
The Impact of NAFTA on the Mexican Economy. Lessons for Korea.

Gerardo Esquivel

El Colegio de México

Context

- By 1985, Mexico was a very closed economy with high tariff and non-tariff barriers.
 - In that year, Mexico began opening its economy, reducing tariffs and eliminating some non-tariff barriers.
 - By the early nineties, Mexico announced its intention of signing an FTA with the USA and Canada.
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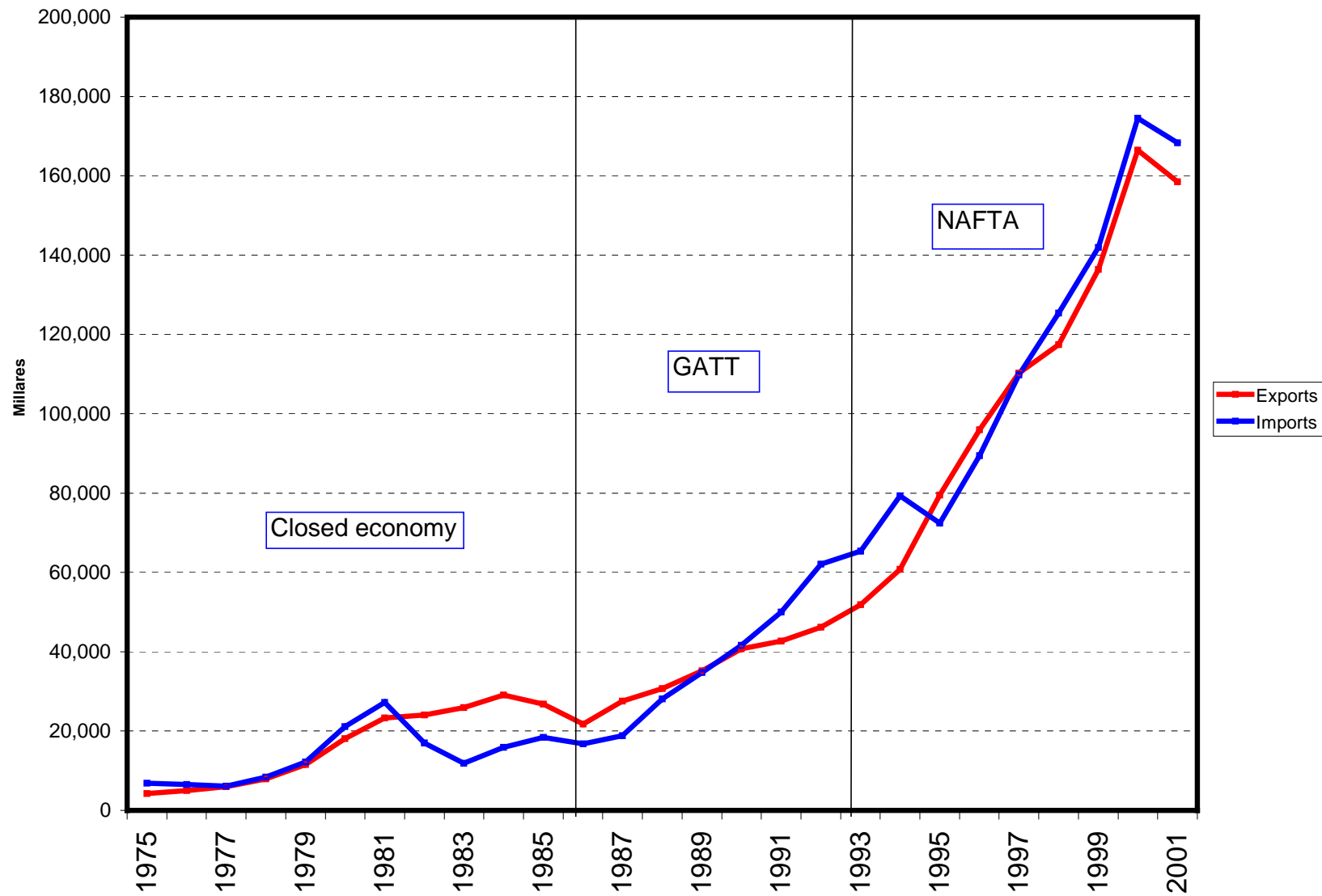
Context

- Mexico and the USA are supernatural trade partners: they are neighbors, with large economies, with complementary labor force structures and with important asymmetries.
 - By 1993, before NAFTA, more than 80% of Mexico's exports were for the USA market and more than 70% of Mexico's imports came from the USA.
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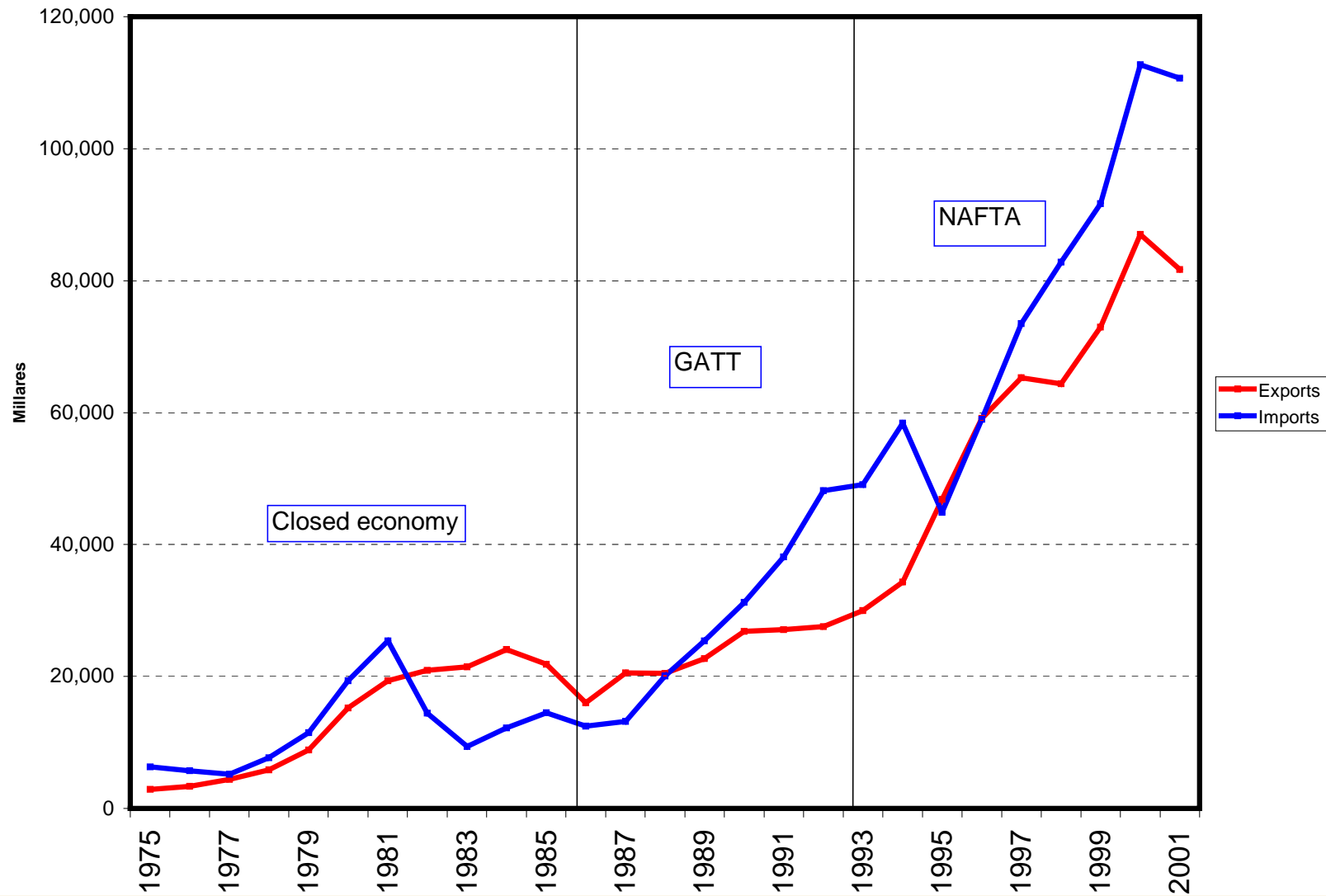
The Ideas behind NAFTA

