NAFTA 10 years After

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Initial goals for NAFTA:

1. **Extract Mexico and its Wall Street creditors from a long painful debt crisis…** *while reducing Mexico's dependence on volatile oil exports.*
2. **Save the American Auto Industry from Asian imports**—*(NAFTA was modeled on the 1989 U.S Canada Auto Agreement…)*
3. **Be a model for "trade not aid" development strategies**– *reduce poverty, reliance ondebt, increase growth– make Mexico the next Korea or Chile… set the table for the WTO-FTAA*

10 years after– two cheers for Nafta initial goals met but,

- ***NAFTA euphoria contributed to the 1994 peso bubble***– devastating Mexico private banks, (financial reform a silver-lining here).
- **Slower than expected growth in Mexico**, plus fast 1990s growth in the U.S. led to a trade deficit with Mexico– but capital flows into Mexico make this inevitable.
- **Real wages stagnate in Mexico**– but this is more due to demographics and lack of education than NAFTA – except in Textiles and Apparel.

Nafta's indirect "integration" vs. trade liberalization effects also important…

- ***Institutional integration***– progress toward a free press and a multi-party democracy in Mexico– thank you Ernesto Zedillio, PhD.
- ***Intellectual property reform and financial market opening*** relatively successful, albeit after a few bumps in the road…
- ***Labor rights and Environment*** side agreements.. limited success.
- ***Reduce immigration?*** perhaps in the future.

Fig MX-1 Mexico Diversifies away from oil..

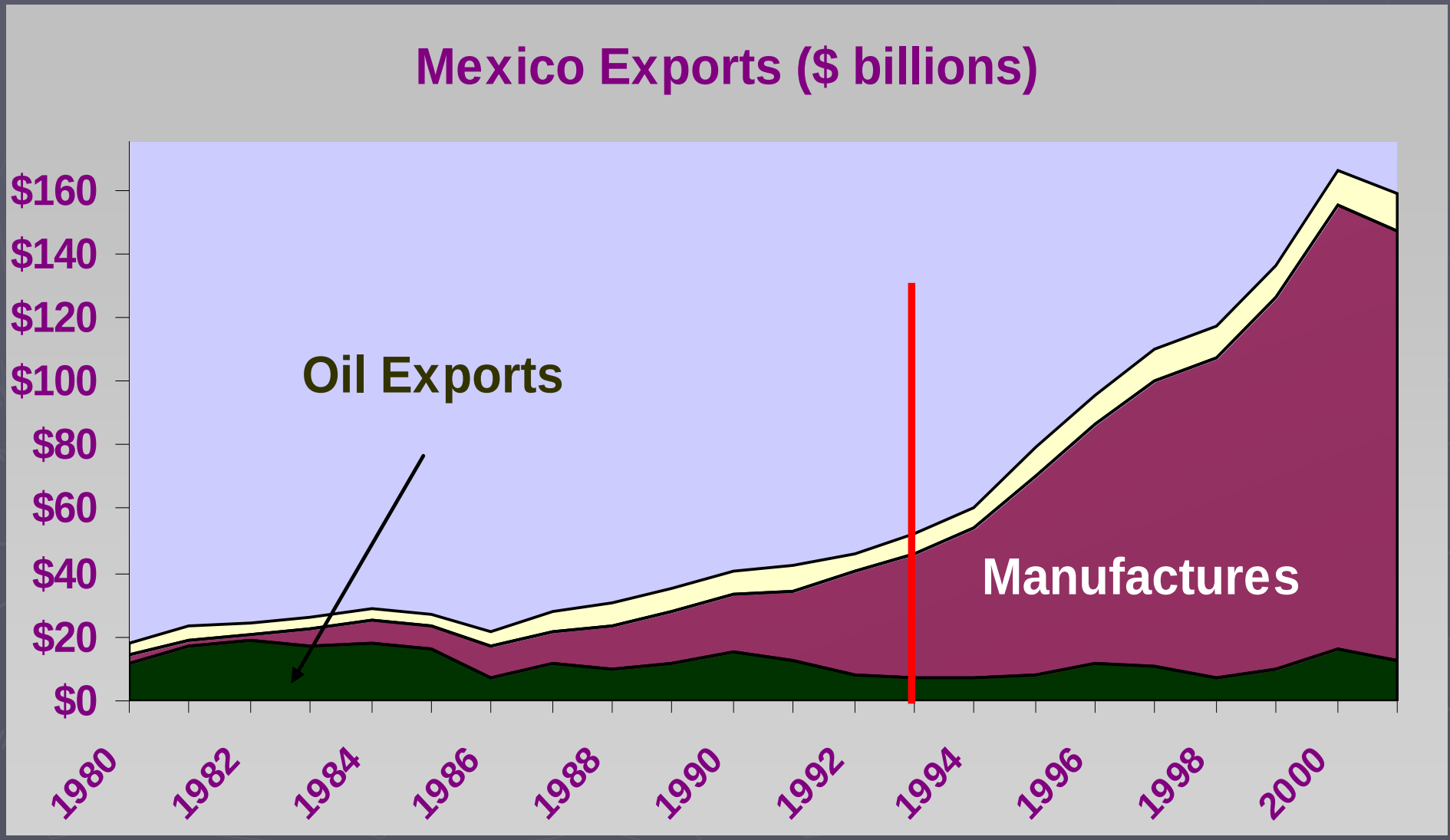


Figure MX-2 Mexico diversifies, Venezuela and Ecuador do not...

