

# Five Years of NAFTA

*Luis Rubio\**

**I**t is fashionable to blame NAFTA for all the ills of the Mexican economy: for the growing poverty of an important segment of the population, the unemployment of millions of Mexicans and the profound deterioration of industry, particularly industry in the central part of the country. The reality, however, is exactly the opposite. The only thing that really works in the Mexican economy is the part of it linked to NAFTA or which has modernized in line with the treaty. Without NAFTA, the Mexican economy would be in crisis, and poverty and unemployment levels would be overwhelming.

Thanks to NAFTA, the Mexican economy as a whole has been able to reverse the negative trends of decades of isolation, creating incipient prosperity. This is not by chance. NAFTA has two characteristics that make renewed economic growth possible: the opening of the U.S. and Canadian markets and the guarantees it offers to investors. Thanks to NAFTA, Mexico has become one of the world's most attractive countries for investment and producing goods, particularly those destined for the markets of our two neighbors to the north. Before NAFTA, legality was the dominant question in trade relations with the United States: during the 1980s the number of

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trade disputes multiplied, reaching into the hundreds. After NAFTA came into effect, total trade between our two nations exploded, and the number of disputes dropped drastically. U.S. producers' propensity to shield themselves behind accusations of dumping has almost completely disappeared. This is the reason that hundreds of U.S., Canadian, European and Asian companies have set up shop in Mexico to manufacture products—from automobiles and auto-parts to a broad variety of electronic, metal, chemical, paper and steel items, among others—that they will later export to other markets. NAFTA offers guaranteed access to the world's largest market for any product that satisfies the formal requirements stipulated in the treaty. Though Mexicans do not notice it, being a privileged producer of goods for the North American market is something the entire world envies us.

Guaranteed access to the U.S. market and the political and legal protection NAFTA offers investors are very powerful magnets

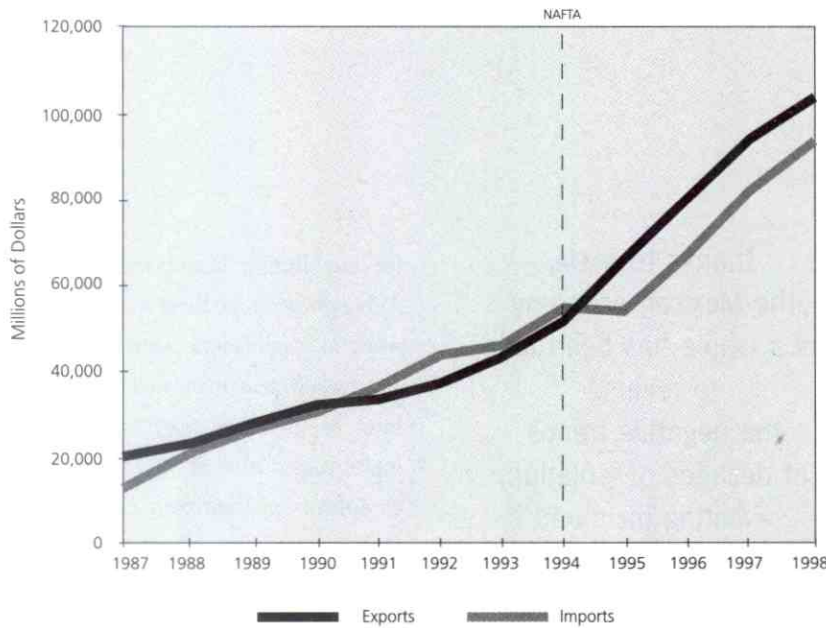
for establishing businesses in Mexico. Although some of these investments are made in maquiladora plants—which, in any case, do create many well paying jobs—most of them are characterized by the sophistication of their machinery and the complexity of their operations. In fact, several companies and plants in Mexico, operated by Mexican workers, boast higher productivity levels than similar plants in the United States or Asia. In other words, Mexican workers have shown themselves to be just as capable—or even more capable—than workers anywhere in the world. This is even more impressive if we remember that Mexican workers often have much lower educational levels both in terms of quality and depth, as well as a history of access to health services and infrastructure in general that are infinitely less sophisticated and modern than their counterparts in countries like Korea, Taiwan or the United States, not to mention Europe. Contrary to what many critics of NAFTA argue, the agreement has opened up opportunities hitherto unthinkable for the development of Mexican businessmen and workers.

