

Analysis of Mexico's trade openness and dependence on the USA

Análisis de la apertura comercial y la dependencia de México con los EUA

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Abstract

In this exploratory quantitative type, it contains a relevant topic, as is Mexico's growth through foreign trade, its trade openness and its dependence on the United States of América. Since México was incorporated to the General Agreement on Tariffs and Trade (GATT), predecessor of the World Trade Organization (WTO), due to pressure by the United States of América, has gradually abandoned protectionism exerted on production and domestic markets, allowing the entry of goods and foreign direct investment (FDI), which he has forced the country to be increasingly dependent. Direct benefits of this trade openness did not wait by the United States, of América and thanks to the incorporation of Mexico to the WTO, be able to capitalize by the conclusion of a Free Trade Agreement between the countries of North America. This commercial relationship established between Mexico and the United States, revive an old relationship of economic and political dependence of Mexico to northern neighbor.

Changes, Trade, Economic Dependence

Resumen

En esta investigación de tipo cuantitativa exploratoria contiene un tema de relevancia, como lo es el crecimiento de México a través del comercio exterior, sobre su apertura comercial y su dependencia con los Estados Unidos de América. Desde que México se incorporó al General Agreement on Tariffs and Trade (GATT) antecesor de la Organización Mundial del Comercio (OMC), debido a la presión hecha por los Estados Unidos de América, ha abandonado paulatinamente el proteccionismo que ejercía sobre la producción y los mercados internos, permitiendo así la entrada de mercancías y de inversión extranjera directa (IED), misma que ha obligado al país ser cada vez más dependiente. Los beneficios directos de esta apertura comercial no se hicieron esperar por parte de los Estados Unidos, ya que, gracias a la incorporación de México a la OMC, esté pudo capitalizarlo mediante la celebración de un Tratado de Libre Comercio entre los países de América del Norte. Esta relación comercial que se establece entre México y los Estados Unidos, revive una vieja relación de dependencia económica y política de México con el país vecino del norte.

Cambios, Comercio, Dependencia Económica

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Introduction

In our country, foreign trade represents a primary instrument, as it has been the engine of growth and is currently considered one of the most open economies, having signed 12 trade agreements (Pro Mexico, 2015).

The best example is the North American Free Trade Agreement with the United States of America and Canada (NAFTA), Mexico became an attractive destination for foreign investment for many transnational companies and focused an outward-oriented development model, and this is what should be taken advantage of foreign relations, global markets and trade agreements.

In the following, we will learn about Mexico's foreign trade, its commercial openness, as well as its progress in this area, in order to analyse what was done well, in order to be able to take up the best practices and thus attract foreign direct investment, which has a great influence on Mexico's economic growth.

Mexico's foreign trade began with the Spanish colony and developed through different periods, under the forms imprinted by the development of world capitalism. From a feudal trade with mercantilist features characteristic of the colonial period, it evolved towards a foreign trade with free trade features, in the so-called era of independent Mexico, which lasted until the Porfiriato. During these periods, a slow but persistent process of dependence on the European powers developed, until its North Americanisation was consolidated at the beginning of the 20th century.

Therefore, based on these events, the United States of America won the battle to take over Latin American trade; that is why, to speak of Mexico's foreign trade is to speak exclusively of Mexico-US relations (Herrera Martinez, 2004).

It can be said that the colonial regime was always an obstacle to North American imperialist expansion and even an important brake on the development of trade relations between the two countries, which was manifested in the fact that most of the trade with the United States of America was almost non-existent during the Spanish colony, due to the harsh protectionist system that prevailed in the 16th, 17th and 18th centuries.

For this reason, we do not properly speak of trade relations between Mexico and the United States of America until independent Mexico (1821-1876), and especially from 1826 onwards, when the first formal exchanges were reported, since previously some commercial transactions had been carried out with the United States by means of smuggling (Herrera Martinez, 2004).