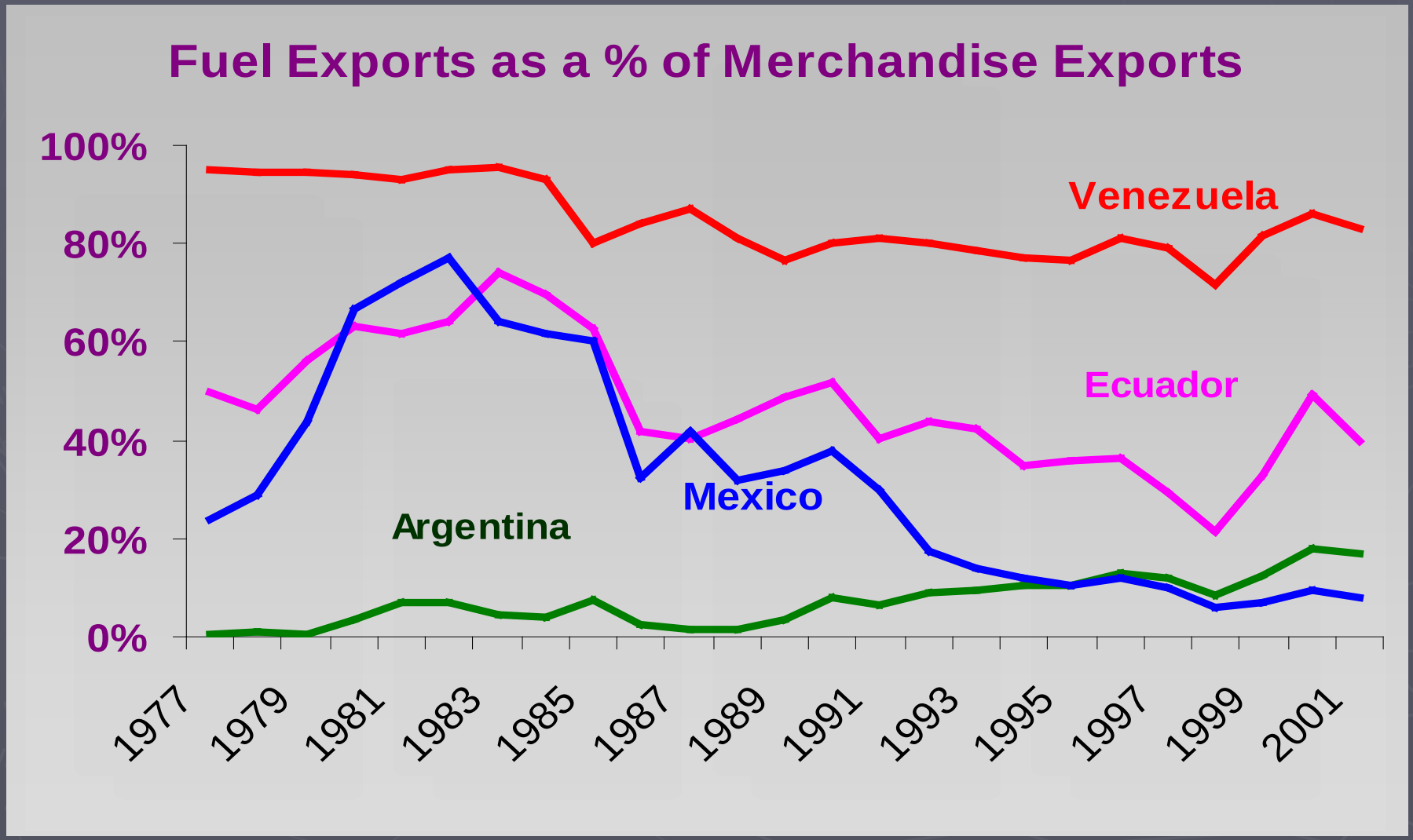


Fig MX-3 Mexico & Chile head North, as Venezuela and Ecuador succumb to the *"Natural Resource Curse"*

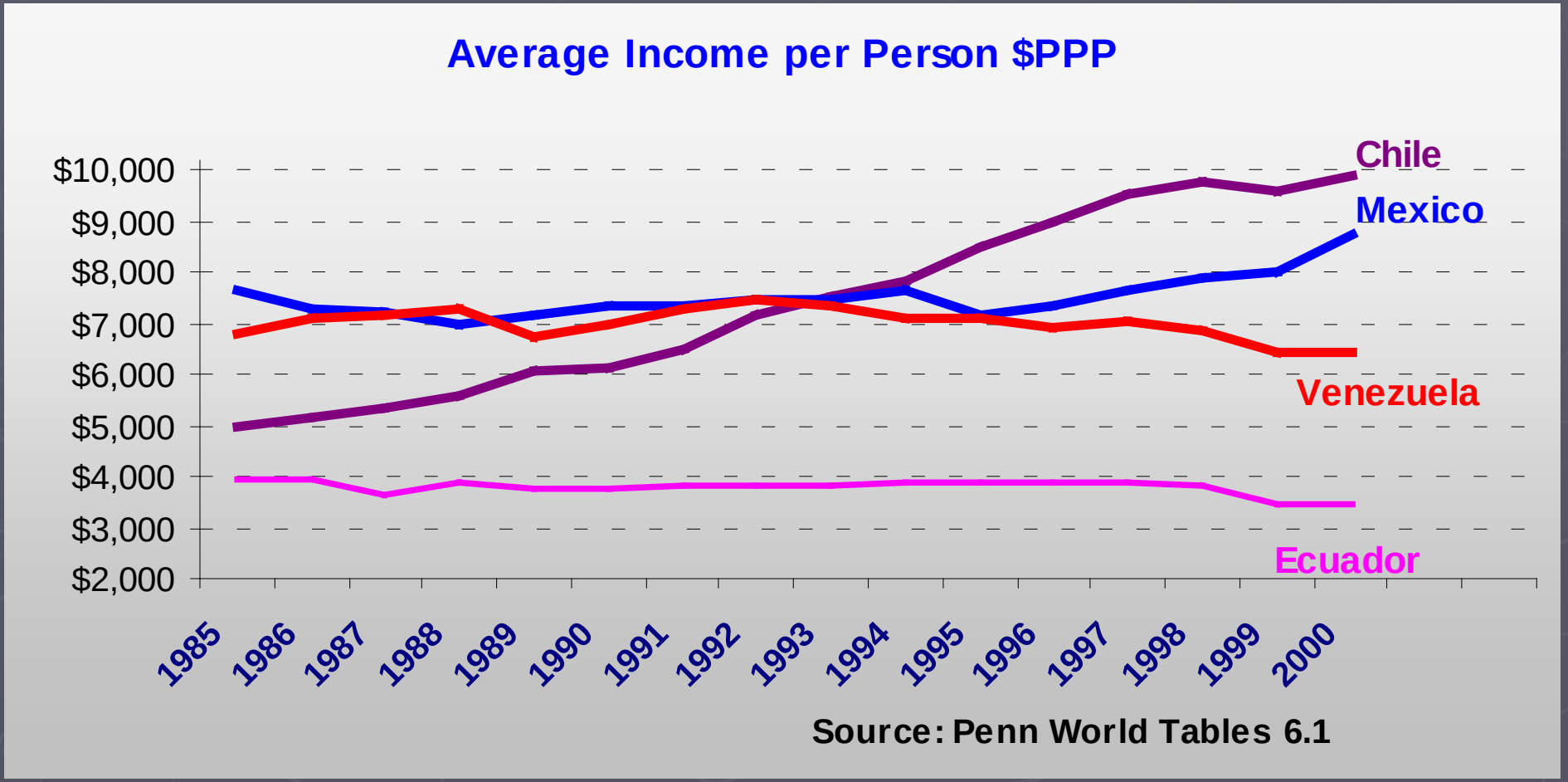


Figure MX-4 U.S Auto industry employment and exports rise...