- In 1993, Mexico's Presidente Carlos Salinas said (MIT Commencement Address):
 - “We want to export goods, not people”.
 - “At the end of this century, global trade, and freer trade, is the way to improve the standard of living of our populations. That is why we in Mexico have proposed to the US and to Canada a free trade agreement.”
 - “NAFTA is a job-creating agreement. Because by increasing competition in our three nations, and its competitive capacity, it will allow us to compete with regions which are getting together in Europe, and in the Asian Pacific countries.
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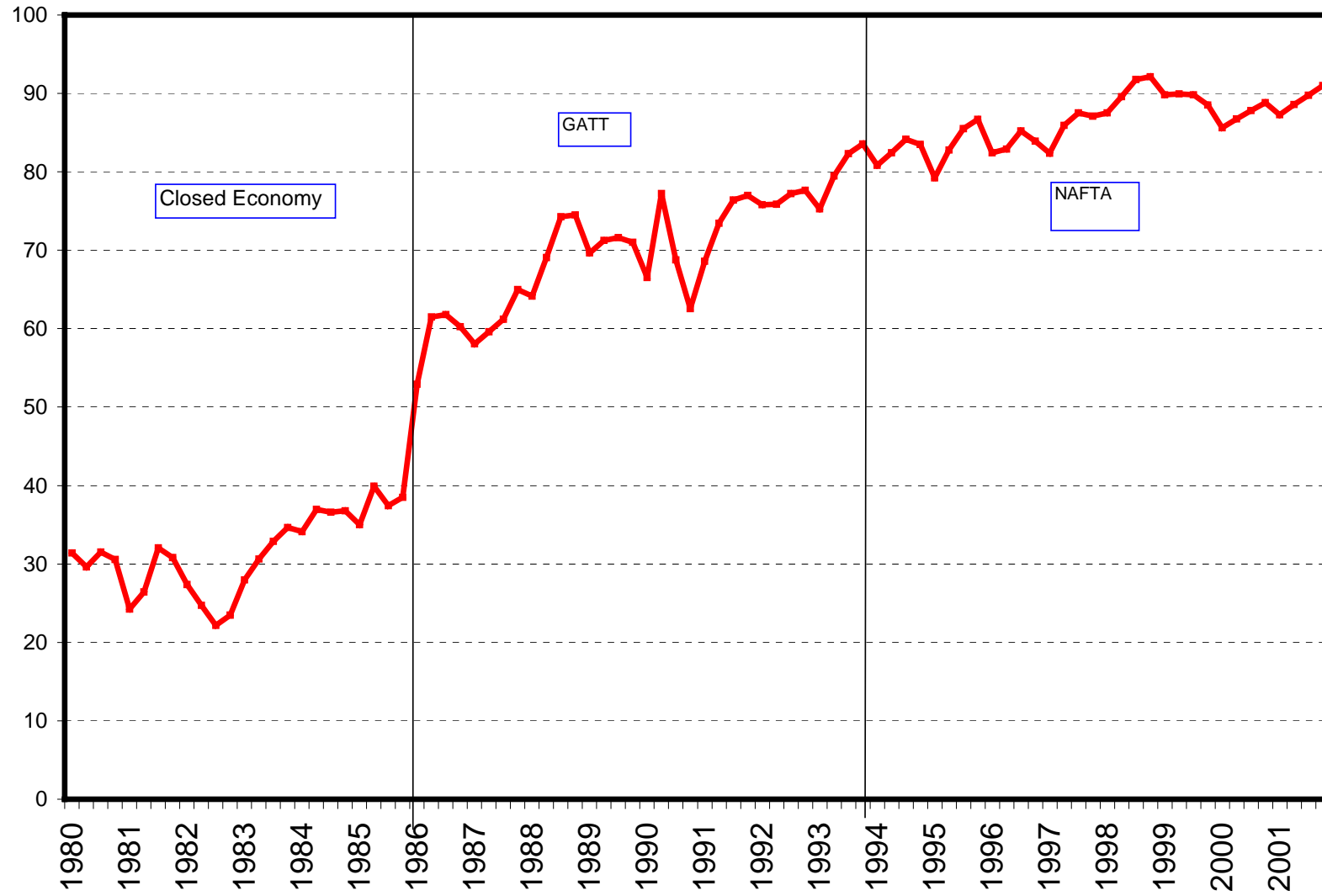
Mexico: Exports and Imports, 1975-2001



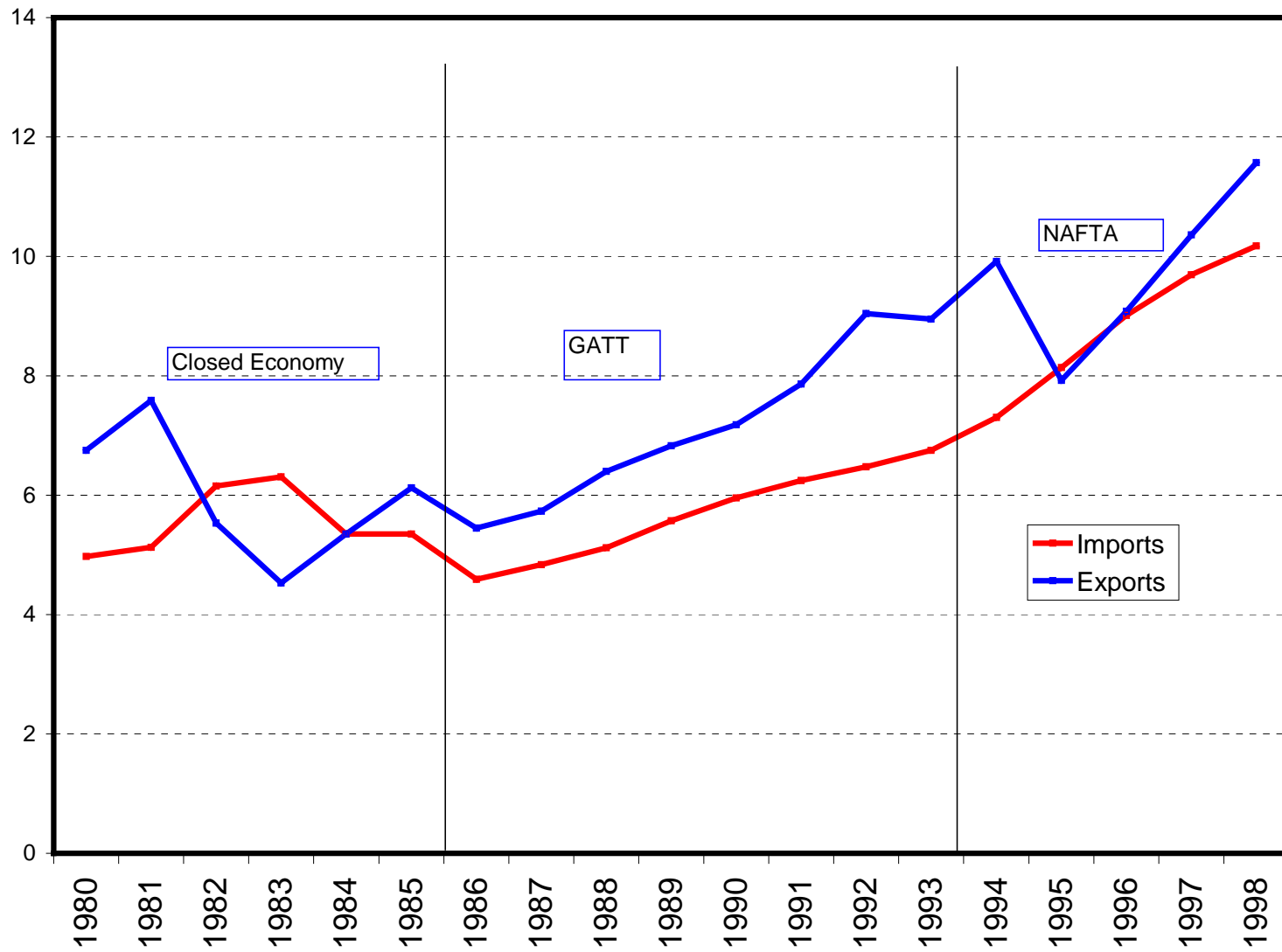
Mexico: Exports and Imports, 1975-2001 (excluding Maquila)



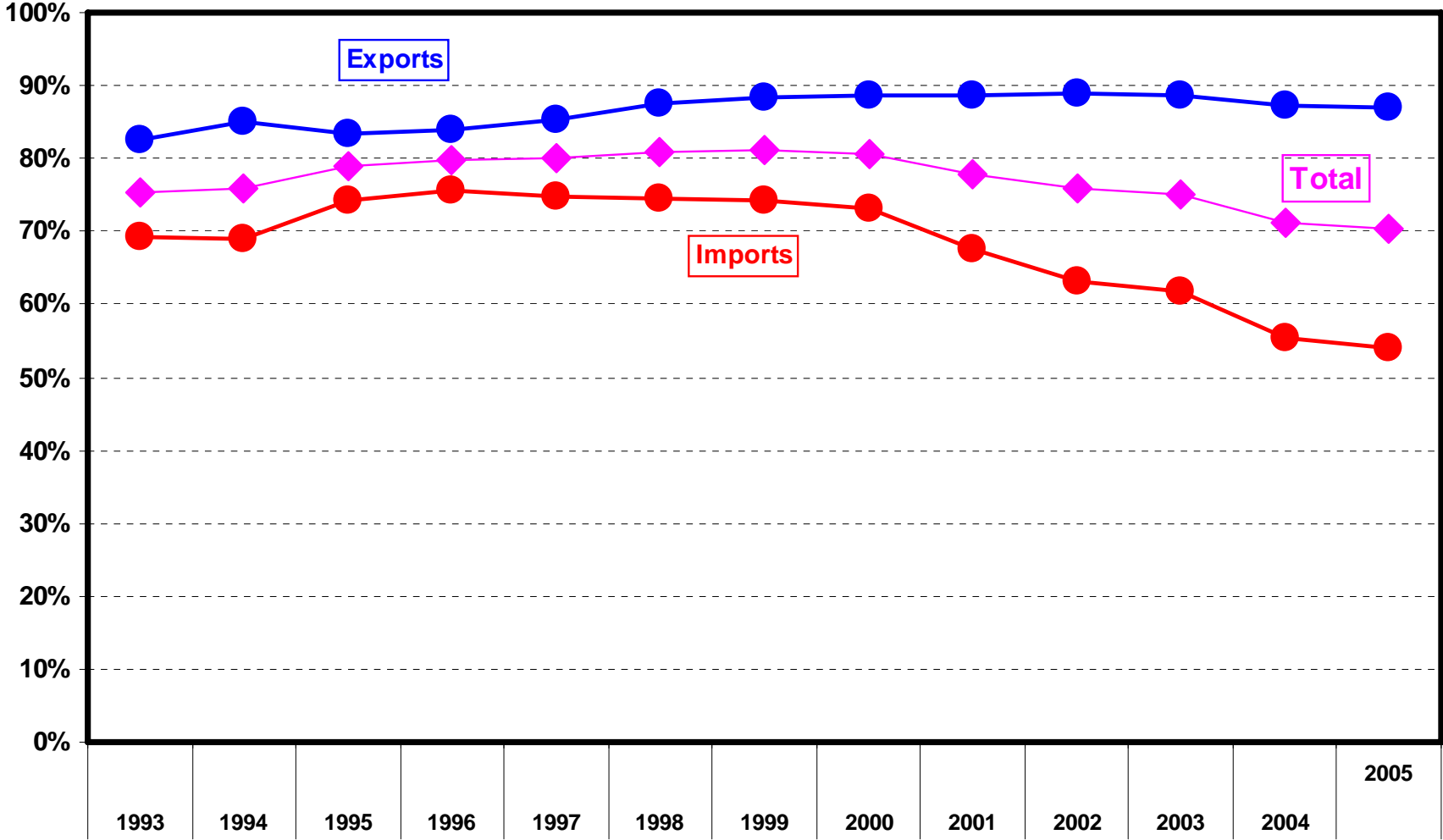
Mexico: Manufacturing Exports 1980-2001 (as a percentage of total exports)



