

THE IMPACT OF NAFTA IN MEXICO**Hesti Eka Denata**

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Abstract

This research paper aims to analyze the impact of regionalism and the North American Free Trade Agreement (NAFTA) trading system on the Mexican economy. This analysis uses Mexican economic data from before and after the implementation of NAFTA to analyze its impact on the Mexican economy. Mexico experienced good economic growth after the implementation of NAFTA. Although the impact was not evenly distributed across all economic sectors, the manufacturing and export sectors experienced good growth as NAFTA provided easier access to the US market. The positive impact of the implementation of NAFTA on the Mexican economy was an increase in the flow of foreign investment into Mexico. This agreement opened the door for foreign companies to invest and help in the development of certain sectors such as manufacturing and automotive in Mexico. However, Mexico also faces challenges with the NAFTA agreement. One of them is vulnerability to international market instability and the United States' changing trade policies. In addition, some sectors of the Mexican economy still face systematic barriers and inequities in the distribution of economic benefits.

Keywords: Regionalism, NAFTA, Mexican Economy

INTRODUCTION

Regionalism is a system that has been in place for the last two centuries. However, the term regionalism has only entered and been considered as a vocabulary in international relations since World War II. World War II is considered a benchmark for the emergence of regional organizations, so this era is called the era of regional cooperation in international relations. In addition, after World War 2 there was also mass independence. Where at that time many countries liberated themselves. Independent countries are of course weak in the economy. So that many small countries or countries that have the same fate to work together to improve their economy, one of which is NAFTA (North American Free Trade Agreement). Integration in regional organizations is considered the strongest integration. This is because in regional organizations the member countries have the same history and trauma of colonialism.

The North American Free Trade Agreement (NAFTA) was established on January 1st, 1994 (but signed in December 1992), six years after the United States-Canada Free Trade Agreement. NAFTA is credited with reducing barriers to trade and investment. In fact, in both cases, after the existence of NAFTA, the increase almost tripled. This increase occurred in all three member countries, namely the United States, Canada, and Mexico. One of the impacts caused after the existence of NAFTA is in accordance with the main objectives of NAFTA in terms of trade and investment.¹ NAFTA as a large regional organization in the economic field certainly has many impacts on the economy and trade between countries, especially in its member countries. However, after further research, the results of the study show that the positive impact provided by NAFTA is more between the United States and Mexico.

METHOD

This research paper uses qualitative methods with the aim of understanding the phenomenon of regionalism and trading system in NAFTA in depth and detail. The qualitative approach is used because this research focuses more on understanding the

¹ Sheveta Sehgal, "The Evolution of NAFTA: An Experience in Regionalism," *India Quarterly: A Journal of International Affairs* 66, no. 3 (2010): 310, <https://doi.org/10.1177/097492841006600305>.

meaning and interpretation of the phenomenon, so qualitative techniques can provide rich and detailed data and information. This research paper subject in this study is NAFTA, focusing on impact on Mexico. The data in this study were obtained from primary and secondary sources, such as official NAFTA documents, government reports, academic articles, and books related to international relations. Literature review and documentation are the data collection methods employed in this study. A literature review was done to gather information from official NAFTA documents and scholarly journals pertinent to the study issue. Documentation was conducted to collect data from government reports, public policies, and books relevant to the research topic.

In this paper, the author uses a journal entitled "The Evolution of NAFTA: An Experience in Regionalism" written by Sheveta Sehgal and published in the journal *India Quarterly* in 2010. This journal explains the meaning and history of regionalism. In addition, this journal also combines regionalism with NAFTA.

In addition to these journals, the author also uses other journals to complement the literature and knowledge used, namely "North American Free Trade Agreement: An Overview" by Warren S. Payne published by BIPARTISAN POLICY CENTER in 2017. In this journal there is a complete explanation of NAFTA. Starting from the facts about NAFTA, the objectives of NAFTA, and the impact of NAFTA on its member countries. The two journals complement each other, so that the material presented in this paper has a solid foundation and can be accounted for.