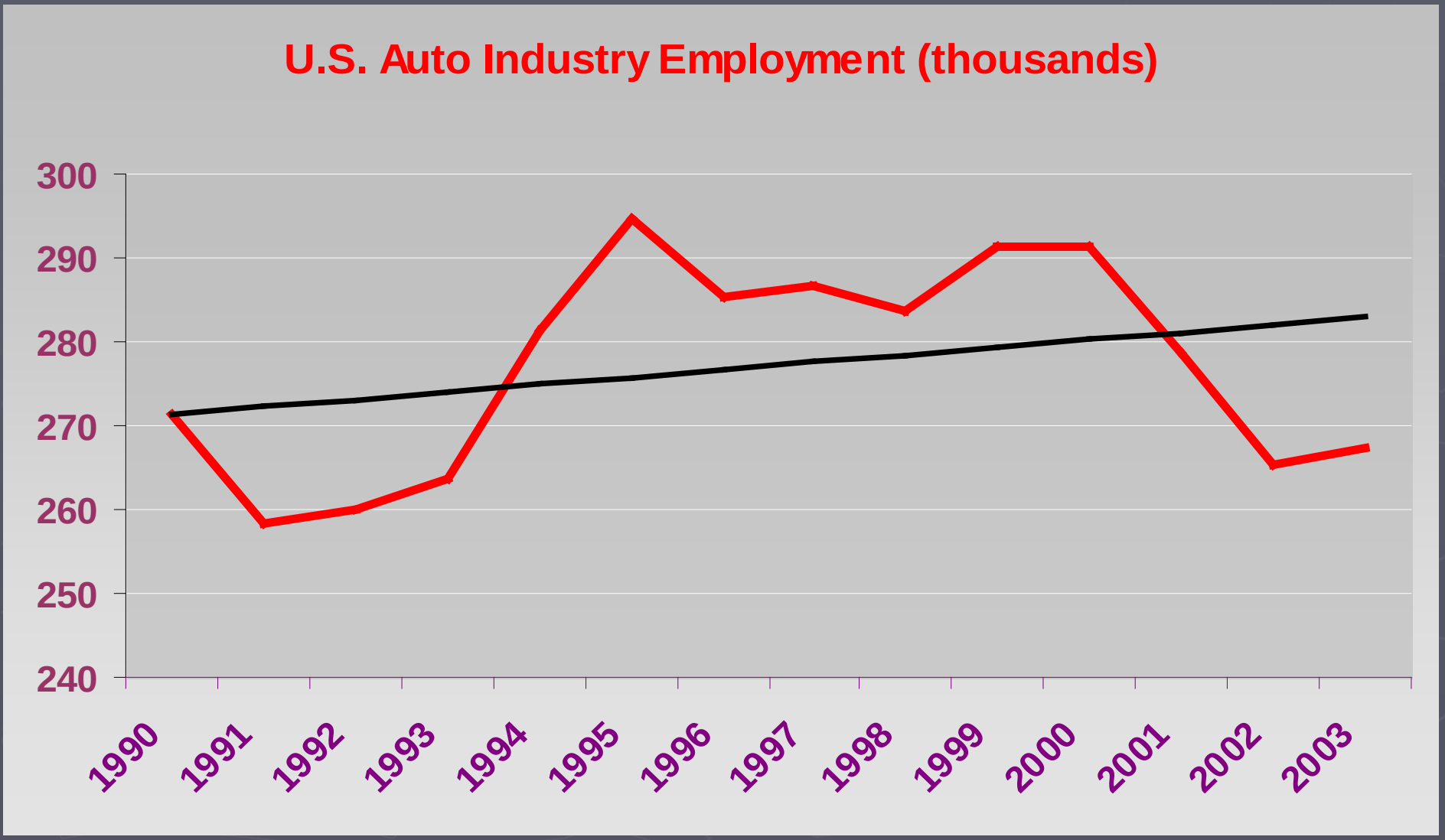
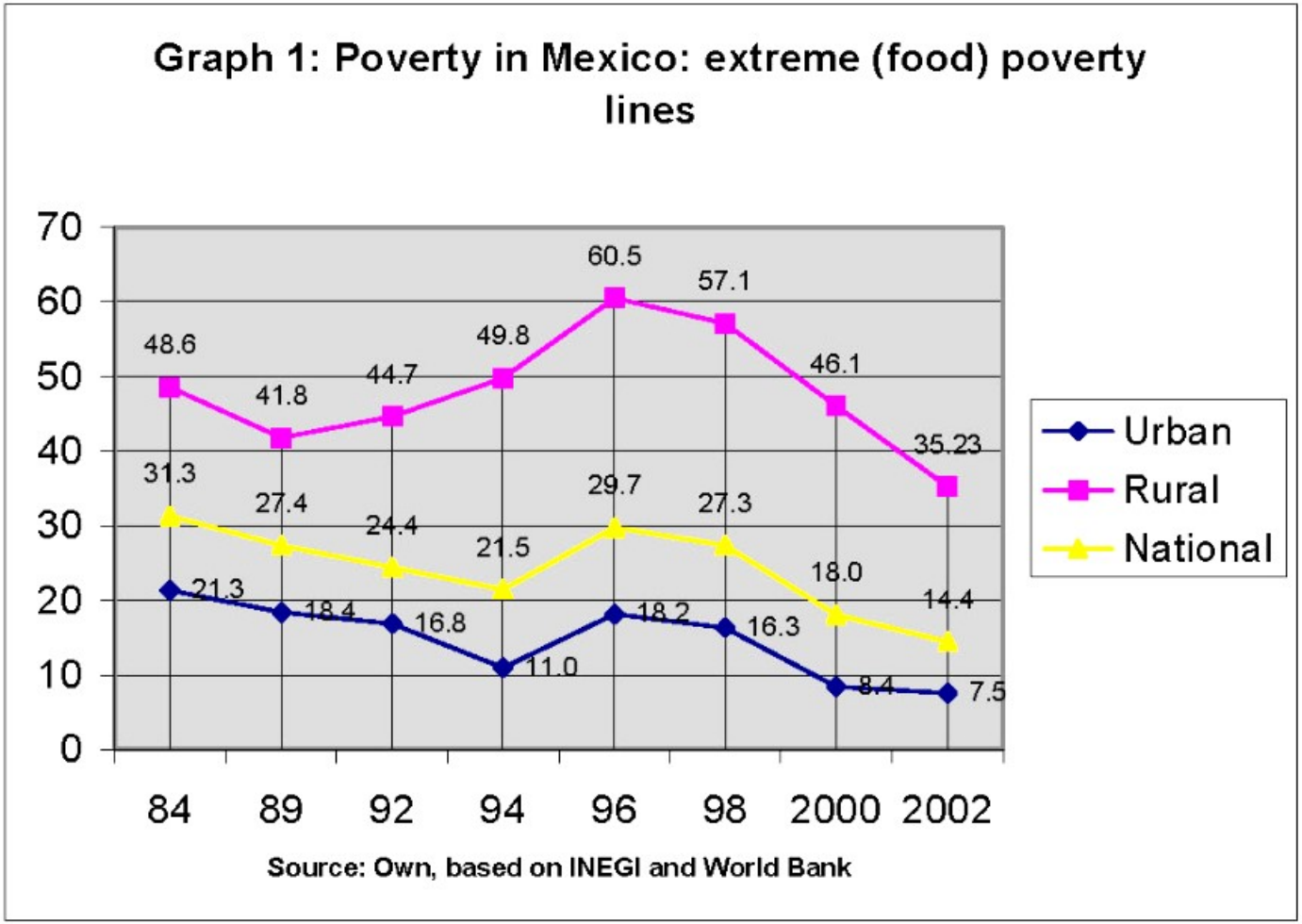
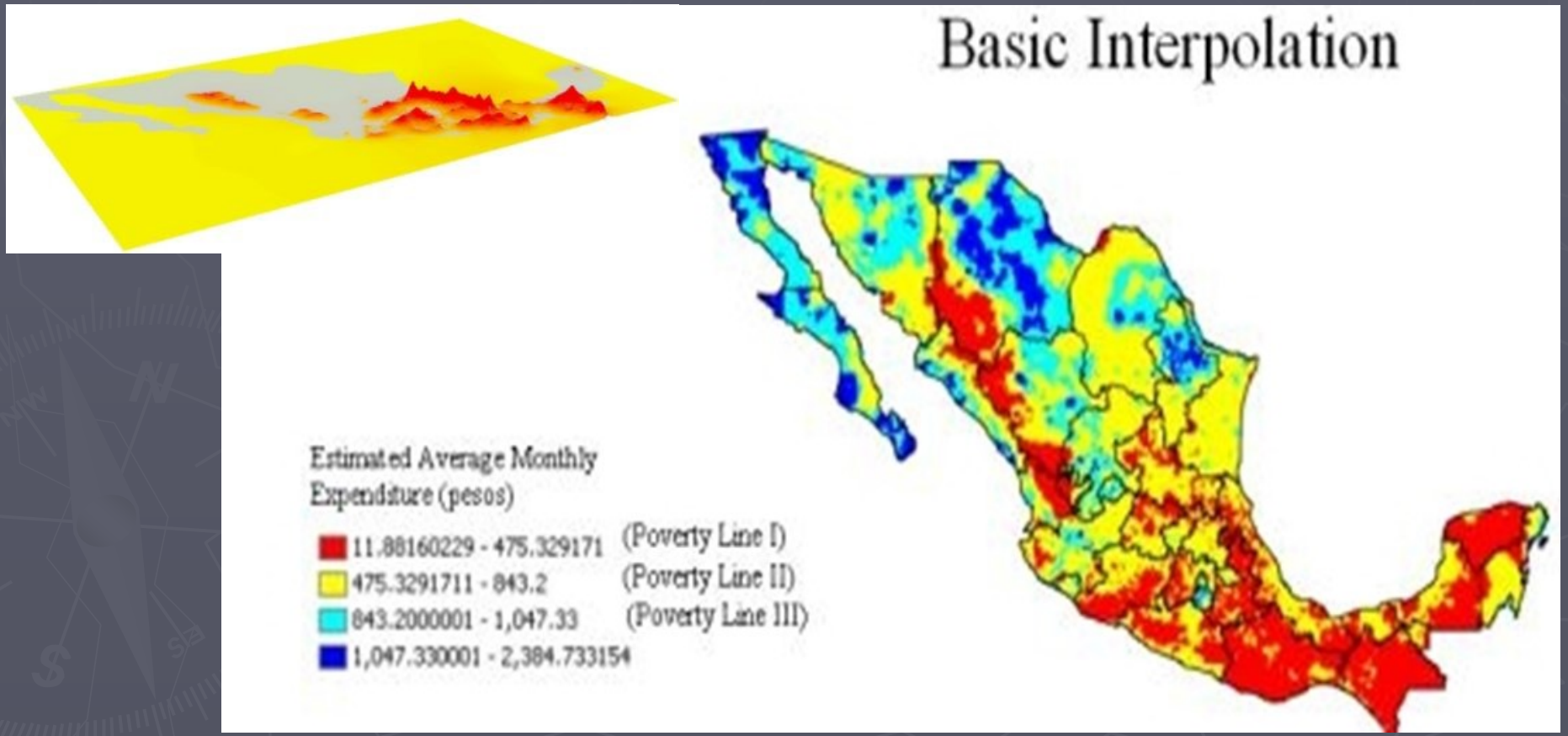