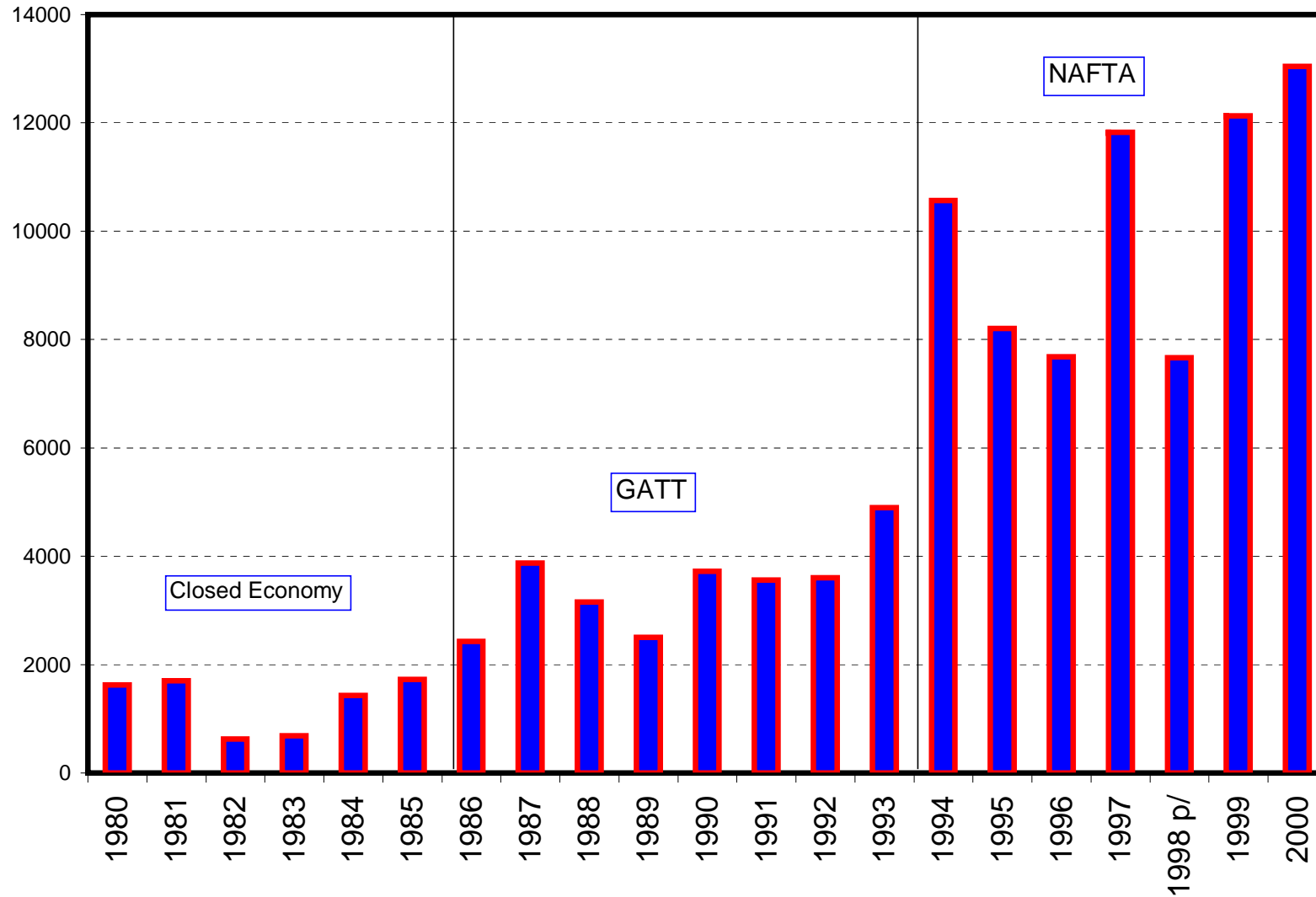
USA: Trade with Mexico as a percent of total foreign trade



USA Share of Mexico's Foreign Trade



Mexico: Foreign Direct Investment Millions of Dollars. 1980-2000



Effects of NAFTA

- There is no question that NAFTA has had an important effect on Mexican trade and investment flows.
 - Exports and imports have increased substantially since 1993 in both levels and as a percent of GDP.
 - Manufacturing exports have gained importance in total exports (as a result, Mexico now depends much less on oil exports).
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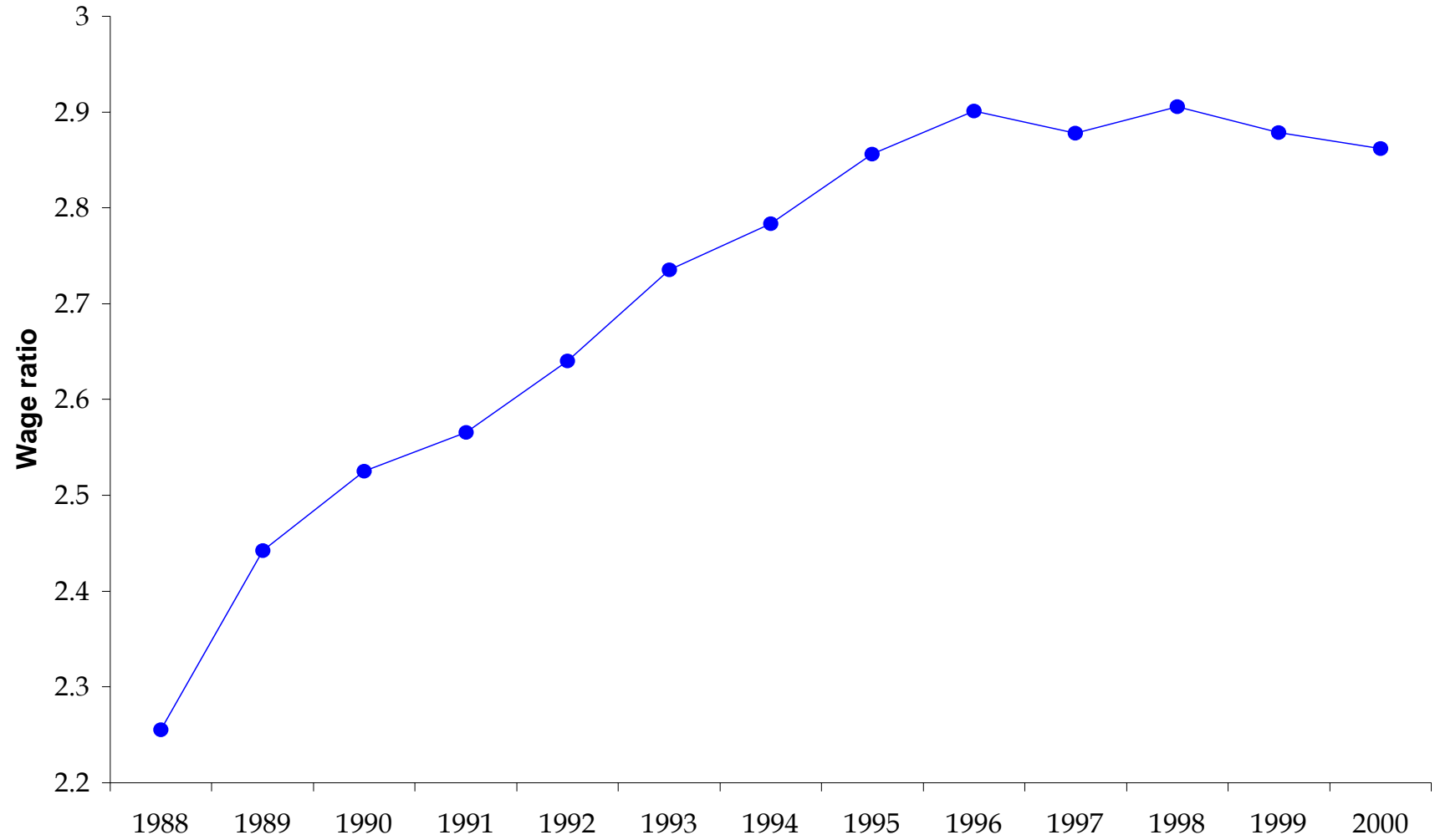
Effects of NAFTA

- Mexico's foreign trade is now **more** concentrated on the US market than before trade liberalization.
 - Mexico is now the second largest trade partner of the US. Its total foreign trade with the US is larger than the sum of US trade with Taiwan, Honk Kong, Singapore and Korea.
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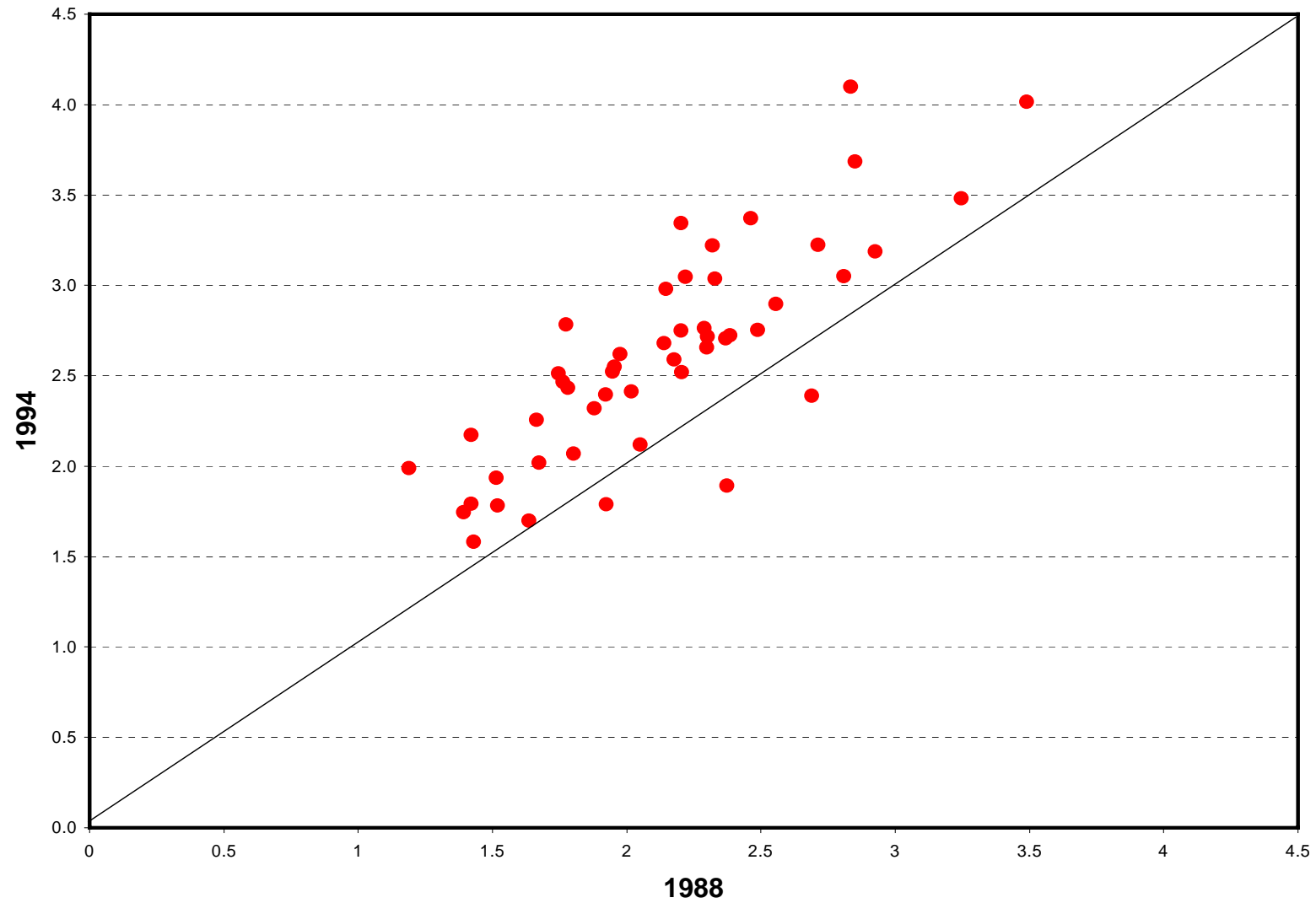
NAFTA and Wage Inequality

