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The Effects of NAFTA on Mexico's Economy and Politics

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THE EFFECTS OF NAFTA ON MEXICO'S ECONOMY AND POLITICS

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Executive Summary

The North American Free Trade Agreement (NAFTA), after six years of existence, has left its mark and brought tremendous change to both Mexico's economy and its politics. There are cases both for and against NAFTA in terms of its performance and impact. Arguments on the positive side are that, first, NAFTA has contributed to the transformation of Mexico into one of the major traders in the world. Second, NAFTA paved the way for the prompt assistance of the U.S. when Mexico fell into financial crisis at the end of 1994. Third, NAFTA provided Mexico with an attractive investment environment and foreign direct investments increased from $4.4 billion in 1993 to $12.5 billion in 1997 and $10.2 billion in 1998. The trade expansion and investments surge absorbed labor. Others, on the negative side, however, argue that Mexico's socioeconomic situation is still far short of real improvement. First, the continuous readjustments in the manufacturing sector produced an increase in unemployment for unskilled workers who were then only later absorbed by the informal employment sector, which has adversely affected the accuracy of employment and job statistics and has also worsened labor conditions. Second, the Mexican economy has increasingly become further exposed to external shocks. Third, the gap between the rich and the poor has widened, and this has resulted in providing critical momentum for increased sociopolitical instability.

The timing of the establishment of NAFTA overlapped Mexico's ongoing unilateral trade liberalization and the sharp devaluation of the Mexican peso amid the financial crisis. This further complicates the possibility of offering an objective evaluation of NAFTA's effects in Mexico. Many of the "positive" effects largely resulted from trade liberalization and the peso devaluation. On the other hand, most of the "negative" effects occurred prior to the implementation of NAFTA or would have happened, whether NAFTA existed or not, under the ongoing liberalization and globalization environments. Both sides' evaluations of NAFTA tend to be exaggerated due to the politicization of the NAFTA issue and the practical difficulty in distinguishing NAFTA's effects from those caused by other factors.

On the political front, the politicization of NAFTA, and other reform issues, by opposition political parties and other actors on the one hand, and the depoliticization of Zedillo's economic policy on the other hand, quite naturally resulted in the political defeat of the ruling party in the July 6, 1997 mid-term parliamentary and local elections. The result may be seen as contributing to the further democratization of Mexican politics as well as to the decentralization of power. However, whether NAFTA's locking-in of the reform policies may lead to these economic policies ultimately succumbing to volatile political pressures and electoral cycles, will depend on the seriousness and consensus of the ruling political elite on the separation of the logic of economics from that of

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politics. For the time being, the prospect is more optimistic than ever.

INTRODUCTION

Since the late 1980s, Mexico has been undertaking aggressive economic reforms starting with the leadership of President Carlos Salinas de Gortari (1988-1994). His reformist initiatives included major public-enterprise privatization, and deregulation as well as trade liberalization. President Salinas himself proposed a free trade pact with the United States when he met President George Bush in Washington on June 10th, 1990. Canada joined the talks later as it had already been a partner in a free trade agreement with the U.S. since 1989. Within the framework of Salinas' grand scheme for national development, for Mexico to establish free trade pacts with its neighbors to the north would be the final touch in a series of market-oriented economic reforms. Through the North American Free Trade Agreement (NAFTA), Salinas envisioned an improvement in Mexico's status as a major recipient of foreign direct investments, which would then absorb more of Mexico's ever-increasing labor force and enable it to catch up with more advanced technologies. He also wanted a policy framework in which an international arrangement might perpetuate the reformed economic structure.

On the other hand, NAFTA is considered a rather new model of a regional trade arrangement between industrial and developing countries. By integrating with the economies of the United States and Canada, two of the largest economies in the world, Mexico became an interesting case study for testing the effectiveness of integrating with much larger economies as a development strategy. With NAFTA having been in place for more than six years now, it can be seen that the performance of the agreement in Mexico has been quite mixed with there being positive as well as negative impacts on Mexico's economy and society. The increase in exports, the foreign investment inflows, and the rapid economic recovery from the peso crisis and the high-rate economic growth afterwards, may be seen as the bright side while the national manufacturing sector's bankruptcies and the widening gap between rich and poor may be observed as the darker side.

This paper attempts to explore the outcomes of NAFTA for Mexico's economy and politics for the first five years following its inception. In doing this, some statistical data will be utilized, and some convincing arguments will also be examined, although many of these arguments are qualitative rather than quantitative. As a matter of fact, NAFTA is still a rather controversial issue in Mexico. What political stance you take determines how, and from what perspective, you evaluate its performance. Thus, the evaluation of its performance has been quite politicized throughout its implementation in Mexico. Although solid discussion on this political interaction is beyond the scope of this paper, it would be relevant to point out the practical difficulties in evaluating the economic and social effects of NAFTA which, in turn, accelerates the politicization of the NAFTA debate in Mexico.

MEXICO'S ECONOMY BEFORE NAFTA

By the early 1990s, Mexico had already gone a long way down the road to changing its development model since it came to find itself trapped in the model crisis as early as the late 1960s. Since the Great Depression, when Mexico's exports to the United States and other industrial countries were substantially reduced and Mexico lacked the foreign exchange needed to buy manufactured goods, Mexico has undertaken an import-substitution industrialization (ISI) development strategy. This inward-looking development strategy faced a dilemma beginning in late 1960s due to the current account deficits and accumulated foreign debts. The debt crisis in the early 1980s, triggered by the hike in international interest rates and the plunge in international oil prices, set crucial constraints on the regime's capacity to mobilize the financial resources needed to sustain its legitimacy. The earlier expansionist policy, largely motivated by populist political consideration under the Luis Echeverrí a administration (1970-76) and the José López Portillo administration (1976-82), had to give way to severe adjustment. The ensuing economic austerity, of the remainder of the 1980s, slowed the economic growth of the nation, and economic stability was a target never reached. As shown in Table 1, ever-increasing inflation and exchange rates clearly told the story. This definitely affected the labor and middle sectors, and although it was justified in terms of a "national emergency and defense of the nation," its political repercussions were immense, as demonstrated in the 1988 presidential election. The ruling party candidate, Salinas de Gortari, won the election by a record narrow margin. Indeed, the election was the regime's greatest crisis.

<Table 1> Mexico's Major Economic Indicators, 1981-1994

	1981	1982	1983	1984	1985	1986	1987	1988
GDP Growth(%)	8.77	-0.62	-4.20	3.61	2.59	-3.74	1.86	1.24
Inflation (%)	28.0	58.9	101.9	65.4	57.7	86.2	131.8	114.2
Trade Balance/GDP (%)	-1.5	4.0	9.2	7.4	3.9	2.9	5.1	0.2
Current Account /GDP (%)	-6.4	-3.6	3.6	2.4	0.2	-1.4	2.7	-1.7
Exchange Rate (peso/USD)	24.51	57.44	120.17	167.77	256.96	611.35	1366.72	2550.28
Total External Debt/GNP (%)	31.9	52.5	66.4	57.1	55.2	82.6	82.3	60.9

Source: WEFA, *World Economic Service Historical Data*, 1995.6.

In this situation, the mandate for Salinas was to create an environment for sustainable growth. A major policy consideration was to focus on the new development strategy. The debt crisis actually saw an end to the validity of ISI as a development strategy. Mexico's earlier outward strategists failed, in 1981, in joining the General Agreement on Tariffs and Trade (GATT) because of the industrialists' opposition, who largely had depended on the government's protection from international competition.[1] Joining the GATT in 1986, however, was the milestone that signaled Mexico's official abandonment of the formerly protectionist ISI

[1] For Mexico' postponement of joining the GATT, see Dale Story, *Industria, estado y polí tica en México: Los empresarios y el poder* (Mexico: Grijalbo, 1990), pp. 188-193.

development strategy. The following year Mexico unilaterally began to cut down its import tariffs and also eliminated importation permits, and the Salinas Administration took further steps towards liberalizing Mexico's markets. As this meant a change in development strategy, from an inward to an outward orientation, Mexico needed to enhance its international competitiveness and penetration of international markets. Thus, free trade with the U.S. would serve this new strategy, and accelerate the liberalization process.

From Salinas' policymaking perspective, free trade with the U.S., and later on with Canada, would serve three major goals. First, as the U.S. is the largest economy in the world and Mexico's largest export market, free trade with the U.S. would facilitate Mexico's new export-oriented development strategy. Secondly, as a free trade regime would secure access to the U.S. market, international investors would consider Mexico as a very attractive country for their businesses. This would be further enhanced by Mexico's geographic proximity to the U.S., and its abundant and cheap local labor. Thirdly, a free trade agreement, as an international treaty, would enhance the stability of, as well as international confidence in, Mexico's reformist policies.