Fig MX-5 Poverty high Mexico, especially in rural areas, but falling



Source: United Nations, FAO

Fig M-6 2000 Poverty higher in the South where Nafta has less impact...



Mexico's Poverty lines are less than $2 per day.. even the lowest paying manufacturing job pays $1-2 per hour

Table 2. Poverty lines

	1984	1989	1992	1994	1996	1998	2000	2002
Rural (Mexican $ per month)	4.233	68.81	124.75	163.89	313.33	390.30	443.22	473.71
Urban(Mexican $ per month)	4.969	86.40	167.96	170.28	317.77	445.47	484.80	520.61
Exchange rate	4.89	2.551	3.098	3.394	7.56	9.46	9.3683	9.889
Rural in US$ per day	0.88	0.90	1.34	1.61	1.38	1.38	1.58	1.60
Urban in US$ per day	1.02	1.13	1.81	1.67	1.40	1.57	1.72	1.75

Source: Up to 2000 López Acevedo *et al* (1999), and World Bank Country Assistant Strategy for Mexico (2001). The poverty lines for 2002 were obtained by inflating figures for 2000 with the implicit prices used in SEDESOL's rural and urban poverty lines for 2000 and 2002 respectively.

Figure M-7 Employment rose sharply in Textiles & Apparel

But too a large extent, this was quota jumping & trade diversion)

- Low wage apparel industries moving to Mexico to avoid MFA quotas and
- Wages and productivity fell as these new firms entered.
- Then with the Caribbean initiative in 2000 and China entering the WTO in 2001 these jobs began to head South the Central America and East to China.