- Some critics of trade liberalization have pointed out that trade openness tends to coincide with an increase in wage inequality in many countries including Mexico.
 - However, some studies have shown that it cannot be claimed that trade openness is the cause. Instead, trade liberalization seems to have mitigated the negative effects of the skill-biased technological change that occurred in the 80s and 90s (see Esquivel and Rodríguez-López, 2002).
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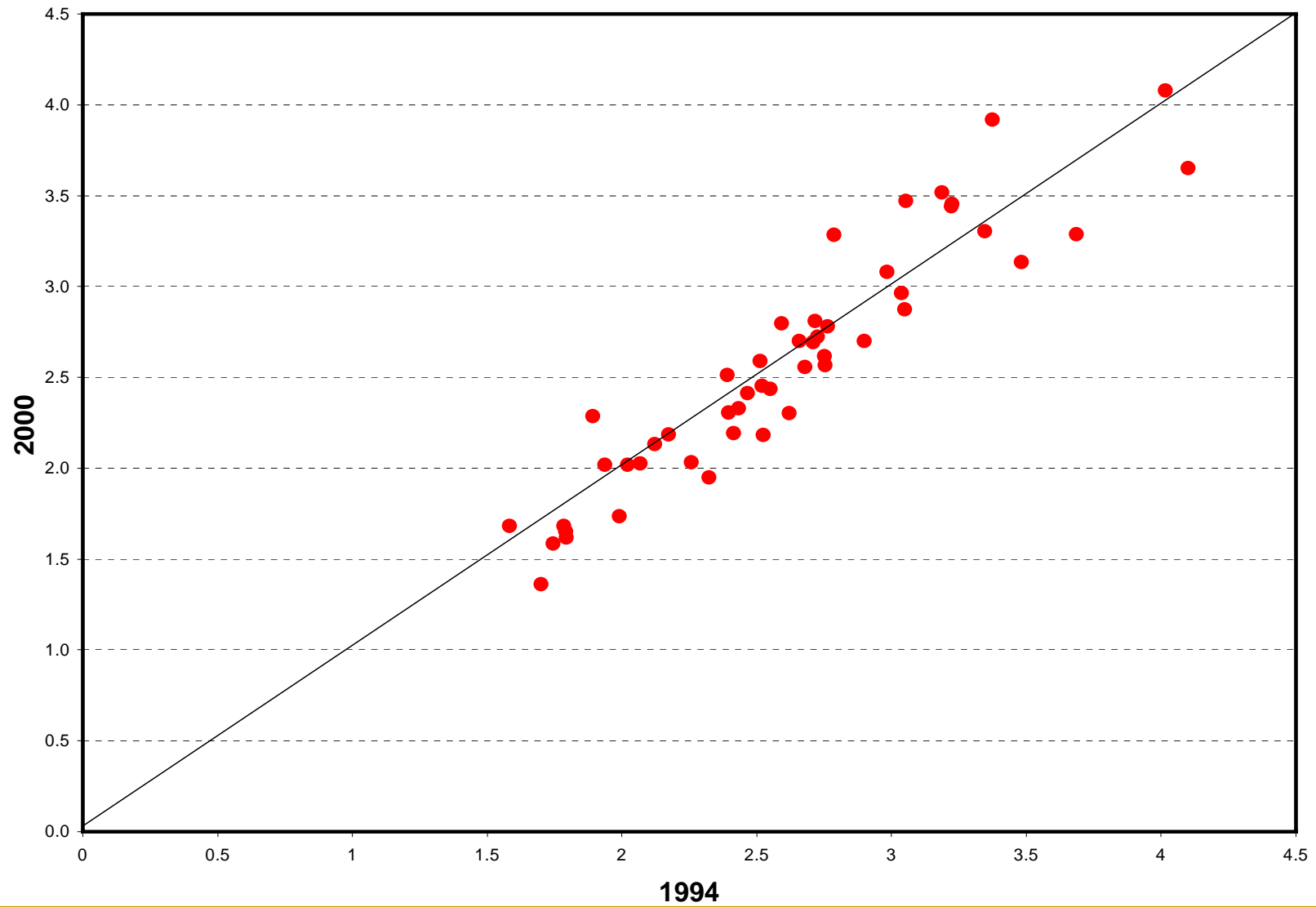
Wage Inequality in Mexico's Manufacturing Industry (non-production/production wage ratio)



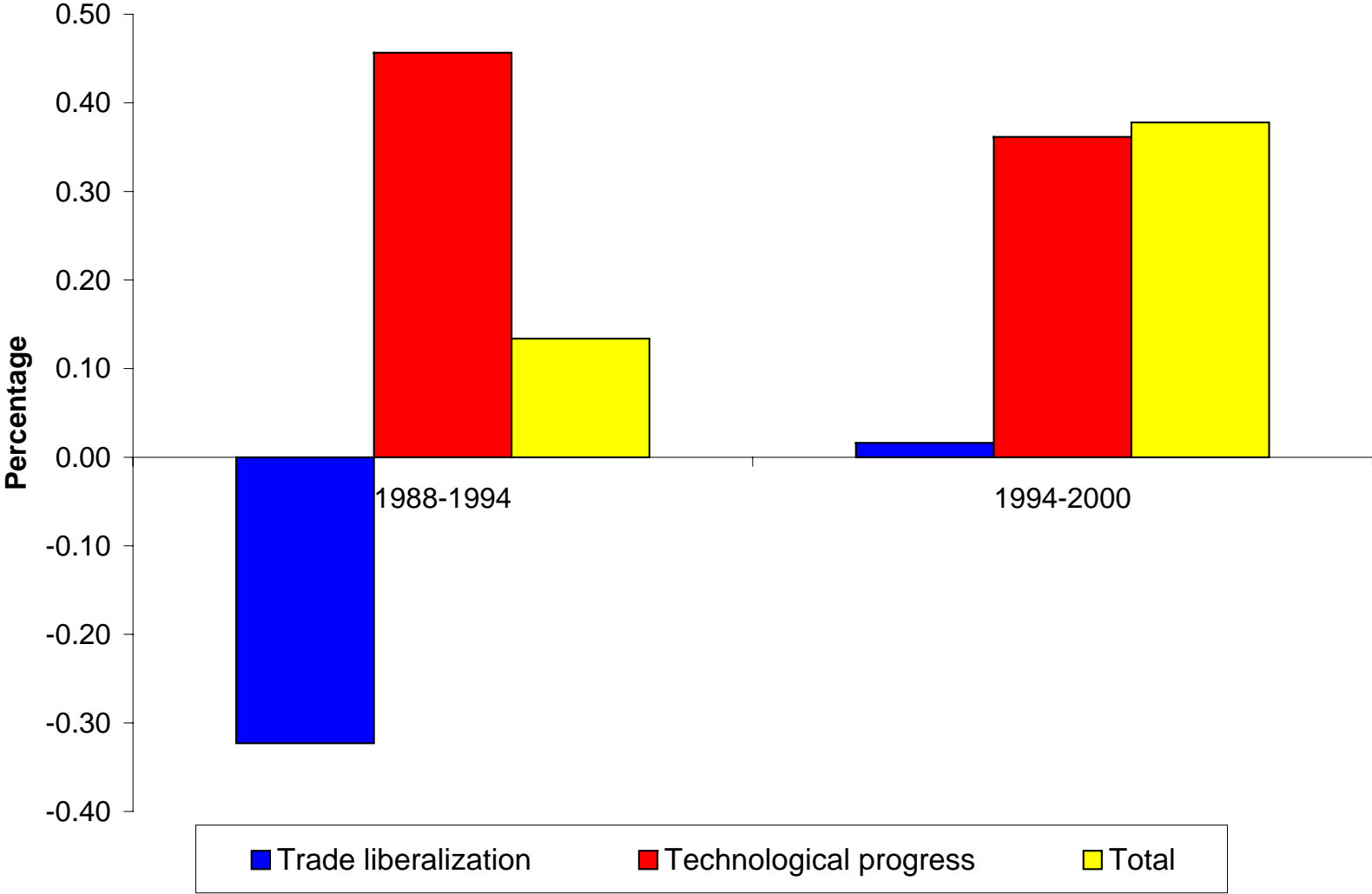
. Non-production/Production Wage Ratio in Mexico's Manufacturing Industry, 1988 and 1994



Non-production/Production Wage Ratio in Mexico's Manufacturing Industry, 1994 and 2000



