

Border Policy Network

Red de políticas fronterizas

THE MEXICO-UNITED STATES BORDER REGION AND THE NEW CHALLENGES OF NAFTA

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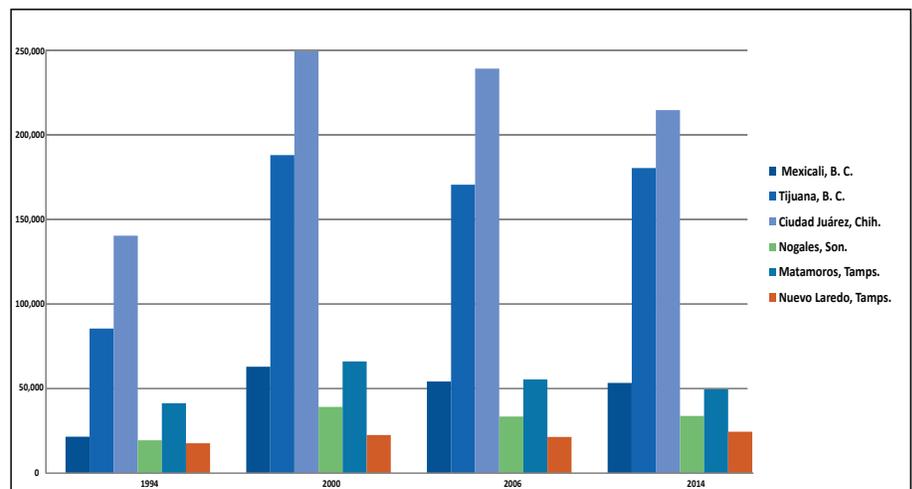
The significance of the northern border for the economic integration of the United States-Mexico

Given the US industrial restructuring of the late 1970s, and the geographic location of the main cities on the northern border of Mexico, the border states became privileged spaces for the Foreign Direct Investment (FDI). The northern border region concentrated 30.8 per cent of the total FDI between 1999 and 2014¹. The FDI in these states was already important before NAFTA, however, the agreement kept the region a significant recipient of FDI from the United States.

The maquiladora industry was the main beneficiary of this type of investment. For the region it was a predominant source of job creation. Employment grew at a rate of 11.9 percent for the 1976 to 1981 period; while for 1983-1989 that employment grew at a rate of 17.7percent². However, the domestic value added (measured in domestic inputs) could never exceed 2 percent, a situation that persists under the NAFTA.

The industrial export sector in northern Mexico kept its growth rate with the signing of NAFTA. As can be seen in Figure 1, the performance of export manufacturing establishments in border cities such as Tijuana and Mexicali in Baja California, and Ciudad Juárez in Chihuahua remained strong for industrial establishments; whereas the export activity was extended to other important cities in central Mexico. Such growth trends continued in the years 1994, 2000 and 2006 for the Export Maquiladora Industry (IME for its acronym in Spanish), and in 2014 for the Manufacturing Industry, the Maquiladora and Export Services (IMMEX for its acronym in Spanish)³.

Figure 1. Number of Establishments in the EMI (1994, 2000 y 2006) and MIMES (2014) in major cities of northern México (1994-2014)



Source: INEGI. Statistics of EMI, 2008/INEGI, IMMEX, 2014

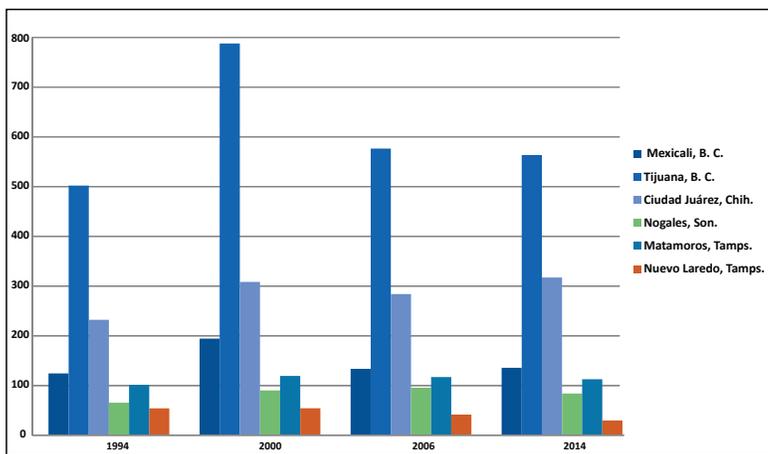
² INEGI, Statistics Maquiladora Industry, 1992.

