Mexico And International Trade Essay, Research Paper

IV. International Trade

IV.1 History

During World War II Mexico had very good business relations with the United States. They provided a lot of raw materials, which were necessary to support American military needs. In that time the U.S. had an agreement with Mexico specifying that the country would export its resources only to the Allies. After WW II Mexico restricted imports in an attempt to promote domestic growth, while resisting foreign domination. In 1948 the government striving to reverse the unfavorable balance of trade, devalued the peso. Imports not essential for industrial development were sharply restricted. They did this to reach a stage of self-sufficiency. But still they obtained in 1950 an Export-Import Bank loan of $150 million for the financing of several projects to improve transportation, agriculture, and power facilities. This helped to improve the whole economic situation.

This policy led to an average annual growth rate of about 6 % for the next two decades. By the late sixties it was realized, that the domestic industries have become lethargic and inefficient because of the shelter from international competition.

1965: The Maquiladoras Program

To help its manufacturing sector, Mexico settled the Mexico’s Border Industrialization Program. The BIP allows US and foreign companies to ship components and production equipment into Mexico, free of duty, for assembly or processing utilizing Mexican labor.

These Mexican facilities are commonly referred to as Maquiladoras, or in-bond assembly plants.

The BIP sought to attract foreign manufacturing facilities, technology and know-how.

Over the past years, a large portion of US-Mexican trade has been attributed to rapid growth in the Mexican Maquiladora industry.

In 1992, Maquiladora Plants numbered 2,113, employing 469,614 Mexican workers.

The 1980’s: the diversification

In order to promote a merchandise trade surplus, which would help service the foreign debt, and offset shrinking oil revenues, Mexico adopted a policy of diversifying its economic base away from petroleum. The government’s program of promoting non-traditional manufactured exports was highly successful. Whereas crude oil and oil products accounted for some 75% of Mexican export in 1983, their share dropped to a low 34 % by 1988. Thus, non-petroleum exports increased to 66% of exports. Automotive products, machinery and equipment, chemicals, iron and steel products, electrical and non-electronic goods, and textiles and clothing became major clothing items.

Late 1980’s: Liberalized Trade in Mexico

In 1986, Mexico became a full member of the GATT, General Agreement on Tariffs and Trade, the international body then responsible for governing most international trade, now replaced by the WTO, the World Trade Organization. Since Mexico’s accession to the organization, its tariff and non-tariff barriers have been substantially reduced. Mexico has eliminated many import license requirements, in many cases converting them to tariffs, allowing for their eventual reduction.

Growth of Mexican-US Trade

From 1986 to 1991, US exports to Mexico shot up by 167 %. During this same period, exports to Mexico increased at nearly twice the rate of overall growth in US exports.

Manufactured goods have accounted for over three-quarters of US exports to Mexico. Mexican imports from the US accounted roughly 70% of total Mexican imports.

From 1982 to 1990, the United States ran a merchandise trade deficit with Mexico. IT peaked to a high of $7.7billion in 1983. In 1991, The United States turned the bilateral deficit into a merchandise trade surplus.

The most of this trade was effected with Texas, then California and Michigan.

Foreign Investment environment

The new openness of the Mexican economy in the late 1980’s also showed through the fact that more than two-thirds of Mexico’s total gross domestic product (GDP) was made accessible to 100 percent foreign ownership. This provided for unlimited opportunities to US investors. While US-based firms continue to rank as the largest source of foreign investment in Mexico (1990 total US direct foreign investment was $9. 4 billion), a growing list of companies from the United Kingdom, Germany, Japan, France, Switzerland, Spain and others are taking advantage of Mexico’s new business opportunities.

NAFTA; the opening of markets

In December 1992, Presidents Salinas and Bush and Prime Minister Brian Mulroney of Canada signed the North American Free Trade Agreement -NAFTA-. The Mexican Legislature ratified NAFTA in 1993 and the treaty went into effect on January 1 1994, creating the largest free-trade zone in the world.

All barriers to trade such as tariffs have been abolished in the zone. Goods and services are moving freely. Most of the trade occurs between Canada and the United States and The United States and Mexico. Indeed, Mexico and Canada don’t trade a lot.

Because of the impact of NAFTA, Mexico has experienced many changes in the way the foreign policy is conducted: legalistic policy has changed to realistic policy, independence to interdependence, the political approach to a commercial one, Latin Americanism to North Americanism. Indeed, NAFTA didn’t only have commercial consequences but also political ones.

A negative impact of NAFTA: the division of Mexico

NAFTA has created an economic disparity between the northern and southern portions of Mexico. American manufacturers have favored putting up factories near the US-Mexican border since the products manufactured in their facilities have to be shipped to the US and therefore have to be near the boundary. This preference is disadvantageous to southern and central Mexico.

Disinvestment is certain to result in unemployment and poverty, which in turn is expected to lead to a rise in crime in the region. The ultimate result of this inequitable distribution of investment is the creation of two Mexicos, one of which becomes more Americanized while the other remains a Third World entity.

An example of Mexico’s international trade performance: Government policy and the export performance of the Mexican automobile industry.

The Mexican automobile industry is slowly strengthening its foothold in the international market. This trend can be attributed to government policies geared toward global competitiveness and adjustments made by multinational companies to change in technology and production methods.

In 1980, Mexico was producing 490,000 motor vehicles whereas the production had risen to 821,000 units in 1990. This represents an increase of almost 100%.

Mexico’s main trading partners

In 1993, Mexico’s imports accounted for US$65,366,500,000 divided as follow:

- manufactured products 94.2%

- food and food products 4.2%

- Minerals and minerals products 0.6%.

On the other side, its exports accounted for US$60,882,000,000, with:

- metallic products, machinery, and equipment 58.0%

- crude petroleum 12.2%

- metal and metal products 6.3%

- Processed food, beverages and tobacco 3.3%.

Evolution of Exports and Imports since NAFTA:

If Mexico’s Trade Balance was still in deficit in 1997, the situation has greatly improved since1995 as the deficit has decreased of 40%.