Mexican independence meant not only for the United States, but also for European powers such as England and France, the possibility of intervening directly and indirectly in the helpless and disorganised Mexican nation, which, without Spanish tutelage, represented a great booty for the future. Thus, during the first Mexican governments, both diplomatic and immediately commercial relations were established (Herrera Martinez, 2004).

In Mexico, as in Latin America, foreign trade taxes, mainly on imports, formed the basis of federal public revenues during the 19th century.

The preference for these levies showed the weakness of the taxation system and the impossibility of raising revenue from domestic sources, due to political instability, low economic growth and the legacy of the colonial tax structure (Uthhoff Lopez, 2005).

Literature review

Impact of the second world war on Mexico

After the crisis of 1929, economic, political and social disagreement between countries began in the international arena, to such an extent that some countries joined forces and formed coalitions to start the Second World War. A key factor for this to happen was the fear of a change in the balance of power in the international system. After the conflict, truces, the signing of treaties, documents, the creation of organisations, writings and conferences were generated in the world to achieve international reorganisation. In 1945, the United Nations Organisation (UNO) was born, inspired by the Atlantic Charter, written by President Theodore Roosevelt and British Prime Minister Winston Churchill, which set out the principles common to the national policies of their countries (Gracia Hernandez, 2012).

In the context of the Second World War, the United States generated the good neighbour policy, with the aim of having Latin American countries as allies, which, despite not being powerful, served as messengers or even workers.

From 1939 to 1945, when the country was involved in the Second World War, it allowed Mexico to increase its international bargaining power in an unprecedented way.

The country was able to impose certain conditions on the terms of its relationship with the outside world (Gracia Hernandez, 2012).

In general, the Second World War was a good time for Mexico in foreign policy; its participation in the conflict was of historical significance, as it was reflected in the memory of its documents drafted, proposed and accepted, as well as its intervention in conferences and forums, which gave rise to the UN. The country's wartime reality was coherent; domestic and foreign policy were perfectly matched, which meant that, despite the failures, the drive from 1939 to 1945 took it to another level, where it experienced growth and a relationship of partnership with other nations. But it was not all good, inflation, loss of purchasing power, lower class discontent, poor distribution of wealth and extreme economic dependence on the northern neighbour were points where it could not take the reins (Gracia Hernandez, 2012).

Import-substitution industrialisation (1940-1982)

The import substitution policy was aimed at protecting the productive plant and employment. To this end, this programme aimed to produce in the country what had previously been imported from abroad. This was the basis of Mexico's trade policy from the 1940s onwards, taking advantage of the historical situation after the Second World War (Herrera Martínez, 2004).

According to Herrera Martinez (2014), these changes required the creation of various bodies such as the expropriation of the oil industry and investment in economic and administrative infrastructure, which led to the creation of the Organic Law of Public Administration.

Private companies such as Altos Hornos de México, Fundidora de Fierro y Acero de Monterrey also emerged.

This import substitution process consisted of several stages, among which the following stand out:

Import substitution of consumer products. This focused on the development of light industry producing foodstuffs, textiles and other final consumer goods.

Import substitution of intermediate goods. This process was the assembly of parts, raw and auxiliary materials or semi-manufactured items necessary for the production of a final consumer item, such as an automobile, some of whose parts were already produced in the country and only those requiring high technology for their manufacture were imported.

Import substitution of capital goods. This phase consisted of manufacturing machinery, equipment and accessories of high precision and sophisticated technologies. It was manufacturing machinery in order to make machinery.

Even so, Mexico lacked the production of capital goods, it needed to overcome the shortage of markets, industry and technology. But this required years of specialisation as well as financing for the payment of patents, trademarks and advice from foreign technicians to train Mexican technicians. All of this was very costly and the country did not have sufficient economic solvency to support it (Herrera Martínez, 2004).