RESULTS

Regionalism in NAFTA

The term "regional" is included in the definition of "multilateral agreement" or "multilateral treaty," where "multilateral agreement" refers to an agreement reached between parties with a very large number of nations. A region is regional, and to be regional or of a regional nature is to be regional. While regionalism is the concept of collaboration between nations within a specific region.² According to Mansbaach's opinion cited by Nuraeni,

² Christine S.T. Kansil, *Modul Hukum Internasional*, (Jakarta: Djambatan, 2002)

regionalism is a regional grouping identified on the basis of geographical proximity, culture, trade, and mutually beneficial economic interdependence, communication and participation in international organizations.³ There are 4 (four) criteria that can be used in designating a region:⁴

1) Geographical criteria

Grouping of countries based on their location in continents, sub-continents, islands and so on such as Europe and North America and Asia.

2) Political/military criteria

The grouping of countries is carried out based on their participation in various alliances or based on political orientation, such as alliances or based on political orientation, for example the socialist bloc, capitalist bloc, NATO and non-capitalist, NATO and non-aligned

3) Economic criteria

Grouping of countries based on disaggregated criteria in the development of economic development, such as industrial output, such as industrialized countries, developing countries, and underdeveloped countries.

4) Transactional criteria

Grouping of countries based on the frequency of mobility of people, goods and services such as immigrants, tourists, trade and news. Examples include the US, Canada and the European Single Market.

Regional groupings are generally based on geographical, cultural, economic and trade proximity. The concept of regionalism adopted by countries in a particular region seeks the formation of joint policies by member countries in the same region with the main actor being government to government to form a joint political union. One of the sub-contexts contained in regionalism is the interaction in international games that emphasizes collective action related to certain issues.⁵

Joseph Nye argues that the concept of regionalism was born as

a region as a limited number of states linked by geography and interdependence and

³ Nuraeni, S., dkk, *Regionalisme dalam Studi Hubungan Internasional*, (Yogyakarta: Pustaka Pelajar, 2010).

⁴ *Ibid*

⁵ Poon, Jessie P. H. "Regionalism in the Asia Pacific: Is Geography Destiny?" *Area* 33, no. 3 (2001): 252–60. <http://www.jstor.org/stable/20004163>.

of regionalism as the formation of and policies pursued by inter-state groups based around regions has stood the test of time.

As a concept where a region or area is made up of numerous countries that are geographically connected and dependent on one another, forming a common rule based on the consent of the countries in the region.⁶

The fundamental idea of regionalism, regional integration, has many stages of development. The three waves that make up the development of the idea of regionalism itself are known as the effects of international commercial relations following the end of World War II. That is the last of these waves.⁷ In the middle of the 1980s, regional integration started. This is what is then referred to as "New Regionalism," which is now evolving into a generally recognized interpretation of regionalism. Beginning with the Uruguay Round GATT negotiations' slow progress, which was brought on by concerns about the success of the European Union's initiative to create the Single European Market, and the United States' transition to regionalism through negotiations on the North America Free Trade Agreement (NAFTA), which resulted in the creation of the Free Trade Area of the Americas (FTAA).⁸ Legal Basis of Regionalism, Regarding the formation of regional cooperation, especially in trade, it is regulated in Article 24 of the General Agreement on Tariffs and Trade 1994 or GATT.

One of the causes of this is the rise of regionalism, a political movement that seeks to unite a region politically. Similarities in culture, communication, international organization, economy, and trade helped to shape the United States region. The history of NAFTA (North American Free Trade Agreement) is more closely linked to efforts to promote economic integration and free trade between North America than it is to the geography of the region.⁹

Previously, in 1987, the U.S. and Mexico had established cooperation in the form of trade and investment since Mexico had experienced an economic crisis in the 1980s. Finally,

⁶ Nye, Joseph S., dan Universitas Harvard. Pusat Urusan Internasional. *Regionalisme Internasional; Bacaan / [oleh] Joseph S. Nye, Jr.* Little, Brown, 1968.

⁷ Alan Matthews, "Understanding Reform of the Common Agricultural Policy," *QA - Rivista Dell'Associazione Rossi-Doria*, no. 1 (2010), <https://ideas.repec.org/a/rar/journal/0133.html>.

