



Trade Rift Deepens with Mexico

Barbara Kotschwar explains how a new US-Mexico trade dispute has complicated President Obama's efforts to strengthen international economic cooperation.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest today is Barbara Kotschwar, a research associate at the Institute and a specialist in the economies of Latin America. Thanks for joining us today.

Barbara Kotschwar: Thanks, Steve.

Steve Weisman: Barbara, we are talking today at a time when one of the countries that you specialize in studying, Mexico, is very much in the news. It's ahead of the G-20 meeting in London, where Mexico will be a participant. But let me ask you first about what has erupted as a rather interesting dispute between the United States and Mexico over trade issues. How did they get started?

Barbara Kotschwar: The dispute that you're referring to is often known as the Mexico trucking dispute. Mexico just recently issued a list of retaliatory tariffs against the United States, which have picked up a lot of press in the United States. The reason that Mexico is retaliating against the United States is that last week, in the 2009 appropriations bill, language was included that effectively terminated a pilot program that would liberalize access to trucking between the United States and Mexico. Now, access to trucking was something that was included in NAFTA in the US annex of services that were to be liberalized. Not to get too technical here, but the United States committed to opening its borders to Mexican trucks so that Mexican trucks could bring their wares from Mexico to destinations in the United States. That was to be done for four states as of three years after the date of signature. So, on December 18, 1995, access was to be granted into those four states for Mexican trucks. However, on December 18, 1995, the then-USTR Mickey Kantor held a press conference in which he announced that the provision was to be suspended, or its implementation was to be suspended for the moment, and it has remained suspended. Mexico waited for several years, in fact until about 1998, before bringing this to a NAFTA panel. And the NAFTA panel in February of 2001 ruled in favor of Mexico and gave Mexico the right to retaliate.

Steve Weisman: So, did these trucks ever roll into the United States?

Barbara Kotschwar: Well, the trucks started to roll about two years ago, in 2007. The United States set up a pilot program under which 100 companies potentially could have access to each other's borders. Remember that since the Mexican trucks were not allowed into the United States, Mexico also restricted access into Mexico for US trucks. So, this reciprocally liberalized access for each other's trucks. In 2007 the pilot program was set up in which 100 US trucks could have access to Mexico and 100 Mexican truck companies could have access to the United States. Now, those trucks had to prove that they met the safety standards of each other's agencies and had to be certified in order to be able to come into the United States. So far, 27 Mexican trucking companies received that certification. However, the language in last week's appropriations bill effectively terminated that program, which had been extended until 2010.

Steve Weisman: Now, when that appropriations bill terminated the program, wasn't that a clear violation of the existing agreements or protocol?

Barbara Kotschwar: It's a clear violation of NAFTA. The United States has been in violation of NAFTA on this issue since December 18, 1995, with a brief hiatus of that violation from 2007 until last week, during which time the pilot program was underway. So, yes, this effectively puts us back in violation of NAFTA.

Steve Weisman: Secretary of State Hillary Clinton is going to Mexico next week. I imagine she's going to get an earful on this, just as she did from the Koreans earlier this year over their complaints about the Korea free trade agreement.

Barbara Kotschwar: I imagine that she will. I imagine it will be brought up. Yesterday, the United States announced that President Obama will visit Mexico right before the Summit of the Americas, so the sixteenth and seventeenth of April. Then an announcement was made relatively soon after the announcement of retaliation by Mexico. So, I imagine that will be discussed in depth between Presidents Calderon and Obama.

Steve Weisman: Do we know what products Mexico has retaliated against?

Barbara Kotschwar: We do. They sent out a list of 89 products. It should cover, based on 2008 trade flows, about \$2.4 billion worth of goods. They can adjust this list.

Steve Weisman: Are these agricultural products or manufactured products?

Barbara Kotschwar: Well, some of them were agricultural, some of them were manufactured. Mexicans were very clever in sending out their list. They made sure that the retaliation would not affect poor people in Mexico basically. So, they try to make sure that the goods were not part of the basic consumer baskets. It doesn't include corn, it doesn't include rice, it doesn't include beef. But they did target certain states. If you look at the goods, many of them originate in California, for example. California's exports to Mexico comprise about 15 percent of their total export and some industries will be hurt by this.

