

Financial Times (2.6.17)

Mexico warns of global impact if Nafta collapses

*Officials prepare to fall back on WTO rules
should discussions fail*



by: John Paul Rathbone and Jude Webber in Mexico City

The potential collapse of the Nafta economic bloc could have a huge global impact, Mexican officials have warned, as they prepare to fall back on World Trade Organisation rules amid fears Washington could torpedo the global trade body.

“I hope the world understands that what happens . . . [with the North American Free Trade Agreement is going to be very telling for the rest of the world,” Ildefonso Guajardo, Mexico’s economy minister, told the Financial Times.

“Our membership of the WTO is our safety net,” said Mr Guajardo who was unsure the US would respect WTO rules, an approach that could be hugely destabilising for global trade. “From public statements, the US is not very pleased with multilateralism,” he added.

“It’s a big call to action for the rest of the world . . . it’s more than a row between neighbours,” said Agustín Carstens, governor of the Bank of Mexico.

Donald Trump, US president, has come into office with an “America first” policy that has already seen him withdraw from a 12-country Pacific Rim deal negotiated by his predecessor, Barack Obama, and vent his frustration with large bilateral trade deficits the US has with countries such as Germany, Mexico and China.

That the US might be contemplating using its number three trade partner as a way of blowing up the international trade order is a sign of how bilateral relations have soured since Mr Trump was inaugurated.

The past two weeks have seen a rollercoaster start to efforts to rethink a [trade relationship](#) worth \$580bn a year that has also anchored security co-operation between the two nations.

Mexico’s president Enrique Peña Nieto scrapped a planned Washington summit after Mr Trump insisted Mexico pay for a border wall. A mollifying phone call the next day then degenerated into farce after news reports quoted Mr Trump saying he would send the US military to quell Mexico’s “bad hombres” and drug cartels, saying the Mexican army was “scared”. Both capitals have denied Mr Trump used such terms.

Value of Nafta trade

Goods, 12-month sum (\$bn)



Source: Thomson Reuters Datastream

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Andrés Manuel López Obrador, a leftwing populist leading the polls for next year's presidential election, said Mr Trump had treated Mexico "like dirt" if the reports were true. Others agree. Many Mexicans have switched their social media profile pictures to an image of the Mexican flag amid a tide of rising national pride.

Even moderate figures, such as former president Ernesto Zedillo, professor of economics at Yale, has called it a "waste of time" to play a "Nafta-tweaking game with the Trump administration". He describes Nafta as one among "many tools available to pursue the goals of economic growth and development". For the moment, though, not a day goes by without Mr Peña Nieto invoking the trade pact's benefits, even as Mr Guajardo insists "that doesn't mean we'll sacrifice everything to convince the US to stay" in it.

The real possibility that Nafta could fall apart has brought into focus a 23-year relationship long taken for granted by both sides. US agricultural companies, which export \$39bn under Nafta, have written to Mr Trump to express their concerns. Security analysts point out that Mexico could end co-operation with US intelligence agencies if pushed too far.

US exports to Mexico

Goods, 12-month sum (\$bn)



Source: Thomson Reuters Datastream

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Still, unlike Mr Trump's temporary travel ban on seven Muslim-majority nations, which drew an immediate backlash from US companies and countries around the world, no big name businesses have stood up for Mexico in the same way.

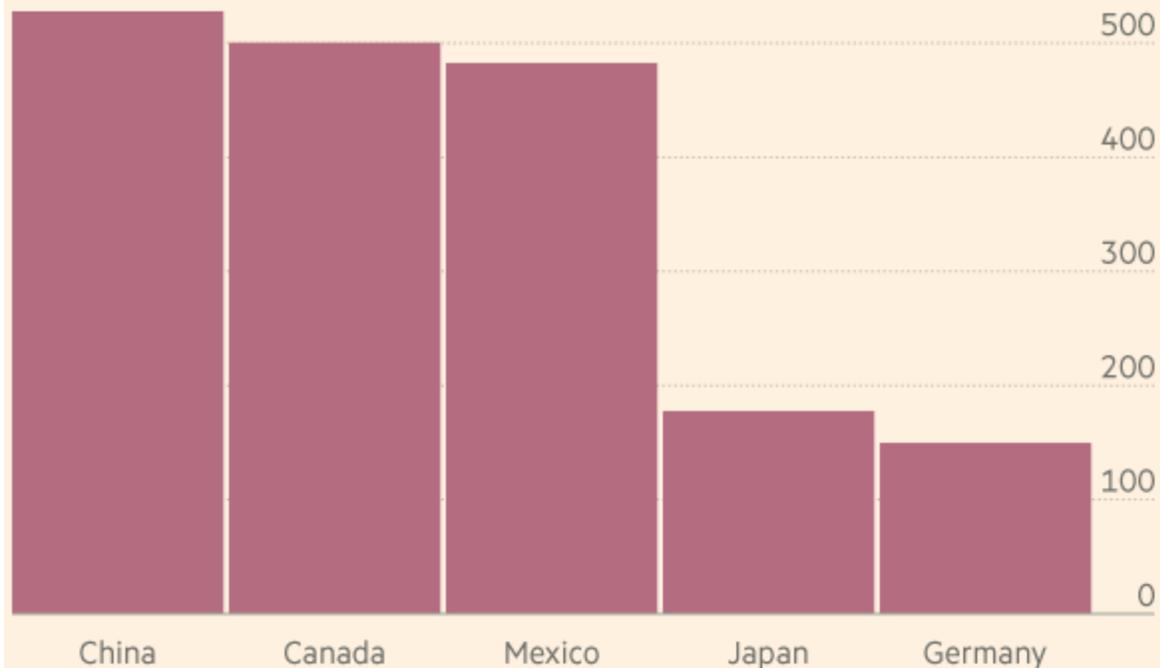
US companies, which have invested more than \$100bn in Mexico, are “balancing multiple concerns: [Mr Trump's] tax reform, infrastructure plans and free trade”, Mr Guajardo added. “So they have many big fish to fry. They have to pace themselves.”

The White House is expected soon to give Congress a required 90-day notice that it will begin negotiations with Canada and Mexico, which wants to see the start of Nafta talks in May. “You cannot properly react until you see the policies [that will be proposed],” Mr Guajardo said.

Meanwhile, Mexico is drafting bilateral deals with Brazil, Argentina, Australia and New Zealand, and the government says Singapore and Malaysia are priorities. Mexico already has free-trade agreements with 45 countries, the most in the world.

Top 5 US trading partners

Total trade in goods, Jan - Nov 2016 (\$bn)



Source: US Census Bureau

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The crisis over Nafta is also forcing Mexico to take a hard look in the mirror — and the image staring back includes **stagnant** growth, wages and productivity, corruption and legal impunity. “This makes it doubly urgent to increase Mexico’s productivity and competitiveness . . . Structural reforms are so important,” said Mr Carstens.

Although anecdotal evidence suggests the trade uncertainty is depressing investment, he remains confident that Mexico can ride out the volatility. After all, it has many years of practice. In 1994, the year Nafta began, a massive devaluation produced a debt and banking crisis — light years away from today’s reality given the central bank’s more than \$175bn of reserves and an \$80bn International Monetary Fund credit line it can also call on.

“I don’t want to say that this isn’t complicated, but I do think we have the ability to overcome tough times,” Mr Carstens said. “The problem is that we don’t know with any certainty how long all this uncertainty will last.”