



Setting the Record Straight on NAFTA

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The misinformation that is being disseminated in the United States and Mexico about the North American Free Trade Agreement is overwhelming. (In contrast, discussion in Canada about NAFTA is quite balanced, perhaps because the economy is performing well.) If critics in the United States are correct, NAFTA has brought about the following: large U.S. trade deficits with Mexico; the loss of hundreds of thousands of U.S. jobs; millions of illegal immigrants; augmentation of trade in narcotics; and great unpopularity of Americans in Mexico. Mexican critics cite the following horrors spawned by NAFTA: low rates of Mexican economic growth; the uprising in Chiapas the day NAFTA came into effect on January 1, 1994; the depression in Mexico in 1995; destruction of subsistence agriculture in Mexico; suppression of wage increases to keep the prices of Mexican exports low; drug cartel wars to capture the spoils of U.S. addiction; aggravated regional disparities in Mexico; and congressional and public disparagement of Mexico in light of the perceived problems NAFTA has caused in the United States.

The animosity against NAFTA that comes from the right wing in the United States focuses on immigration, and from the left wing on imports. All the leading Democratic presidential candidates trashed NAFTA in a debate before a labor union-sponsored conference on August 7. The explanation given by political analysts was that the left-leaning portion of the Democratic Party that dominates the primary process opposes foreign trade agreements—although once in office, a Democratic president could change positions, as Bill Clinton did. The right wing controls the selection process to choose the candidate of the Republican Party, and it was able to kill legalization (amnesty) proposals in immigration legislation.

The left-wingers who argue that NAFTA has led to U.S. trade deficits with both Mexico and Canada omit the reality that the United States now has a trade deficit with almost every country—especially China and India, and there are no free-trade agreements with these countries. The total U.S. trade deficit in 2006 was \$817 billion. An important number not noted by those who disparage U.S. trade relations with

Mexico is that U.S. exports to Mexico have almost tripled under NAFTA.

The contention about job loss from NAFTA also needs a reality reminder. U.S. workers in competing sectors probably lost jobs, but there is no evidence that the United States as a whole did. During the latter 1990s and largely until today, the United States has had full employment; indeed, the country needs more workers. As an economic proposition, it is not trade that creates full employment, but rather macroeconomic policy and high GDP growth. What has been missing in the conduct of U.S. trade—and, indeed, in U.S. job policy as a whole—is adequate temporary assistance or wage insurance for those who must seek new jobs.

In Mexico, the dislike of NAFTA comes from the deep change it brought—an embrace of economic interaction with the United States rather than keeping the colossus to the north at a distance. There were complaints that NAFTA called for free movement of goods, services, and capital—but not of people, millions of whom then came clandestinely rather than by agreement. The factors of production that the United States wanted to make free are in the agreement, and the factor that mattered most to Mexico, labor, was left out.

The charges leveled against NAFTA are stated bluntly above. Yet, despite this drumbeat of criticism, polls show that as many people in each country favor NAFTA as oppose it. Most Americans do not dislike Mexico; indeed, surveys made by the Chicago Council on Global Affairs show warm feelings by a majority of Americans toward Mexico. Similarly, polls by responsible organizations show that Mexican attitudes toward the United States are favorable. Attitudes on both sides may have cooled since the U.S. immigration debate, during which Mexico was disparaged by members of the U.S. Congress. A majority of Mexican leaders and the public at large believe that economic integration in North America will expand in the future, and this is precisely what U.S. right-wingers do not want to happen.

Many well-intentioned critics are apparently disappointed that NAFTA has not been a panacea for either country. No trade and investment agreement could produce investment in oil and gas exploration in Mexico as long as private investment is prohibited by the constitution. NAFTA per se could do nothing to increase Mexican tax collection from its low level of 10 percent of GDP; NAFTA could do nothing to make corn farming more competitive in the arid, nonirrigated regions of southern Mexico; nor could it transform backward areas of the country into flourishing export regions. NAFTA provided an incentive for Mexico to make the structural changes needed to grow the economy, but most of these were not made. Yet, NAFTA rather than Mexican political partisanship is bearing the brunt of the blame.

Immigration into the United States skyrocketed after NAFTA came into existence. This was hardly remarkable, because the Mexican economy was flat and job creation inadequate. The United States could have slowed unauthorized entry if the employer-penalty provisions of the 1986 immigration legislation had been enforced—but the U.S. government was not prepared to do this, and Congress failed to establish a foolproof system enabling employers to determine the legality of workers seeking jobs. The United States was complicit in attracting illegal workers, but the recent immigration legislation failed because its opponents placed all the blame on foreign workers for violating the letter of U.S. law.

Many of the most ardent proponents of NAFTA when it was first proposed by Mexican president Carlos Salinas de Gortari in the early 1990s looked not merely at the economic benefits for the three countries of North America, but also at the ability of the agreement to improve political relations. The economic gains came in the form of more trade and more investment, but there was also vastly more political cooperation between Mexico and the United States post- than pre-NAFTA. A more open market also stimulated a more open political structure. NAFTA does not deserve the lion's share of the credit for Mexico becoming a solid democracy, but it did make an important contribution to this outcome in the 2000 presidential election, when the 71-year hold of the Institutional Revolutionary Party was broken. Pre-NAFTA, overt anti-Americanism was typical for Mexican politicians running for office; this ceased after NAFTA—at least until recently as a result of disagreement about the Iraq War and U.S. rejection of any immigration legislation and the fervor with which the U.S. president and the Congress are moving to build a wall between the two countries.

It was also clear to careful observers when NAFTA came into existence that it was not the end of the story, any more

than tariff reductions are sufficient to remove protection from the global trading system. Other forms of protection, some of which had always existed, became more prominent after tariff reductions—such as anti-dumping duties, setting standards to protect domestic producers, favoring domestic producers in public procurement, using trade-limiting regulatory measures, and others. I did not think that I was making a terribly original point when I wrote a book published in 1994 (*NAFTA: What Comes Next?*, CSIS Press), the year that NAFTA went into effect, saying that NAFTA would need follow-on measures. The main point of that book was to analyze what the next steps should be. Other authors made comparable suggestions, like trying to get rid of rules of origin designed to protect domestic producers, expanding regional cooperation elsewhere in the Americas, and improving the competitiveness of North America in global trade negotiations.

The conviction of experts from all three countries has always been that NAFTA had to deepen or else it would die a natural death once the original objectives were accomplished. Unfortunately, that is happening now. The Security and Prosperity Partnership initiated in early 2005 by the heads of government of the three NAFTA countries was designed in part to find a framework for carrying out this deepening, especially in such areas as border crossing, removing many remaining protective measures, and seeking greater cooperation in the energy field—indeed, getting at the next steps that have not been attainable under the inadequate structural framework set up in NAFTA. There will be a third summit meeting of the three leaders next week in Montebello, Quebec, on August 20–21. Expectations for that meeting are not high.

My conclusion is that the constant refrain by U.S. and Mexican protectionists on the alleged trade defects of NAFTA, and by xenophobes about a conspiracy to sacrifice U.S. sovereignty to Canadian and particularly Mexican interests, has made mature political leaders gun-shy about shooting ahead at this time. This is particularly true in the United States. The current effort by those who favor deeper integration in order to improve the region's performance in global competition is not to lose too much ground now in order to move ahead later at a more propitious time.

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