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U.S. Incurs First Trade Deficit with Mexico in 10 Years, Reviving NAFTA Debate

by Carlos Navarro
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On March 23, the US Commerce Department reported a US trade deficit of US$863 million with Mexico during January, the first trade imbalance with that country in a decade. Economists attributed the deficit primarily to the devaluation of the peso and the resulting economic crisis in Mexico, which boosted Mexican exports to the US by almost 11%, while at the same time reducing Mexican imports of US products by about 10%. Analysts suggested that the greatest concern in the US regarding the new trade statistics is the almost immediate impact that the peso devaluation has had on the US trade balance with Mexico, which could continue to grow for at least the rest of 1995. According to the Commerce Department report, the US$863 million deficit reported in January followed a US trade surplus of US$19 million in December. Some economists now predict that the US could incur a trade deficit with Mexico of US$15 billion for all of 1995.

The shift in the trade balance with Mexico opened the door for criticisms of US President Bill Clinton's policies of promoting open trade. The Mexican statistics for January, in fact, were included in a report in which the Commerce Department placed the US trade deficit with all countries at US$12.2 billion, an increase of almost US$5 billion from December. Among other factors that contributed to the US trade deficit in January was a surge in imports of consumer goods, heavy machinery, high technology products, automobile parts, and other manufactured items. After the release of the January trade report, several prominent opponents of the North American Free Trade Agreement (NAFTA) took the opportunity to renew their criticisms of the Clinton administration's trade and economic policies toward Mexico.

"We said a lot of bad things would happen if NAFTA was approved and people said we were hysterical," said Lori Wallach, a trade specialist with Public Citizen, an organization founded by consumer advocate Ralph Nader. "Now that these things are coming true, it is time for a course adjustment." Also issuing a strong criticism was political commentator and presidential candidate Patrick Buchanan, who during a campaign stop in South Carolina, accused the Clinton administration of not looking after the economic interests of the US. Buchanan described NAFTA as a "complete disaster," given the forecasts for the US trade deficit with Mexico to reach US$15 billion this year. Buchanan also noted reports that Mexican tomato and onion imports have increased sharply because of the reduction of domestic sales in Mexico. "Tomato farmers are in danger of losing 40% of their winter market because Mexicans are dumping their product in this country," Buchanan said.

Buchanan's comments were in reference to a formal complaint filed on March 19 by Florida tomato producers with the US International Trade Commission (ITC), which charged that Mexican farmers are selling their produce in the US at below US market prices. According to officials for the Florida Tomato Exchange, Mexican tomatoes sold in February for as low as US$1.00 per box, compared with an average price of US$5.00 to $6.00 a box for US-grown produce. To bolster their case, the

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Tomato Exchange officials noted statistics indicating that Florida producers had lost almost one-half of their share of the US market since NAFTA was enacted in January 1994. A high portion of the loss of market share took place in the first quarter of this year, when the devaluation of the peso had created a major price advantage for Mexican tomato producers. The ITC has agreed to launch a formal investigation into the complaint of the Florida tomato producers.

The impact of NAFTA on US jobs remains a major theme for groups and politicians in the US that oppose NAFTA. Indeed as recently as December, the Clinton administration was boasting that increased exports to Mexico had created more than 70,000 jobs in the US during 1994. In March of this year, however, a senior Clinton administration official acknowledged that the trade deficit with Mexico was almost certainly going to result in some job losses in the US. "It is not going to be easy to explain to workers in Texas and California," the official told the New York Times.

For his part, US Trade Representative Mickey Kantor recently agreed that devaluation of the peso would mean that the US will continue to run trade deficits with Mexico for some time. Kantor suggested that the situation was temporary, however, since Mexico needed to increase exports in the short term to bolster its economy. He said that once the Mexican economy has recovered, then that country would again increase imports from the US. Kantor was also quick to point out that NAFTA itself was not to blame for the economic problems in Mexico. "Without the confidence NAFTA created, we would have a much worse situation than we have today" in Mexico, Kantor said. (Sources: Associated Press, 03/20/95, 03/22/95, 03/23/95; New York Times, 03/23/95)

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