

## **The Passion of NAFTA**

Pablo Ruiz-Nápoles  
Professor, Economics  
University of Mexico  
[ruizna@servidor.unam.mx](mailto:ruizna@servidor.unam.mx)

---

### **Mexican and American Critiques of NAFTA**

In Mexico, after fourteen years of NAFTA, the passionate debate continues. It is not always a win-win situation, but tends to create both winners and losers. Advocates of NAFTA view it as the fundamental factor behind the Mexican economic recovery after the crisis of 1995. According to the World Bank, without NAFTA, Mexico's total exports, Foreign Direct Investment inflows, and per capita income would have been much lower. NAFTA's opponents, on the other hand, claim that the benefits from the agreement have been concentrated in relatively few hands, and are more than offset by adverse economic effects. Critiques of the World Bank analysis assert that NAFTA has reduced the average income growth per capita in Mexico, and its beneficial impact on exports has not compensated for its negative effects, particularly the erosion of Mexico's inter-industrial links and the increasing wage gap between skilled and unskilled labor.

As of January 1, 2008 all import tariffs on corn and beans were eliminated under NAFTA. This represents, according to the peasants' organizations, another blow to Mexico's precarious economy and might result in increased migration flows to the US. Since the inception of NAFTA, the agricultural sector of the Mexican economy has experienced a loss of jobs – 1.3 million only in the period 1994-2002 – which is believed to be the main cause for emigration. To bring this to the public's

attention there was a huge demonstration by many peasants' organizations in Mexico City last month, urging the Federal government for a revision of NAFTA. The Mexican farmers also argue that trade in grains with the U.S. is not fair since Mexican farmers do not the same kind of subsidies from their government as the U.S. farmers do.

Adverse reactions to NAFTA are also present in the U.S. In all the 2008 presidential campaigns, for example, NAFTA is considered a hot issue. NAFTA's opponents in the U.S. believe that so far, the trade agreement has failed to generate new jobs, has been detrimental to the environment, and is beneficial only to big corporations. They claim that there has been a loss of one million job opportunities nationwide; that the majority of jobs displaced were in the manufacturing sector, and that there is a downward pressure on general wages, caused by the trade deficit with Mexico. In addition, despite the last minute inclusion of environmental regulations in NAFTA, people believe that its environmental agencies and programs are lacking government support, and as a result, big corporations are not actually regulated.

### **Modest Gains**

NAFTA increased Mexican exports on the North American market. In a few years, exports made up one third of Mexico's Gross Domestic Product. Also, NAFTA helped to change Mexico's exports from being highly concentrated in natural resources (oil) to including more than two thirds manufactured products. A key element in this was the increased operation of *maquiladoras* (in-bond industries), which are now responsible for half of Mexico's total exports. This export growth, however, was not felt in all productive sectors. The bulk of Mexico's

exports originate in only 300 businesses, most of them linked to transnational corporations.

The increase in Mexican exports has been favorably reflected in the country's trade balance with its major partner, the U.S. Since 1995, Mexico has run growing trade surpluses with the US. But such surpluses have been offset by Mexico's mounting trade deficit with the rest of the world. This is because trade liberalization has been accompanied by a massive increase of imports into Mexico. Now imports represent one third of Mexico's GDP. Such import demand mirrors the strong relationship between the exporting sector and foreign suppliers, accompanied by the breakdown of some internal linkages in Mexico's domestic productive structure. Many local producers have been put out of business by foreign competition. Thus, in the NAFTA period, the Mexican economy has significantly increased its structural dependence on imports. This imposes a well-known restriction for economic growth in an underdeveloped country: if the Mexican economy grows it runs into an increasing trade deficit, unless exports grow faster, but given its already high level this cannot be expected, so the alternative is having both a trade balance and no growth. In other words, trade liberalization and NAFTA did not place Mexico on a path to real export-led growth.

### **Falling Short of Expectations**

Another favorable development associated with NAFTA is the increase in the flow of Foreign Direct Investment (FDI), most of it coming from the US. Last year FDI flows in Mexico were around 25 billion dollars. However, some of this FDI has not been actual new productive investment but just the acquisition of already

existing local firms that feel unable to compete to foreign ones, and prefer to sell to big U.S. corporations.

One important failure of NAFTA was the expected increase in employment. The idea for opening up the economy, in the first place, was for promoting exports and, thereby, creating jobs. In practice, NAFTA has resulted in a slightly different outcome. Total paid employment in Mexico, including underemployment, has been growing at an average annual rate of 2.6 per cent, for the last twenty five years. In the NAFTA period the level of employment associated with exports increased at higher rates, so the percentage of employment generated by exports with respect to the total had a spike in 1995 and reached the level of 15 per cent in 2000. Considering that total employment has not increased to a significant extent and that in 1995, when export employment grew, the total level of employment actually diminished due to the economic crisis, it seems clear that export activities have been attracting workers from domestic market activities especially those displaced by imports. As a result, the net creation of jobs by Mexican foreign trade is actually very little.

### **Moving Forward**

According to experts assessing NAFTA's future, the next step in the integration process would be to unify commercial and monetary policies, which means to establish a Customs Union and to adopt a common currency. These two projects seem to face many obstacles from different and opposing groups of interest in the countries involved. In the case of Mexico the next logical step would be to fill up the missing part in NAFTA regarding free factors mobility, which is a migration agreement. This is urgently needed for regulating the unstoppable

migrant flow from Mexico to the US. Besides this, there seems to be a need to revise and renegotiate some parts of NAFTA with the US.

In the US, most politicians seem to endorse the workers organizations' claim to revise NAFTA, believing that the lack of jobs comes from the US trade deficit with Mexico. This view somehow overlooks the gigantic trade deficit the US has with Japan China, and the EU.

The next government in the White House whether Democrat or Republican is probably going to check on NAFTA. Before doing any changes or proposing steps forward, it would be prudent for the US government to evaluate the existing asymmetries, especially between Mexico and the US, and suggest actions to close the gaps, for the sake of everybody's wellbeing.