Salinas' economic reforms were rather revolutionary when compared to his predecessor Miguel de la Madrid's moderate ones. He further liberalized Mexico's trade regime, privatized major public enterprises, including blue-chip companies like Teléfonos de México (TELMEX), and aggressively deregulated, including the reduction of restraints against foreign investments. His neoliberal reforms envisioned the private sector as taking the leading role rather than the *rectoría*, the directorship of the state, even though Mexico's business and labor sectors might not have been mature enough to directly face the highly competitive global environment. Mexico's economy began to be revitalized, though not accelerated, under the Salinas administration. Worthy of note is that economic stabilization was achieved due to the annual social pacts that were made among the government, business, labor and peasant sectors that started in late 1987 (See Table 2). Given the Mexican policymaking environment, however, his reforms were subject to the possibility of having to change at any given time for the sake of political pragmatism. With Mexico's *sexenio* rule, or a six-year presidential term, and the principle of no possibility of reelection, a new president would come into office with a new team and usually initiate a different set of policy reforms to overcome the problems that were neglected by the previous administration.[2] Salinas wanted to change this practice. A free trade pact with the U.S. would serve as a "binding force" to make his market-oriented reforms irrevocable, and it would also foster confidence in the seriousness and consistency in Mexico's economic policymaking.

[2] The present author interprets Mexican pendulum politics in terms of regime crisis management in his doctoral dissertation, "The Mexican Regime's Political Strategy in Implementing Economic Reform in Comparative Perspective: A Case Study of the Privatization of the Telephone Industry," University of Texas at Austin, December 1992. Dale Story proposes spending cycle of Mexican governments in his critique of the pendulum theory. See his "Policy Cycles in Mexican Presidential Politics," *Latin American Research Review*, 20: 3 (1985), pp. 139-161.

<Table 2> Mexico's Major Economic Indicators, 1988-1994

	1988	1989	1990	1991	1992	1993	1994
GDP Growth(%)	1.2	3.3	4.4	3.6	2.8	0.4	3.1
Inflation (%)	114.2	20.0	26.7	22.7	15.5	9.8	7.0
Trade Balance/GDP (%)	0.2	-1.3	-1.8	-3.9	-6.3	-5.3	-6.3
Current Account/GDP (%)	-1.7	-2.9	-2.9	-4.8	-7.5	-6.4	-8.3
Exchange Rate (Peso/USD)[1)]	2550.3	2453.2	2807.3	3017.9	3094.4	3.11	3.37
Total External Debt (US$ billion)	101.8	95.3	104.3	116.6	117.6	131.9	142.6
International Reserves (US$ billion)	5.3	6.3	9.9	17.7	18.9	25.1	6.3

Note: 1) The Mexican peso was changed the new peso in 1993 (1 new peso=1000 peso). The new peso began to be called the peso again as of January 1, 1996.

Source: WEFA, *World Economic Service Historical Data*, 1995. 6.

THE "POSITIVE" SIDE OF NAFTA IN MEXICO[3]

Increase in Exports

With NAFTA, the average U.S. tariffs on Mexican products fell from 3.3% to 1.1% vis-à-vis 5.7% to 4.3% for most-favored nations' products. Canadian markets opened to Mexican products, with average tariffs falling from 2.4% to 0.9% (See Graphs 1 and 2). Tariffs of imported manufactured goods entering the U.S. were especially reduced, from an overall 5.8% to just 1%. This further enhanced the competitiveness of Mexican products, in the U.S. market, against extra-regional traders. At the same time, Mexico's import tariffs have dropped from an average of 11% , before NAFTA, to just 5%.

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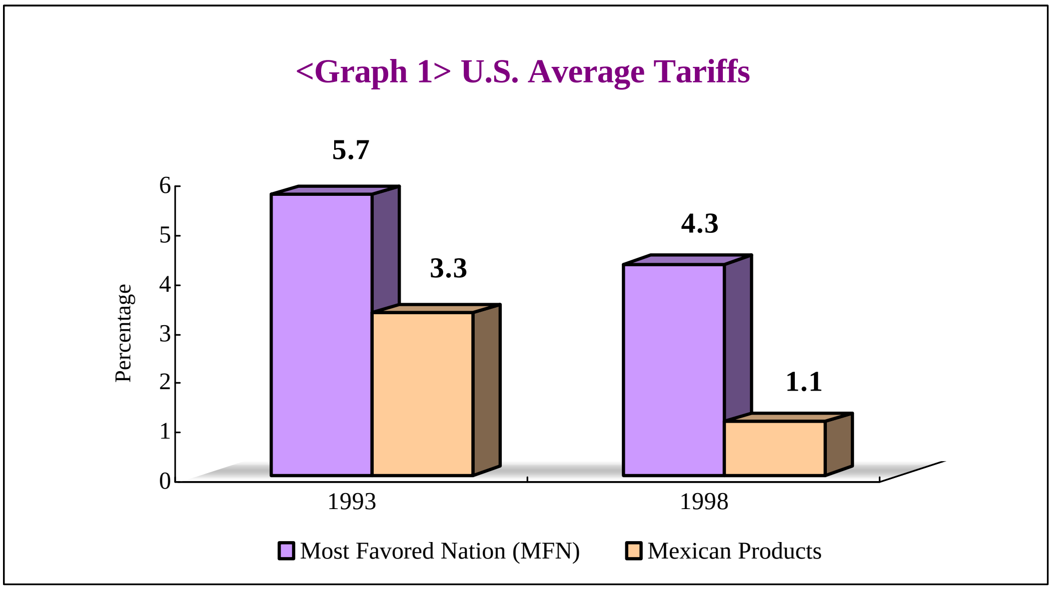
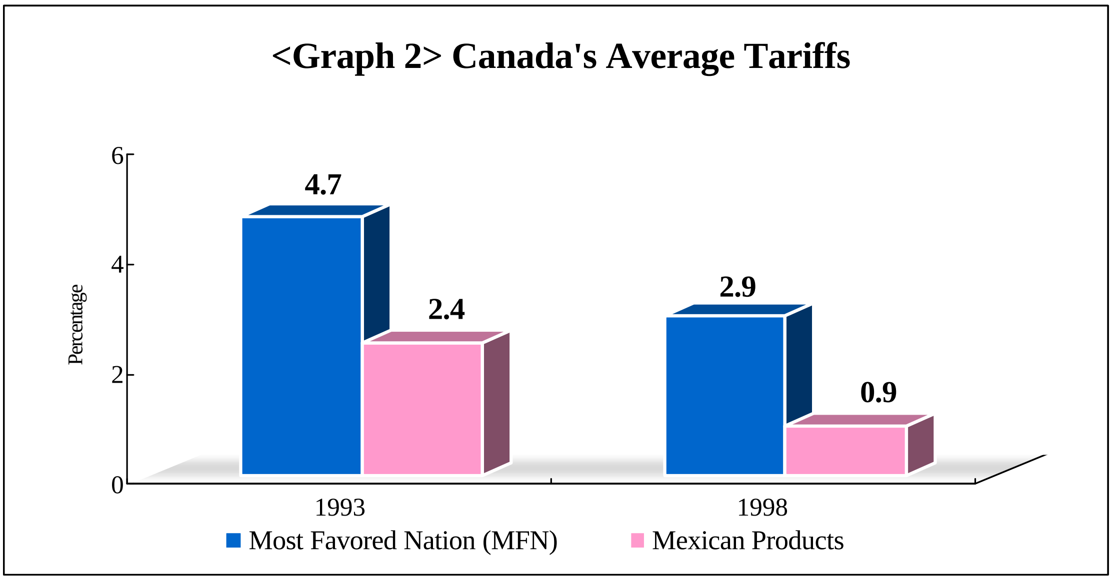
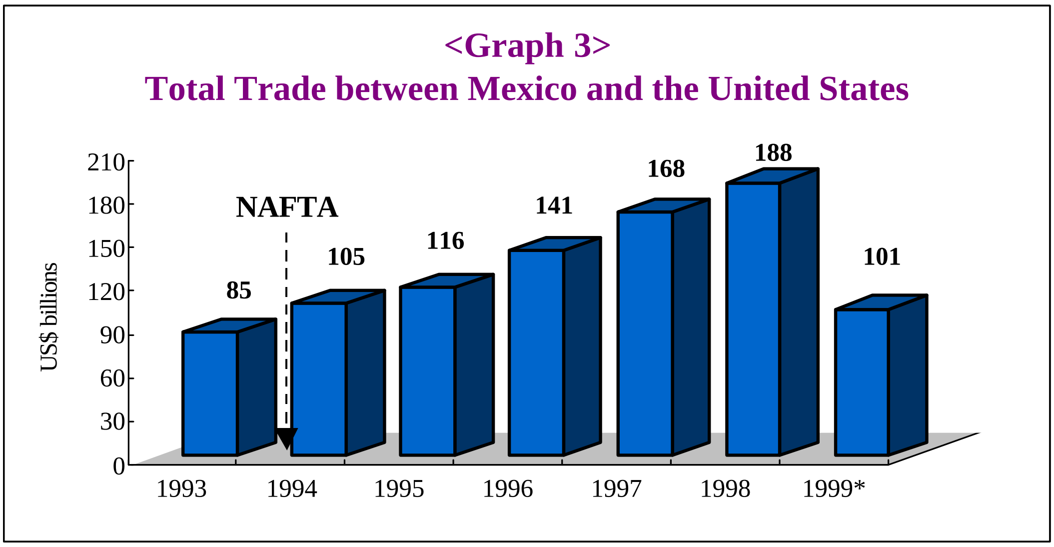
[3] If not indicated otherwise, data in this section and below were from the following sources: SECOFI (Secretaría de Comercio y Fomento Industrial), *Relaciones Comericales de México con el Mundo*, 1999; and SECOFI, *Mexico Exporta*, Mayo de 1999.



