

Ten Years of NAFTA Evolution and Perspectives

Bibiana Gómez Muñoz*



Guadalupe Pérez/Cuartoscuro

Trade-related border crossings skyrocketed in the last 10 years.

Ten years after the North American Free Trade Agreement (NAFTA) came into effect, questions abound regarding its effects on both Mexico's economic development and the kind of relationship our country has built with the United States and Canada. Equally important for the current debate is NAFTA's future, whether through a deepening of the economic integration of the three countries or through the creation of a balance of interests that would guarantee efficient management of trilateral relations.

* Analyst of international issues.

NAFTA's benefits have been uneven. Agriculture, for example, is one of the sectors that has participated the least.

NAFTA'S EFFECTS

Without a doubt, NAFTA transformed the Mexican economy. The treaty represented an irreversible change in the strategy of economic opening and liberalization that had begun to be implemented from the middle of the 1980s. The negotiation and signing of NAFTA were a central part of a new economic setup that radically changed the relationship Mexico

would maintain with the United States and other countries. NAFTA thus became a useful instrument for inserting the Mexican economy in the main networks of trade and investment worldwide.

NAFTA has had a major impact on Mexico. The main indicators are trade and investment flows. From 1993 until today, Mexico has increased its total trade with the United States by 280 percent. In that first year, our country did

U.S.\$88.87 billion in trade with our northern neighbor; by 2002, trade had risen to U.S.\$249.60 billion. Trade with Canada has increased 265 percent, going from U.S.\$2.74 billion in 1993 to U.S.\$7.29 in 2002.

Clearly, the increase in trade with both countries has been substantial. However, as can be seen in Graph 1, it has concentrated excessively with the United States. This is the result of a historical tendency that structurally links the Mexican economy with the U.S. In that sense, the treaty has fostered greater concentration of trade with the United States. In 1990, for example, 69 percent of Mexico's trade was with the U.S.; by 2002, that figure had risen to 78 percent.

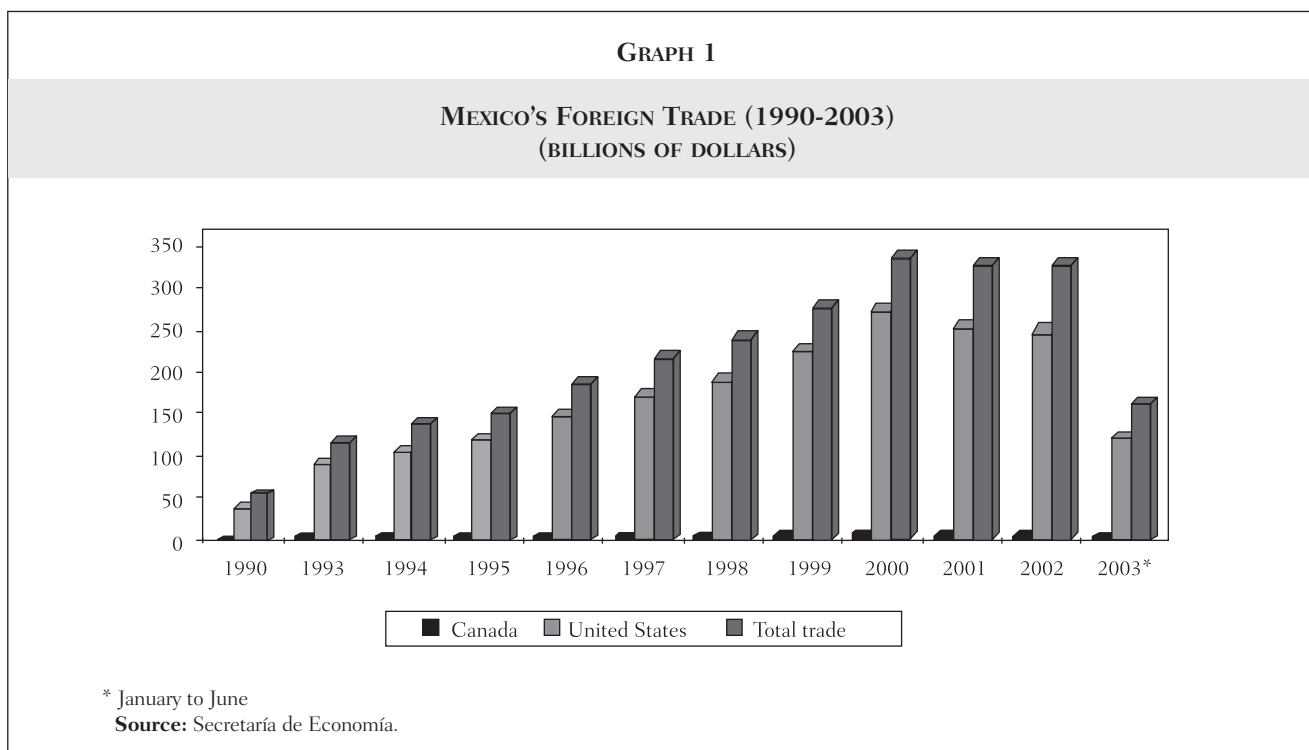
It is also important to point out that this propensity for the United States has favored an increasingly bilateral integration of North America; despite the fact that NAFTA is a trilateral agreement, clearly, most matters are developed bilaterally, with the United States at the center of both Mexico's and Canada's priorities.

