U.S.-Mexico Trade Patterns Under NAFTA

Dr. J. Michael Patrick

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Forward

The Texas Legislature established the **Texas Centers for Border Economic and Enterprise Development** during its 70th Session. The **Texas Centers** program is a consortium effort between Texas A&M International University, the University of Texas - El Paso and the University of Texas - Pan American. The primary purpose of the **Texas Centers** is to provide leadership and support to Texas border communities in their economic development efforts.

The legislature provides funds to support the efforts of the **Texas Centers** in three principal activity areas:

1) Development and maintenance of an economic database;
2) The conduct of economic development research and planning; and,
3) The provision of technical assistance to industrial and governmental entities.

Texas A&M International University's **Texas Center** operates under the direction of the Graduate School for International Trade and Business Administration's **Institute for International Trade** (IIT).

This report "***U.S.-Mexico Trade Patterns Under NAFTA***" by Dr. J. Michael Patrick contributes to the goals of the **Texas Centers**.

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Institute for International Trade
Graduate School for International Trade
& Business Administration
Texas A&M International University
Laredo Texas 78040

J. Michael Patrick
Director

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Dr. J. Michael Patrick
Director, Institute for International Trade

The aim of the North America Free Trade Agreement (NAFTA) is to eliminate barriers to trade and investment between the U.S., Mexico and Canada. By stimulating increased trade, investment and technology transfer, NAFTA will enhance the competitiveness of the three countries and lead to economic growth and job creation. NAFTA will strengthen and broaden a prior trend toward increased economic integration between the three countries, particularly between the U.S. and Mexico.

This report, on U.S.-Mexico trade patterns under NAFTA, can serve as a general guide for businesses and others interested in business and investment opportunities in Mexico. The report, in addition to examining the impact of NAFTA on future U.S.-Mexico and Texas-Mexico trade patterns, also considers the possible effect of NAFTA on U.S. border communities.

Trade Between the U.S.-Mexico

Mexico's trade policy following World War II through l986, was essentially one of import substitution and closely regulated commercial ties with other countries, including the U.S. Behind a protective wall of tariffs, import licensing requirements, domestic-content provisions, and restrictive foreign investment policies, Mexico was one of the world's most closed economies.

Since joining the General Agreement on Tariffs and Trade (GATT) in l986, Mexico has pursued a policy of economic liberalization, sharply reducing trade restrictions, promoting foreign investment, cutting domestic subsidies, and expanding the role of the private sector. NAFTA gives formal recognition and permanence to the policy changes that are already taking place and which are critical to Mexico attracting the foreign investment and technology needed for its future economic growth.

As shown in Table 1, trade between the U.S. and Mexico has nearly tripled over the past thirteen years, from $27.7 billion in l980 to $74.2 billion in l993. The U.S. is Mexico's principal trading partner, absorbing 70 percent of Mexico's exports and accounting for 70 percent of Mexico's imports.

For the six year period, l980-l985, prior to Mexico joining GATT, U.S.-Mexico average annual trade was $29.3 billion.(See Table 2) For the seven year period, l986-l993, following Mexico's membership in GATT, U.S.-Mexico annual trade has averaged $51.1 billion, a 74.4 percent increase.(See Table 2) Since joining GATT, U.S.-Mexico trade has grown at a rate of 21 percent per year.(See Table 2)

The pattern of U.S.-Mexico trade following Mexico's membership in GATT provides a good indication of future trading patterns. Trade between the two countries has been dominated by U.S. exports of intermediate goods, including industrial equipment, machinery, and

Table 1

U.S.- Mexico Trade, 1980-1992
(in billions of dollars)

	U.S. Exports to Mexico	U.S. Imports from Mexico	Total U.S. Trade with Mexico
1980	15.1	12.6	27.7
1981	17.8	13.8	31.8
1982	11.9	15.6	27.5
1983	9.0	16.8	25.8
1984	12.0	18.0	30.0
1985	13.6	19.1	32.7
1986	12.4	17.6	30.0
1987	14.8	20.5	35.3
1988	20.6	23.5	44.1
1989	25.0	27.6	52.8
1990	27.5	30.1	57.8
1991	32.3	31.1	63.4
1992	39.6	34.6	74.2

Source: U.S. International Trade Commission

Table 2

U.S. Trade with Mexico
Before GATT (1980-1985), After GATT (1986-1992)
(in billions of dollars)