Fig M-8 and electronics assembly

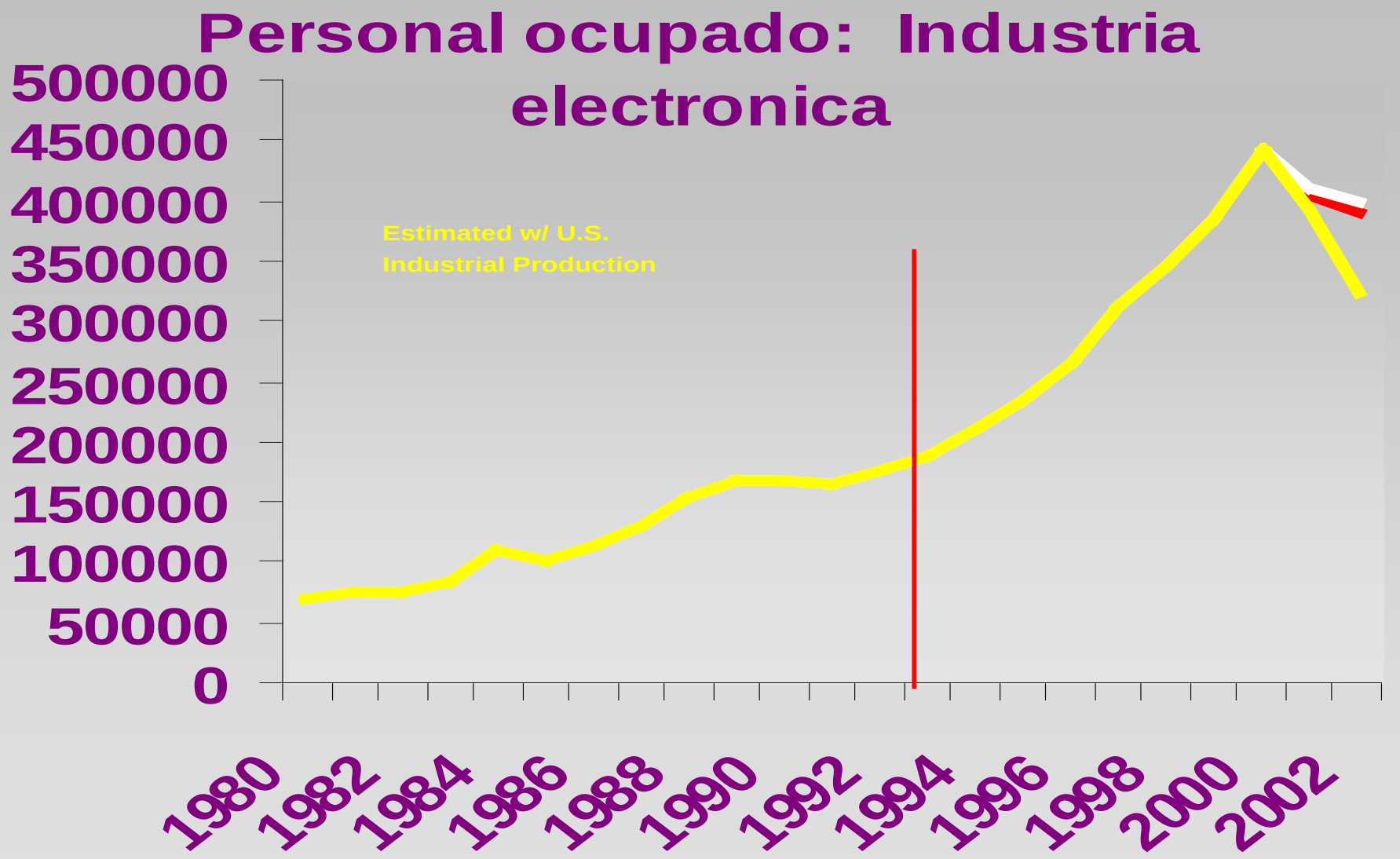


Fig M-9 And transport equipment,

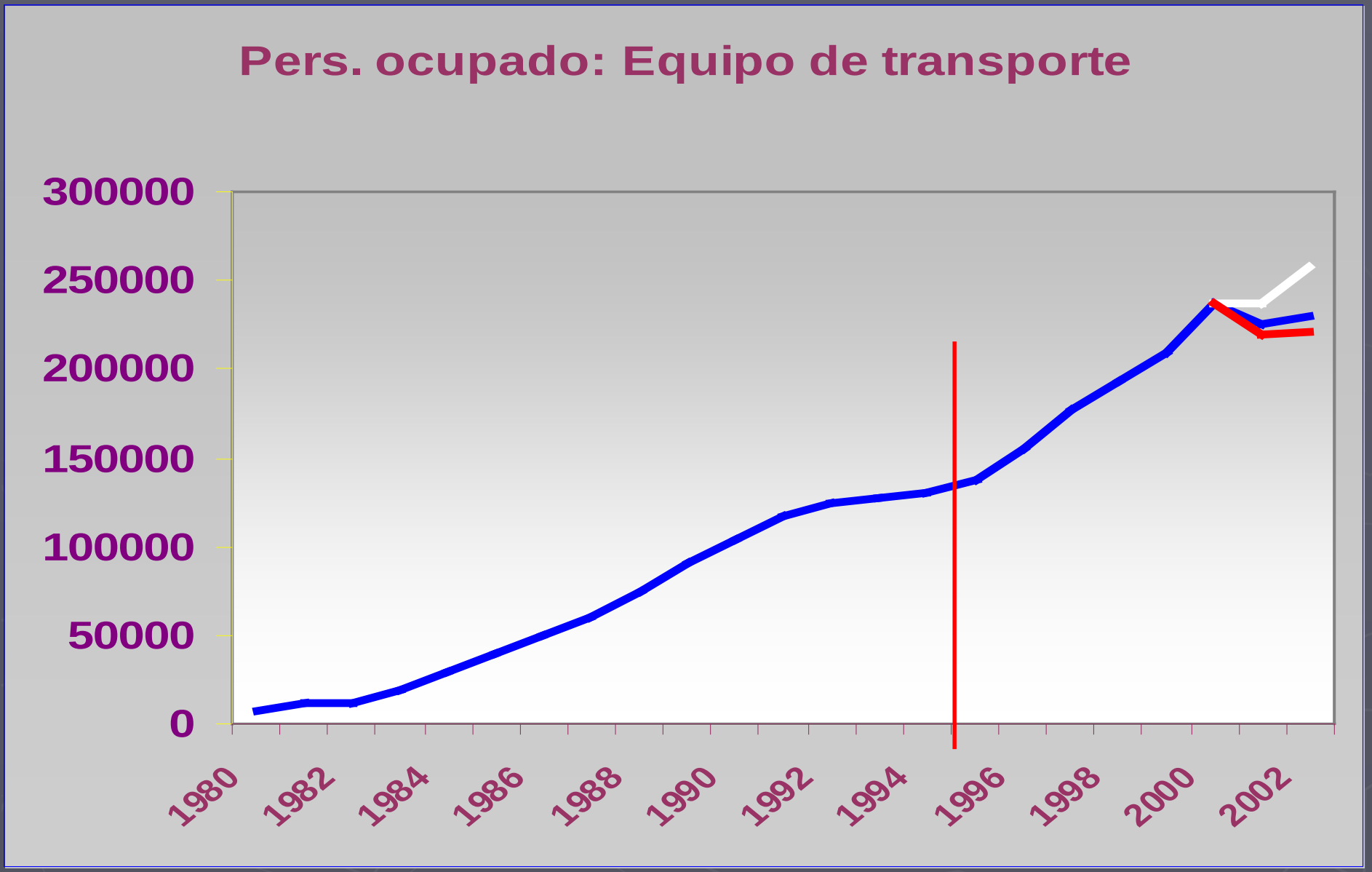
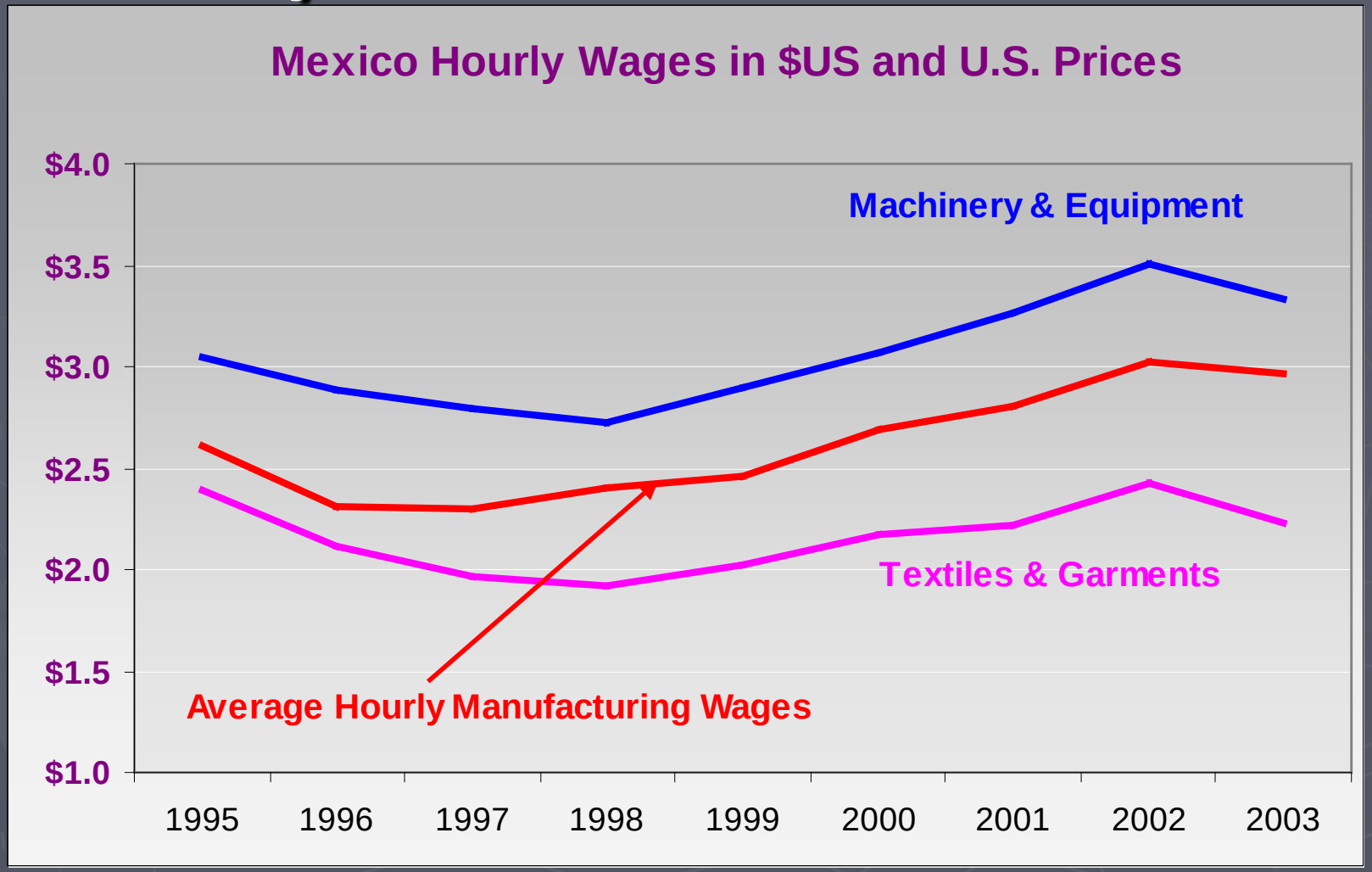


Fig. M-9 But real wages rose only modestly and not at all in textiles....