NAFTA is not only a trade agreement; it also promotes investment. One of the treaty's effects has been to encourage a considerable increase in the flows of foreign direct investment into Mexico. Graph 2, while showing greater U.S. investment in our country, also registers an increase in investment from countries outside North America due mainly to the attraction of the U.S. market.

When the governments of Mexico, the United States and Canada negotiated NAFTA, the main motivation was to substantially increase trade and investment through the creation of a free trade zone. In that sense, NAFTA has been successful: in 10 years Mexico has become the United States' second trade partner, Canada's first trade partner in Latin America and the world's eighth exporter.¹ Also, the growth of the Mexican economy has been profoundly linked to the expansion of foreign trade since approximately 30 percent of gross domestic product (GDP) depends on exports.²

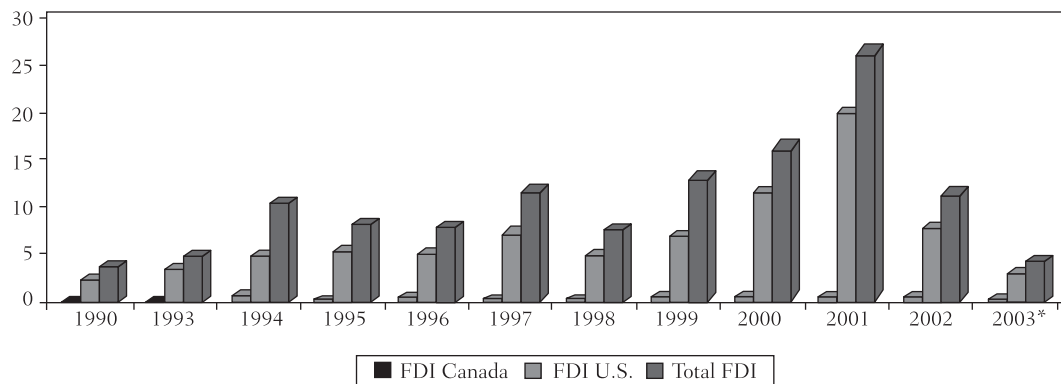
As a region, NAFTA members' foreign trade share is about 19 percent of world exports and 25 percent of imports.³ With this, North America has become one of the main actors in the reconfiguration of the international economy, on a par with the European Union and the Asian Pacific.

Without a doubt NAFTA transformed the Mexican economy. The treaty represented an irreversible change in the strategy of economic opening and liberalization.



GRAPH 2

FOREIGN DIRECT INVESTMENT IN MEXICO (1990-2003)
(BILLIONS OF DOLLARS)



* January to June

Source: Secretaría de Economía.

North America has become one of the main actors in the reconfiguration of the international economy, on a par with the European Union and the Asian Pacific.

However, what have the effects of NAFTA been on Mexico's economic and social development? We have seen that the treaty has had a direct impact on the country's economic growth. Since it came into effect, the Mexican economy has gone through greater liberalization as well as a series of reforms aimed at integrating it fully into the North American market.

The structure of Mexican foreign trade, for example, was radically transformed. Since 1994, manufactured goods have made up more than three-quarters of Mexican exports. Together with this new exporting dynamism, job creation in manufacturing, particularly the maquiladora sector, has increased. However, this growth has occurred mainly in large companies and foreign exporting

firms, while small and medium-sized firms have been left on the sidelines.⁴

Thus, NAFTA's benefits have been uneven. Agriculture, for example, is one of the sectors that has participated the least, representing only 2 percent of the country's total exports. Peasant demonstrations in 2003 questioned the treaty's success and even brought up for debate the need to renegotiate NAFTA and come to an agreement with the government that would guarantee the Mexican countryside's productivity.

In addition to these asymmetries both in the participation in exports and the benefits derived from them, our country's "development" has been characterized by a broader economic and social gap between regions: we continue to have an impoverished South,

excluded from the process of integration of North America.

