

MEXICO'S VIEW ON THE NAFTA

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Thank you David, for that very kind introduction, and thanks to the Law Center for giving me the opportunity to share with you Mexico's views on how the NAFTA is doing and where we see it going. I would like to publicly commend the National Law Center for Inter-American Free Trade here in Tucson for the outstanding work that it has done, Boris Kozolchyk, David Gantz, and the group of people working there, to help build the institutions that will make the NAFTA a permanent fixture of the Mexican, Canadian, and U.S. relationships. I think that the work that you have done has made enormous contributions to us all. In a way, we who participated in the negotiations, did the easy part which was to negotiate provisions of the agreement on trade and investment. But the more difficult part of making it a reality really rests on people like yourselves, and we commend you for the things you do and we very much appreciate the advice we get from you on the Mexican side.

It is quite an honor, also, for me to speak before Jim Kolbe, who is probably the most outstanding leader in the U.S. Congress on trade, the NAFTA, and Mexican-U.S. issues. I'm pleased to be in your hometown.

You know that the NAFTA was the first agreement that made it all the way up to the *Larry King Live Show*. And it is a very complex Agreement. Basically, we tell society from time to time, "Listen! This is complex because it's going to work." And that's what people did in the executive branch, and in the congressional branches of both Mexico and the U.S., and also in Canada. That's what editorial board people who support the NAFTA basically were saying, and I think now that the NAFTA is three years old and entering its fourth year, we have an obligation to the rest of society to explain how the NAFTA is doing or not doing, and to see where we go from here.

Stakes are high because in the U.S. the perception of trade being a tool for economic development is very much related to the NAFTA. You can go from a discussion on economic anxiety to the NAFTA very quickly in the U.S. I think that it would be difficult to make the case for trade expansion if the perception is that the NAFTA doesn't work. An effort has to be made to explain the real benefits of the NAFTA. In a way, the debate that we had in 1993 did a great disservice to the understanding of international trade on three counts. One, in emphasizing: if you have a trade surplus you win, and if you have a trade deficit, you lose. Two, in emphasizing that Mexico is going to win in one sector, and the U.S. is going to win in another sector. And three, on saying "NAFTA will make Mexico develop, or NAFTA will destroy the U.S." We know, of course, that the benefits of the Agreement do not equate with trade balance and the condition of an economy does not equate with whether you are running a surplus or deficit.

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In 1995, Mexico had a very large trade surplus, and let me tell you, we regret it very much. We had a very sharp recession, and were more than willing to give up the surplus in exchange for no recession. In 1996 the U.S. had a very rapid rate of growth. The fourth quarter of 1996 had revised numbers of 3.9%, which is extremely large for the U.S., with record low levels of unemployment and a record trade deficit. So when you are in a bad situation and when you are in a good situation doesn't necessarily equate to a trade deficit or a trade surplus. Also, loading the NAFTA with everything on the good and the bad side, I think, was an instant mistake. The NAFTA should be evaluated as to the Mexican contributions to well-being and to economic development, especially on the Mexican side. We cannot say the NAFTA will cause development in Mexico or not, only that it will make a contribution.

Now that we have had three years, the question is: How do you measure the NAFTA up? What are the criteria that you would use to determine whether it's working or not? I would propose four. First, whether the NAFTA is making a contribution to Mexico in its economic development, and I think the answer to that is "yes." You can see that in these first few years on the basis of two very simple indicators. One is that Mexico is exporting a lot more. Total Mexican exports last year were \$97 billion. We had, in 1996, 27,000 exporters. We had in Mexico, in 1996, for instance, the opening of 536 maquiladoras. New plants, *not* extensions, these were new plants. The same thing happened in 1995 with 466 new maquiladoras. And this happened precisely at the time we needed it the most, when unemployment was being created because of the economic crisis, the time in which production was dropping and G.D.P. was dropping very fast. Also, the NAFTA has made Mexico more attractive to record levels of direct investment. In the period from 1994-96, Mexico has received \$25 billion of direct investment in plant and equipment. That is the second largest amount to a developing country *ever*. Better than China. China, of course, gets a substantial proportion of the investment from Taiwan and Hong Kong, but China is a very special case. Mexico's amount of direct investment is the largest ever for a developing country and for 1997 we're expecting some \$7 billion. Is the NAFTA a factor in this? Well, before the NAFTA, we received \$4.3 million in direct investment in 1993. So there has been a change. Also, this change took place under very difficult circumstances. In 1994, for instance, \$40 billion left Mexico in portfolio investments and \$10 billion was received in direct investment. People looking forward, based on the competitiveness of Mexican industry, were actually putting money in Mexico at record levels at the same time that portfolio investors were pulling money out of Mexico at record levels. In 1995, we amortized \$41 billion in short term debt and yet we received \$7 billion in direct investment, and the process continues. So, if you take this as an indicator of things, the answer is yes, the NAFTA helped Mexico on two counts. One, because it has made Mexico a little more of an attractive investment, and also because it has helped Mexico spread the ability of Mexican firms to participate in international trade as never before.