	U.S. Exports to Mexico	**U.S. Imports from Mexico**	**Total U.S. Trade with Mexico**
Before GATT			
Ave. Annual (1980-1985)	13.2	15.9	29.2
After GATT			
Ave. Annual (1986-1992)	24.6	26.4	51.0
Percent Change: Before/After GATT	86%	66%	76%
Annual Percent Change in Total Trade After GATT:	21%		

Source: Table 2 derived from Table 1

supplies.(See Table 3) Mexico's exports to the U.S. have been mostly primary goods, including mineral fuel and oil, and agricultural products.(See Table 4)

Trade Between Texas and Mexico

The economic linkages between Texas and Mexico are significant and growing. According to the U.S. Department of Commerce, Texas ranks first among the 50 states in exports to Mexico. Production originating in Texas accounts for roughly 45 percent of all U.S. merchandise exports to Mexico.[1]

Of the approximately $15.5 billion of Texas merchandise exports to Mexico in l991, about 95 percent consisted of manufactured goods and most of the remainder agricultural crops. Seventy-five percent of the trade was in intermediate goods traded within industries.[2] Of the manufactured goods, the five leading categories according to the U.S. Department of Commerce were electric and electronic equipment, aircraft and parts, communications equipment, and automobile parts.

Over 60 percent of U.S.-Mexico merchandise trade passes through Texas ports of entry. More than 40 percent passes through the Laredo port of entry.[3] Southbound trucks loaded with merchandise passing through the Laredo port of entry increased by nearly 160 percent between l989 and l993.(See Table 5)

Table 3

TOP TEN
U.S. Exports to Mexico, 1992
(in thousands of dollars)

Product	**Value**
Total of all Commodities	39,604,899
1. Electric Machinery	7,284,906
2. Vehicles & Parts	4,411,941
3. Plastics & Plastic Articles	1,908,570
4. Optic, Photo, Medical & Surgical Instruments	1,543,183
5. Paper & Paper Products	1,016,633
6. Cereals	858,910
7. Organic Chemicals	843,045
8. Furniture	759,064
9. Articles of Iron & Steel	725,155
10. Oil Seeds & Miscellaneous Grains	565,106

Source: U.S. International Trade Commission

Table 4

TOP TEN
U.S. Imports from Mexico, 1992
(in thousands of dollars)

Product	**Value**
Total of all Commodities	34,591,836
1. Electric Machinery	8,661,344
2. Vehicles & Parts	5,654,528
3. Mineral Fuel & Oil	4,749,818
4. Nuclear Reactors, Boilers, Machinery	2,813,425
5. Apparel Articles & Accessories	932,402
6. Furniture	912,975
7. Edible Vegetables	772,904
8. Edible Fruit & Nuts	516,178
9. Live Animals	348,727
10. Coffee, Tea & Spices	284,927

Source: U.S. International Trade Commission

TABLE 5

International Bridge Crossings*
at Laredo, Texas -- 1989 & 1993

	1989	1993	Pct. Change 1989-1993
Pedestrians	6,592,688	7,603,033	15.3
Vehicles**	13,311,978	14,163,716	6.4
Southbound Trucks (Loaded)	185,683	478,458	157.7
Rail	84,682	138,736	63.8

* Northbound & Southbound

** Includes pedestrians, vehicles and rail

Source: Texas A&M International University, Texas Center for Border Economic and Enterprise Development, Institute for International Trade.

The Impact of NAFTA on Future U.S.-Mexico Trade

Over the next 15 years, NAFTA will eliminate all remaining tariff and non-tariff barriers to trade and investment between the U.S. and Mexico. As a result of Mexico's entry into GATT existing trade barriers have already fallen to relatively low levels. Consequently, the passage of NAFTA will have only limited immediate effect on U.S.-Mexico trade.

In the short term, over the next 2-5 years, the volume of U.S.-Mexico trade will likely continue to increase at its post-GATT rate of 15-25 percent, provided that the U.S. and Mexican economies remain healthy. Intermediate goods, including equipment and machinery necessary to modernize Mexico's economy will dominate U.S. exports to Mexico. Agricultural products, mineral fuels and oil, and vehicles and parts will remain Mexico's principal exports to the U.S. Table 6 provides the U.S. Department of Commerce's Best Export Prospects To Mexico list for l994. Appendix A provides a listing of the most promising subsectors included in the U.S. Department of Commerce's list.

Over the long term, 10-15 years, trade between the U.S. and Mexico is expected to grow and its composition to change, as Mexico experiences economic growth and rising wages and salaries. Mexico will eventually export a broad range of manufactured goods and import more consumers goods as its economy grows.