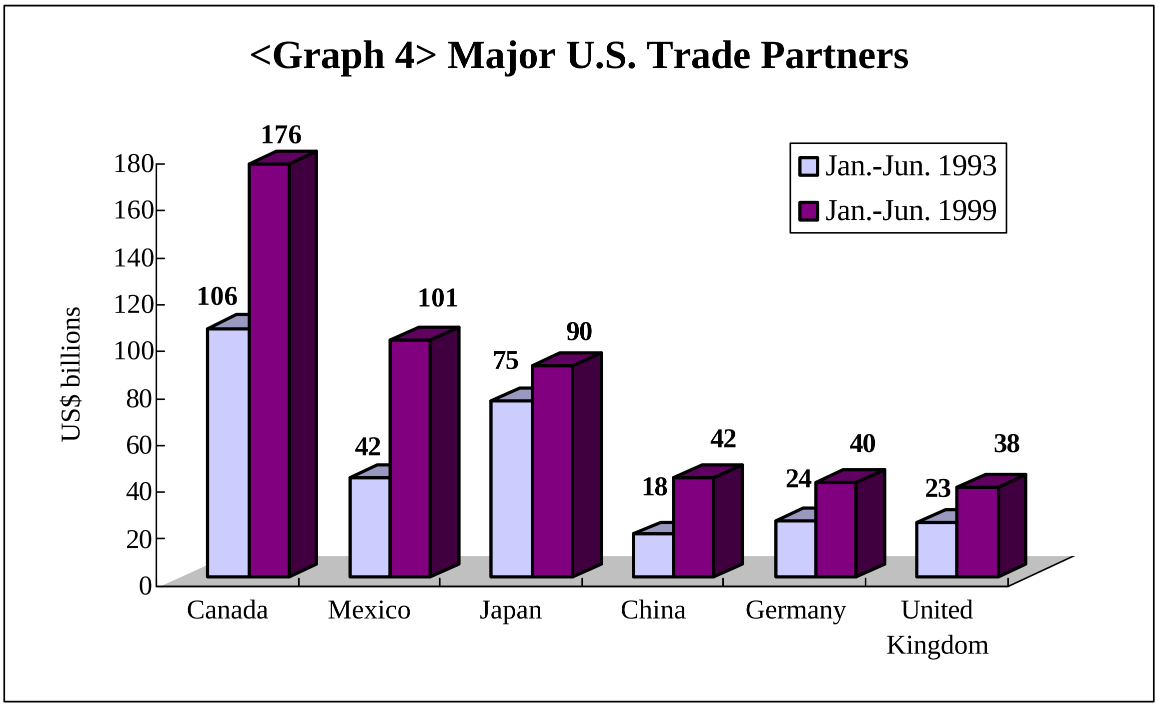


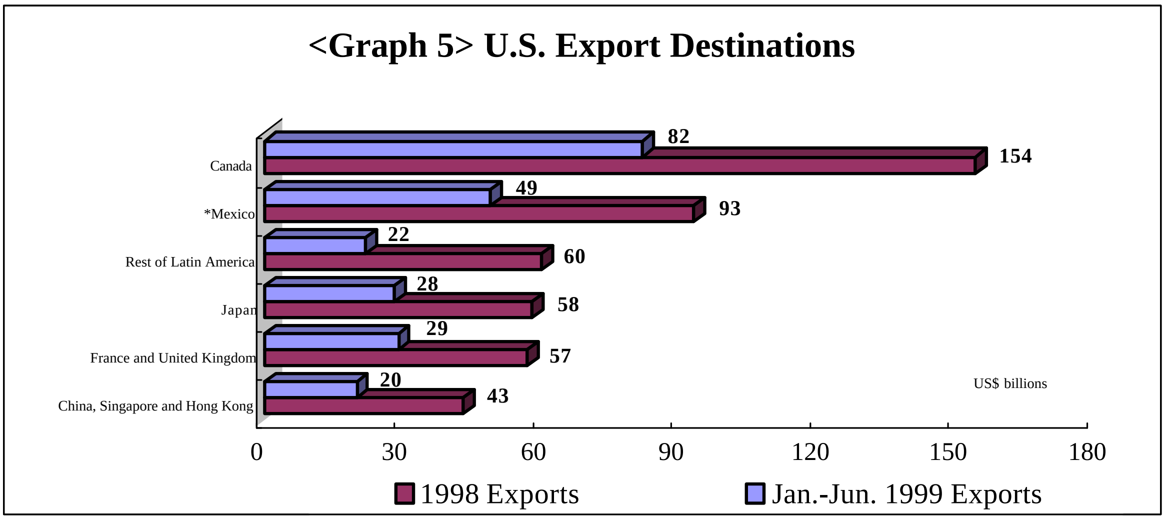
As a result, Mexican exports to the U.S. increased from US$39.9 billion in 1993 to US$94.7 billion in 1998, an increase of 137% at an annual average rate of 18.9% while exports to Canada reached US$5.1 billion at an annual growth rate of 12% during the same period. Mexico's total exports increased from US$51.8 billion in 1993 to US$117.5 billion in 1998, an increase of 127% at an annual rate of 17.8%. This contrasts greatly with the much slower growth of Mexico's exports, at an annual rate of 13%, during the period 1986-1993. As Mexico's exports to the U.S. and Canada account for 84.9% of its total, there is no denying that NAFTA paved the way for Mexico's increasing dynamism as an exporter. Mexico became the tenth largest exporter in the world, and the first in Latin America.

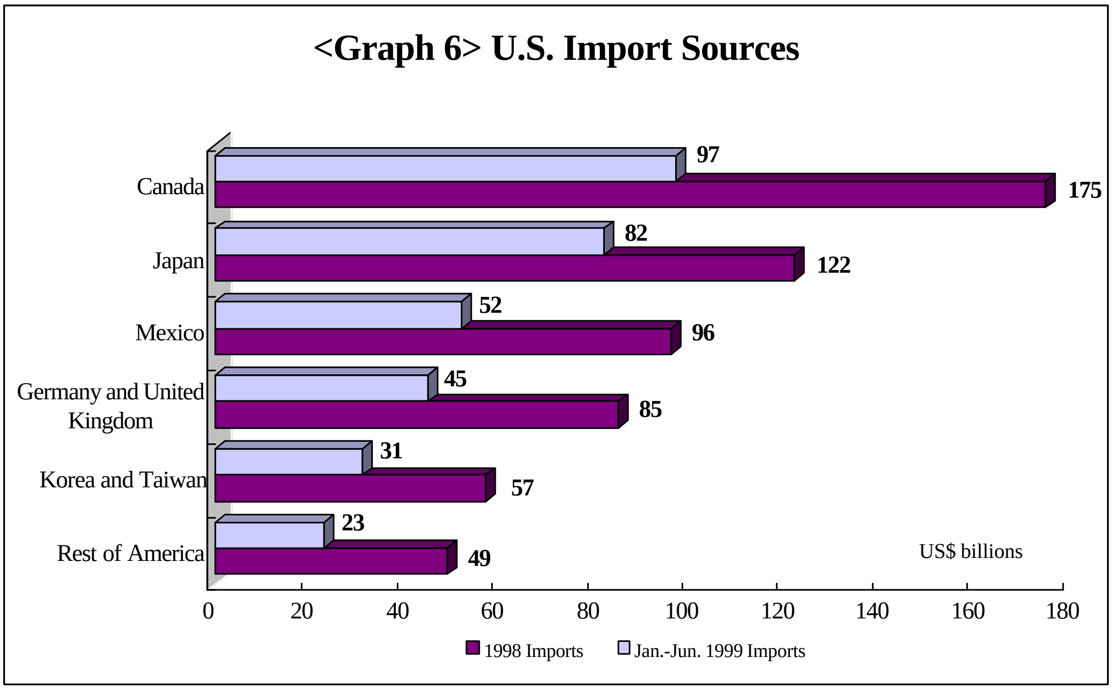
Meanwhile, Mexico's imports from the U.S. and Canada grew at an annual average rate of 14.5%. Trade between Mexico and the U.S. soared from US$ 85 billion in 1993 to US$ 188 billion in 1998, while trade between Mexico and Canada increased from US$4.1 billion to US$7.5 billion during the same period. Mexico had trade surpluses with the U.S. of US$ 11.5 billion and US$ 8 billion in 1997 and 1998, respectively. In September 1998, Mexico surged past Japan and became the United States' second largest trading partner, in terms of export destination (See Graph 3 through 8).