General Agreement on Tariffs and Trade (GATT)

The economic order that emerged after World War II and the establishment of GATT, pending the creation of a definitive International Trade Organisation, facilitated the growth of international trade and the opening and interdependence of countries' economies (Herrera Martínez, 2004).

In the second half of the 1980s, the process of trade liberalisation began with the accession to the General Agreement on Tariffs and Trade (GATT), based on the elimination of quotas and the generalised reduction of tariffs. After the country joined GATT in 1986, it began to open up to the outside world.

Since then and up to 2005, 12 free trade agreements have been signed with 44 countries, the most important of which is the North American Free Trade Agreement (NAFTA) signed in 1994, since most of the country's foreign trade is with the United States of America. As a result of this opening process as well as certain industrial and regional policies, an important spatial redistribution of economic activity in the country was generated (Hernández González, 2009).

The first round of GATT negotiations, completed in 1947, achieved tariff reductions averaging 21 per cent. However, tariff reductions were much smaller in the GATT rounds of the late 1940s and 1950s. During this period, the protectionist impulse intensified in the United States as Japan and Europe rebuilt their war-damaged industries.

Moreover, the GATT negotiations emphasised bilateral negotiations (e.g., between Canada and France) for tariff cuts on certain products, which were steadily pursued by all participating nations. The process was slow and tedious and nations were often unwilling to consider tariff cuts on many products. Therefore, a new approach to trade negotiations was seen as desirable (Carbaugh R. J., 2009).

GATT Negotiating Rounds

Table 1 below shows the rounds of negotiations that have taken place in the GATT, as well as the most important points that have been discussed:

Round	Date	Participants	Tariff reduction
Tariffs addressed			
Ginebra	1947	23	21%
Annecy	1949	13	2%
Torquay	1951	38	2%
Ginebra	1956	26	4%
Ronda Dillon	1960-61	26	2%
Ronda Kennedy	1964-67	62	35%
Tariffs addressed and non-arancerial barriers			
Ronda Tokio	1973-79	99	33%
Ronda Uruguay	1986-93	125	34%
Ronda Doha	2002	149	-

Table 1

Source: (Carbaugh R. J., 2009)

Originally, the GATT had two main functions. The first was to reduce the political uncertainty that existed in international trade by creating regulatory rules for the trade policies of States Parties, which, together with reductions in tariff barriers to trade, were to increase trade investment at home and abroad.

They should increase trade investment at home and abroad. The second function was to provide an international forum for dispute settlement and negotiations in order to consolidate GATT rules and procedures. In fact, the objective of the GATT was to enable progressive multilateral trade liberalisation, through the application of the most favoured nation clause, based on the principle of reciprocity that must exist between all signatories of the Agreement (De Almeida Luquini, 2003).

In relation to the issue of tariff reductions and the elimination of non-tariff barriers that hindered international trade, several rounds of multilateral negotiations were held with the aim of discussing tariff reductions and the granting of trade preferences (De Almeida Luquini, 2003).

The countries most interested in reducing these tariff barriers were the United States, Canada, Japan and other European countries, so that they could continue to strengthen their economies, as they were the main players in international trade. Developing countries did not participate in the negotiations, although they benefited from the agreements made (De Almeida Luquini, 2003).

As a result of the process of globalisation (liberalisation) in the flow of goods between countries over the last three decades, the composition of trade barriers imposed by countries has changed dramatically from standard trade barriers (which include tariff barriers) to non-standard or non-tariff barriers. Thus, in 2004, 85% of tariff items registered by the WTO (World Trade Organisation) in 97 countries were subject to non-standard trade barriers.

This suggests that estimates of domestic market protection and/or the degree of access to export markets need to incorporate the impact of non-tariff trade barriers on domestic prices (Tello M. D., 2008).

However, this trade liberalisation has not been automatic or widespread and is far from complete. As progress has been made in tariff dismantling, new and different non-tariff barriers have appeared, the effect of which has been a lesser degree of trade liberalisation than expected, or more precisely, an apparent liberalisation whose positive effects on trade have been less than intended (Sanchez, 2009).

