion dollars, while Mexican exports to the U.S. reached 51.6 billion dollars, 20.5 percent more than in 1993 and well above the growth rate of exports to the U.S. from the rest of the world.

Mexico became the United States' main supplier of products such as autos and auto parts, security glass

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Mexico-U.S. trade grew swiftly in the first two years of NAFTA.

windows, medical appliances and semimanufactured steel and iron goods. Other product areas in which Mexico was already a leading supplier were further enhanced by the NAFTA, including TV sets, electric and electronic equipment and agricultural products.

NAFTA has also increased trade between Canada and Mexico. Though the bilateral trade between these countries has been relatively small, in 1994 it increased by 18.2 percent. Mexican exports increased by 17.4 percent and imports from Canada increased by 22.1 percent. Mexico's main exports to Canada included autos, gasoline engines, auto parts and computers.

Mexico and NAFTA in 1995

Though 1995 was a difficult year for Mexico, we remained committed to free market policies and trade liberalization. On January 1, as scheduled, Mexico and the other NAFTA partners implemented the second round of tariff reductions.

During 1995, Mexico's exports played a vital role in the strategy toward economic recovery. Total exports grew 31.2 percent, compared to 1994. This is reflected in a total trade surplus of 7.4 billion dollars and contrasts dramatically with the 18.5-billion-dollar deficit recorded in the previous year. The dynamic performance of Mexican exports cannot be solely attributed to the devaluation of the peso. During the last decade, Mexico has sought to develop its export capacity through the implementation of economic liberalization policies and integration into world markets.

In 1995, NAFTA played a critical role in mitigating the effects of the economic crisis. Mexico's exports to the U.S. for the January-October period increased 30.5 percent. Mexican manufacturing exports to the U.S. currently account for 82 percent of our total exports to that country. These have grown 30.4 percent when compared to the same period last year. In this regard, it is important to highlight that non-maquiladora manufacturing exports grew at almost twice the rate of those from the maquiladora industry: while the latter increased 20.3 percent, non-maquiladora exports grew 47 percent.

Mexico's export performance and the competitiveness of its products are also reflected in the country's increased participation in the U.S. market. In 1993, Mexican exports accounted for 6.8 percent of total U.S. imports. During the first nine months of 1995, Mexico's share of total U.S. imports was registered at 8.3 percent. In this period, Mexican exports increased faster than those of countries like Japan, Canada, and newly industrialized countries (NICs) such as South Korea, Taiwan, Hong Kong and Singapore.

In the context of NAFTA, it is important to note that despite the economic downturn Mexico's imports from the U.S. have remained steady, particularly when compared to the reduction in imports from the rest of the world; while those from the European Union, Japan and the NICs fell 23.8 percent, 20.5 percent and 21.3 percent, respectively, Mexico's imports from the U.S. only decreased 1.4 percent with respect to the same period last year. The surge in intra-industry trade and joint production schemes between Mexico and the U.S. offers an explanation. Mexico's dynamic export performance is inextricably linked to imports of intermediate and capital goods. In the first ten months of 1995, imports of intermediate goods from the U.S. grew 9.3 percent.

In 1995, U.S. exports to Mexico are still above pre-NAFTA levels (44.2 billion dollars versus 37.4 billion in 1993). Mexico remains the U.S.'s third largest trading partner, both in terms of imports and exports, and we continue to purchase more American goods than South Korea, Taiwan, Singapore or any European country.

NAFTA has also strengthened our trade relationship with Canada. Between January and October 1995, total trade flows reached 2.8 billion dollars, 11.5 percent more than in 1994.

As stated, a central element of Mexico's development strategy is tied to export performance and our ability to compete in international markets. NAFTA is a long-term instrument designed to provide a more predictable framework to encourage business partnerships and alliances among North American firms and to promote our export industry.

There is no doubt that NAFTA has accomplished a tremendous amount in its first two years. The agreement is fulfilling its promise of facilitating trade across North America. It has created growth opportunities for its partners, through increased exports and higher levels of productive investment. In sum, NAFTA provides a solid platform on which to stand and compete in an increasingly globalized economy.