

The United States of America and Mexico-NAFTA or Trump?

Năstase Luiza Loredana

University of Craiova, Faculty of Economics and Business Administration
nastase.luiza@yahoo.com

Abstract

This paper wants to present the current situation of the relationship between the United States and Mexico, given their membership of NAFTA, but also the current US president's view of it. In this regard, an analysis of the main macroeconomic indicators of the two economies is made, both at the level of 1994 and in the years 2015-2016, in order to find similarities and differences between them, but also to place them in the picture of the world economy.

The US-Mexico trade for the 18-year period (1999-2016) will also be discussed, as well as the opinion of the politician and businessman Donald Trump as the official US official. All this will be shown in the following rows.

Key words: NAFTA, the US-Mexico trade relationship, commercial agreement, FDI

J.E.L. Classification: F21, L14, O57

1. Introduction

The United States is in a new era ...the one in which a businessman is in charge. Thus, initially businessman and television Donald Trump has become the 46th president of the United States of America as a republican representative. This is a distinct case in the history of american politics, as Trump has shown its opposition to a series of trade and free trade agreements, with the North American Free Trade Agreement (NAFTA), the US-China relationship , TransPacific Partnership, US role in NATO, etc.

Why bother Trump NAFTA? First, according to data provided by the US administration and the local press, the president believes that NAFTA has never been a great advantage to the US, and even often it was against the interests of the Americans, in that they lost millions Jobs in industry that were occupied by Mexicans, which had a cheaper labor, and many products were imported from Mexico, affecting local producers.

2. The USA and Mexico at the regional and world level

The North American Free Trade Agreement (NAFTA) was signed in 1992 by three states: the United States of America, Canada and Mexico and entered into force on 1 January 1994. This Free Trade Area with 23 Years ago it has an area of over 21.5 million kilometers and almost half a million inhabitants. Concerning the socio-economic aspects, we mention two indicators: Gross Domestic Product (2015, PPP) - totaling \$ 21 trillion, GDP / inhabitant \$ 46,000 and Human Development Index (HDI) of 0.869 (very high).

Let's make a brief portrait of the two economies to establish their place in the world economy landscape, providing data both at the level of 1994, when NAFTA began to operate, as well as today:

Table no. 1 The main macroeconomic indicators of the US and Mexico

Indicators	US		Mexico	
	1994	2015*	1994	2015*
Population (mil.)	263,1	324,1	92,66	128,6
Total GDP (current US\$)	7,3 trillion	18 trillion	527,3 billion	1,15 tril.
GDP/capita (current US\$)	27.776	56.115	5.690	9.005
Exports of goods and services (billion dollars)	512,3	1.500	60	380
Exports of goods and services (% of GDP)	9,86%	12,55%	13,34%	35,36%
Imports of goods and services (billion dollars)	689	2.306	79	395
Imports of goods and services (% of GDP)	11,13%	15,45%	15,96%	37,47%
Total trade (% of GDP)	20,99%	28%	29,30%	36,41%

NB: * - Where data was available for 2016, these were used even if they were not reviewed.

Source: Data processed by the author based on information provided by the United States Census Bureau, the World Bank and www.worldometers.info

Following the exposure of the most important indicators, we can observe that the two economies occupy totally different locations worldwide, given the economic strength of each, but often follow a similar trend. Thus, in the table it is noted that between 1994 and 2015 the population of the United States increased by 60 million people and that of Mexico by almost 36 million, but we can not talk about comparable populations, at least from the point of view quantitative, because the current US-Mexico ratio is 324 to 128 million. Secondly, when we talk about gross domestic product in market prices, we are talking about totally different poles; at the level of 2016 the US had a total GDP of 18 trillion dollars, and Mexico a little over a trillion.

The situation is similar in the case of GDP per capita; US \$ 56,115, and Mexican at just over \$ 9,000; that is, we are talking about a GDP per capita difference of over \$ 47,000 !! The exports and imports of goods and services of the two countries have only a similar trend, as the corresponding amounts are again at opposite poles: both Mexican imports and exports tend to reach \$ 400 billion at the reported year, while in the case of US specialists said it is about 23 and 15 trillion dollars, respectively. Instead, we note that the total trade of the two nations, as a percentage of gross domestic product, is about one third.

3. What did NAFTA mean for the two?

The trade agreement between Mexico and the United States has meant over two decades of benefits to the two parties involved. Thus, if we report to the Mexican state, then we have to mention that it has become, following the conclusion of the agreement with the USA, besides the importance of the quantities of oil exported, and a big producer in the field of automobiles, electronics and appliances.

More specifically, what will determine this? It has led to an increase of more than \$ 230 billion in US imports of Mexican goods (from about \$ 65 billion in the 1990s to more than \$ 295 billion in 2016) and an increase Of US exports of goods to Mexico over 165 billion dollars (from about 68 billion dollars to more than 235 billion dollars for these two decades).

In contrast, for the year 2016, it seems that the US trade deficit in relation to Mexico is about 60 billion dollars, or more than 10% of the total US trade deficit. Also, the US (its own companies and subsidiaries) hired approximately 1.3 million Mexicans in the year 2015, which brought over \$ 250 billion in sales. On the other hand, mexican companies operating in the US employed nearly 80,000 people in the same period and brought just over 30 billion dollars. In conclusion, we can only say

that the relationship does not seem to be fair; at least through the eyes of BEA specialists (US Bureau of Economic Analysis).