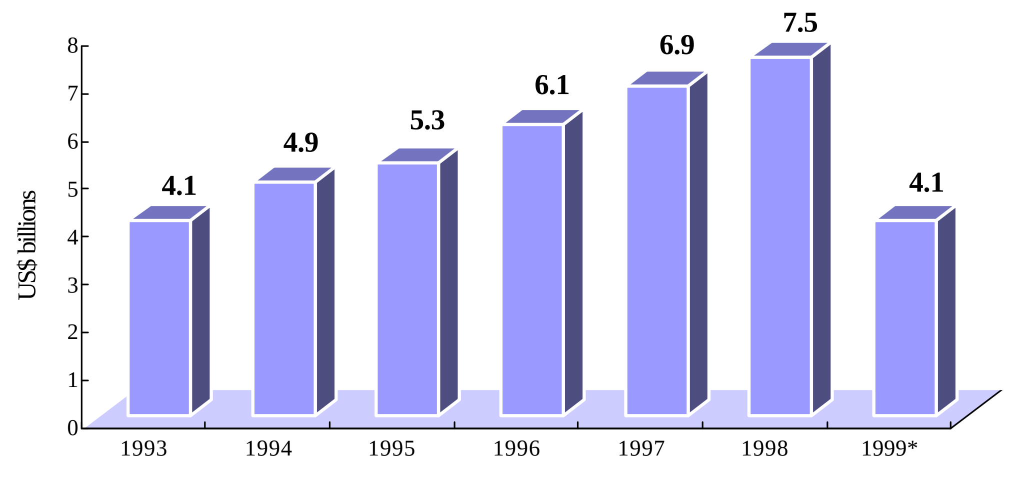
Note: (*) January-June 1999.




<Graph 5> U.S. Export Destinations
Canada
*Mexico
Rest of Latin America
Japan
France and United Kingdom
China, Singapore and Hong Kong
82
154
49
93
22
60
28
58
29
57
20
43
US$ billions
0
30
60
90
120
150
180
1998 Exports
Jan.-Jun. 1999 Exports

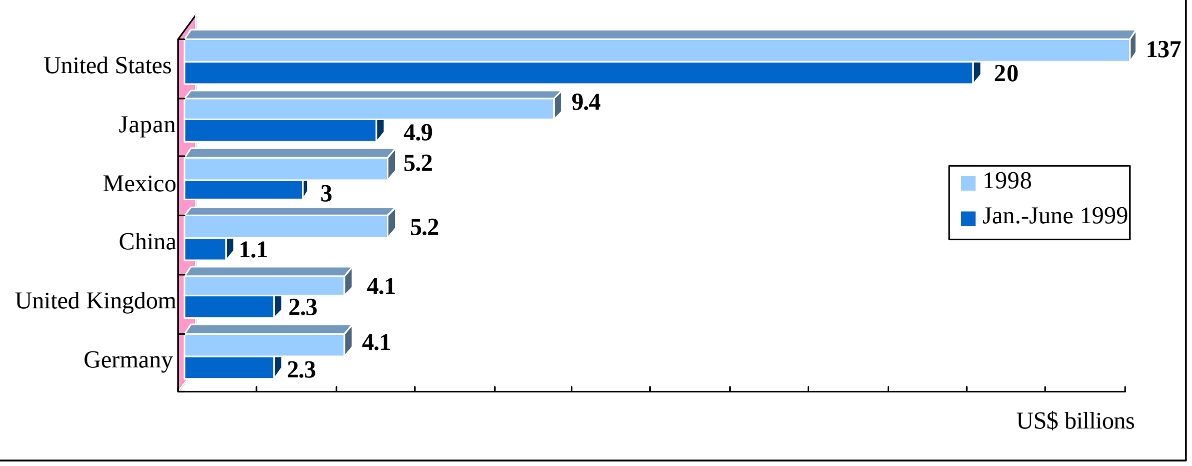

<Graph 6> U.S. Import Sources
Canada
Japan
Mexico
Germany and United Kingdom
Korea and Taiwan
Rest of America
97
175
82
122
52
96
45
85
31
57
23
49
US$ billions
0
20
40
60
80
100
120
140
160
180
1998 Imports
Jan.-Jun. 1999 Imports

<Graph 7> Total Trade between Mexico and Canada



Note: (*) January-June 1999.

<Graph 8> Canada's Import Sources

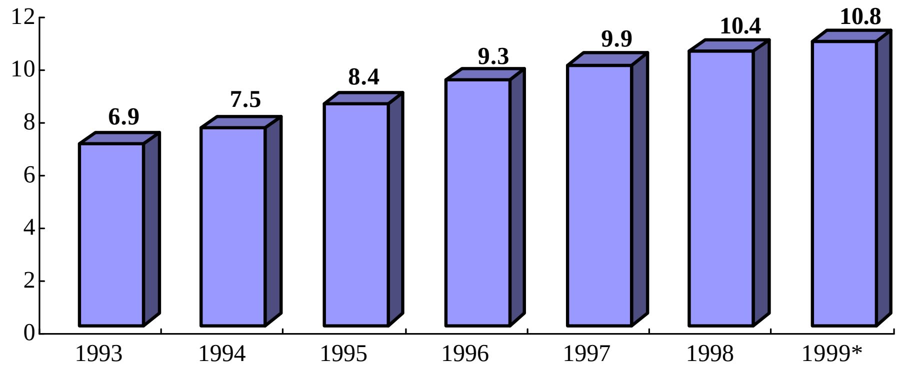


Meanwhile, due to NAFTA's discrimination against offshore countries, labor costs, and geographic distance, the trade relations between the U.S. and Asia, in the textile and automobile industries, have experienced a trade diversion effect that has, in turn, been accelerated by investment diversion. In 1996, Mexico overtook China as the largest supplier of textiles and garments to the U.S.[4] Furthermore, the important portion of the textile trade between the U.S.

[4] Now, Mexico is going a step further by producing not only garments but also high-quality textiles, and U.S. mills are rushing to invest. IBM's Guadalajara plant houses more than 7,000 employees of its own and its subcontractors. The parts used to be made in Singapore, Taiwan, and Malaysia. See Jeremiah Spencer, "Five years after NAFTA, Mexico turning into an industrial power," *BusinessWeek*, May 16, 1999.

and Central America/the Caribbean has been transferred to the trade between the U.S. and Mexico. NAFTA allows Mexican-made apparel to enter the U.S. duty-free and quota-free, as long as the clothing is manufactured with fabric knitted or woven in the U.S. This gives Mexico a major competitive advantage over Asia or Central America/the Caribbean because goods entering the U.S. from those regions are subject to quotas and, sometimes, duties.[5] Trade diversion was indispensable, and this has resulted in Mexico's enhanced share of the U.S. import market (See Graph 9). When it comes to the increased competitiveness of Mexican products, however, the effect of the peso devaluation, since the end of 1994, cannot be overlooked as another decisive factor beyond the elimination of some of the tariffs between the U.S. and Mexico.

<Graph 9>
Share of Mexican Products in U.S. Total Imports



Note: (*) January-June 1999.

Foreign Direct Investments

One of the major policy reform areas under the Salinas administration involved foreign direct investment (FDI) inducement. In May 1989 and December 1993, the Mexican government expanded the sectors eligible for FDI and largely liberalized related regulations, which was the cornerstone of Mexico's FDI policy. NAFTA itself further enhanced the legal status of investors while its Chapter 11 provides for a settlement mechanism for disputes between investors and the host state, which had already been established in U.S. bilateral investment treaties signed with some Latin American countries but that Mexico traditionally had refused to sign. The Mexican Constitution still inserts a Calvo clause under its Chapter 27, requiring foreign investors to be treated as nationals and, when they are involved in a dispute, they have to submit claims under local tribunals. Though controversial, however, Mexico actually accepts, through Chapter 11 of NAFTA, that foreign arbitration could substitute for national tribunals in conflicts arising with

[5] *The Miami Herald* (International Edition), "NAFTA paving way for Mexican apparel industry, U.S. firms," April 9, 1997.

foreign firms.[6] This fundamentally improved the FDI environment in Mexico.

Better access to the U.S. and Canadian markets, guaranteed through both political and legal systems, placed Mexico in the global arena as a highly attractive production site, not only to U.S. and Canadian investors but also to European and Asian multinational corporations. Since the beginning of the NAFTA negotiations in 1991, Mexico had seen a rapid increase in FDI, reaching US$12.4 billion in 1994, a figure almost double that of 1993. The subsequent peso crisis discouraged foreign investors, to the effect that FDI flows lost some momentum, and the FDI level attained in 1994 was not recovered until 1997.