I read the survey last week of the Mexican firms of different sizes and one of the questions was "Are you selling goods overseas?" fifty percent said yes. Some

people think that number is low. I do not see it that way. I mean, that number is *extremely* low. If you have fifty percent of your firms selling overseas, it's unheard of. A total of 27,000 exporters exported from Mexico. However, if you take into account that we might have one or two thousand large firms in Mexico total, most of the exporters, as it turns out, are small or medium size.

The second way to measure the success of the NAFTA is to examine its impact on the U.S. Has the NAFTA helped the U.S. be more competitive in the world markets and has it created a market for the U.S.? Well, I would say two things. It has increased the size of the pie because bilateral trade between Mexico and the U.S. has grown at a very fast rate. We traded almost \$140 billion dollars in 1996. When the NAFTA was first enacted, when we came to Tucson with Jim Kolbe and others in the early 1990s, trade between Mexico and the U.S. was \$60 billion. Trade in 1993, the year prior to the NAFTA, was \$81 billion and we're expecting that trade between Mexico and the U.S. (using Mexican numbers for 1997) will be \$160 billion. Let me read to you numbers that came out last week. For the U.S. market number one is Canada with \$10.4 billion, market number two for the U.S., (December 1996) is Japan with \$5.4 billion, market number three is Mexico with \$5.3 billion. The difference between Japan and Mexico is \$100 million dollars, U.S. exports to Mexico are increasing 34% a year and U.S. exports to Japan are declining. So in three months Mexico will be the second largest market for the U.S. Mexico now is the largest market for 1003 of the 15,000 entire items of the U.S. HTS. Now what makes up these exports? Well, for the most part they are manufactured goods, and a good chunk of that is parts and components for production purposes. The degree of integration of Mexico and U.S. on the production side is a lot more than people think and the fact that trade didn't go down in 1995, despite Mexico having a very deep crisis, is an indication that this trade is very important: intermediate goods trade actually went up in 1995. If you compare 1996 to 1993, the year prior to the NAFTA, you will see that U.S. exports to the world went up thirty-one percent. Exports to just Mexico went up thirty-six percent, more than exports to the rest of the world. So, trade with Mexico is growing even faster than trade with other countries in spite of the recession and the reason for that is that Mexico has kept up our imports and exports of intermediate goods for production purposes. In 1990, for instance, Mexico was the ninth supplier of textiles and apparel to the U.S. Number one was China, second was Hong Kong, and third Taiwan. In 1996 Mexico was the largest supplier to the U.S. of textiles and apparel. Number one in just six years. It's amazing. Take the TV set industry. The NAFTA has brought back the TV set industry to North America from Asia. If you buy a TV set in the U.S. more likely than not it's from Mexico. Also, with the very stringent rules of origin, and with a very high degree of compliance with these rules, most parts and components come from North America. The most dynamic sector in Mexico today is electronics. We're trading close to \$30 billion in electronics and it is extremely balanced. That helps U.S. competitiveness, and it is also making us work together to produce for the world market. In that respect, I think the NAFTA has also made a contribution.

The third yardstick I would use to measure the success of the NAFTA is international. Has the NAFTA helped expand trade elsewhere? Today we take for granted APEC, WTO, FTAA, and I think it would be difficult to have any of those without having the NAFTA first. Had the NAFTA not passed in 1993 I think we would not have any of these things. Not only that, but negotiating the NAFTA also helped Mexico to look elsewhere to expand our trade and our trade links and that's why after doing the NAFTA we did agreements with Costa Rica, Bolivia, Venezuela, and Colombia and now we're doing Guatemala, El Salvador, Honduras, Nicaragua, Panama, Ecuador, Peru and we're engaging also in talks with the European Union. The NAFTA opened the door for Mexico. We're also very much committed to increasing trade throughout the Americas and we are participating extensively and very intensively in the FTAA process. We have made progress this week and Mexico's position is that we need to move from a working group that draws up an inventory, to the negotiating table and we're hoping that at the ministerial meeting in May the ministers will be giving instructions for the working groups to start negotiating by next year. Mexico is very committed to the FTAA and we'll approach the expansion of trade in the Western Hemisphere on two tracks. One is by pushing forward the negotiations of the FTAA and also by deepening our bilateral trade agreements with our neighbors. That's why Mexico has now launched a deepening of the trade agreement we have with Chile.

The NAFTA has also been very instrumental in the negotiations in the OECD of a multilateral investment agreement because it's been used as a model for that agreement. So we have also made a contribution to the OECD countries for Mexico, the U.S., and Canada and that has been very good.

Finally, the fourth yardstick I would use to measure the success of the NAFTA, is whether it has helped Mexico and the U.S. in understanding each other better. I would think that at the very least it has made an enormous contribution in raising awareness of the U.S. in Mexico, and of Mexico in the U.S. to a level that we never had before. That in itself is an enormous contribution. The NAFTA makes a contribution to meetings like this one and I think that is very good. The fact the National Law Center for Inter-American Free Trade functions and works in a way is a by-product of this process of getting to know each other better through the NAFTA. The number of universities who have exchange programs with Mexico today is enormously large and larger than we had previously before the NAFTA and I think that is also very helpful. The NAFTA put Mexico on the front pages of the *New York Times* although sometimes we wish we were back on page twenty-one. So if you take all of those yardsticks I think the NAFTA has been a very positive force. Thank you.

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