How mexico and the u

Business

According to Audley, Mexico has had abundant labor because of its high population in the 1970s that translated to a swell in its workforce through the 1990s, also a time when many women joined the work force. The Mexican working population grew from 32. 3 million when NAFTA was formed to 40. 2 million by the end of 2002.

This implied that Mexico needed 1 million jobs a year to absorb its growing population. Although economic theory indicates that opening to trade will increase demand for labor in a labor abundant country, however, in practice this was not the case with NAFTA in Mexico. Data shows that jobs created in export manufacturing in Mexico have barely kept pace with jobs that have not been able to keep pace with those lost in agriculture due to imports. Further, data shows that there has been a big decline in domestic manufacturing employment that is related, in part, to import competition and to the substitution of foreign inputs in assembly operations. It is also estimated that about 30% of the jobs that were created in the maquiladoras in the mid 1990s have been lost as many of them were relocated to cheaper destinations like China (Audley). Hanson (2003, 6-7) says that the mechanism through which trade and investment reform may have increased demand for the skilled labor in Mexico.

A large fraction of the trade between these two countries under the NAFTA in manufactured goods is as a result of the maquiladoras in Mexico (along the border). The maquiladora plants import almost every component from the U. S. to Mexico where assembling is done and the most of the finished goods are then exported to the U. S. In 1995, exports by the maquiladora plants accounted for 40.

2%of the Mexican exports to the U. S. NAFTA and Foreign Direct Investment According to a Congressional Budget Office report, the U. S. was affected through the international investment and international trade by the NAFTA agreement and the Mexican economic liberalization that preceded it. The agreement eliminated some laws and regulations that restricted foreign ownership and investment in Mexico.

By removing tariffs and import quotas, the laws made investments very profitable for American U. S. firms in Mexico and as a result FDI grew in Mexico. The growth affected the U. S.

in three ways: Much of the investments came from the U. S to Mexico (due to higher rates of return in Mexico). This had the impact on benefiting owners of new capital in Mexico. The investments from the U. S. would have been invested in the U.

S. and instead went to Mexico reduced the aggregate capital stock in the U. S. in turn raising the U. S. interest rates and rates of return.

This factor reduced the GDP of the U. S. (albeit in small margins). A considerable amount of investments went to the construction industries in Mexico for products destined for the U. S.

markets. This led to the U. S. imports increasing of finished goods from Mexico as well as the U. S. exports increasing of intermediate goods for intermediate goods to Mexico.

Manufacturing Employment Tracking jobs in the manufacturing industry, the government of Mexico uses two sets of separate data series: a survey that covers the large and medium sized industries (that accounts for 80% of all the industrial production) excluding the maquiladora and another survey that cover maquiladoras which are essentially export assembly plants. The first survey shows that in overall, employment in non- maquiladora manufacturing in Mexico was lower in 2003 than in 1994 (Audley et al, 15). Employment in the non-maquiladora was about 1. 4 million at the beginning of 1994. This was to decline sharply during the peso crisis but recovered later to produce an additional of 91, 000 jobs. The Mexican economy depends on the U.

S. economy in very many ways, and the recent decline was caused in part by the recession in the U. S. Overall, by May 2003, there were 100, 000 less jobs in the non- maquiladora than there was when NAFTA tok effect in 1994. Between the enactment of NAFTA in 1994 and its peak in 2003, maquiladora assembly plants added about 800, 000 jobs but later shed 250, 000 jobs by May, 2003.

Sadly, many observers expect that the maquiladoras share of Mexico's manufactured exports will continue on a downward trend with time. Another reason for the decline is that the domestic manufacturing has been replaced by the direct imports, especially from cheaper destinations. The evolution of trade-related employment since the enactment of NAFTA is disappointing and as such there are concerns about the manufacturing industry in Mexico. This includes erosion of Mexico's first mover advantage and decline in jobs in manufacturing for the domestic consumption (Audley, et al. 21).

Agricultural Employment Mexico has had a net trade deficit with the U. S. in agricultural goods every year, except during the peso crisis in 1995. Before NAFTA was enacted, the agricultural deficit existed but grew faster after the NAFTA enactment and peaked in 2002. Increased trade deficit for Mexico has translated to job losses in agriculture. The agricultural sector employed around 8.

1 million Mexicans in the early 1990s before NAFTA took effect but after NAFTA force came into effect, employment took a downward trend in the agricultural sector and it lost a whooping 1. 3 million jobs by the end of 2002 (Audley et al. 20). According to the WTO, Mexico reduced its agricultural tariffs much more for the U. S. than for the country’s trading partners, this meant that the agricultural trade liberalization that is linked to NAFTA was the main reason in loss of agricultural jobs in Mexico.