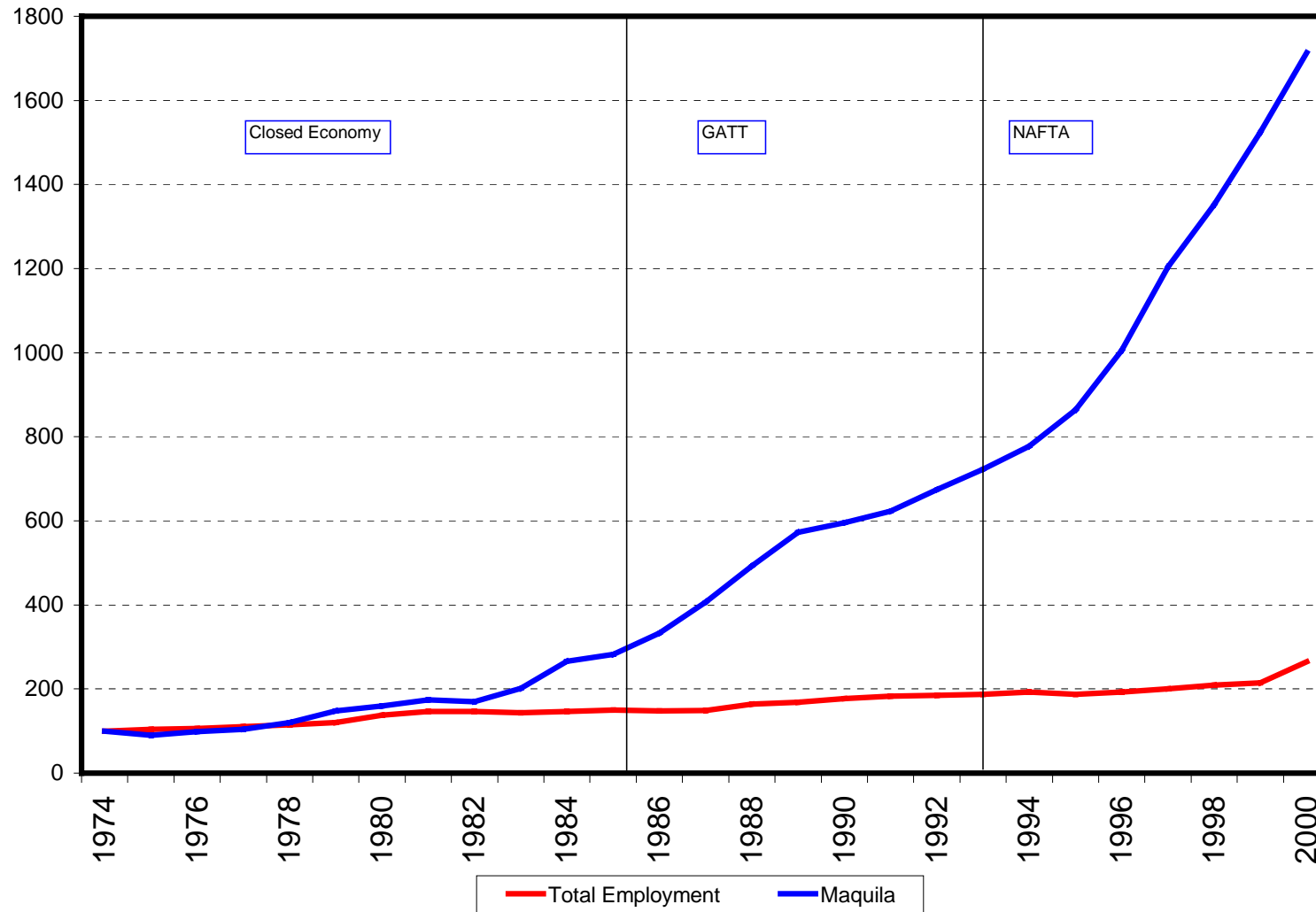
"Mandated" Annual Growth in the Wage Gap (High Wage/Low Wage)



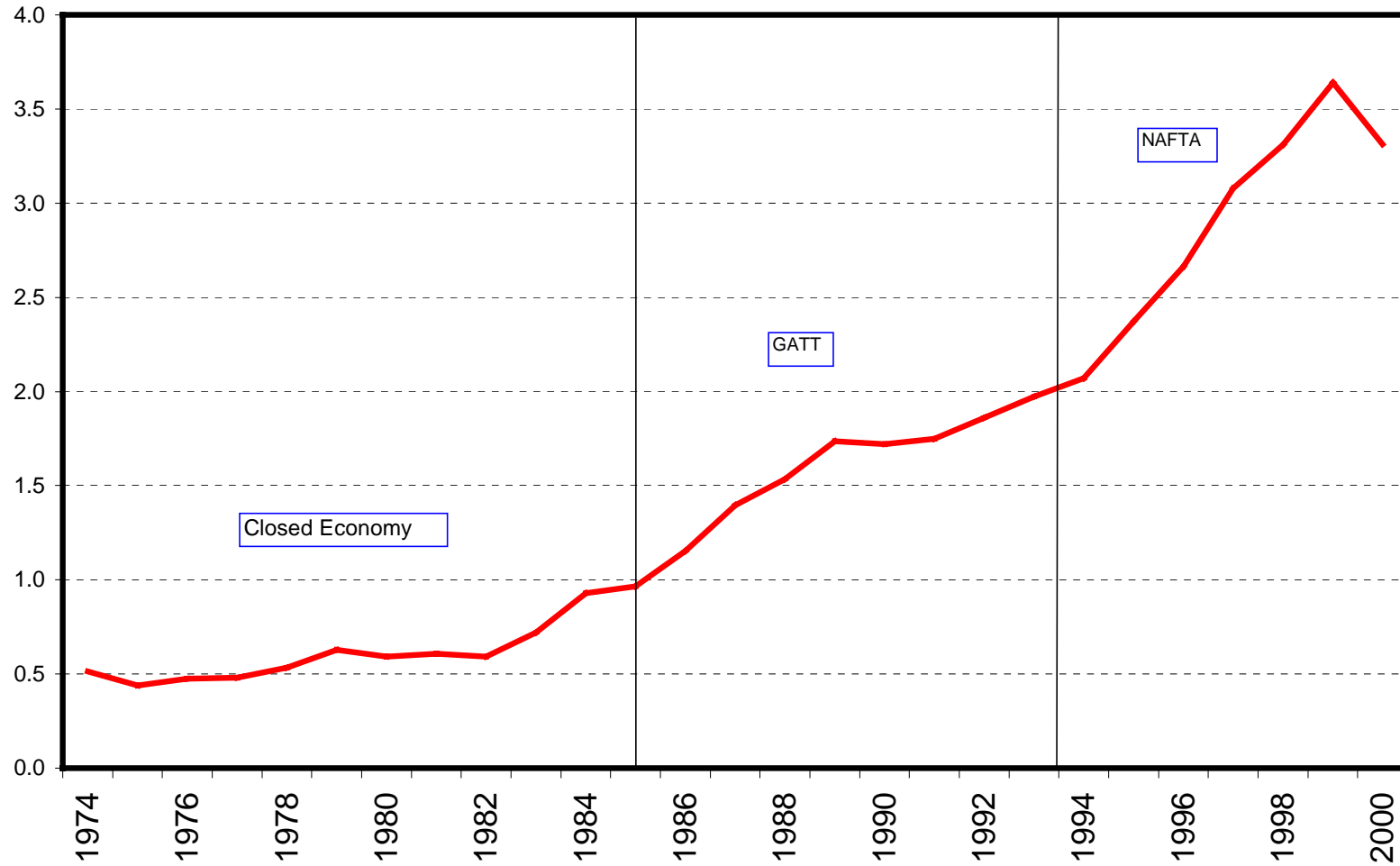
NAFTA and Job Destruction

- Some critics have suggested that NAFTA has destroyed jobs in Mexico. The empirical evidence, however, suggests that most jobs that have been created since NAFTA are exports-related jobs.
 - Maquila has been the most dynamic sector in Mexico in terms of job creation. This has helped to increase wages of relatively unskilled workers.
 - In fact, even in cases where trade liberalization could have destroyed jobs, some of them have been recovered as a result of NAFTA (see the evidence for the electronics and textile industries).
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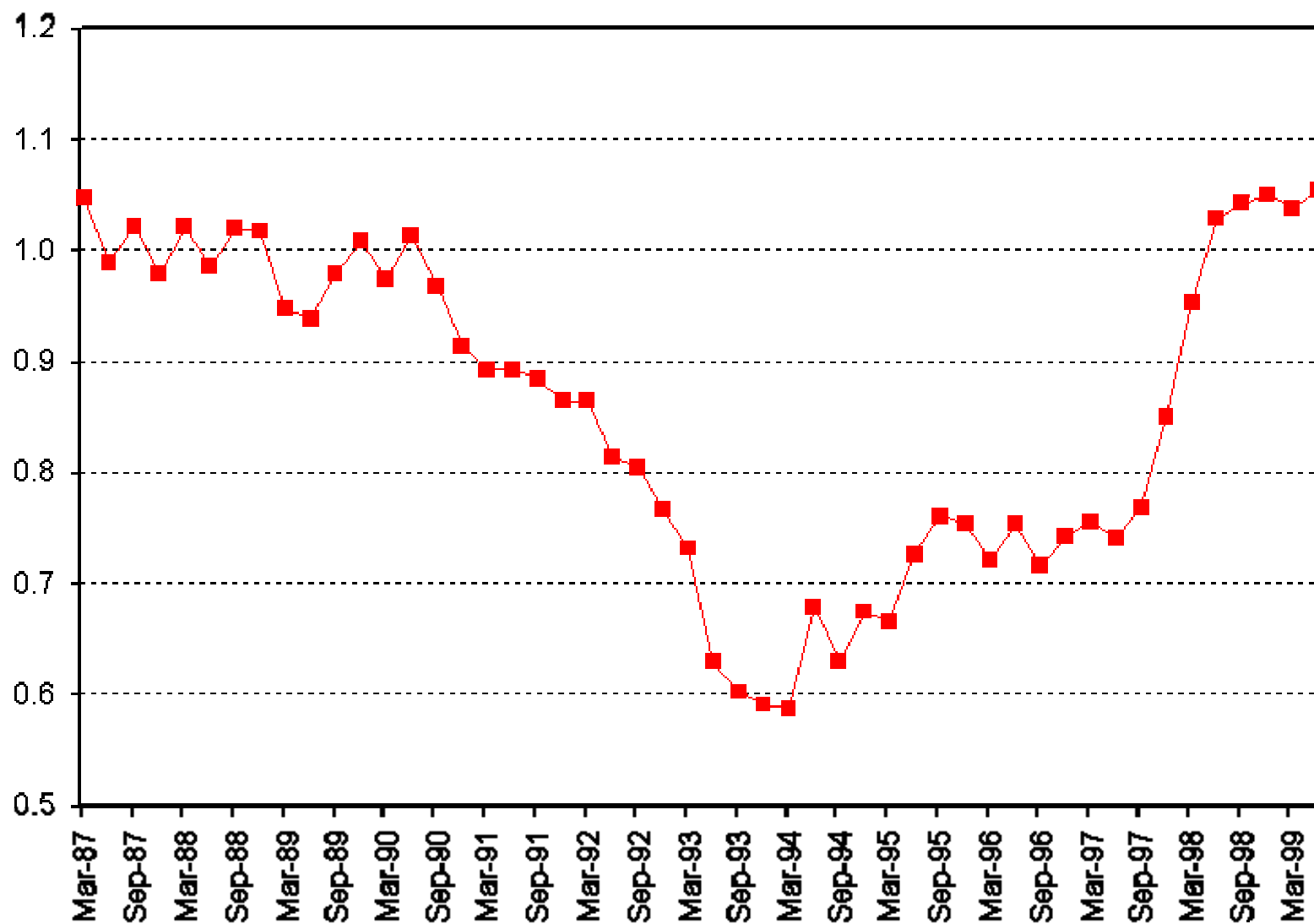
Mexico: Index of employment 1974-2000 (1974 = 100)