NAFTA has had positive and negative effects. While the implementation of the treaty has had a direct impact on the national economy's growth, it continues to be vulnerable to the zigzags of the world economy: an economy as open as Mexico's will always be exposed to shocks from abroad. Similarly, Mexico's excessive concentration of trade with the United States stimulates this vulnerability. The U.S. recession in 2001 and 2002 had direct consequences for Mexican exports. As Graph 1 shows, trade dropped in those years, with Mexico taking a loss; in addition, our country has had to compete with other economic actors on the international scene like China, which in just a few months in 2003 managed to become the U.S.'s second trade partner, pushing Mexico into third place, at the same time attracting investment with the resulting loss of jobs in Mexico's maquiladora industry.

NAFTA'S FUTURE

Mexico accepted NAFTA as an instrument for the internationalization of the Mexican economy. It is a trade and investment tool that, however, has had a direct impact on different matters of the bilateral and trilateral agenda.

NAFTA has been a fundamental part of Mexico's integration into the North American market, but the dynamic it has caused has gone beyond what is strictly trade-related to shape many other aspects of relations among the three countries, making the future of the region and Mexico's economic and social development depend on it.

In that sense, NAFTA has institutionalized relations among the three countries through the creation of different bodies and regulations like the Free Trade Commission, the Secretariat and the dispute resolution mechanisms, which have both made trade and investment viable and given them certainty.

NAFTA's institutional consequences have fostered the implementation of mechanisms that aim to solve the problems it creates. This is how we should understand the creation of a North American Development Bank by Mexico and the United States and the establishment of a Border Ecological Cooperation Commission. Both these mechanisms aim to develop environmental infrastructure along the Mexico-U.S. border. *A fortiori*, this kind of cooperation is leading the three countries to create a regional space, both trilaterally and bilaterally, that surpasses the political and economic frontiers of a free trade zone.

However, NAFTA's future is still uncertain. We are very far from unifying criteria and preferences to achieve economic and political unity like that of the European Union. In the same fash-

ion, broadening out the accord to other countries of the Americas, as foreseen at least in the region's political debate during NAFTA's first years, seems unlikely. This is particularly the case since the November 2003 Miami meeting about the Free Trade Area of the Americas (FTAA) in which the Central American countries and others like Colombia, Peru, Ecuador, Bolivia, Panama and the Dominican Republic preferred to establish bilateral negotiations with the United States than to negotiate multilaterally.

In essence, NAFTA continues to be a free trade area consisting of Mexico, the United States and Canada. In the short term, it does not look like it will evolve into a customs union, which should be the following step given the dynamic and nature of the trade among the three countries.

Despite this, the links Mexico has established with its North American trade partners have been strongly marked by the gradual creation of accords and institutional norms that aim to more efficiently deal with certain issues on the agenda.

In this general dynamic we can include recent initiatives on issues such as U.S. security and Mexico's regional development. In March 2002, the Alliance for the Border was created to guarantee border cooperation and security with the United States. The Partnership for Prosperity, implemented between our country and the United States on the same date, contemplates the generation of private resources to foster the development of the most marginalized regions of our country.

Initiatives like the Partnership for Prosperity have formed part of Mexico's foreign policy strategy of deepening integration with the United States and Canada. The well-known "NAFTA

Plus" or Vicente Fox's call at the beginning of his administration to create a North American Community sought to strengthen ties with his counterparts through deepening and broadening out integration of the three countries, following somewhat the European model that would create social compensation funds for Mexico's development. However, this kind of initiative was not taken up in either the United States or Canada when it was proposed. After the terrorist attacks of September 11, 2001, and the military intervention in Iraq, any attempt on Mexico's part to foster greater integration in North America has been put on the back burner, which is clear from the non-negotiation of a integral migratory accord.

Uncertainty about the future of North American integration affects our country directly; while we cannot specifically establish what the next steps in this process will be, clearly Mexico's economic and social development is closely linked to NAFTA's results and the economic integration it has generated. ■■

NOTES

¹ According to World Trade Organization figures, Mexico is the world's eighth exporter with 2.5 percent of the world's trade. Organización Mundial del Comercio, "Estadísticas de Comercio Internacional, 2003", http://www.wto.org/english/res_e/statis_e/its2003_e/section3_e/iii01.xls

² Programa de las Naciones Unidas para el Desarrollo, "Informe sobre Desarrollo Humano 2003. Los objetivos del desarrollo del Milenio: un pacto entre las naciones para eliminar la pobreza," (Spain: Ediciones Mundi-Prensa, 2003), p. 287.

³ Secretaría de Economía, *TLCAN. Una década fortaleciendo una relación dinámica*, (Mexico City: October 2003), p. 2. http://www.economia-snci.gob.mx/sphp_pages/publicaciones/pdfs/nafta_spanish1_10_06.pdf

⁴ J. Ernesto López-Córdova, "NAFTA and the Mexican Economy: Analytical issues and lessons for the FTAA," paper 9 (Buenos Aires: Integration and Regional Programs Department of the Interamerican Development Bank, 2001), pp. 14-15.