However, it is very hard to say that FDI has become stronger in Mexico since NAFTA. Following Mexico's decision to take advantage of North American economic integration in order to induce additional FDI, one should evaluate its outcome vis-à-vis alternative FDI destinations, particularly in the Latin American region. Although the average annual FDI amounted to US$10.8 billion during 1994-98, as contrasted to US$3.7 billion during 1989-93, Mexico's importance in Latin America as an FDI recipient has diminished as South American countries have emerged as investment alternatives. As shown in <Table 3>, Mexico accounted for more than a third out of the total FDI in Latin America up to 1994, but it subsequently dropped to one-third in 1995, one-fourth in 1996, and less than one-fifth in 1997 and 1998. In 1999, Mexico only received US$10 billion out of the regional record of US$75.4 billion. Privatization programs in Brazil and Argentina have attracted huge amounts of foreign investment capital to South America. Argentina, in particular, has surpassed Mexico with US$21 billion in FDI, of which the sale of the Argentine Oil company YPF to the Spanish firm Repsol was the principal contributor.[7]

Of course, this does not mean that Mexico is no longer attractive, but that Mexico is not uniquely attractive. Liberalization, privatization, and regional integration among Brazil and the Southern Cone countries have split the investors' attention. Rather it can be argued that without NAFTA, the loss of Mexico's position as the most attractive site for FDI would have been far more serious. Yet, the continuing and constant flow of FDI into Mexico is not solely due to the simple existence of NAFTA. There exist other reasons, such as sustained economic reform and the outcome of the peso crisis. Stable economic growth, from the early 1990s until just before the economic crisis of 1994, and the rapid economic recovery since late 1995, contributed to an increase in domestic consumption, which has also served to attract foreign investment.

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[6] Isidro Morales, "NAFTA: The Governance of Economic Openness," *The Annals of the American Academy of Political and Social Science*, 565 (September 1999), pp. 48-52.

[7] El Mercurio, "América Latina Anota Récord de Inversión Extranjera," 19 de enero de 2000.

<Table 3> Net FDI flows in Latin America, 1990 1998

(Unit: US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Argentina	1 836	2 439	4 012	2 763	3 432	5 279	6 513	8 094	5 697
Bolivia	67	93	122	124	130	374	474	731	872
Brazil	989	1 103	2 061	1 294	2 589	5 475	10 496	18 745	28 718
Chile	661	822	935	1 034	2 583	2 977	4 724	5 417	4 792
Colombia	501	457	729	950	1 444	2 968	3 123	5 701	2 983
Ecuador	126	160	178	469	531	470	491	695	830
Mexico	2 549	4 762	4 393	6 715	12 362	9 526	9 186	12 831	10 258
Paraguay	76	84	137	75	138	156	106	240	195
Peru	41	-7	136	687	3 084	2 056	3 226	1 786	1 930
Uruguay	0	32	58	102	155	157	137	126	164
Venezuela	451	1 916	629	372	813	985	2 183	5 087	3 737
Total	7 297	11 841	13 390	14 585	27 279	30 423	40 659	59 453	60 156

Source: UNCTAD, *World Investment Report*, 1999.

On the other hand, Mexico was not the real beneficiary of FDI flows among the other NAFTA members. As shown in <Table 4>, post-NAFTA FDI flows were far more prominent in the U.S. and Canada than in Mexico. The FDI in the U.S. was about $193 billion in 1998, a 348% increase from the level in 1993; for Canada it was about $16 billion, a 247% increase; and for Mexico, about $10 billion, only a 52% increase. If one wishes to compare Mexico's highest figure, in 1997, with its lowest, in 1992, even then the increase was only 192%, far short of the U.S. and Canada's ratios. It goes without saying that NAFTA has not been the only factor affecting FDI in the three member countries, and it can also be noted that the astounding strength of the so-called "U.S. New Economy" was largely due to the information and communication industries’ strong performance in the 1990s, which must have contributed to the sharp increase in FDI in the US. Nevertheless, this data clearly shows that post-NAFTA FDI flows in the three member countries did not favor Mexico more than its associates.

<Table 4> FDI Inflows in NAFTA members

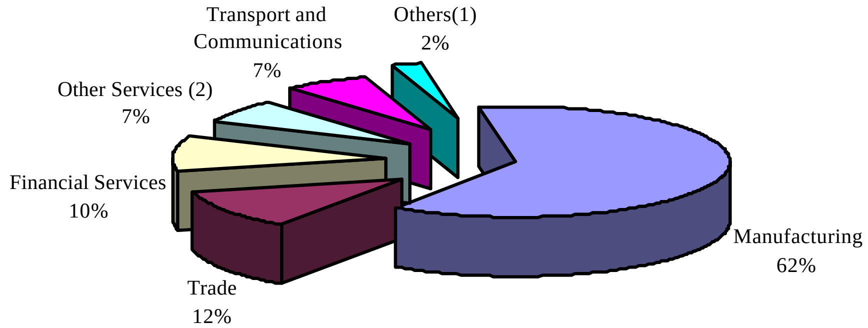
(Unit: US$ million)

	1991	1992	1993	1994	1995	1996	1997	1998
U.S.	22,799	18,885	43,534	45,095	58,772	76,453	109,264	193,375
Canada	2,740	4,777	4,749	8,204	9,259	9,411	11,465	16,500
Mexico	4,762	4,393	6,715	12,362	9,526	9,186	12,831	10,258

Source: UNCTD, World Investment Report 1999: Foreign Direct Investment and the Challenge of Development, 1999

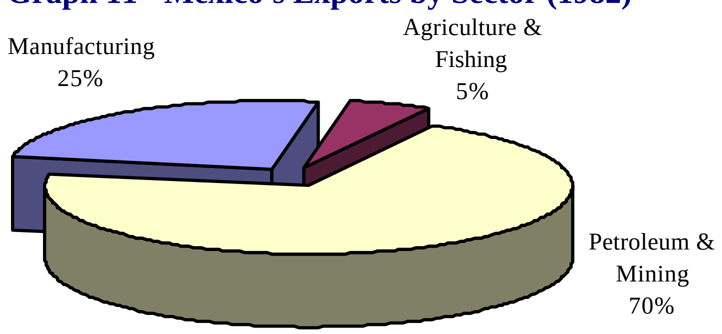
By all means, NAFTA has transformed Mexico into a stable base for parts and components manufacturing for U.S. and Canadian corporations. Post-NAFTA FDI has mainly been concentrated in regions, such as the states of Yucatan, Oaxaca, Tlaxcala, and Puebla, which possess the advantage of cheap labor, and are characterized by having high population concentrations. The sewing industry has particularly blossomed in those states.[8] On the other hand, the concentration of FDI in the manufacturing sector has led to a concentration of exports, more than 90%, on the same industry, compared with 25% in 1982, and 77% in 1993 (See Graph 10 and 12).

<Graph 10> FDI in Mexico by Sector, 1994-1998 Jun.



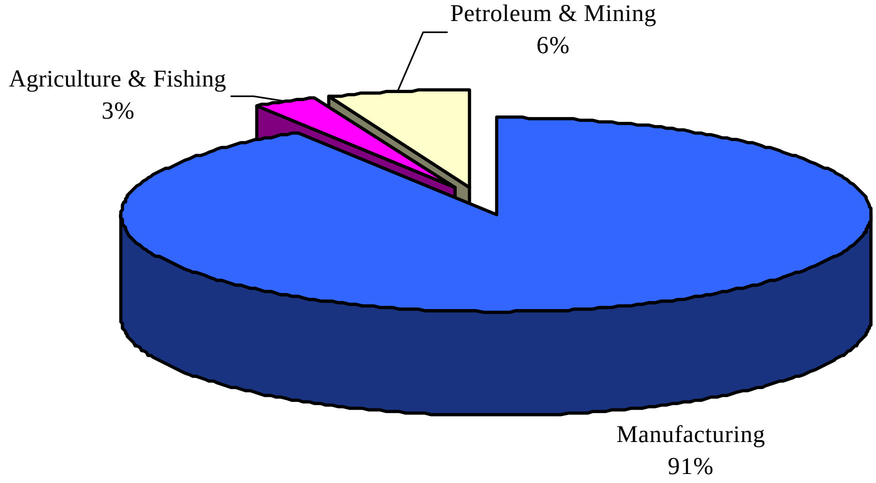
Note: (1) Agriculture & Fishing, Extraction, Construction, Electricity and Water
(2) Communal and social services: hotels and restaurants, professional, technical and personal services.

<Graph 11> Mexico's Exports by Sector (1982)



[8] Luis Rubio, "El TLC: Sin lagrimas ni risas," *Nexos* (Septiembre 1999), pp. 40-41.

<Graph 12>
Mexico's Exports by Sector (Jan.-Jun. 1999)



Job Creation through Exports

The number of companies in the *maquiladora*, or in-bond industry, rose from 2,000 in 1993 to 4,300 by September 1998. As a result, the number of employees hired in this industry increased from one million to three million. Mexico's open unemployment rate dropped to 2.3% in July 1999, the lowest since the end of 1992. The maquiladora industry, however, demands non-skilled labor which is paid only half of the manufacturing sector's average wage.[9] This means that job creation has been concentrated on lower wage earning employment.

It is also argued that some states, such as Aguascalientes, Chihuahua, Jalisco, Queretaro and Guanajuato, now enjoy practically full employment owing to NAFTA.[10] But those are Mexico's northern states. Their case shows how the benefits of greater integration with the U.S. have actually deepened the existent regional disparities between a prosperous North increasingly tied to the U.S. economy and a backward South plagued with agricultural stagnation. This also helps to explain why social revolt has been concentrated in the southern agricultural regions such as Chiapas and Guerrero.