Source INEGI $dollar U.S. wage data converted to U.S. prices using World Bank $PPP exchange rates and deflated using the U.S. CPI.

Fig M-10 productivity growth rose but not in Apparel...

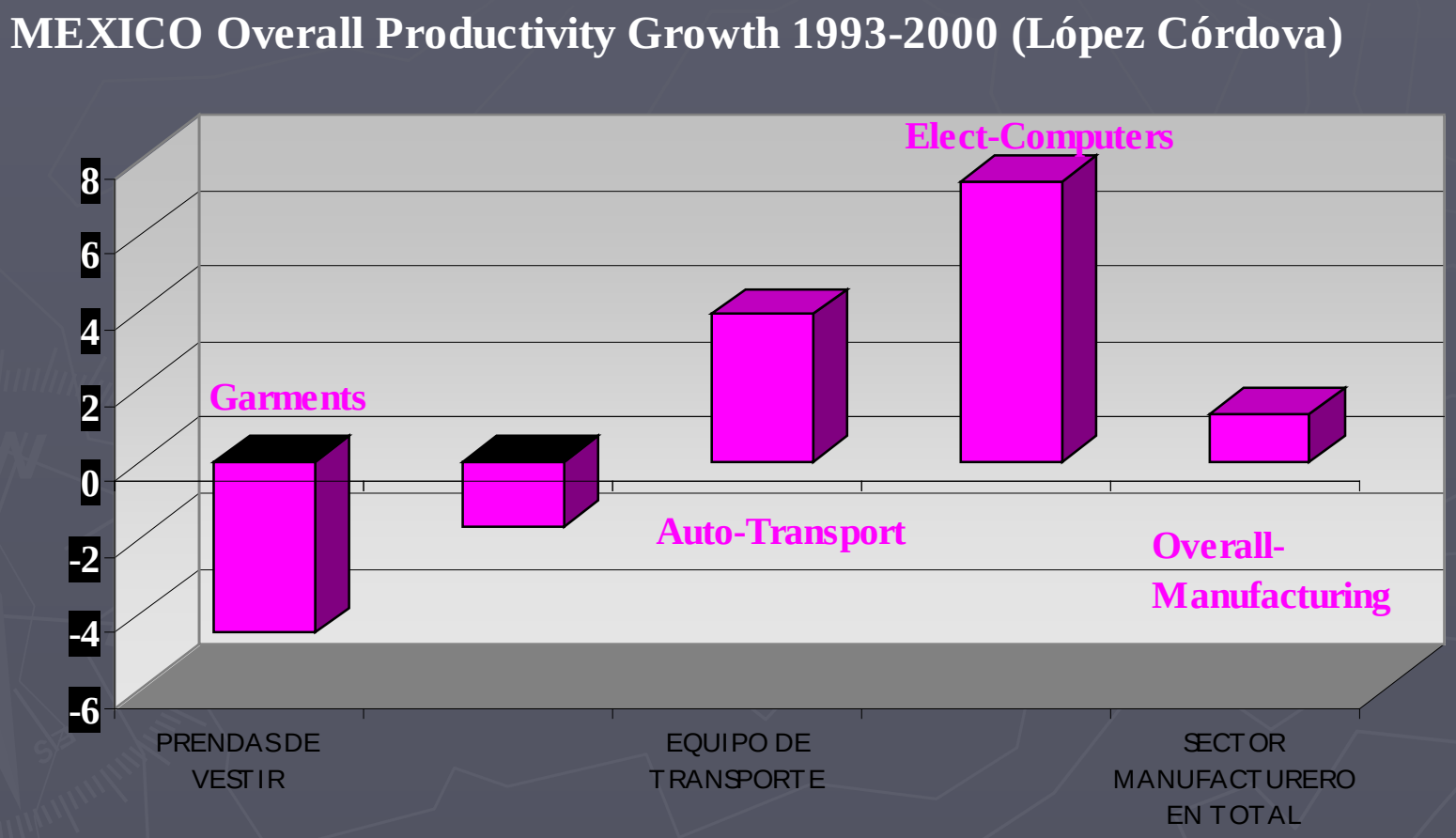


Figure M-11 Wage held down by a long baby boom just now ending...