³In 2006, the INEGI ended the data collection on the EMI. Since 2007, INEGI began a new way of collecting statistical information which included the manufacturing industry, the maquiladora and export services.

¹Ministry of Economy, March, 2017.

As can be seen in Figure 2, the number of jobs generated in the IME for the years of 1994, 2000 and 2006 and in the MIMES for the year 2014, maintained a growing trend, although in the year 2000 the IME experienced an even higher growth of employment. The IME generated more than one million direct jobs along the US-Mexico border. Some recent calculations estimated that this activity has created 5 million jobs for the U.S. (Wilson Center, 2017). There was a transfer of low-skilled labor-intensive operations to the north of Mexico (low wages), while high-skilled labor operations remained in the U.S. (high wages).

Figure 2. Number of jobs in the IME (1994, 2000-2006) and in the IMMEX (2014) in major cities of northern México (1994-2014)



Source: INEGI. Statistics of EMI, 2008/INEGI, IMMEX, 2014

Consequently, the promised convergence depicted as a positive result of the integration of Mexico and U.S. has not occurred. Despite the fact that since 2000 minimum wages have not fallen (in relative terms), the truth is that they have not recovered their value either. This is explained by a deliberate government policy of wage control which prevents that productivity increases achieved by Mexican workers translates into higher wages. Likewise, the growth of export production in border cities is not accompanied by a parallel growth of urban infrastructure. Priority was given to the production of infrastructure related to the export sector, relegating the production of quality public services to the border residents, for example, in the provision of public transportation, efficient and affordable roads that facilitate the commute between housing areas with industrial and commercial zones.

Similarly, the dynamics of economic activity derived from sustained growth in the industrial sector (with clear exceptions such as 2008 and 2011), has had an impact on the development of other activities, such as education, legal and financial services and logistics, among others. However, there has been a low development of complementary industrial activities linked to global value chains which allows the generation of greater domestic added value.

All of the above is explained by the lack of an integral industrial development model that focuses not only on the export industry, but also on the development of a domestic industry linked to the export sector based on activities centered on knowledge and the use of high technology. To this date, there has not been a long-term vision from the federal government that sets and promotes a sustainable industrial model. Industrial policies have not acknowledged the advantages of the northern Mexican border region's strategic location. Several industrial corridors connect mega-regions, such as Tijuana-San Diego-Los Angeles, Mexicali-San Diego-Los Angeles, Ciudad Juárez-El Paso, or Nogales-Nogales and between other adjacent cities.

NAFTA has been an instrument of economic growth for states and counties in the northern border of Mexico and the southern border of the U.S. Nearly 70 percent of the bilateral trade in Mexico and the U.S. and even with Canada, goes through this region. According to the Research and Innovative Technology Administration (RITA) in 2012 there were 13,000 trucks crossing, while in 2016 that amount increased to 15,897 trucks. However, the dynamism in border flows is based not only on commercial crossing; according to the same source, in the 39 ports of entry of the US-Mexico border, there were 62 million private car crossings in 2012, which in 2016 increased to 75 million. Likewise, pedestrian crossing was no less important: in 2012, 41 million people crossed the border from south to north; and in 2016, just over 42 million pedestrians did the same.

While it is true that the growth dynamics in the cross-border region between Mexico and the U.S. has been driven by economic integration, this has not translated into local economic development for Mexican border cities. Improvements in the living conditions of its residents (per capita income, education, housing, environment and democratic participation, among others) have not become a reality. It is necessary to go beyond policies to boost foreign capital inflows to sustain employment growth and take advantage of the renegotiation of NAFTA to consider a long-term policy of sustainable industrial development.

The challenges of NAFTA renegotiation and its links to a sustainable industrial development model

NAFTA does not constitute a development model in itself. However, since its signing it was established as the main instrument of the model of industrial export development promoted in Mexico since the 1980s. The signing of NAFTA found an oligopolistic heterogeneous Mexican industry, with a small and medium-sized companies that were not ready to face the competition of large corporations. The Mexican agriculture and fishing sector, in even a more precarious situation, saw the agreement as a threat to their mode of production. Meanwhile, in the United States and Canada, losses of thousands of jobs were estimated. Twenty-three years later, it is clear that in the three countries there were winners and losers in several population and economic sectors.