Productivity and Welfare Effect

In the past, the economic isolationism of the ISI policies generated low labor productivity

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[9] See Manuel Pastor Jr. and Carol Wise, "Mexican-Style Neoliberalism, " in Carol Wise, ed., *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere* (University Park: The Pennsylvania State University Press, 1998), p. 57.

[10] Rubio, *ibid*.

due to vast public expenditures and government subsidies, and the protection of the domestic market, which, in turn, perpetuated a tendency to produce low quality products. Open market theorists often argue that the introduction of the new economic system incorporating deregulation and liberalization, and the implementation of NAFTA, have led to an increase in domestic industrial productivity under the more competitive environment. Improvement in the Mexican manufacturing sector's labor productivity since the late 1980s trade liberalization is widely known (See <Table 5>). Taking 1980 as the base year, the accumulated increase until 1988 was 10.9%, compared to 35.2% for the U.S. Under the liberalization pressures to increase efficiency, however, labor productivity then increased rapidly, averaging 6.6% per year between 1988 and 1993. The gap between Mexico and the U.S. kept widening until 1988, but reverted to their 1980 gap by 1993. This means that by 1993 both economies' productivity had increased approximately the same percentage over their respective 1980 levels. Although compatible data for recent years is quite limited, one's best guess is that NAFTA has provided additional momentum for such a productivity improvement trend to persist.

Neoliberal theorists also argue that further trade liberalization and the rapid increase in FDI provide Mexican consumers with a wide variety of high-quality, low-price, domestic and foreign products, thereby, widening their scope of choices as compared to the past when monopolistic domestic companies produced low-quality, high-priced products. This would signal a welfare effect for the population at large. That should be the case in as far as a liberal trading regime serves well to stabilize the macro-economy, and a bigger economic pie means more for the majority of the population. However, the actual widening of the gap between the rich and the poor in Mexico's liberalization context will not promise the same positive welfare effect for the whole population.[11]

<Table 5> Labor Productivity in Mexico's Manufacturing Sector (1980=100)

	Productivity index		Ratio (%)
Year	Mexico	US	Mexico/US Productivity Index Ratio
1980	100	100	100
1985	106.7	122.6	87
1986	104.3	125.7	83
1987	107.1	130.6	82
1988	110.9	134.5	82
1989	118.7	138	86
1990	126.2	143.4	88
1991	133.4	145	92
1992	141.0	146.9	96
1993	152.7	154.2	99

Source: Jonathan Heath, "The Impact of Mexico's Trade Liberalization: Jobs, Productivity, and Structural Change," in Carol Wise, ed., *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere* (University Park: The Pennsylvania State University Press, 1998), pp. 189-190.

[11] Pator and Wise, *ibid.*

THE "NEGATIVE" EFFECTS OF NAFTA

Job Loss in Manufacturing Sector

A direct and negative impact on employment ironically came about because of U.S. retail business practices. During the first year of NAFTA, 1994, some 40 percent of Mexico's clothes manufacturers shut down because of cheap Chinese and Southeastern Asian imports sought by the new U.S. retail stores setting up business in Mexico. The Mexican toy industry was also critically damaged, while the leather and footwear sectors suffered a reduction, by more than half, in production and employment. The peso crisis later exacerbated the near collapse of the domestic Mexican manufacturing industry and the rising lay-offs.[12]

On the other hand, as pointed out earlier, Mexico's productivity increased rapidly, particularly in the manufacturing sector. Contrary to common logic, the increase in productivity did not lead to the generation of new jobs. Rather, companies focused on increasing productivity, or output per labor unit, by reducing labor and subsequently, job market conditions deteriorated, resulting in fewer jobs and lower wage levels. This is a quite convincing case for showing that the gain in productivity was in inverse proportion to generation of jobs in the Mexican context. Jonathan Heath argues:

> "As an open border increases the pressure on firms to become more efficient and competitive, they struggle immediately to reduce costs and increase productivity. For firms established under a highly protectionist economy, the easiest cost to reduce is labor …In the initial period of trade reform, competitiveness is usually increased through productivity gains as firms struggle to decrease costs, especially by reducing labor overhead."[13]

As shown in <Table 6>, employment in the manufacturing sector registered a steady decrease during the earlier liberalization phases. Just before and after the establishment of NAFTA when the necessity for structural adjustment and reengineering was imperative, and the impact on small and medium companies was quite devastating, the rate of employment kept falling drastically.[14] The only reason the unemployment rate does not reflect this situation is because the expansion of the large informal sector blindly distorts the reality. Some critics argue that while Mexican workers' productivity was up 36.4% during the first five years of NAFTA, wages actually dropped by 29%.[15] Other Mexican and U.S. researchers argue that under the first

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[12] James Cockcroft, Mexico´ s Hope: An Encounter with Politics and History (New York: Monthly Review Press, 1998), p. 314.

[13] See Jonathan Heath, "The Impact of Mexico's Trade Liberalization: Jobs, Productivity, and Structural Change," in Carol Wise, ed., *op. cit*., pp. 179-182.

[14] Heath, *ibid*.

[15] Lori Wallach and Michelle Sforza, "NAFTA at 5," *The Nation*, January 25, 1999.

five years of NAFTA, maquiladora workers' wages fell 23%.[16]

NAFTA resulted in an unbalanced distribution of benefits among companies and workers. For many smaller Mexican companies, high borrowing costs have been a barrier to upgrading technology. "Big corporations with access to cheaper foreign financing have reaped the lion's share of the benefits of Mexico's industrial surge." The top 50 companies account for one-half of Mexican exports and for the bulk of recent export growth.[17] Furthermore, the gap between export sector income and non-export sector income is quite large, as shown in <Graph 13>.[18] In short, trade liberalization and NAFTA induced losses of formal jobs and unbalanced income distribution among workers. Table 6, however, indicates that the period of net-job-loss was over just after mid-1996, five years since the implementation of intensive liberalization. This means that increases were seen in companies' efficiency and output, which then, in turn, led to an increase in employment.

<Table 6> Employment Growth Rates in the Manufacturing Sector (%)

Year	Unemployment Growth Rate
1990	0.1
1991	-1.7
1992	-3.8
1993	-7.2
1994	-4.7
1995	-7.2
1996	2.1
1997	5.2
1998	3.1
1999	0.6

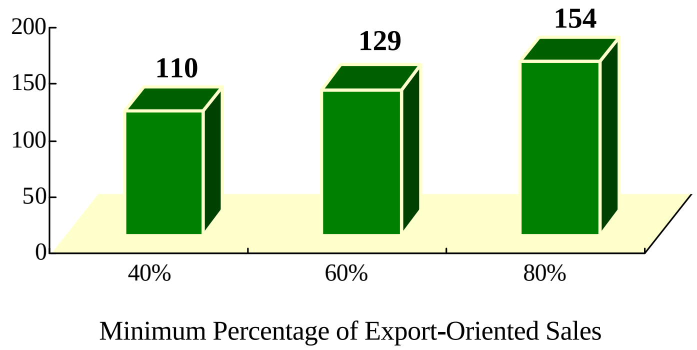
Source: INEGI

[16] *Mexican Labor News and Analysis*, "Maquiladora Wages Drop 23% in Last Five Years," September 2, 1999.

[17] Spencer, *ibid.*

[18] Interestingly, export jobs in the U.S. also pay higher salaries, about 10% to 15% higher, than jobs unrelated to foreign trade. See Sidney Weintraub, "NAFTA: A Politically Unpopular Success Story," *Los Angeles Times*, February 7, 1999.

<Graph 13> Comparison of Wages in the Non-Maquiladora Manufacturing Industry (1998)
(100=average salary in non-maquila manufacturing sector)



Increased Vulnerability and Dependence on U.S. Capital

Due to the strong dependence on the U.S. economy, the Mexican export economy has become extremely vulnerable to the effects of domestic cycles in the U.S. economy. Not only U.S. consumers' tendencies but also the fluctuation of U.S. interest rates may further affect Mexico's exports and speculation in its capital market as the two economies and business communities become more and more integrated. Fundamentally, NAFTA accelerated the dependency of the Mexican economy on U.S. capital. However, its impact was not limited to the economic realm. As Denise Dresser of the *Instituto Tecnológico Autónomo de México* puts it: "Mexico's nationalist, independent, and activist foreign policy was largely abandoned" after the rescue package of 1995. She argues that the Zedillo administration's foremost foreign-policy priority was the avoidance of diplomatic conflicts, exemplified by its handling of drug and immigration issues, primarily because U.S. markets and investments were critical to Mexico's economic recovery.[19] Under the NAFTA regime, the Mexican state changed its traditional stance and took its hands off of foreign investments in order to lure foreign investment.[20] NAFTA prohibited Mexico from legislating, or decreeing, performance standards that might obligate a TNC to transfer technology to the host country or to give preference to domestic suppliers.[21] Controversy over the loss of sovereignty in economic policymaking has particularly exacerbated sociopolitical instability, as described below.