⁸ *Ibid*

⁹ Muhammad Sulton 'Alim. "Organisasi Regional Kawasan Amerika; NAFTA, MERCOSUR, dan DR-CAFTA"

Mexico carried out economic reforms by establishing trade cooperation with the US.¹⁰ In 1989, the US and Canada had also established cooperation in the form of trade negotiations. Then in 1991 the US, Mexico and Canada began to discuss cooperation between the three countries.¹¹ On the basis of the agreement between the US and Canada regarding previous trades, finally formed NAFTA (North American Free Trade Agreement). NAFTA itself has secretariat offices located in Washington DC, Ottawa and Mexico City.¹² NAFTA was formed on January 1, 1994. After NAFTA was established, a zone was formed in North America between the U.S., Mexico and Canada that carried out free trade, in which the zone waived quotas and tariffs export of such countries. These products are tariff-free with applicable terms and conditions.¹³ Bea was gradually phased out, except for agricultural products to be traded in Canada, the duty on these products was only abolished in 2008.¹⁴ The NAFTA agreement has the primary goal of removing all trade barriers between the U.S., Canada and Mexico. However, over time, NAFTA received a lot of criticism because it was considered detrimental to workers. So in 2020, after renegotiation between the three countries which made the NAFTA agreement stop and resulted in a new agreement called USMCA (United States-Mexico-Canada Agreement).¹⁵

Trade System in NAFTA

The trading system in NAFTA (North American Free Trade Agreement) was established with the aim of strengthening free trade and removing barriers to the flow of goods and services among member countries: Canada, Mexico, and the United States. Here is how the trade mechanism in NAFTA operates:

¹⁰ Anggita Rachmanantya, "Mexican Policy To Maintain Nafta Under Enrique Pena Nieto Leadership" (Skripsi., Universitas Muhammadiyah Yogyakarta, 2019)

¹¹ "North American Free Trade Agreement (NAFTA)," USTR. <https://ustr.gov/about-us/policy-offices/press-office/ustr-archives/north-american-free-trade-agreement-nafta#:~:text=The%20United%20States%20commenced%20bilateral,force%20on%20January%201%2C%201994.>

¹² Anggita Rachmanantya, "Mexican Policy To Maintain Nafta Under Enrique Pena Nieto Leadership" (Skripsi., Universitas Muhammadiyah Yogyakarta, 2019).

¹³ "The U.S-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020, replacing the North American Free Trade Agreement (NAFTA)," ITA. <https://www.trade.gov/north-american-free-trade-agreement-nafta>

¹⁴ "North American Free Trade Agreement (NAFTA)," USTR. <https://ustr.gov/about-us/policy-offices/press-office/ustr-archives/north-american-free-trade-agreement-nafta#:~:text=The%20United%20States%20commenced%20bilateral,force%20on%20January%201%2C%201994.>

¹⁵ Anggita Rachmanantya, "Mexican Policy To Maintain Nafta Under Enrique Pena Nieto Leadership" (Skripsi., Universitas Muhammadiyah Yogyakarta, 2019).

1. **Tariff Elimination:** The elimination of tariffs on commodities traded between member nations is one of the key goals of NAFTA. Since NAFTA does away with tariffs, it will be easier to move goods across borders. Tariffs are levies imposed on imported goods. A more open and competitive trading environment has been promoted through the gradual elimination of the majority of tariffs on qualified goods.
2. **Rules of Origin:** NAFTA established standards of origin, which are designed to identify the nation of origin of a product. This provision is crucial to ensuring that only products with legitimate origins from member countries receive preferential tariff treatment. Preferential treatment requires that a portion of the product's value come from NAFTA nations. This regulation intends to stop third parties from utilizing NAFTA as a shortcut to enter member markets.
3. **Access to Markets:** NAFTA intends to increase market access for products and services by lowering non-tariff trade restrictions such import quotas, license requirements, and technical trade obstacles. To promote trade flows, member nations are urged to make their rules and procedures simpler. This expands economic potential for both exporters and importers by enabling easier access for companies to markets in other member nations.
4. **Trade Dispute Settlement:** A dispute resolution process was established by NAFTA to manage trade complaints among signatory nations. Conflicts with the interpretation and application of NAFTA provisions can be resolved through this process. First, consultation and discussion are used to settle these problems. If no agreement is made, a binational panel comprised of an impartial panel will be set up to examine the matter and make a binding ruling.
5. **Services and Investment:** Trade in services and investment are also included by NAFTA. The goal is to encourage service trade liberalization and foster an environment that is more conducive to international investment between member nations. This includes clauses to safeguard and advance investor rights as well as improve collaboration in the financial services, telecommunications, and intellectual property rights industries.¹⁶

¹⁶ Villareal, M., dan Ian F. Fergusson. "Perjanjian Perdagangan Bebas Amerika Utara (NAFTA)." (2017).