Services Sector EmploymentSince the enactment of NAFTA in 1994, it has had little or no effect on the services sector. The main reason for this is that most of the jobs in this category are not traded in or the few that are traded in are not labor intensive. But concern is that the share of total employment in this sector increased from 51% before NAFTA was enacted to 57% in 1997 (after its enactment) (Audley et al, 20 and 24). Audley explains that most of this growth emanated from absorption of labor from the agricultural sector which decreased greatly to 17. 3% in 2002 from a high of 17. 3% in 1993.

Trade diversion from NAFTA During negotiations for NAFTA in the early 1990s, many countries expressed fear that their exports to the NAFTA countries will be displaced by NAFTA exports. But for Mexico, this trade diversion entails a loss of fiscal revenues that result from replacing imports from the third world countries subject to tariffs. Hanson (15) further reports that the Mexico’s share in exports in non-NAFTA markets rose. Wages and Productivity Reports have shown that today in Mexico today real wages are lower than when NAFTA took place. This is a stunning setback in wages since NAFTA took effect in 1994 and indeed, today’s wages are even lower than they were in the 1980 levels (Audley, et al. 24).

Most of the decline in real wages observed over the last two decades was during the debt crisis of the early 1980s and during the peso crisis of 1994-1995. Although NAFTA is not the cause of these two crises, it is worth noting that a free-trade agreement that increases exports and FDI does not do more to increase wages nor the living standards especially for the average Mexican workers. According to the trade theory postulate, “ a country with an abundance of low-skilled labor (Mexico in this case) that opens to trade will experience increased wages to its low skilled workers.” (24). But in practice, wages in manufacturing sector are below the pre-NAFTA levels.

This happened even for the skilled workers as workers with either degrees or postgraduate degrees received lower real wages in 2000 than they did in 1993 before NAFTA was enacted. Increased producttivity is a necessary condition for sustainable wages but increased productivity alone is not sufficient to warranty wage increases. Poor wage results can be explained by the fact that wage outcome depends on supply and demand. At the present Mexican, the supply of the market labor exceeds a demand and this explains the poor wages. This is also coupled by an increasing integration of global production due to liberalization of trade and improved protections for foreign investments from the U.

S. Hanson (2003) examines the impact of NAFTA on the regional wage differences in Mexico and its proximity to the U. S. He suggests that the trade reform has seen reduced industrial activity. Impact of NAFTA in the United States Jobs The economy of the U.

S. is bigger in size than that of Mexico and therefore it is less dependent on trade with its neighbors because it has an already big market at home. This explains why the impact of NAFTA on the U. S. economy, employment is significantly less as compared to that in Mexico while also U. S.

tariffs were much lower than those of Mexico. As a result, the actual impact of NAFTA on the U. S. employment has differed greatly. But analysts have estimated that about 914, 0000 jobs were created as a result of the NAFTA agreement. However, critics dispute this applying the multiplier formula to identify a net loss of about 766, 000 jobs (Audley, 27).

This is a clear statement that NAFTA has succeeded in producing net economic gains as well as loses. A report by Scott (2003) in the Economic Policy Institute titled “ NAFTA’s failure has cost the United States jobs across the nation” details how the U. S. has lost several jobs. He asserts that since the inception of NAFTA in 1993, the U. S.

has lost 879, 280 jobs by 2002. He points out that most of the jobs lost were high-wage positions in manufacturing industries. Wages and Productivity We had earlier seen that NAFTA has had little impact on the employment in the

U. S. and this further suggests that the NAFTA impact on wages will also be smaller. But this is not to suggest NAFTA has had no impact on wages in the U.

S. the widening gap between the wages of skilled and non-skilled labor has been partly blamed on NAFTA. Researchers have between 20-40% of the wage gap. This is blamed on immigration and trade factors. Immigration from Mexico to the U. S.

has been on an upward trend since NAFTA took effect. Other researchers studied the idea of the U. S. to maintain its high skilled manufacturing productions in the United States while sending its low skilled operations to Mexico. The argument was that this action had the tendency of raising skilled wages while depressing unskilled wages, according to the laws of demand and supply.

Adding to the above statement, Hanson (2003 4) points out that Mexico as compared to the U. S. has a large supply of less-skilled labor but a scarce supply of human and physical capital. Research has shown that trade and investment reforms will alter relative demand for different types of labor and the experience in Mexico has proven as such; the country has experienced changes in relative wages of skilled workers but different from what many would have expected. Since the 1990s after NAFTA was effected, unit labor costs have been declining in the U.

S. manufacturing. Inequality in the United States During the last two decades that NAFTA has been effective, economic inequality has been increasing in the U. S..

Statistics indicate that the top 20 richest families in the U. S. has been increasing their share of income (from 44% to 50%) while the rest have seen their share of national income decline. The main explanation for this phenomenon is that of the growing gap between high and low-skilled workers coupled by the trade factor.