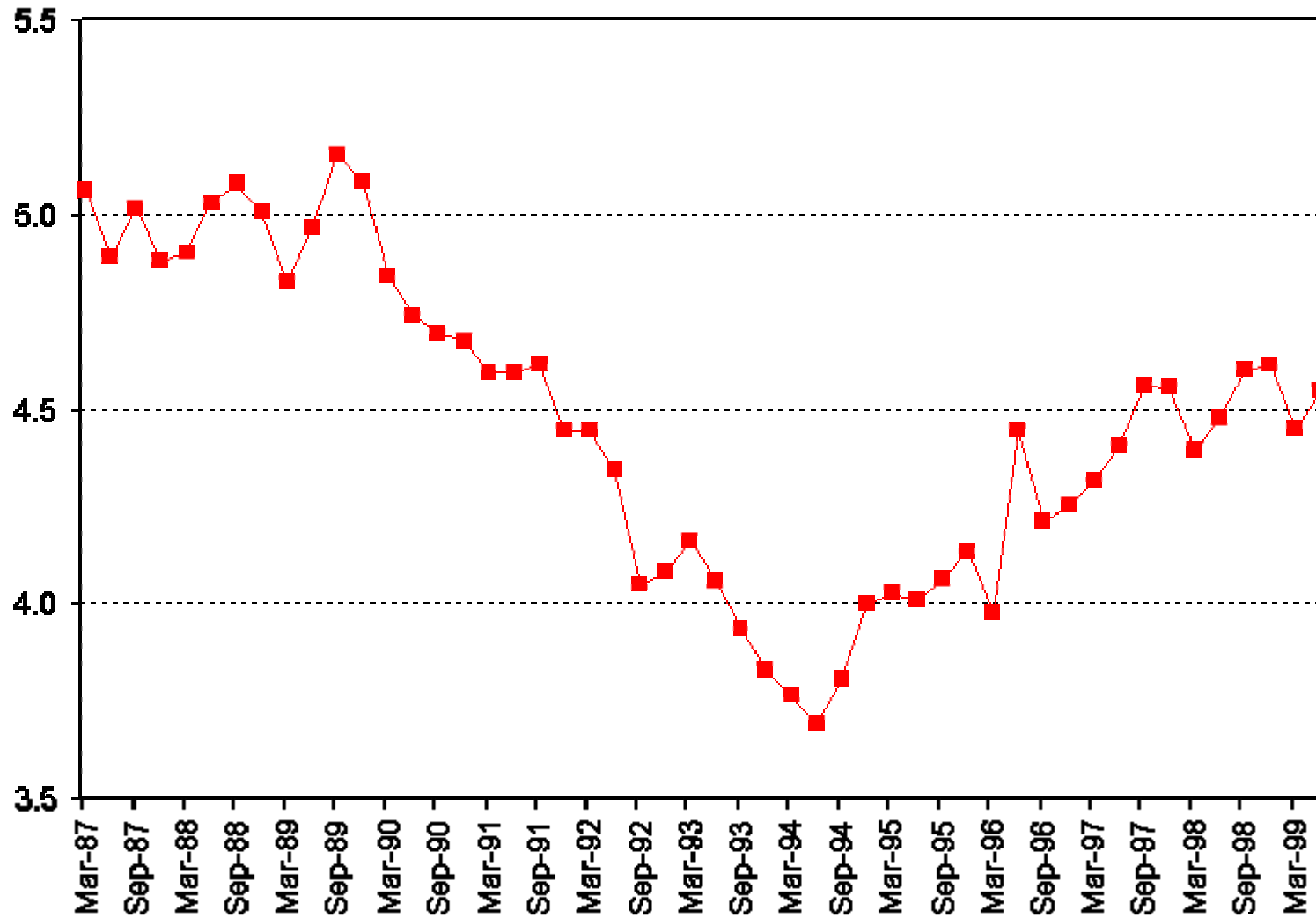
Mexico: Maquila Employment as a percent of Total Employment, 1974-2000



Employment In Electronic Equipment Industry (as a percent of total urban employment)

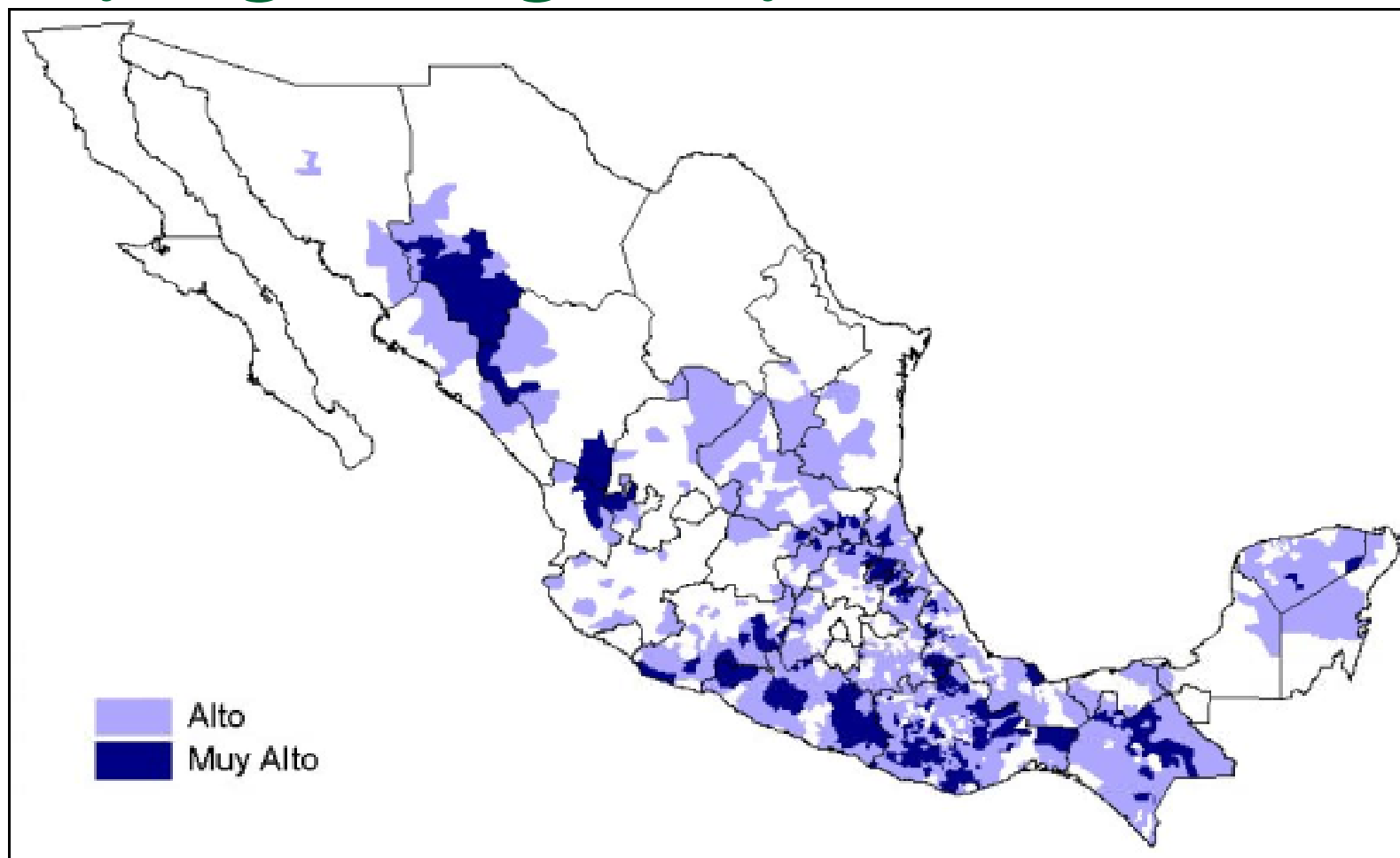


Employment in Textile, Wearing Apparel and Leather Industry (as a percent of total urban employment)