Since the mid-l980s, Mexico has taken important steps to towards liberalization. Reductions in barriers to trade and investment have become key to Mexico's economic diversification strategy centered on the development of high-value-added, export-oriented industries. NAFTA makes possible the attraction and channeling of capital and technological knowhow into key sectors and industries. In many respects, Mexico's maquiladora program provides an example of the production-sharing strategy Mexico will likely pursue to achieve its goal of linking low-wage, productive labor with sophisticated technology and management in order to promote high-tech, export-led industries.

The maquiladoras have been a key force in the expansion of U.S.-Mexico trade, accounting for more than three-fourths of the growth of Mexico's exports to the U.S. between l985 and l992. Over the past decade Mexico has used the maquiladora program to position itself to become a world-class exporter of sophisticated industrial products such as electronics, electrical machinery, and transportation equipment. Trade in vehicles and parts is now the largest single component of U.S.-Mexico trade, and has become Mexico's second largest earner of foreign exchange, after oil.[4]

Mexico's fastest growing exports are automotive goods, telecommunications equipment, and electrical distribution and switching gear. Mexico has also become one of the top exporters to the U.S. of air conditioners, color TVs, refrigerators, and computer keyboards.

The overall impact of NAFTA is likely to be felt more in Mexico than in the U.S., since U.S.-Mexico trade represents such a small part of total U.S. economic activity. U.S. trade with Mexico constitutes only 4 percent of total U.S. trade with the world, and less than 1 percent of U.S. GDP.

Nevertheless, growth in U.S.-Mexico trade will benefit both countries. For example, it is estimated that for every $1 billion in U.S. exports to Mexico roughly 20,000 jobs are created in the U.S. And, every dollar added to Mexico's GDP generates $0.15-$0.20 of spending on U.S. goods. Finally, economic growth in Mexico is a necessary condition for reducing the flow of immigrants north in search of jobs and a better life.

The Impact of NAFTA on U.S. Border Communities

Historically, U.S. border communities have been important transshipment sites providing valuable transportation, warehousing, brokerage, financial and business services that support the flow of merchandise trade between the U.S. and Mexico. Customs requirements, in addition to restrictions limiting the operations of U.S. and Mexican truckers to narrow border commercial zones have made it necessary for merchandise to spend several days at the border while waiting proper documentation, unloading and reloading for shipment to final destination.

This will change under NAFTA. U.S. Customs modernization legislation attached to NAFTA will permit shipments to clear customs through remote filing procedures at non-border sites. In December, l995, the commercial zone restrictions will disappear and U.S. and Mexican truckers will be free to deliver international cargo to any destination within the U.S.-Mexico border states. Beginning in January 2000, truckers will be able to travel to any destination within the U.S., Mexico, and Canada. As a consequence of these changes, the amount of time that merchandise will spend at the border and the range of local services required to handle it will likely be reduced.

Retail trade and sales to Mexican shoppers has long been a mainstay of many U.S. border communities. Many border retailers fear that NAFTA will hurt their sales, as Mexicans decide to exercise their option to shop for U.S. products at home. Nevertheless, even after NAFTA, many Mexican shoppers will likely continue shopping in U.S. border communities because they believe that prices will remain lower, quality better, and variety greater. In addition, many Mexicans have second homes in U.S. border communities as well as family and friends whom they will continue to visit on a regular basis.

The general consensus is that NAFTA, in the long term, will benefit certain sectors of the U.S. economy over others. The sectors likely to gain the most, based upon U.S. competitive advantage, are those producing high value goods(equipment, machinery, intermediate producer goods) that depend upon the latest technology and a relatively highly educated and skilled workforce. While U.S. border communities are strategically located close to Mexican markets, most lack a competitive manufacturing base.

To take full advantage of NAFTA, U.S. border communities should consider development and investment strategies that go beyond reinforcing their traditional economic activities of trade, commerce and services, and seek to establish manufacturing bases that broaden and strengthen their economic ties with the U.S. and Mexican economies.

Endnotes

1. Stolp, Chandler. *Regional and Sectoral Forecasts of NAFTA's Impact on Texas: Preliminary Results of the LBJ School Model*. Nations Bank Symposium, San Antonio, TX. March 1993. p.2

2. Ibid.p.2

3. McCray, John. *Potential Industrial Development Related to U.S.-Mexico Trade: Opportunities for the San Antonio Region*. Division of Management and Marketing, College of Business. The University of Texas at San Antonio. July 1992 p.7

4. Prestowitz, Jr., Clyde V., Robert B. Cohen. *The New North American Order: A Win-Win Strategy for U.S.-Mexico Trade*. The Economics Strategy Institute. 1991. p.35