Steve Weisman: Have we heard from the Teamsters Union? Their influence was a major factor in Congress's desire to suspend this provision. Have they reacted to the retaliation part of it?

Barbara Kotschwar: The Teamsters are very happy with this. The Teamsters on their website put out a very congratulatory note saying that the US Congress had helped keep American highways safe. Now, the safety issue that has been brought up seems a bit of a red herring. In a report that was issued in fall of last year, which examined the safety records of the Mexican carriers in relation to US and Canadian carriers, the Mexican pilot program trucks actually had a better safety record, for both drivers and trucks, than did US trucks.

Steve Weisman: That's inconvenient.

Barbara Kotschwar: It is inconvenient. Now, the sample size of the Mexican pilot trucks is relatively small, but whose fault is that?

Steve Weisman: So we're talking about a nasty but narrow dispute. On the other hand, given the larger issue of protectionism and the Obama administration's approach to trade generally, this is a rather significant event, isn't it?

Barbara Kotschwar: It's significant for a couple of reasons. One is that Mexico is a large trading partner of the United States. In fact it's one of the largest US trading partners. And Mexico has been a very open and liberal trading partner. It's actually one of the three G-20 countries that have not imposed protectionist measures, neither subsidies nor raised tariffs.

Steve Weisman: So Mexico is one of only a small number that's actually tried to do the right thing?

Barbara Kotschwar: Well, they've actually liberalized. In December of last year, they actually reduced the MFN tariff on 70 percent of their tariff schedule. So in the wake of this crisis, Mexico has liberalized. So I think it's unfair to characterize this as a protectionist reaction by Mexico in the wake of the financial crisis.

Steve Weisman: It's more in the category of, "no good deed goes unpunished."

Barbara Kotschwar: It's kind of like that. But it's a retaliation that was many years in the making. Mexico has been very patient and has tried to be a constructive trading partner. I think this is a bilateral issue that hopefully will be resolved. The Obama administration has reacted, after the Mexicans announced that they would be retaliating, a statement came out from the administration that they would work with Congress and with the Mexicans to try to remedy this and to address all concerns and to figure out how to not be in violation of NAFTA. So, hopefully, they'll figure something out. Now, I imagine whatever they figure out won't look that different from the pilot program.

Steve Weisman: Do you think they could accomplish this before the Summit of the Americas or even the London G-20 Summit?

Barbara Kotschwar: I should hope that they would be able to accomplish it before the Summit of the Americas, hopefully during President Obama's trip to Mexico. I would imagine that if they don't accomplish something on this front, it will be seen as a very negative signal towards Mexico. The United States and Mexico have many other issues of interest, border security being a major one.

Steve Weisman: Right, and the drug problem.

Barbara Kotschwar: The drug problems and the violence, and that's something that the two administrations need to cooperate on: their outstanding NAFTA issues. It's an important trade relationship.

Steve Weisman: Is it your view that this trade irritation is essential to clearing the way for the conversation and negotiations on these other larger issues, or can they be done in parallel?

Barbara Kotschwar: I think they need to be done in parallel. I don't think that this would hold up constructive discussions on the other issues, which are so important to both countries. But I do think that it's an important signal to Mexico if the United States is willing to work with Mexico. And symbolically, coming right before the first major meeting of all the countries of the Americas, I think it is important to be going with a good constructive message toward Latin America.

Steve Weisman: How has Mexico's economy fared in the current global financial crisis?

Barbara Kotschwar: Mexico has done all the right things in the last decade or so. They have been fiscally responsible; they've reduced their external debt. They have been able to implement macroeconomic measures that have allowed them to do some countercyclical spending. So, they're in better shape than they have been in other periods of crisis. But Mexico's economy has definitely taken a hit. Mexico is very close to the United States. The peso has devalued as a result of the crisis by about 40 percent, which certainly hurts any Mexicans who have contracts denominated in US dollars. Some Mexican exports are a little bit more competitive, so hopefully Mexico will be able to take advantage of that. But the Mexican stock market has also taken quite a bit of a hit. So, Mexico's growth isn't great. Mexico certainly has suffered as a result of the crisis. Hopefully, they'll recover.

Steve Weisman: Barbara Kotschwar, thank you very much for sharing some of your thoughts with us today.

Barbara Kotschwar: Thank you very much, Steve.