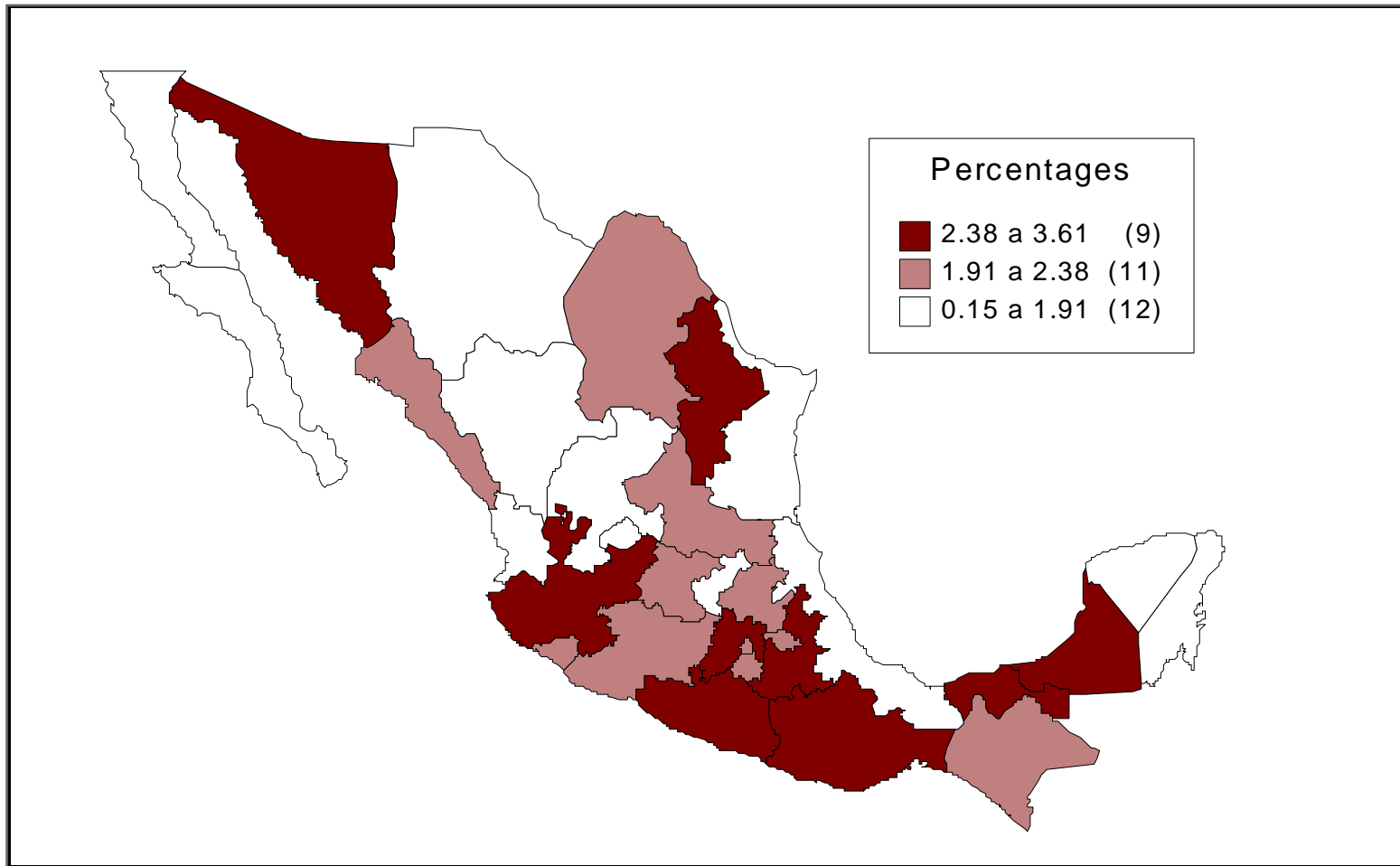


The Effect of NAFTA on Mexico's Regional Inequality

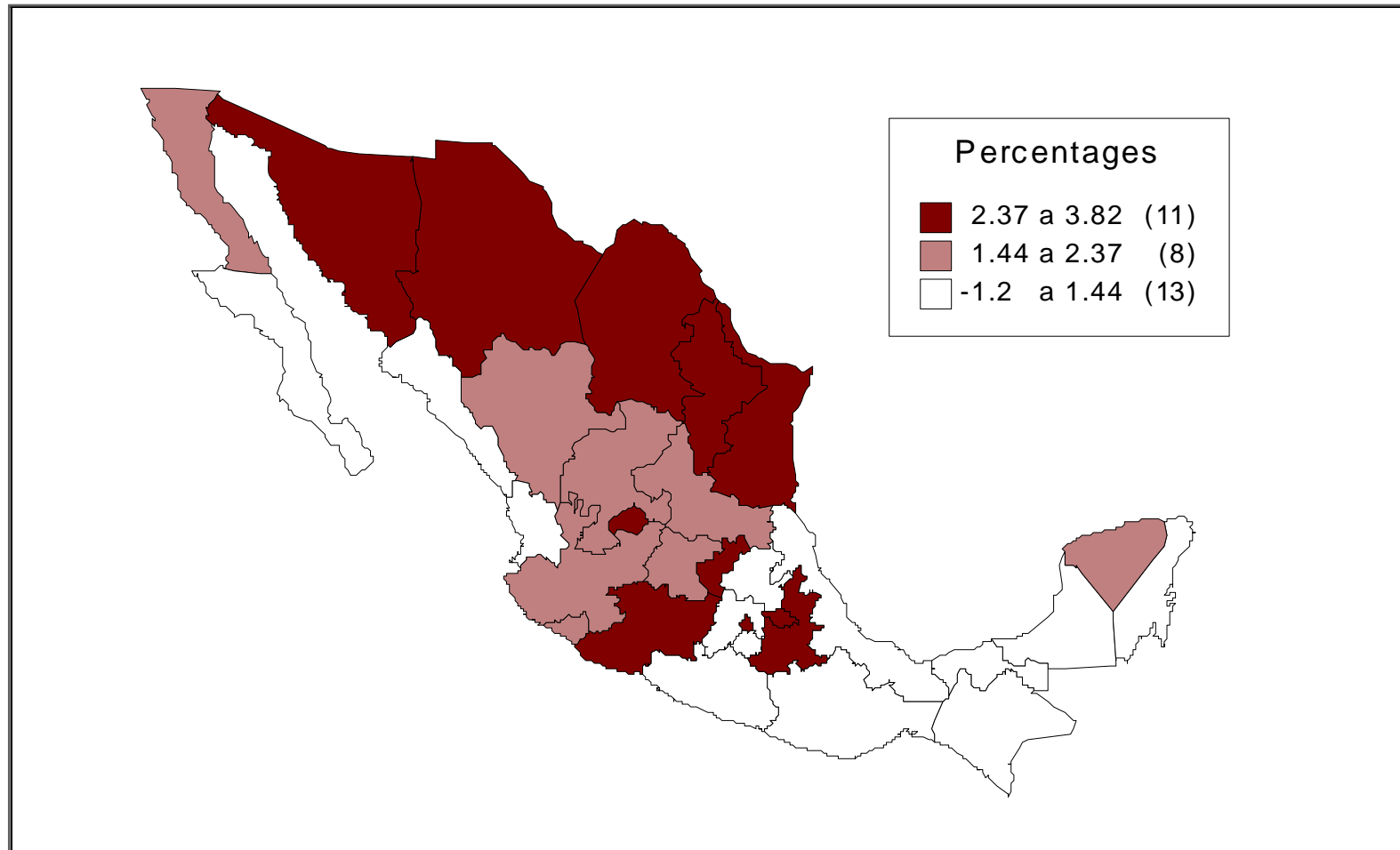
Mexico: Municipalities with high and very high Marginality Index, 2002



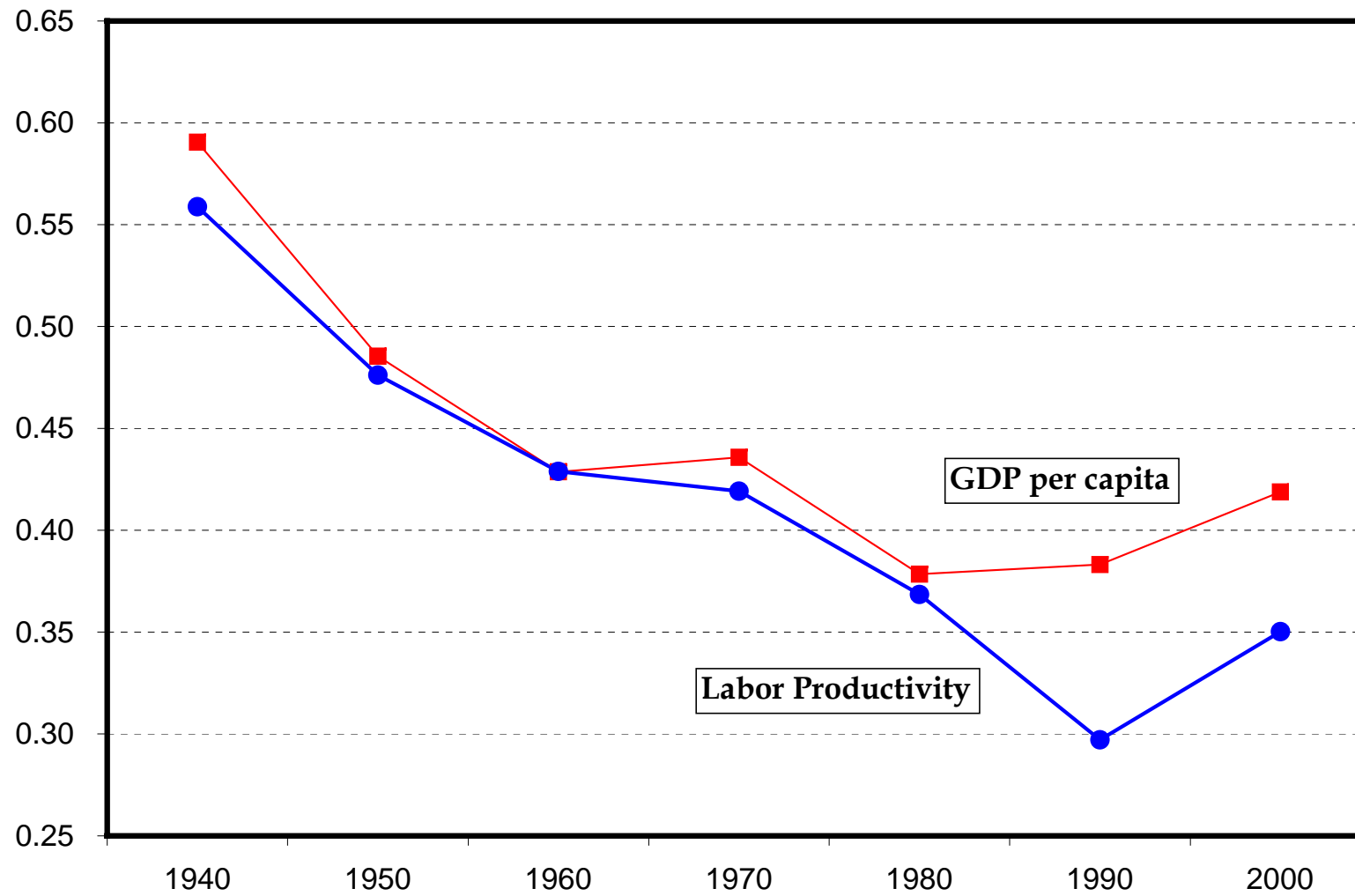
Mexico's Annual Growth Rate of GDP per capita, 1940-93: Some of the poor got richer!