The World Trade Organisation (WTO)

The current multilateral trading system is the result of negotiations between the countries that have participated in its elaboration and definition since 1947. At present, its core is the World Trade Organisation (WTO), which, at the beginning of 2008, had 151 member countries and a large number of observer countries. The WTO has its immediate predecessor in the General Agreement on Tariffs and Trade (GATT), the initial negotiation of which involved only 23 countries. It is easy to see that since that date there has been a considerable expansion in the number of participating countries and also in the set of issues that fall under its purview (López, 2008).

The WTO is a rules-based, member-driven organisation, i.e., all decisions are taken by member governments and the rules are the result of negotiations among them.

It has been based in Geneva, Switzerland since 1 January 1995 and was created by the Uruguay Round negotiations (1986-1994) (WTO, 2015).

It should be noted that the WTO is developing an important role in monitoring the trade policies of its member states, which is particularly relevant given the lack of transparency that often accompanies non-tariff barriers. Since the outbreak of the crisis, it has published several reports monitoring all protectionist measures promoted by governments and has developed a database with the tariff levels of its member states (Steinberg, 2009).

Free Trade Agreements

In the mid-1980s, Mexico was in debt and under an interventionist economic policy that limited imports and discouraged foreign participation in the economy. By the 1990s, Mexico had already reduced the market to foreign goods, services and investment (Fuentes R. E., 2010).

Mexico has a network of 10 Free Trade Agreements with 45 countries (FTAs), 30 Agreements for the Promotion and Reciprocal Protection of Investments (APPRIs) and 9 agreements of limited scope (Economic Complementation Agreements and Partial Scope Agreements) within the framework of the Latin American Integration Association (ALADI) (SE, 2015).

In addition, Mexico actively participates in multilateral and regional organisations and fora such as the World Trade Organisation (WTO), the Asia-Pacific Economic Cooperation (APEC), the Organisation for Economic Cooperation and Development (OECD) and LAIA (SE, 2015).

Methodology

This research has a qualitative approach with a descriptive and transversal scope, as it is done through time, as well as historical data on Mexico's trade openness with the world and how it has been its relationship of dependence with the United States, with the aim of seeking the dispersion and expansion of information openness.

Final Comments

A qualitative analysis was made of Mexico's openness to foreign trade, as well as its dependence on its northern neighbour, the United States of America.

Mexico is a country that has been gradually opening its way towards international trade, but for a long time it preferred industrialisation by import substitution, which kept it in underdevelopment, because instead of worrying about having a competitive industry with technology and quality, it dedicated itself to protecting its domestic industry and protecting employment, which generated a setback.

It is worth noting that it was not until 1986 that Mexico decided to join the GATT, today the WTO, and begin to open up to international trade, so that a different panorama could be seen in search of new opportunities.

The great opening with which Mexico began was until 1994 with the signing of its first international treaty with the United States of America and Canada (NAFTA), where the most benefited were the neighbouring countries, since they were the most interested, attracted by the cheap labour force and the benefits that were acquired with this treaty. They managed to incorporate their companies in national territory at lower costs, making them more competitive and making Mexico more dependent on them, since investment would continue to be foreign and the majority of exports would be greater than those of national industry. Today, Mexico has a wider network of international treaties in search of new negotiations and opportunities.

While it is true that the GATT was created to support and facilitate trade between countries, as well as the gradual reduction of tariffs, the WTO currently participates and assists in the elimination of other types of barriers that States have imposed, hiding behind technical issues, in order to protect their domestic industry, and that only hinder international trade.

There is a lot of participation by governmental and non-governmental organisations that support Mexico's economic development through different programmes, and the intention of these organisations is positive.

In the future, Mexico should work more on research and technology in order to be a competitive country and not be at a disadvantage with the great powers such as the United States, a neighbouring country with which it has a long commercial history and on which we have always depended for our growth.

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