While NAFTA places Mexico in a position more dependent on the U.S. market and

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[19] Denise Dresser, "Post-NAFTA Politics in Mexico," in Carol Wise, ed., *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere* (University Park: The Pennsylvania State University Press, 1998), p. 248.

[20] Won-Ho Kim, "Technology and the Mexican State," *Latin American Studies* (Seoul: Latin American Studies Association of Korea) Vol. 6 (1994), pp. 41-78.

[21] Cockcroft, *op. cit.*, pp. 311-312.

capital, the U.S. economy runs the risk of getting more and more involved in Mexico's political economic cycles for the time being. It is not a unilateral dependence structure, but an interactive one. The U.S. financial rescue of Mexico, in early 1995, which the Clinton implemented in desperate manner, even bypassing Congress, exemplifies the structural interdependence of the two economies. A Mexican default would have jeopardized U.S. investors in Mexico and other emerging markets in Latin America, and triggered an influx of illegal immigration.[22]

Sociopolitical Instability

While NAFTA served as the "locking-in" mechanism of Mexico's neoliberal reforms,[23] this has narrowed the political ability of the government to listen to the have-nots. As NAFTA constituted the final touch of the "neoliberalism" that had been pursued by the Salinas administration, many blamed any economic and social misfortunes, including the peso crisis, on the creation of NAFTA, thereby demonstrating an increased disintegration of the political social structure. As mentioned above, NAFTA actually worsened the already unbalanced regional development, as well as the gap between the rich and the poor beyond the apparent job creation and welfare effects. Rebelling in the shadow of NAFTA, on January 1st, 1994, the Zapatista Liberation Army (EZLN), from the state of Chiapas, regarded themselves as playing the role of the opposition, and have utilized NAFTA as a political excuse or justification for their cause. NAFTA particularly threatened the Mexican peasants' position in Mexico's corn market because U.S. mega-farms were up to six times more productive than small Mexican producers on poor and hilly terrain.[24] Earlier, the Salinas administration had reformed Article 27 of the Constitution in 1992, as part of the NAFTA package, to allow for the privatization of indigenous communal lands and peasant *ejidos*. This reform, and the liberalization of basic-grain imports, contributed to the peasants and Indians of Chiapas losing their land, their final means of survival. A report estimated that the dismantling of agricultural restrictions would release 800,000 farm workers in Mexico in the first year of NAFTA.[25] This net loss of agricultural income in Mexico was expected to be made up by gains in industry and services.

Mexico has been considered one of the stereotypical dual societies prevailing in Latin America, or in other developing regions, due to the fact that the First World Mexicans live along with the Third World Mexicans in terms of income, education, housing and life-style. With the inception of NAFTA, those Mexican dichotomies and contradictions immediately became politicized. Successive political murders resulted in increased uncertainty within the country, which finally combined with external economic imbalances to cause rapid capital flight and the peso crisis. During the crisis, the percentage of Mexicans who believed that the nation benefits

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[22] Dresser, *ibid.*

[23] "NAFTA has locked in fundamental economic reforms in Mexico and, under President Zedillo, these reforms are being widened and deepened." See U.S.-Mexico Chamber of Commerce, "NAFTA at Four Years: What It Means for the U.S. and Mexico," NAFTA Forum Series, June 1998.

[24] Cockcroft, *op. cit.*, p. 306.

[25] D.K. Brown, A.V. Deardorf, and R.M. Stern. "North American Integration," *Economic Journal* 102 (1992), pp. 1507-1518.

from NAFTA decreased to 20 percent in 1995 from 42 percent in 1992.[26]

Mexico's ruling party, the Institutional Revolutionary Party (PRI), lost its majority base in the Congress in 1997 for the first time in its almost seventy year history.

These political incidents, in and of themselves, would have been more than sufficient to justify policy changes in the traditional PRI regime. The outgoing Salinas Administration and the new Zedillo Administration, however, did not follow the past practice of political pragmatism. Rather, at all costs, they attempted to maintain consistent reform policies. The resultant discontent further exacerbated the potential threat to sociopolitical stability.

THE POLITICAL DYNAMICS OF NAFTA LOCKING-IN

The political sea-change in the post-NAFTA Mexico deserves close examination and attention although it might not be quite appropriate to determine whether that impact has been positive or negative for the present. Among others, the lower of the profile of the presidency in Mexico's centralized political system has been the most prominent change. The so-called "NATFA locking-in" provided not only the collateral for the irreversibility of Mexico's economic reforms, but also jeopardized the political management of the incumbent President Zedillo himself. While NAFTA intensified the deepening of market-oriented reforms, he had to sacrifice the formerly paramount political leverage of the presidency through economic means such as government expenditure. His insistence on fiscal accountability and economic stabilization ironically weakened the president's control over the ruling party itself, and regional governance. This meant the decline of presidential authority in Mexico, which had once compared with God's power: "En México, Dios muere cada seis años. (In Mexico, God dies every six years.)"[27]

One may argue that the decline of *presidencialismo* (presidentialism) may be the product of Zedillo's new presidential style. While he was handpicked by Salinas as a last-minute replacement following the assassination of PRI presidential candidate Luis Donaldo Colosio in March 1994, he may not have felt beholden to the clientelistic networks with the party. It is true that he was elected president in an election widely recognized as the cleanest in Mexican history. And he was in a position to deepen economic reform, relatively free from the traditional burden of building popular consensus. However, the circumstances behind his nomination in the existing political turmoil or his personal belief in the "modernization" of the Mexican presidency cannot be considered as the direct factors that brought about the decline of the presidency. Those should be considered just a few among other contributing elements that facilitated the president in distancing his administration from the old political and economic policymaking considerations. Rather than Zedillo's style, it was the NAFTA locking-in mechanism, as well as Zedillo's compliance, that resulted in the supposed de-politicization of the Zedillo administration's economic policymaking.

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[26] Este País, "TLC: Un balance en la opinión pública," No. 58 (January 1996), p. 29

[27] José Fuentes Mares, sited in José Mejía Prieto, *Citas y Frases Célebres de Mexicanos*, 2a edición (Mexico: Panorama), p. 163.

Finally, the politicization of NAFTA, and other reform issues, by opposition political parties and other actors on the one hand, and the de-politicization of Zedillo's economic policy on the other hand, quite naturally saw the political defeat of the ruling party in the July 6, 1997 mid-term parliamentary and local elections. After sixty-eight years of dominance, the PRI lost its majority in the Chamber of Deputies, finishing with 239 seats out of the total of 500, lost the majority in local congresses in seven states, and the governorships in two powerful states--Nuevo León and Querétaro. Most importantly, the first elected Mexico City mayor seat went to the left-wing opposition party (PRD: Democratic Revolutionary Party) candidate Cuauhtémoc Cárdenas. Looking on the bright side, the result might be seen as a further democratization of Mexican politics, and decentralization of power. But the traditional government-PRI system of coordination suffered most from the elections, and fell into disarray.

THE PESO CRISIS AND EARLY RECOVERY

In evaluating NAFTA's effects on Mexico's economy, the peso crisis in December 1994 takes on important meaning. The Mexican economy suffered from a severe financial crisis and the major reasons for the crisis can be traced to the overvaluation of the peso, the current account imbalance, short-term foreign debts, especially dollar-denominated ones, and sociopolitical instability, which accelerated both speculation and capital flight.[28]

However, the crisis, under the NAFTA framework of policymaking, provided some peculiar implications for international cooperation on crisis management, and the effects on the economy, especially with respect to exports and investments. As a NAFTA member, the U.S. was more prompt in responding to Mexican in crisis than it had been before. President Clinton immediately authorized assistance to Mexico through the Exchange Stabilization Fund (ESF) in spite of the fact that he met a rather hostile response to his Mexico bailout bill from Congress. The immediate response of the U.S. also swiftly led to an international bailout scheme led by the International Monetary Fund (IMF).

With the international financial support, the Mexican economy recovered from the peso crisis within a short period, registering -6.2% growth in 1995, 5.2% in 1996, and 7.0% in 1997 (See <Table 7>). The economic growth in 1998 decelerated to 4.8%, and in 1999 to 3.7%, mainly due to the post-Asia crisis stagnation of the oil industry and the decrease in domestic consumption. The pre-peso crisis GDP level was recovered as early as the beginning of 1997. Mexico's rapid recovery from the peso crisis is compared to the prolongation of the recession during the financial crises of 1976 and 1982. During the debt crisis in 1982, it took seven years to return to the international financial market as compared to only seven months in recovering from the peso crisis in 1995. NAFTA supporters emphasize that the crisis would have persisted, and the Mexican economy would have been characterized by high levels of poverty and unemployment if it had not been for NAFTA. The Mexican government argues that the NAFTA member countries' prosperity helped "mitigate economic repercussions of the financial crisis and evade recession in other parts of the world."[29]

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[28] Won-Ho Kim et al., "A Study of IMF Bailout Programs: The Cases of Mexico, Thailand and Indonesia." Working Papers 97-09, KIEP, December 1997.