Mexico's Annual Growth Rate of GDP per capita, 1993-2000. The rich got richer!



**Mexico: Regional Dispersion of GDP per capita
and Labor Productivity, 1940-2000**



Effects of NAFTA

- There has been an important regional effect as a result of NAFTA: northern states of the country have benefited, while the southern states are lagging behind.
 - This process has increased regional disparities in Mexico, reverting a previous trend.
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Summary

- Economic adjustment in Mexico since NAFTA has been less severe than predicted by many studies. This may be due to the fact that most of the adjustment really took place right after the opening of the economy in the mid-80s.
 - NAFTA has had mostly positive impacts on the Mexican economy, whether they are as large as expected is still a matter of empirical analysis. Positive impacts of NAFTA on the Mexican economy include effects on intermediate targets (such as trade and investment), but also effects on final targets (job creation, better wages for some sectors of the population, higher industry efficiency, ect.).
 - The most worrisome effect that NAFTA has had so far on the Mexican economy is in terms of its effect on interregional disparities. This effect, however, was not foreseen and no preventive measures were taken.
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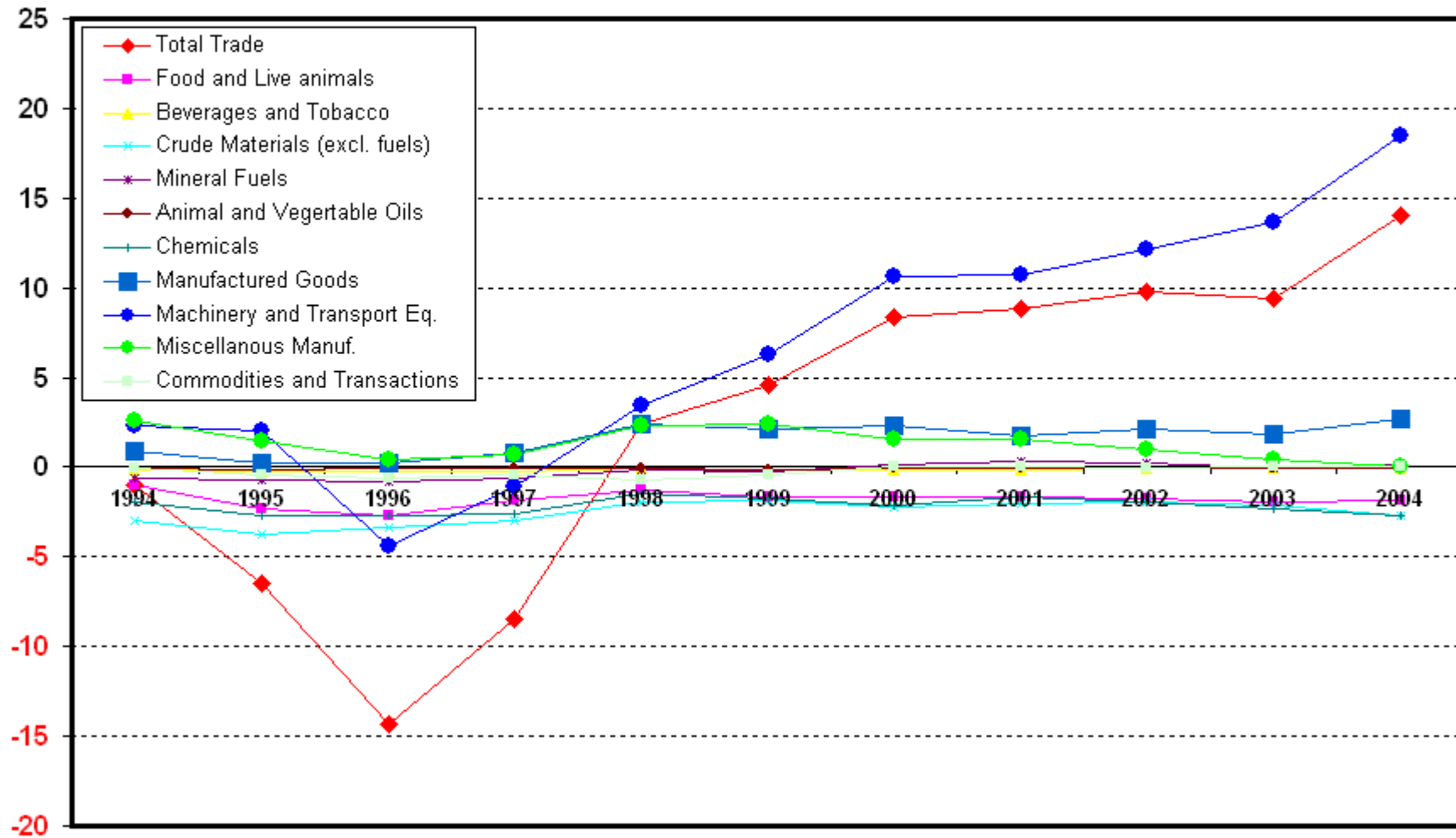
Comments on a Korea-USA FTA

Main issues

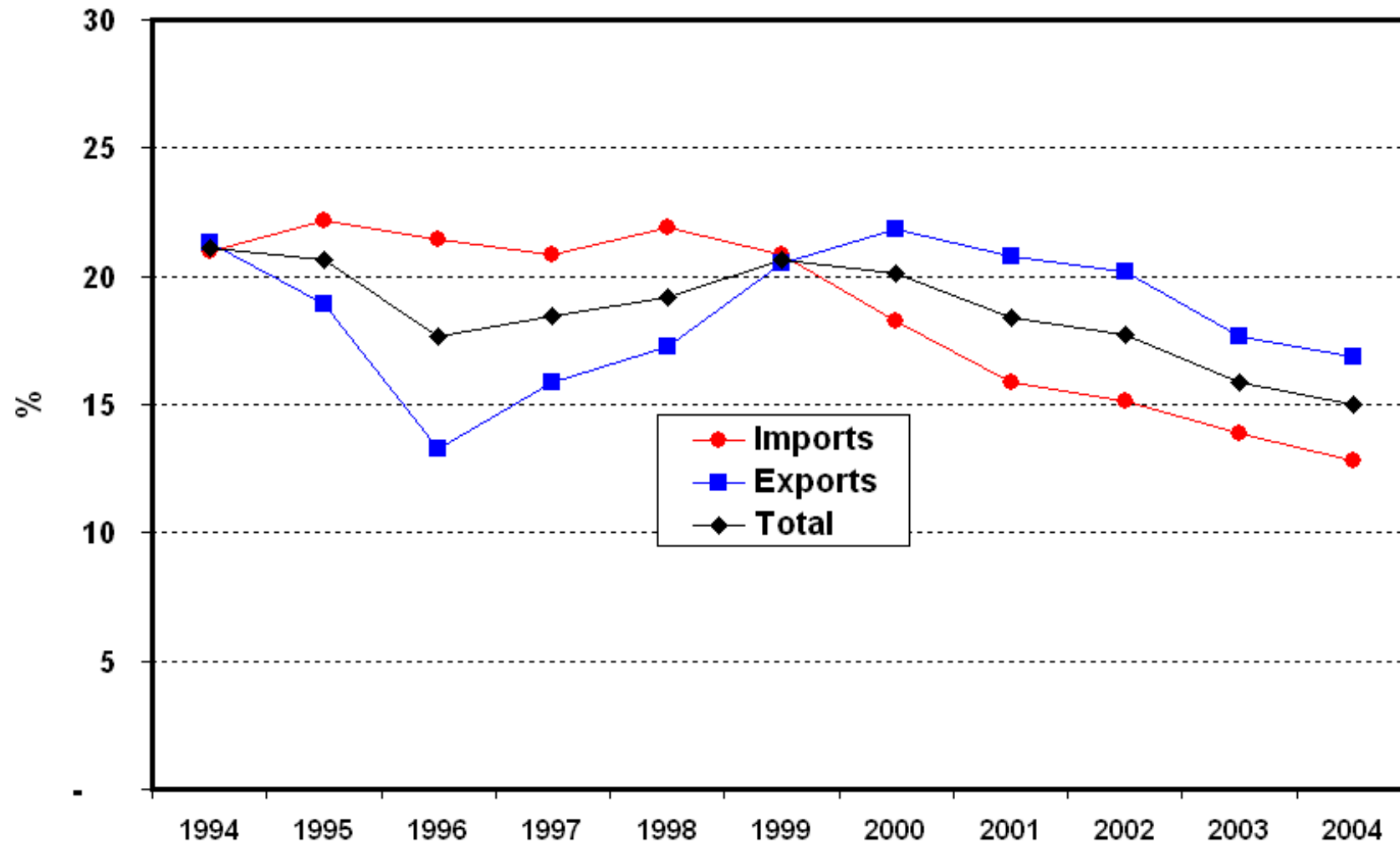
- Korea is already highly competitive *vis-à-vis* the USA, mainly in Machinery and Equipment, but also on manufactured goods.
 - Trade with USA is becoming less important for Korea. This represents both an opportunity to increase trade with the USA but also a strenght in terms of a reduced vulnerability to any potential negative effect that could come as a result of greater foreign competition.
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Korea's Trade Balance with USA

(USD billions)



USA Share of Korea's Foreign Trade



Some thoughts about a Korea-USA FTA

- A Korea-USA FTA is likely to have positive effects in terms of foreign trade and investment flows between both countries.
 - These effects, however, could be limited for at least two reasons: first, because Korea is already a very open economy, and second, because Korea and the USA are not necessarily natural trade partners.
 - In any event, there may be potential indirect negative effects for third-party countries (i.e. Mexico).
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