We continue to discuss the international trade patterns of the United States of America with the Mexican state over the period 1999-2016, according to data selected by BEA:

Table no. 2: US International Trade with Mexico in 1999-2016 -million dollars-

Year	Exports	Imports	Balance
1999	101.030	120.328	-19.298
2000	127.077	148.258	-21.182
2001	118.030	143.575	-25.545
2002	115.324	148.588	-33.264
2003	115.973	152.531	-36.558
2004	130.296	172.501	-42.204
2005	142.977	188.192	-45.215
2006	157.800	216.992	-59.193
2007	161.145	230.456	-69.311
2008	177.842	236.410	-58.568
2009	152.154	193.659	-41.505
2010	188.337	246.769	-58.432
2011	225.058	282.027	-56.968
2012	244.584	298.599	-54.015
2013	256.511	303.988	-47.477
2014	271.049	322.956	-51.907
2015	267.337	325.276	-57.939
2016	262.125	323.850	-61.725

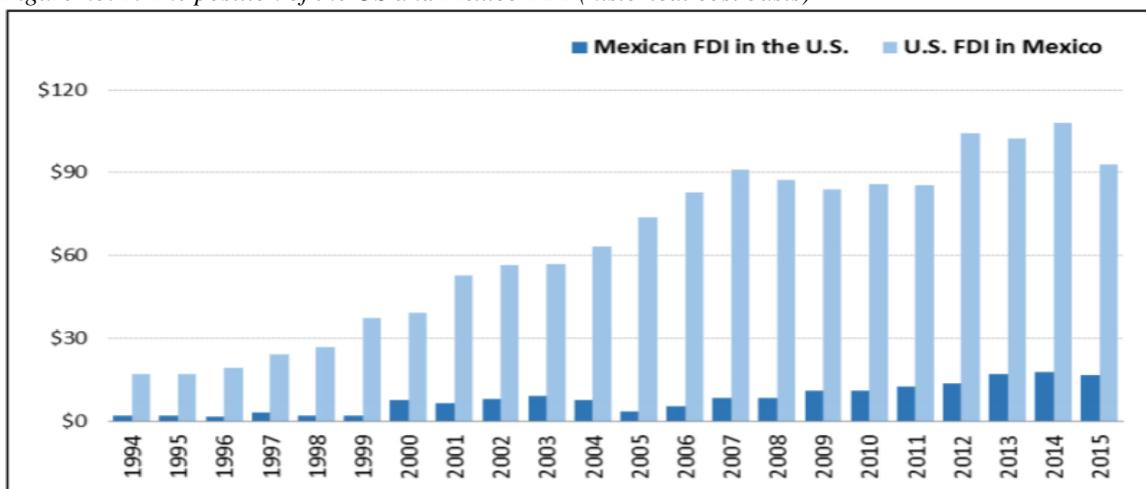
Data processed by the author based on information provided by the US Office of Economic Analysis

As can be seen in the table above, trade between the two economies has favored the Mexican state most often. In the analyzed period, 1999-2016, that is for 18 years, the US trade balance with Mexico has always been negative. Thus, the total of goods and services exported by Americans increased from \$ 101 billion in 1999 to more than \$ 262 billion in 2016.

In terms of imports, it has gone from just over 120 billion and has reached to nearly 324 billion dollars for the same period. The calculations are simple and the information presented above is reached when we mention that the US trade deficit with Mexico in the year 2016 exceeded \$ 60 billion (or more precisely \$ 61.725 billion).

Another very important aspect of the US-Mexico relationship is that of foreign direct investment. The following graph presents the situation of foreign direct investment for two decades, starting with NAFTA's first year and up to 2014:

Figure no. 1. The position of the US and Mexico FDI (historical cost basis)



Source: Bureau of Economic Analysis (BEA), US Department of Commerce, consulted on 20.04.2017 at <https://www.bea.gov/>

The situation is quite clear: the United States is the most important source of FDI for Mexico, rising from 17 billion in 1994 to over 92 billion in 2015, while Mexico Reaching about 17 billion in 2014, slightly decreasing over the next year.

4. Conclusions

Taking into account all the information presented in this paper, it is appropriate to conclude on several aspects:

- trade between these two economies is important for the whole international trading system, both in terms of quantity and quality (existence of a legislative framework, transparency, etc.);
- Donald Trump's decision to interrupt / rethink the relationship between the US and Mexico is one that is, in my view, primarily based on a social and safety basis, not economic;
- If the deal ended up causing many mexicans to come home because they were working from the perspective of US companies open on their territory and their affiliates, a disturbance of the peace between the two states, likely to reduce Mexico's economic good, may inevitably lead to an attempt by the mexicans to fraudulently enter the US;

5. References

- Caliendo L. and Parro F., 2012. *Estimates of the Trade and Welfare Effects of NAFTA*, National Bureau of Economic Research
- Hanson H.G., 2012. *Understanding Mexico's Economic Underperformance*, Migration Policy Institute
- Koopman R., Powers W. and Wang Z., et al., 2010. *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*, National Bureau of Economic Research, Working Paper 16426, Cambridge, MA.
- Orozco M., Porrás L. and Yansura J., 2016. *The Continued Growth of Family Remittances to Latin America and the Caribbean in 2015*, Inter-American Dialogue, The Dialogue, Leadership for the Americas
- Pickrell E., 2016. *Biden Visits Mexico for High-Level Economic Talks*, Bloomberg BNA
- Ribando Seelke C., 2016. *Mexico: Background and U.S. Relations*, CRS Report R42917
- Villarreal A.M., 2016. *North American Free Trade Agreement (NAFTA)*, CRS In Focus IF10047
- ***, The White House, Briefing Room, 2016. *U.S.-Mexico High-Level Economic Dialogue*, Joint Statement
- ***, International Trade Administration, Department of Commerce, High Level Economic Dialogue, Fact Sheet, <http://trade.gov/hled>
- ***, U.S. Bureau of Economic Analysis interactive statistics, at <http://www.bea.gov>