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NAFTA Completes 20 Years of Existence with Mixed Results

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On Jan. 1, 2014, the North American Free Trade Agreement (NAFTA) completed 20 years of existence, amid varying opinions on whether the agreement has been good for Mexico. The agreement has certainly brought significant benefits for a segment of the population, primarily middle class and wealthy Mexicans. Critics suggest the agreement has personally not benefited the majority of Mexicans.

The question after two decades is whether on balance the benefits of the agreement outweigh its negative aspects, including reducing tariffs that severely harmed producers of corn and other important agricultural commodities and derailed Mexico’s efforts to attain self-sufficiency in food production.

While the agreement remains a major factor driving Mexico’s economy, the accord seems to have faded into the background in the minds of most Mexicans. It was the subject of heated political debate during its early years, but political candidates have scarcely brought NAFTA up in recent elections.

A recent public opinion poll by the Mexico City daily newspaper El Universal and the polling organization Buendía y Laredo found that Mexicans remain ambivalent about NAFTA. Roughly 50% of respondents said they would approve the pact if it were proposed again today, while 34% said they would reject the agreement. The other 16% had no opinion.

**Private sector touts economic benefits**

When measured in purely statistical terms, NAFTA would appear to have been very beneficial for Mexico. This view is held widely by the business and industrial sector, which has benefited greatly from the accord.

"NAFTA has been a hit," columnist Carlos Mota wrote in the Mexico City daily business newspaper El Financiero. "Our exports to the US have exploded from about US$47 billion in 1993 to US$277 billion in 2011. This is an increase of about 485%.

"The positive aspects of NAFTA have been much greater than the negative ones, since the agreement has promoted a significant growth in Mexican exports to the North American region," said Jorge Dávila Flores, president of Confederación de Cámaras Nacionales de Comercio Servicios y Turismo (CONCANACO). "We would not have experienced this level of growth without the agreement."

Dávila Flores also pointed out that the expansion of trade with the US and Canada has helped Mexico build up its international reserves to historic levels, which has provided a measure of stability to the Mexican economy.

Rodrigo Alpízar, president of the Cámara Nacional de la Industria de la Transformación (CANACINTRA), noted that NAFTA has helped expand Mexico’s manufacturing capacity—
particularly in motor vehicles, electronics, and some agriculture products—to the point that the country is the largest producer of manufactured goods in Latin America.

The agreement has also helped Mexico increase US and Canadian investment. Mexico attracted investors from its North American neighbors by modifying 67 laws that provided certainty to foreign investors. "The legislative changes that Mexico enacted, primarily in the manufacturing sector, resulted in a huge growth in investments," Ignacio Martínez Cortés, coordinator of the Laboratorio de Análisis en Comercio Exterior at the Universidad Nacional Autónoma de México (UNAM), wrote in El Financiero.

The change in the laws has also helped attract investment from outside North America. An increasing number of automakers have established plants in Mexico in the past 20 years, boosting production to about 3 million vehicles per year. As a result, Mexico has increased auto-sector jobs by around 50% since 1994.

Others point out that Mexico has fallen short in attracting foreign investment. "In 1993, Mexico ranked fourth in attracting foreign capital, and currently we rank 20th," said Humberto Hernández Haddad, a diplomat and former member of the Chamber of Deputies and a member of the Partido Revolucionario Institucional (PRI). "Even though we have strived to improve, other countries are doing their part by implementing bold and aggressive reforms."

While NAFTA has helped boost Mexican exports to the US and Canada, Martínez Cortés said the continued strong economic reliance on the US has prevented Mexico from attaining another one of its goals, which is to increase diversification. Since NAFTA was put in place, Mexico has entered into numerous bilateral and multilateral agreements with partners in Latin America and with some European and Asian countries, but critics say these efforts have only had only a small effect on Mexico’s efforts to boost exports outside the North American region (SourceMex, Dec. 2, 2009).

**Most Mexicans have not benefited from agreement**

Supporters point out that Mexico has a much larger middle class than it did before NAFTA went into effect, but it also is the only major Latin American country where poverty has grown in recent years (SourceMex, July 22, 1998, June 8, 2005, Aug. 3, 2011, and Aug. 7, 2013).

"The benefits arrived, but perhaps not of the magnitude that had been hoped for," economist Alfredo Coutiño, director for Latin America at Moody's Analytics, said in an interview with the Associated Press.

Coutiño adds, however, that, if NAFTA had not been implemented, "Mexico would have been in a much worse situation than it has been over the last 20 years."

Others hold a different opinion, suggesting that Mexico’s industrial sector has stagnated rather than advanced during the 20 years that NAFTA has been in place. "This is not because the goals [of the agreement] were mistaken, but because the country did not advance at the same rate as our trade partners," said Hernández Haddad.

A major shortcoming of the agreement is that a majority of the population has failed to benefit directly from NAFTA. The agreement has yet to meet the promises made by ex-President Carlos Salinas de Gortari and other supporters that the free-trade agreement would help close Mexico’s wage gap with the US, boost job growth, reduce poverty, and promote environmental protection.
Martínez Cortés says the agreement offers special benefits for 240 companies that have received special tax exemptions. A large number of these companies are subsidiaries or affiliates of US-based corporations. Furthermore, an early study of NAFTA indicated that some states—primarily in the industrial north—had benefited more from the agreement than the poorer states in the south (SourceMex, Feb. 3, 1999).

Other factors have contributed to NAFTA’s shortcomings, including a downturn in the global economy, the inability of unions to push for greater worker rights, and the tightening of security along the US-Mexico border following the attacks on Washington and New York on Sept. 11, 2001 (SourceMex, Sept. 26, 2011). "The terrorist attacks on Sept. 11 forced Washington to implement tight border controls, which had the effect to halting bilateral trade," said syndicated US columnist Andrés Oppenheimer, who noted that Mexico benefited greatly from the accord before border controls were implemented.