Among the main results of Mexico's entry into NAFTA has been the loss of an industrial base of small and medium enterprises, which in 1980 was responsible for 34.7 percent of industrial employment in the country. In addition, there has been a lack of generation of linkages to the global value chains, which can be consider a limitation of the current export model. Furthermore, there was a step back on the road to food self-sufficiency (Mexico was one of the main producers of corn and beans in the world). Farmers left the fields to migrate to the north and there was a process of productive reconversion towards production for the external market.

The challenges of NAFTA renegotiation

The renegotiation of NAFTA should entail, for the current decision-makers and other stakeholders, self-critical thoughts on what has been achieved so far with this trade treaty instead of considering its rejection. Efforts should be put on needed adjustments to shore up an industrial development model based on the exports of products with higher domestic value through and effective participation in the global production chains. Mexico has to evaluate the advantages of staying as a commercial partner in NAFTA and determine the areas of the treaty where it should remain strong in the renegotiation. This approach must result from a reflection on the industrial development model desired for the country. As indicated above, NAFTA cannot be understood as a model of industrial development and therefore negotiations cannot be considered from that perspective.

Crises are opportunities, and the objective should be, to maintain the trade agreement with the U.S. and Canada, and identify areas of opportunity that turns into improvements for all Mexicans, and not just for some sectors of the population.

The above implies the following:

1. Multilateral agreements have served little to advance a free trade agenda. Regional blocs have been the alternative solution for countries that seek to take advantage of economic integration. Consequently, the strengthening of trade integration must be reinforced between Mexico with the U.S. and Canada as the North American bloc, and keep what was agreed upon today for the benefit of these countries.
2. In spite of the difficulties that this renegotiation of NAFTA has experienced, the need for economic integration among the three countries should not be pushed back. It is crucial to move forward to lay the foundations for a new stage of economic integration with the establishment of common tariff rates.

3. The homologation of a labor standard, compliance and regulations would prevent unfair competition from labor allocation, which ends up affecting the working class of the less developed countries, such as Mexico.

4. Ratification of an environmental policy and its due control will make the North American region more sustainable and will protect countries like Mexico.

5. In an exercise of co-responsibility, the governments of Mexico and the U.S. should increase the support to the Development Bank of North America, in order to improve the urban development of northern border cities, its environmental protection and the north-south ties.

6. The development of a binational and/or cross-border innovation system can help to position the North American bloc on a more determined path towards the knowledge economy, in particular, to support technological development in the border areas of Mexico and the U.S. and the development of industrial production linkages.

7. Tourism and commercial activities in both directions of the border region between Mexico and the U.S. are components of the region's economic growth. Therefore, it needs to be protected and furthered. It is possible to keep the borders safe and at the same time reduce the time crossing from south to north.

8. Cross-border cooperation is an essential instrument, both to resolve disputes in border areas, and to promote their development. Multilevel cooperation and governance are mechanisms that require the full support of the different levels of government to facilitate economic integration and the consolidation of mega-regions (Cali-Baja, Sonora-Arizona, among others).

9. The rules of origin is one of the areas in which regional integration is effective. Therefore, these rules should serve to consolidate the position of NAFTA's members. Furthermore, since Mexico does not share the similar industrial structure with its counterparts, the ongoing

renegotiation becomes an opportunity to defend the rules of origin, particularly in those areas where the group can benefit as a whole. Another important aspect to consider when negotiating rules of origin is the fact that productive processes of 1994 were different from those in 2017. Therefore, a discussion of which products should increase their content of integration must have careful consideration.



The purpose of the BORDER POLICY NETWORK is to facilitate cross-border academic cooperation resulting in high-quality research; and, based on that research, to offer recommendations that advance cooperative, sustainable, and long-term solutions to the social, economic, security, and environmental problems of the US-Mexico borderlands. Our aim is to contribute to strengthen and improve binational policy approaches and institutions to foster a sustainable, prosperous, and secure border region.