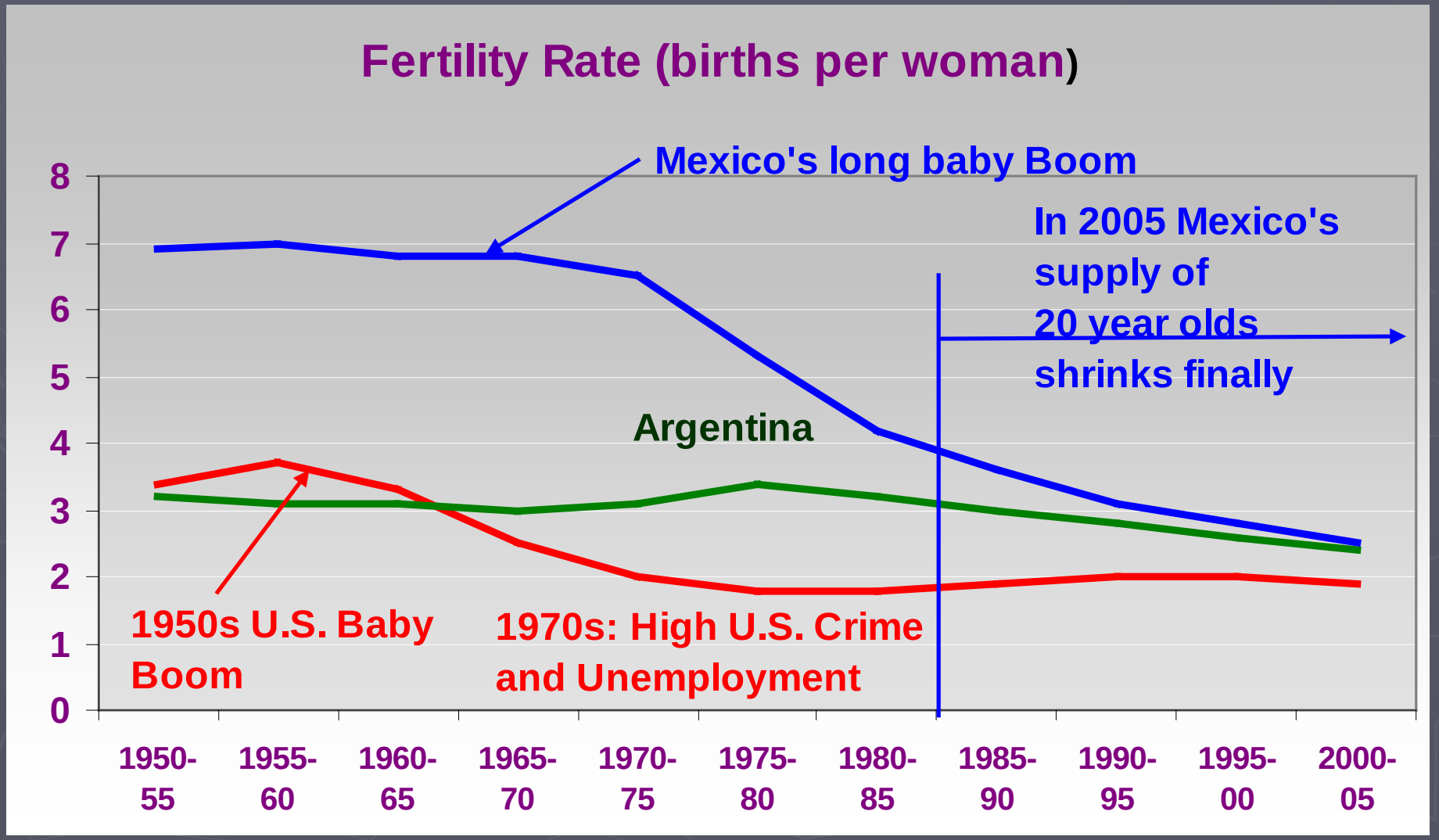


Figure M-12 School enrollments started low compared to Asia but should also boost wages over time..

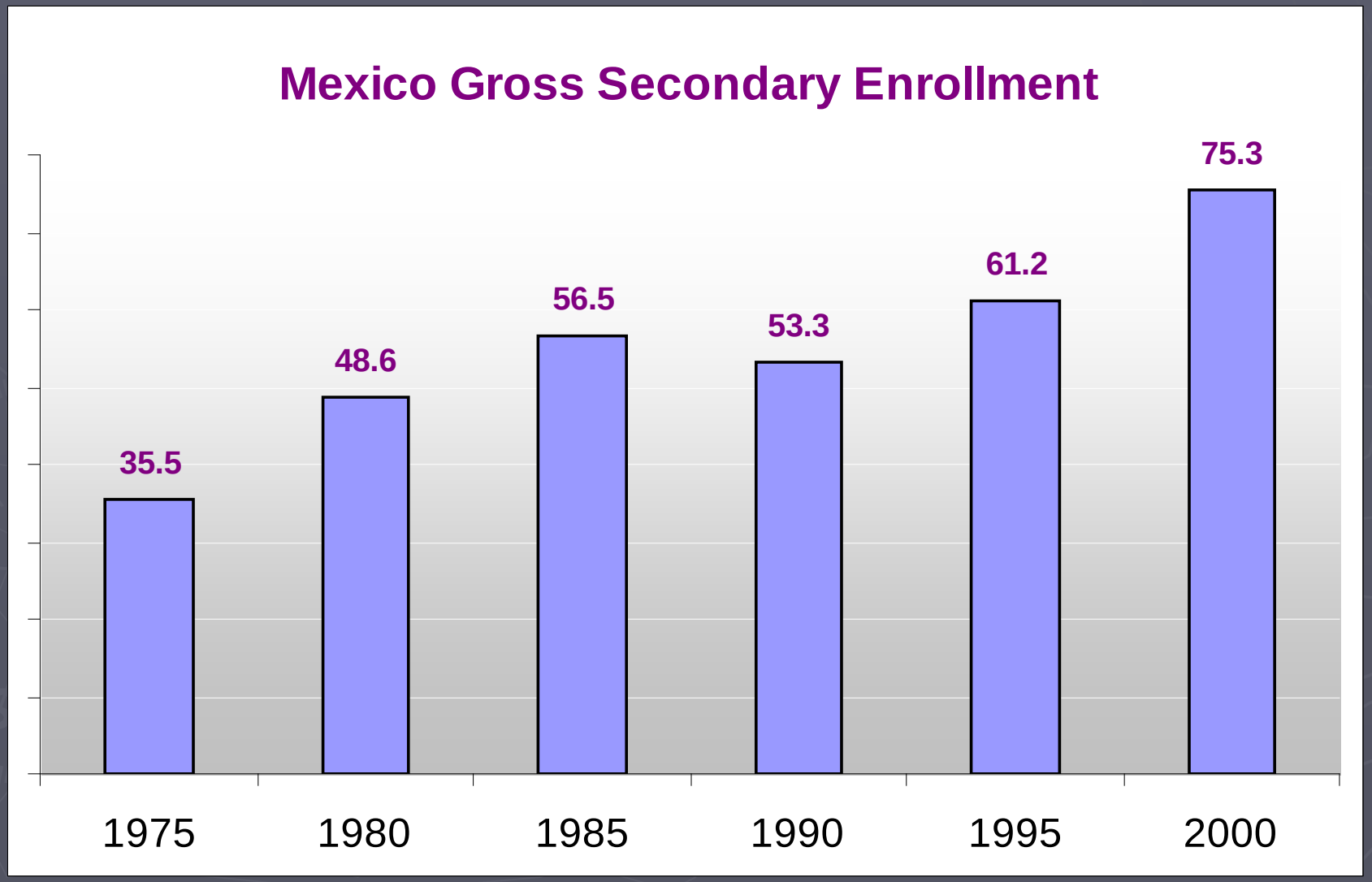


Figure M-13 Finally, Nafta and the 1995 peso crisis led to financial reforms and much lower interest rates & inflation, despite a floating peso..

