Mexico's NAFTA Experience

By David Williams

The public discourse on NAFTA (the North American Free Trade Agreement) too often focuses on the losers in free trade. The winners—and there are many, such as consumers in all three member countries—may not realize the important gains they have made. Free trade has generated broad growth. Sectors that have adapted and adjusted to the new trade environment, such as the automotive and electrical industries, are competing extraordinarily well. Those that cannot adjust are falling behind. In short, the first decade of NAFTA trade, particularly agricultural trade, has followed classic market-opening dynamics.

And Speaking of Gains ...

Broadly speaking, NAFTA has been good for Mexico. Total two-way trade between Mexico and the United States grew from $81 billion in calendar 1993 to $231 billion in 2002, and Mexico steadily turned a modest trade deficit into a $37 billion trade surplus.

Mexico's exports to all countries grew 80 percent between 1985 and 1993, following its accession to the GATT (General Agreement on Tariffs and Trade, forerunner of the World Trade Organization), and that growth rate has nearly doubled since the inception of NAFTA. Its exports of manufactured products account for nearly 90 percent of total exports, and it's estimated that higher paying (37 percent higher on average) export jobs account for just over one in five jobs in Mexico.

Its annual growth in GDP (gross domestic product) averaged 5.4 percent from 1996 to 2000, well above the average of 3.9 percent from 1990 to 1994. Most analysts agree that exports were a key factor in accelerating Mexico's recovery from the 1995 financial crisis. GDP growth slowed considerably in 2001 and 2002, due in part to U.S. economic woes, but growth improved in the latter part of 2002.

Mexico's agricultural exports have also benefited from NAFTA. While Mexico has run a consistent annual deficit of around $1.5 billion with the United States, its agricultural exports to the United States have nearly doubled since NAFTA's inception, and were up 9 percent through August 2003 from a year earlier. Freer trade and increased competition have helped provide lower cost inputs for Mexico's livestock and food processing industries. Lower rates of inflation for food products have played a key role in stabilizing overall inflation since 1994.

Despite the increased competition, the dollar value of Mexico's total agricultural production in 2001 was 50 percent higher than in 1993 as production of key products rose, such as pork (up 24 percent), beef (13 percent), chicken (60 percent), sorghum (85 percent), fruits (27 percent) and vegetables (36 percent).

Many Mexican sectors are already very competitive with those of the United

States, such as tomatoes, avocados, live cattle, fresh fruits and vegetables. A key success story has been in exports of horticultural products (generally labor-intensive crops that can be grown profitably on smaller farms), which have increased by nearly 120 percent.

Structural Problems and the Debate in Mexican Agriculture

The Mexican agriculture debate, in which some have called for a renegotiation of NAFTA and more protection from imports, has been driven by opposition parties seeking to capitalize on long-standing political relationships with the rural poor. NAFTA provisions (particularly the elimination of most remaining tariffs and quotas on Jan. 1, 2003), coupled with the U.S. Farm Bill (Farm Security and Rural Investment Act of 2002), often have been portrayed as portending certain doom for Mexico's agricultural sector.

However, U.S. producers absorb costs that Mexican producers do not, such as high labor costs, costs of compliance with strict environmental and worker safety regulations and taxes. Moreover, the main difficulty facing Mexican agriculture is a number of structural problems. These problems are independent of, and cannot be addressed by, NAFTA.

About 22 percent of Mexico's labor force works in agriculture, which generates only 4.4 percent of GDP. Nearly 80 percent of producers are involved in the production of grains, legumes and oilseeds–Mexico's least profitable crops. About 50 percent of Mexico's farmers till plots of 5 hectares or less (1 hectare=2.471 acres), and they earn less than a third of their income from agriculture. NAFTA-generated jobs, stable inflation rates and lower consumer prices have helped these farmers reduce their dependence on agriculture.

Economic transition away from agriculture is inevitable for many small-scale agricultural producers. Future policies should focus on generating off-farm employment for those who need it, improving trade opportunities for the 15 percent of Mexico's producers who are globally competitive and improving the productivity of the 35 percent who have the potential to compete.

Strategies and Solutions

To address concerns on both sides of the border, the U.S. and Mexican governments and industries have maintained an open and active dialog to come up with solutions consistent with NAFTA. Examples of recent successful cooperation include the suspension of U.S. anti-dumping duties on Mexican tomatoes, better U.S. access for Mexican avocados, the signing of a poultry safeguard agreement and the lifting of Mexican anti-dumping duties on U.S. live hogs.

Mexico implemented important reforms during the 1990s, such as the elimination of price supports and public participation in the procurement and sale of commodities and inputs. Additionally, the government of Mexico established the PROCAMPO subsidy program for producers of basic crops and the Alliance for the Countryside Program, which provides matching grants for productive investments.

To help alleviate the political pressure from rural action groups, the government signed the Acuerdo (National Agriculture Agreement), which provides for an emergency spending fund, studies of the effects of NAFTA and the U.S. Farm Bill, a commitment to seek consultations with the United States and Canada on NAFTA provisions for white corn and dry beans (which have certain trade protections through Jan. 1, 2008) and other programs to raise the standard of living in rural areas.

The United States is working to forge commercial linkages between U.S. and Mexican companies. A key element in this strategy is the Partnership for Prosperity Program, which commits both governments to support activities such as trade missions and seminars to bring businesses together. USDA supported a mission of U.S. buyers to Mexico to link them with Mexican exporters, and is working to identify potential new-to-market exporters.

While some sectors have had challenges with liberalizing markets, NAFTA has offered a reasonable implementation period to allow countries to adjust to the changing market conditions.

NAFTA has been so good for Mexico that fully 20 percent of its GDP is now attributable to trade made possible by NAFTA provisions. NAFTA has benefited the Mexican rural as well as urban workforce by creating thousands of new, higher paying export manufacturing jobs.

Government of Mexico data indicate that poverty rates in both rural and urban areas have dropped since the economic recovery in 1996. A key lesson to be learned from NAFTA is that free trade will likely accelerate the economic transition to manufacturing and competitive sectors as resources are allocated more efficiently. ■

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