NAFTA at 20

Effects on the North American Market

June 5-6, 2014

Session 10

The Future of NAFTA

José Romero
(El Colegio de México)
GDP per Capita, in 2012 EKS$
Convergence within NAFTA
Trade Liberalization (elimination of tariffs and quotas) ≠ Export Growth Strategy (Industrial policy, etc.)

**GDP per Capita, in 2012 EKS$**
Economic and Social Consequences since 1983

Trade liberalization (1983) and Inclusion of Agriculture in NAFTA → Contributes to impoverish the Mexican population and increases migration.

Trade Agreements & National Treatment to FDI → Industrial policy in the manufacturing sector impossible.

Trade liberalization, Trade Agreements & Oil Exports → Overvaluation. Investment in tradeables sectors not profitable.
Small full open economy
(Propensity to Import ≈0.41)  ➔  Impossible to use fiscal policy as a source of growth, even in the short run.

Fiscal stimulus increase employment in Mexico and China almost in the same proportion. Generates current account problems.
Full opening to Capital Markets  Impossible to use monetary policy to promote growth, even in the short run.

2002-2012 difference average \((r-r^*)\): 4.54 percentage points, SE: 1.57.
Small full opened economy and full open capital markets → Impossible to use real exchange rate as an instrument for growth.

A credible devaluation produces an increase in prices in the same proportion.

**REAL EXCHANGE RATE GROWTH**

(1982-2012)

Source: INEGI and Banco de México. \( E[\Delta q_t] = E[\Delta e_t + \Delta p_t^* - \Delta p_t] \approx \frac{\sum_{i=0}^{N}\Delta q_t}{n} 0.000481 \approx 0; \) SE: 0.038, N=376.
Lack of the following policies to promote growth:

- Trade Policy
- Industrial Policy
- Fiscal Policy
- Monetary Policy
- Exchange Rate Policy
Only source of growth  →  US Growth

Average Percentage Real GDP Growth

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<th>USA</th>
<th>Mexico</th>
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<tr>
<td>1960-1982</td>
<td>3.3%</td>
<td>6.2%</td>
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<td>S.D.</td>
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<td>2.6%</td>
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<td>1983-2013</td>
<td>2.9%</td>
<td>2.2%</td>
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<td>S.D.</td>
<td>1.8%</td>
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<td>1994-2013</td>
<td>2.5%</td>
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<td>S.D.</td>
<td>1.8%</td>
<td>3.3%</td>
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INDUSTRIAL PRODUCTION, TRENDS AND CYCLES: 1993-2011

(Trend) 

(λ=14,400) 

USA 

Mex 

USA-C 

MEX-C
CONCLUDING REMARKS

- NAFTA DOES NOT HAVE A GROWTH STRATEGY AS A BLOCK.

- USA HAS ITS OWN GROWTH STRATEGY THAT DOES NOT INCLUDE MEXICO OR CANADA IN ITS CORE.

- FOR MEXICO, USA IS ITS ENTIRE WORLD; FOR USA, MEXICO IS ONLY ONE OF MANY PARTNERS AND IS NOT A PRIORITY.

- MEXICO CANNOT CONTINUE WITH THIS ECONOMIC PERFORMANCE FOR LONG. IT MUST CHANGE BEFORE SOCIAL UNREST BECOMES UNMANAGEABLE.
• MEXICO HAS TO MAKE CHANGES TO ALLOW ITS OWN INDUSTRIAL DEVELOPMENT

• INCREASE THE PROFITABILITY OF THIS SECTOR TO INCREASE CAPITAL PER WORKER.

• IT WILL ALSO NEED TO FAVOUR THE DEVELOPMENT OF NATIONAL FIRMS, ONLY THEN THE PROCESS OF LEARNING BY DOING, AND OTHER “ECONOMIC RADIATION” WILL TAKE PLACE.

• UNTIL NOW, THE OPENINFO OF THE MEXICAN ECONOMY TO TRADE AND CAPITALS, AND ITS RELATED POLICIES (INCLUDING NSAFTA), HAVE NOT BEEN BENEFICIAL FOR MEXICO AS A WHOLE.