

The passion of NAFTA

MEXICAN AND AMERICAN CRITIQUES OF NAFTA

In Mexico, after 14 years of NAFTA, the passionate debate continues. NAFTA has not always resulted in a win-win situation, but rather tended 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 (FDI) 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 that 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 labour.

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 United States. Since the inception of NAFTA, the agricultural sector of the Mexican economy has experienced a loss of jobs—1.3 million in the period 1994-2002 alone—which is believed to be the main cause of emigration. To bring this to the public's attention, there was a huge demonstration by many peasants' organizations in Mexico City in January 2008, urging the federal government to revise NAFTA. The Mexican farmers also argue that trade in grains with the United States is not fair because Mexican farmers do not receive the same kind of subsidies from their government as the US farmers do.

Adverse reactions to NAFTA are also present in the United States. In all the

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2008 presidential campaigns, for example, NAFTA is considered a hot issue. NAFTA's opponents in the United States 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. Within a

few years, exports had become 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 production 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 favourably reflected in the country's trade balance with its major partner; since 1995, Mexico has run growing trade surpluses with the United States. 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. Imports now 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 production 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 on economic growth in an underdeveloped country. In other words, trade liberalization and NAFTA did not place Mexico on a path to real export-led growth.

FALLING SHORT OF EXPECTATIONS

Another favourable development associated with NAFTA is the increase in the flow of foreign direct investment, most of it coming from the United States. In 2007, FDI flows in Mexico were around

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race between Senator Barack Obama and Senator Hillary Clinton clearly show that a large sector of US society is sick and tired of the current state of affairs.

THE PRESIDENTIAL HOPEFULS

For the Republican Party, Senator John McCain's virtual presidential nomination may give him the time he needs to staunch the blood from his wounds and prepare himself for the general election in November. However, the fact that the Republicans need their more conservative ridings to get the vote out in November means that migration and, therefore, policy toward Mexico cannot be discussed reasonably within the party.

Inside the Democratic camp, the candidates competed for the African American vote, women's votes, the Latino vote, and the vote of young people of all ethnicities. For the Democrats, the best strategy is one that can attract voters from all groups because any constituency that does not feel sufficiently represented could stay at home in Novem-


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ber, which could cost either of the two hopefuls the presidency.

THE MORE THINGS CHANGE ...

It is reasonable to think that US—Mexico relations could be better in 2009 simply because any change could make a new beginning possible. A Democratic administration might seek to change the tone of the relationship, but the complexity of the bilateral agenda will likely not permit a radical shift. Even if Senator Obama, who seems to favour inclusive immigration policies, won the elections, he would still have to deal with a Con-

gress that could slow down or dilute his proposals. Senator McCain would face constraints imposed by the more conservative sectors of his party on migratory issues and by a possible Democratic majority in Congress on other issues.

The 2008 US electoral process may open up the possibility of renegotiating the tone of relations between the two countries' chief executives and perhaps of reviewing a few isolated issues. However, the general dynamic of a relationship as complex as this will not change substantively no matter who wins in November. 

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\$25 billion. However, some of this FDI was not actual new productive investment but rather the acquisition of already existing local firms that felt unable to compete with foreign ones, preferring to sell to large US corporations.

One important failure of NAFTA was the expected increase in employment. The idea behind opening up the economy, in the first place, was to promote exports and, thereby, create jobs. In practice, NAFTA has resulted in a slightly different outcome. Total paid employment in Mexico, including under-employment, has been growing at an average annual rate of 2.6 percent, for the last 25 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 spiked in 1995 and reached the level of 15 percent in 2000. Considering that total employment has not increased to a signifi-

cant extent, and that in 1995, when export employment grew, the total level of employment actually diminished because of 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 has been 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 establishing a customs union and adopting a common currency. These two projects face many obstacles from different and opposing interest groups in the countries involved. In the case of Mexico, the next logical step would be to fill in the missing part in NAFTA regarding free factors mobility through a migration

agreement. This is urgently needed for regulating the unstoppable migrant flow from Mexico to the United States. In addition to this, there seems to be a need to revise and renegotiate some parts of NAFTA with the United States.

In the United States, 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 that the United States has with Japan, China, and the European Union. The next government in the White House, whether Democrat or Republican, may want to reopen NAFTA. Before implementing any changes or proposing steps forward, it would be prudent for the US government to evaluate existing asymmetries, especially those between Mexico and the United States, and to suggest actions that would close the gaps, for the sake of everybody. 