DISCUSSION

Numerous studies have revealed that NAFTA has benefited the Mexican economy as a whole economically and socially, but that the advantages have not been dispersed equally across the nation.¹⁷ The deal had a favorable effect on Mexican output as well. According to a 2011 World Bank research, the increased trade integration that resulted from NAFTA helped to boost the productivity of Mexican plants.¹⁸ The majority of post-NAFTA economic impact assessments have discovered that the net overall effects on the Mexican economy have tended to be modestly positive.

After the agreement went into effect, Mexico saw both positive and negative economic growth, but it is difficult to say with certainty how much of these changes can be linked to NAFTA. A World Bank study evaluating some of the economic effects of NAFTA on Mexico came to the conclusion that NAFTA assisted Mexico in achieving development levels comparable to those of the United States and Canada. The study claims that NAFTA increased levels of synchronicity in business cycles in Mexico, the United States, and Canada and reinforced the high sensitivity of Mexican economic sectors to economic developments in the United States. It also claims that NAFTA helped Mexican manufacturers adapt to U.S. technological innovations more quickly, probably had positive effects on the number and quality of jobs, reduced macroeconomic volatility, or wide variations in the GDP growth rate, in Mexico.¹⁹

According to some analyses, NAFTA fell short of expectations in that it did little to help Mexico's economy or narrow the income gap with its northern neighbours²⁰. Some contend that the absence of supplementary measures that could have aided in a more thorough effort at regional integration limits the success of NAFTA in Mexico. These regulations may have included investments in infrastructure, industrial regulations, and/or

¹⁷ See for example, Robert A. Blecker and Gerardo Esquivel, *NAFTA, Trade, and Development*, Center for U.S.-Mexican Studies (San Diego), El Colegio de la Frontera Norte, Woodrow Wilson International Center for Scholars, and El Colegio de Mexico, WP 10-03, 2010; and Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

¹⁸ Rafael E. de Hoyos and Leonardo Iacovone, *Economic Performance under NAFTA*, The World Bank Development Research Group, May 2011, pp. 25-27.

¹⁹ Daniel Lederman, William F. Maloney, and Luis Servén, *Lessons from NAFTA for Latin America and the Caribbean*, The World Bank, 2005.

²⁰ Robert A. Blecker and Gerardo Esquivel, *NAFTA, Trade, and Development*, Center for U.S.-Mexican Studies, the Mexico Institute of the Woodrow Wilson Center, El Colegio de la Frontera Norte, and El Colegio de México, USMEX WP 10-03, 2010

educational advancements.²¹

One of the more contentious NAFTA provisions has to do with Mexico's agriculture industry and the idea that this industry has lost more Mexican workers as a result of the agreement than any other. Many NAFTA detractors claim that the deal caused numerous job losses in Mexican agriculture, particularly in the maize industry. According to one study, between 1991 and 2000, these losses resulted in the loss of nearly 1 million jobs in the production of corn.²² Even though Mexico started importing more affordable goods from the United States as a direct result of NAFTA, much of the developments in the agricultural sector may be traced to Mexico's independent agricultural reform initiatives in the 1980s and early 1990s. The majority of domestic reform initiatives involved privatization efforts, which enhanced competitiveness. As part of the measures, agriculturally related state firms as well as price supports and subsidies for basic commodities were eliminated.

CONCLUSION

From the research we have conducted on the effect of regionalism and NAFTA on the Mexican economy, we can conclude that Mexico experienced an increase in trade with the United States and Canada due to the NAFTA agreement. Mexico's international trade also experienced an increase in export and import volumes because this agreement allowed Mexico to access larger markets and reduce trade barriers such as tariffs and quotas.

NAFTA has also been good for Mexico's foreign investment as the agreement provides legal certainty and protection for foreign investors which encourages them to invest in Mexico. Therefore, Mexico got many multinational companies to build factories and production facilities and the resulting job creation increased economic growth.

However, in the agricultural sector, Mexico faced challenges as the United States imported agricultural products. Mexican farmers faced economic difficulties due to this competition as they lost out on scale and efficiency of production. This also led to Farmers exiting the farming business in favor of other businesses.

²¹ *Ibid.*, 22

²² Robert E. Scott, Carlos Salas, Bruce Campbell and Jeff Faux, *Revisiting NAFTA: Still Not Working for North America's Workers*, Economic Policy Institute, Briefing Paper 173, p. 43

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