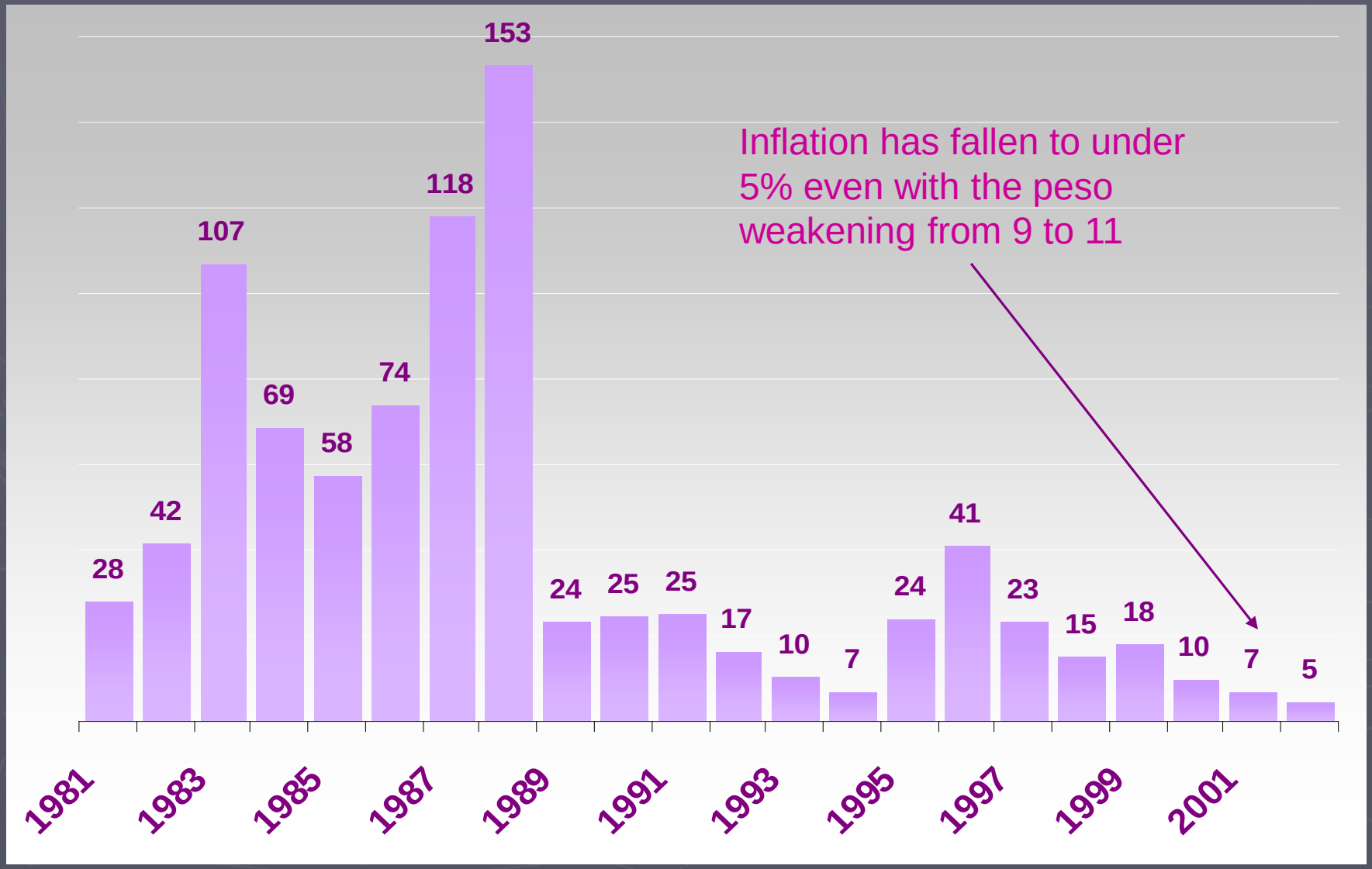
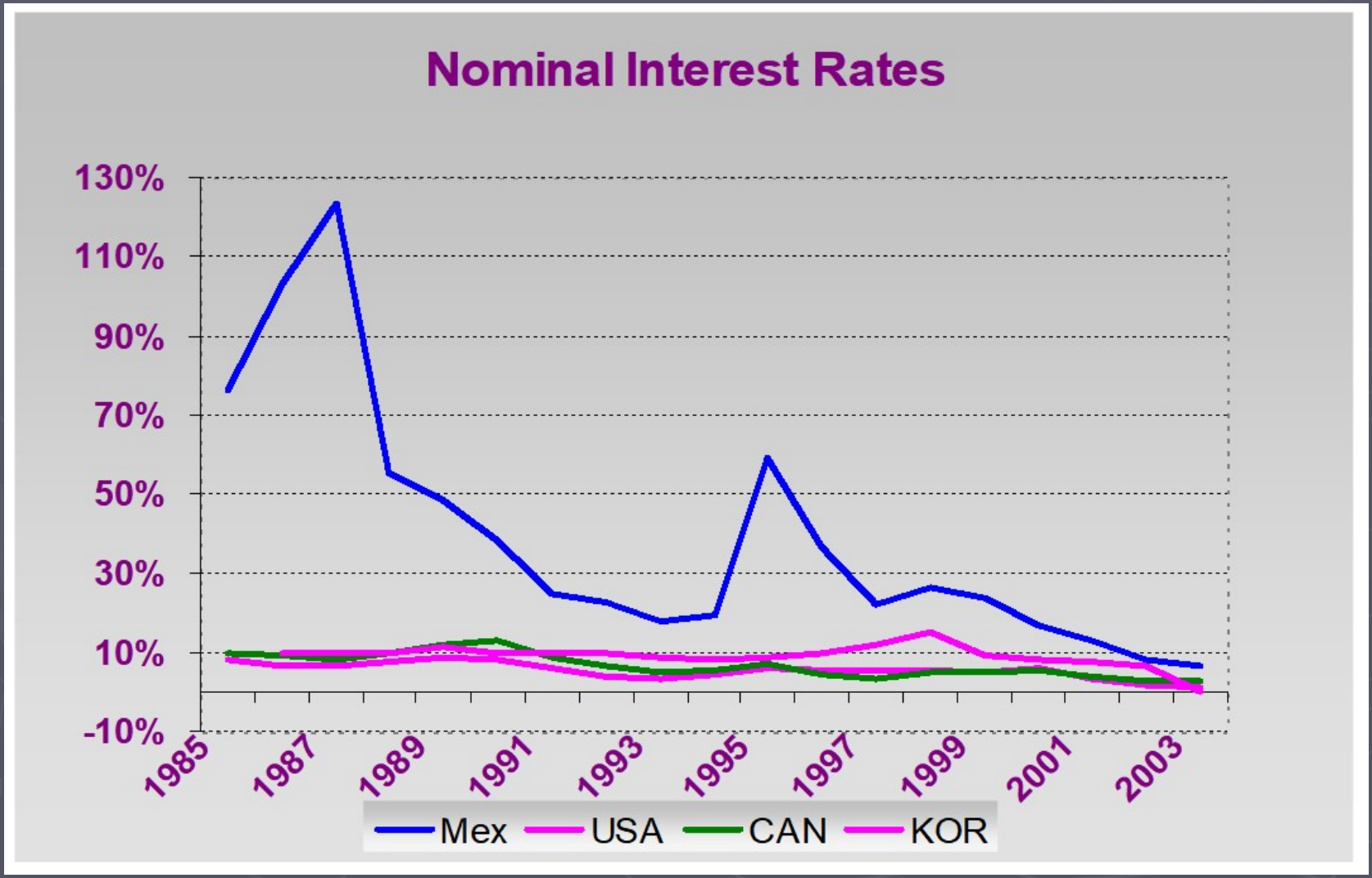


Figure M-14 Interest rates have fallen dramatically making credit much more widely available in Mexico (mortgages!!)



Summary...

- Nafta delivered on its major goals, without living up to its full potential.
- Outside of a few sectors, such as apparel and agriculture there few negative side effects (trade diversion or rising inequality...)
- Liberalization and competition always create adjustment costs and hardship for some groups– even as they benefit the nation as a whole
- What about compensation programs? Mexico & the WB implemented Progesa (now Oportunidades)

NAFTA Compensation schemes

- Mexico implemented Progresa, one reason rural poverty has fallen.. Pays poor rural families to keep their children in school and take them to health clinics.
- The U.S. has a trade adjustment assistance program, but its benefits are inadequate. Wage and medical insurance schemes are need (see Kletzer & Litan).

NAFTA Scorecard: a mixed picture

Mexico

- Trade growth & diversification A+
- Economic and employment growth C+
- Poverty reduction B
- Political reform A- (became a democracy)
- legal reforms/ property rights/ barriers to entry C
- Compensation schemes for farmers & rural poor A-
- Education, environment B-

United States

- Regional efficiency gains A-
- Trade-not-aid model growth strategy: B+
- Environmental and labor standards C+
- Model for Chile, COL Jordan, CAFTA, etc. B+
- Trade Adjustment Assistance C- major failure

References

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