

Learning from the nafta experience

[Business](#)



Although it is too earlier to judge the long-term effects of NAFTA on net employment, wages and incomes in the countries involved, short-term and medium-term impacts can be assessed on an accumulating data basis.

Employment NAFTA has achieved to produce less net gains as far as employment is concerned.

For example, in Mexico, employment has been destroyed in its domestic manufacturing while in the U. S. NAFTA has had a neutral or a very small net positive impact on employment. This is therefore evident that NAFTA has not been effective in creating jobs even for the semi-skilled laborers in Mexico (Audley et al, 33). However, NAFTA is credited to have played a major role in productivity growth in the U.

S. (with stronger growth) and in Mexico with a weaker growth. Wages Research has shown that real growth for Mexicans is lower than it was when NAFTA took effect. Further, research has shown that for the last two decades when NAFTA was in effect, higher productivity has not translated to increase in wages. Wages for Mexicans have instead diverged from the U. S.

wages. Income Distribution Since NAFTA came into effect, the income inequality has been on the rise in the U. S and Mexico. The top richest households in these countries have amassed more wealth while the rest have lost their wealth. This has resulted in reversing a long-term trend toward converging regional incomes (Audley, et al., 34).

According to Robertson (1991), the rising wage inequality and the decreasing international trade have generated a lot of interest to the relevance of the Stolper-Samuelson (SS) theorem. The theorem describes

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the relation between relative factor rewards in relation to output factor of goods. Robertson (8) states that the SS theorem attributes a rise in the wage inequality to an increase in the demand for skilled labor between industries. A survey conducted by the INEGI excluded maquiladora industries has showed that the change in prices between industries causes skilled industries to expand, and this means that an increase in demand for skilled labor between industries (10). According to the SS theorem, it assumes that good macroeconomic policies will assure that we stay at the full employment. However, given the fact that Mexico has a lower capital-labor ration than it is in the U.

S., logic holds that the U. S. wages will fall while Mexican wages will rise. Hanson (4) asserts that the last two decades have been quiet a period in Mexico. Starting with the crises and in 1994 when NAFTA consolidated and extended reforms and tied them to give-and-take access to the U.

S. and Canadian markets. Exports and Imports As in 2010, NAFTA countries were the top purchasers (Mexico \$163. 3billion) of the U. S.

exports while the U. S. goods to NAFTA were \$411. 5 billion. Concerning imports, the NAFTA countries were the second suppliers of imports to the U. S.

in 2010 (Mexico accounted for 229. 7 billion) and the U. S. imports to the NAFTA countries was 506. 1 billion in 2010.

Trade balances resulting in 2010 was \$94.6 billion. In 2009, the U. S. goods trade deficit with NAFTA was \$25 billion (Office of the United States Trade Representative).

Clearly this trade deficit accounted for 26.8% of the overall U. S. goods deficit in 2010 (check figure 3). How the U.

S. Mexican Trade has Changed over Time Over the past two decades since NAFTA came into effect, the trade between these two countries has grown substantially as a percentage of each country's GDP and to other countries. Since then, Mexico has become the second largest export market for the U. S. market and the second largest supplier of its imports.

But only two years after the enactment of NAFTA, the U. S. trade balance with Mexico began to decline and was later plunged into a large deficit continuing through 2001 as shown in figure 2 below. The figure shows that over an 11 year period from 1982 to 1993 (before NAFTA took effect), exports and imports to Mexico rose by a factor of six. Conclusion The United States and Mexico have had all to gain from the agreement.

The figures posted before and after the agreement attest to that fact. This simply means that NAFTA will gain even more importance in the future, especially for the United States that is closing down on the trade imbalance. However, the close scrutiny reveals that NAFTA has not helped the Mexican economy keep in pace with the growing demand for jobs. There has been a surge in the portfolio, foreign direct investment, unprecedented growth in trade and increased productivity that have led to an increase in manufacturing jobs by a margin of 500,000 jobs from 1994 to 2002. But the <https://assignbuster.com/learning-from-the-nafta-experience/>

agricultural sector where most Mexicans work has lost most of the 1.3 million jobs.

Real wages for most Mexicans are lower than they were when NAFTA took effect in 1994, especially caused by the peso crisis 1994-1995 but also by the fact that the productivity growth that occurred over the last decade did not translate to growth in wages. NAFTA has also not stemmed the flow of poor Mexicans into the U. S. in search of jobs resulting to a bigger number of Mexicans immigrating to the U. S.

NAFTA has also failed in its effort of realizing an environmental regulation as some of Mexico's economies are dirtier than they were, and estimations by the government indicate that annual pollution damages in Mexico has exceeded \$36 billion per year. This is a great damage to the environment than economic gains. Last but not least it is that Mexico's evolution towards a modern and export oriented agricultural sector has failed to deliver anticipated environmental benefits, especially associated with reduced deforestation. An example is where rural farmers replaced the lost income caused by collapse in commodity prices and farmed more marginal lands resulting in an average deforestation rate that estimates to put at 630,000 hectares per year since the NAFTA's enactment in 1993. The agreement can be improved further in line with the global market place which is changing rapidly.

This in essence means that trade in the region should be freed further to encourage the total integration. This will increase the competitiveness of

North America. However, this integration should be systematic and calculated.