Agriculture sector also reflects discrepancy
A small segment of the agriculture sector has prospered under NAFTA, including producers of fruits and vegetables in Sinaloa and Sonora as well as avocado growers in Michoacán state. Eliminating or reducing import barriers on these products contributed to the surge in Mexican agriculture exports to the US, from US$4.2 billion in 1994 to US$14 billion in 2012.

Tariffs were also eliminated on imports from the US and Canada, especially corn, which experts say have been especially devastating for small-scale producers (SourceMex, Sept. 29, 1999, and June 27, 2001). The biggest complaint is that US production subsidies to farmers—particularly large-scale producers—have distorted the price of US corn exports to Mexico to the detriment of small and medium-sized producers (SourceMex, March 14, 2007). Another related complaint is that a large share of the imports involve genetically modified corn, which threaten native varieties in Mexico (SourceMex, Oct. 13, 1999, Sept. 22, 2004, and March 25, 2009).

The import of lower-priced corn, however, has been mostly welcomed by the livestock and poultry industries, which have seen a reduction in production costs because of the availability of cheaper feed. The imports helped ease a tight-supply situation in 2007 and 2008 that resulted from a shortage of domestic feed (SourceMex, Dec. 12, 2007).

José Luis Calva, a researcher at the Instituto de Investigaciones Económicas (IIE) at UNAM, said a major effect of NAFTA has been the loss of Mexico’s ability to produce its own food. He said that on average Mexico imports 17 million tons of the 50 million tons of grain consumed in the country annually. The researcher said dependence on food imports increased from 10% in 1994 to 43% in 2011. The dependence on imports in relation to domestic consumption increased from 17% during the first year of NAFTA to about 33% currently. The rates also increased significantly for wheat, rice, soybeans, and cotton.

During the NAFTA years, Mexico has experienced an annual agricultural trade deficit ranging between US$2.5 billion and US$4 billion annually.

For the livestock and poultry industries, dependence on imports has also increased since NAFTA went into effect. Imports now account for about 40% of pork consumption in Mexico, compared with 3% in 1994. Increases are less dramatic, but still large, for poultry and beef, with imports accounting for about 13% and 19%, respectively. In contrast, imports of poultry were only about 3% and beef about 1% before NAFTA was enacted.
While observers acknowledge that an increase in agricultural imports was inevitable under NAFTA, they say that the agriculture sector also suffered during the period because of the absence of a comprehensive government policy to support producers during the 20 years in which the agreement has been in place.

Calva said that successive administrations have failed to meet promises that Salinas made to Mexico’s producers after NAFTA was negotiated, including a pledge to "begin a new era" in agricultural production in Mexico, which would help reduce poverty and reduce the need to migrate to the US. Rather than support producers, the government eliminated some programs that had helped producers in the past, such as price guarantees, government procurement and marketing mechanisms, and crop storage.

The UNAM researcher said a glaring deficiency during the past 20 years has been the lack of credits and loans for farmers and the rural sector. Furthermore, those credits that were disbursed through government development banks went disproportionately to a small group of people.

"Regrettably, the Mexican agriculture sector continues to suffer neglect, and there are no signs of any changes in policy that will reverse this trend," said Calva. "Ideally, this is something that [President Enrique Peña Nieto’s administration] could take on. But unfortunately, we are not seeing any substantial changes."

**Trade-dispute rulings unfavorable to Mexico**

Results have been mostly unfavorable to Mexico on the legal front, with special NAFTA panels tending to rule in favor of the US in high-profile trade and environmental disputes between the two countries. For example, a NAFTA panel overturned Mexican anti-dumping duties against steel producers in 1995 (SourceMex, Sept. 6 1995). Another special NAFTA panel upheld US anti-dumping duties against Mexico’s cement manufacturer CEMEX (Sept. 18, 1996). In addition, in 2000, a NAFTA panel ordered the Mexican government to pay restitution to the California waste-management MetalClad Corp. for failing to protect the company's rights as a foreign investor (SourceMex, Sept. 13, 2000, and May 9, 2001).

One ruling in 2000 favored Mexico, but the US failure to comply rendered the decision ineffective. A dispute-resolutions panel upheld Mexico’s position that the US was reneging on its commitment under NAFTA to open access to Mexican trucks (SourceMex, Dec. 6, 2000). Despite the panel’s decision, the US failed to comply with the ruling. The two sides continued negotiating and eventually reached a compromise in 2011 (SourceMex, July 13, 2011).

Regardless of the rulings of special panels, some analysts say that the mere existence of the NAFTA mechanism is a plus. "Without doubt, NAFTA brought some certainty for Mexico in its trade relations with its northern neighbor," said Martínez Cortés. "The agreement contains legal instruments to address controversies in cases where Washington imposes unilateral protectionist measures against our country."

While the US and Canada remain Mexico’s more important trade partners, the emergence of China as a major force in Latin America (NotiCen, Nov. 20, 2008, and NotiSur, Sept. 9, 2011) in recent years has created strong concerns in Mexico. Many Mexicans remain wary of China, given the Asian country’s history of selling products in Mexico at below-market value (SourceMex, March 7, 2007, Dec. 14, 2011, and Jan. 16, 2013).
There is also concern that China could be using Mexico as a springboard to boost exports to the US. While trade among the US, Mexico, and Canada has increased by 350% since 1994, US trade with China and other nations in Asia has grown at an even greater rate during the past two decades.

"If we are realistic and view [NAFTA] from the lens of commercial security, it is necessary to deepen our relationship with our top market [the US] … so that we don't lose our advantage to other countries, particularly China," said Martínez Cortés.

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