[29] Garza Limón, "Evaluación general del TLCAN: situación actual y perspectivas," Conferencia internacional sobre

The peso devaluation of December 1994, and further depreciation later on, prompted the enhancement and recovery of the competitiveness of Mexican products. The adoption of free-floating exchange system in December 1994 was, in particular, "the key in Mexico's success in manufacturing industry, and in smoother adjustment to the Asian and Brazilian crisis."[30] Mexico's exports experienced an impressive hike in the wake of the peso crisis. As the U.S. has been Mexico's traditional export market, the recovery of competitiveness was immediately reflected in Mexico's strong exports to the U.S. At this point, it is technically difficult to determine the extent to which the devaluation, and better access to the U.S. market through NAFTA, contributed to the increase in exports respectively.

As a matter of fact, the peso crisis, along with the trade liberalization having taken place since 1986, make evaluation of NAFTA's performance in Mexico even more difficult. The impact of early trade liberalization on Mexico's economy was minimal because Mexico still suffered high inflation and low consumer demand. In the 1990s, however, the impact was more real in the context of the stabilization and reactivation of the Mexican economy. This implies that the time lag between the general trade liberalization and NAFTA was so short that it is technically difficult to tell which were the effects of the former and which were those of the latter. In most cases, the two effects came together. Such limitations to the analysis of NAFTA's impact on Mexico have served to reinforce the politicization of the debate on the performance of NAFTA among political groups.

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la Integración Económica en el Hemisferio Occidental, Academia China de Ciencias Sociales, Beijing, 15-19 de noviembre, 1999.

[30] Rogelio Ramirez de la O., "Una perspectiva mexicana sorbre cinco años del TLC: resultados hasta la fecha y perspectivas a futuro," International conference on U.S.-Mexico Relations Approaching 2000: Looking Back to Look Ahead, Georgetown University, April 4, 1999.

<Table 7> Mexico's Major Economic Indicators since NAFTA

	1994	1995	1996	1997	1998	1999
Nominal GDP (US$ billion) [1)]	420.2	286.3	329.8	400.8	414.2	470.0
GDP per capita[1)] (US$)	3,449	3,179	3,284	3,450	3,589	3610
Real GDP growth (%)	3.5	-6.2	5.2	7.0	4.8	3.7
Unemployment Rate[2)] (%)	3.6	6.3	5.5	3.7	3.2	2.5
Inflation[2)] (%)	7.1	52.0	27.7	15.7	18.6	12.3
Fiscal Balance /GDP	-0.1	0.0	0.0	-0.8	0.18	-1.1
Government Debt (US$ billion)	94.2	98.1	100.1	101.2	108.5	123.5
External Debt (US$ billion)	60.6	77.8	75.6	67.3	70.1	70.3
Exports (US$ billion)	60.9	79.5	96.0	110.4	117.5	136.7
Imports (US$ billion)	79.4	72.5	89.5	109.8	125.1	142.1
Trade Balance (US$ billion)	-18.5	7.0	6.5	0.6	-7.6	-5.4
Current Account/GDP (%)	-7.0	-0.5	-0.7	-1.9	-3.7	-2.9
Foreign Reserves[3)] (US$ billion)	6.15	15.74	17.51	28.18	30.14	30.73
Total Ext. Debt[3)] (US$ billion)	139.8	164.2	157.1	128.0	161.2	167.4
Exchange Rate[2)] (peso/dollar)	3.38	6.42	7.60	7.92	9.1357	9.5605

Notes: 1) Based on WEFA, 2) Annual average, 3) Based on year's end

Sources: Central Bank of Mexico/ INEGI/ Ministry of Finance; WEFA, *World Economic Outlook: Developing and Eurasia*, Second Quarter, 2000.

CONCLUSION

NAFTA, at six years of age, has brought tremendous change to both Mexico's economy and its socio-political system. It impact has been partly positive and also partly negative. First, NAFTA has contributed to transforming Mexico into one of the major traders, the 8^{h} leading exporter, in the world.[31] As oil is now less than 7% of its total exports, down from 22% in 1993, NAFTA has helped protect Mexico from both the recent "plunge in oil prices and the fallout

[31] In the early 1980s, Mexico ranked 30th as exporter worldwide. See SHCP (Secretaría de Hacienda y Crédito Público), *Mexico's Bimonthly Economic News*, November 1, 1999.

from the global emerging-markets crisis."[32] Secondly, NAFTA provided Mexico with an attractive environment for foreign investors. Thirdly, NAFTA enhanced international crisis cooperation by paving the way for the prompt U.S. assistance to Mexico when it fell into a financial crisis at the end of 1994. Additionally, NAFTA has strengthened deregulation and transparency in Mexico's policymaking.

On the other hand, Mexico's socioeconomic situation runs far short of real improvement. First, it was expected from the beginning that the burden of adjustment to NAFTA would be much greater in Mexico than in the U.S. because the U.S. economy is so much larger than Mexico's, and both are complementary rather than competitive. Therefore, trade expansion was expected to be more of the inter-industry type based on differences in factor endowments in NAFTA. This meant that the problems associated with industrial restructuring and income redistribution would be serious in the NAFTA countries, particularly in Mexico.[33] The continuous readjustments in the manufacturing sector produced an increase in unemployment for unskilled workers who were then only later absorbed by the informal employment sector which, in turn, has adversely affected the accuracy of employment and job statistics. Whether increased FDI contributed to improving labor quality or not is unclear.[34] Second, the gap between the rich and the poor has widened, and this has provided critical momentum to increased sociopolitical instability, an ever-present risk factor in Mexico. Third, Mexico's economic success now tends to depend more than ever on U.S. capital, and its economy has become more vulnerable to external shocks.

Moreover, the timing of NAFTA's establishment overlapped with Mexico's ongoing unilateral trade liberalization and the sharp devaluation of the Mexican peso amid financial crisis. This further complicates the possibility of offering an objective evaluation of NAFTA's effects on Mexico. Although NAFTA supporters speak of the increase in exports, the FDI influx, productivity gains, and job creation as NAFTA's positive benefits, many of these have also largely resulted from trade liberalization and the peso devaluation. On the other hand, although NAFTA opponents argue the negative effects of NAFTA, such as job losses and company bankruptcies in the manufacturing sector, the increased vulnerability and sociopolitical instability, most of theses had also occurred prior to the implementation of NAFTA, or would have happened even without NAFTA under the ongoing liberalization and globalization environments.

Both sides' evaluations of NAFTA tend to be exaggerated due to the politicization of the NAFTA issue and also because of the practical difficulty in distinguishing NAFTA's effects from those induced by other factors. The current debate on NAFTA's effects on Mexico has been

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[32] Spencer, *op. cit.*

[33] Lawrence R. Klein and Dominick Salvatore, "Welfare Effects of the North American Free Trade Agreeement," *Journal of Policy Modeling* 17: 2 (1995), p. 169.

[34] Spencer, *op. cit.*, reports that "NAFTA has nurtured an elite new class of skilled Mexican workers who earn up to two-thirds more than the average US$13 per day for Mexican factory workers." Olaf Carrera also reports that in order to achieve the goals of increased productivity and total quality management, companies took advantage of the synergies created by NAFTA as in the case of ICA-Reichmann, a joint venture between a major Mexican construction firm and the renowned Canadian developer, and others such as Cifra-Wal-Mart, Cuauhtemoc-Moctezuma brewery and Canada's John Labatt, and tobacco giants Philip Morris and Cigata, etc. See his, "NAFTA at five," *Business Mexico*, February 1999. Yet all this hardly proves a broad labor quality upgrade.

chronically politicized, and it tends to blindly cover "the urgent policy agenda for Mexico to take care of" while it is in a privileged position as the only developing country in the current NAFTA framework. Such policy agenda may include education, infrastructure, the financial sector, deregulation, and the transfer of technology, which may promise a more secure base for a competitive Mexico in the longer term.[35] Actually, the politicization of NAFTA and other reform issues by opposition political parties and other actors on the one hand, and the de-politicization of Zedillo's economic policies on the other hand, saw the political defeat of the ruling party in the July 6, 1997 mid-term parliamentary and local elections. This political outcome may further bring about deadlocked economic policies in Congress, and accelerate the already existing problems of accountability and transparency at the state level. Whether NAFTA' s locking-in of the reform policies may lead to these economic policies ultimately succumbing to volatile political pressures and electoral cycles, will depend on the seriousness and consensus of the ruling political elite on the separation of the logic of economics from that of politics. For the time being, the prospect is more optimistic than ever.

One might be interested in drawing lessons from Mexico's free trade experiences with the U.S. for similar experiments in the future North-South economic integration. However, the author wants to reserve those kind of conclusions for a later time, after the completion of similar research on Canada's case in NAFTA, in order to be able to gain a more balanced judgment. Even though Canada cannot be classified as a South partner to the U.S., it does have a much smaller economy. In this context, an evaluation of NAFTA's effects on the Canadian economy and its politics should be on the immediate research agenda.

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[35] Luis Rubio, *op. cit.,* p. 47.

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