In addition to the old chauvinism undoubtedly hidden behind the criticisms of NAFTA, there is a very specific reason why it is blamed for our economic ills. For decades Mexico's industry lived on public spending and government subsi-

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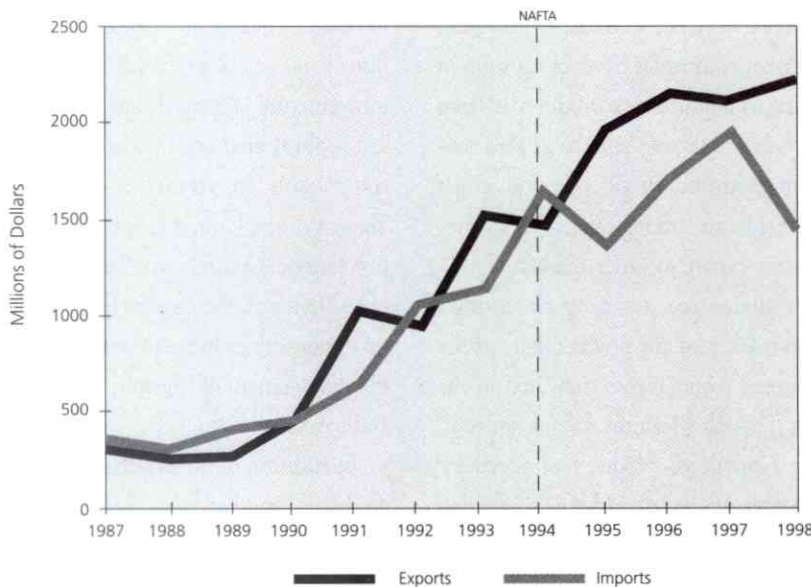
Graphs by Marcela Osnaya.

**Mexican-U.S. Trade (1987-1998)**



Source: Anexo Estadístico del Cuarto Informe de Gobierno 1998: <<http://www.bancomext.gob.mx>>

**Mexican-Canadian Trade (1987-1998)**



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dies and protection of companies so they did not have to compete with imports. The vast majority of Mexican businessmen became accustomed to not having to worry about manufacturing good quality products, raising their productivity or offering Mexican consumers goods or services at reasonable prices. The typical businessman bought old machinery —third or fourth hand— and never worried about the consumer. Even today, more than 12 years after opening up to the first imports, thousands of domestically produced goods have not changed a bit and continue to be of the worst possible quality. That is to say, a great many companies have not only not modernized at all, they have not even noticed the need to do so.

The truth is that for several decades —the same decades that the economy was closed— it was not difficult to become a successful businessman in Mexico. For years the government protected businessmen, banning all —or almost all— imports. This allowed thousands of businessmen to prosper regardless of the efficiency or productivity of their companies. In addition, in the 1970s, the government began to use public spending to broaden the domestic market, thus facilitating the growth of companies nationwide. Both protectionism and this kind of public spending went into crisis in the early 1980s. Protection of industry impeded its modernization and made it unable to export. Excessive public spending, as well as the foreign indebtedness that accompanied it, precipitated a dizzying growth in prices, which brought the Mexican government to virtual bankruptcy in 1982.

Many critics of NAFTA argue today that the government should strengthen the domestic market through increased pub-

lic spending and renewed protection from imports. The idea sounds very attractive, but is profoundly wrong. Public spending cannot solve the country's economic woes essentially because the problem involves the excessively low levels of productivity in Mexico's outmoded industry. Increasing public spending would lead to a rise in prices, but not to better conditions for businessmen (and their workers) who have been left behind in the process of industrial modernization. Increasing even more the lingering tariffs and non-tariff barriers would undoubtedly help backward businessmen to sell more of their products. But this would damage the rest of the economy that now competes successfully. That is to say, increasing protection to support those left behind would imply favoring those who have not been able to or have not wanted to modernize, to the detriment of those who have made huge efforts to change and be successful. This is an absurdity no matter which way you look at it.

For these reasons, NAFTA is one of the few protection mechanisms we have as Mexicans to curb any renewed collusion between the state bureaucracy and many industrialists to reduce consumer options and raise prices in the old way through the norms and regulations.

The economy grew seven percent in 1997. That was the highest rate in almost two decades. For those Mexicans lucky enough to be linked to that success, all the arguments for renegotiating NAFTA are absolutely ridiculous. But for the businessmen and workers who have not modernized, they are, naturally, very attractive. The problem, however, is not to be found in the economic opening—12 years of opening has not led these companies to modernize—but in the total inability of the country—government, businessmen and workers—to create conditions to modernize previously existing industry, to launch new companies and to retain what is valuable in the old industry and defini-

tively throw out the rest. The problem with our industry does not stem from foreign trade or NAFTA, but from its technological and entrepreneurial backwardness.

Solving this problem requires a functional financial system (which we do not have), a legal system that facilitates the bankruptcy and restructuring of indebted companies (which we do not have) and a government willing to eliminate the current enormous barriers and obstacles to setting up new companies and creating jobs (which we also do not have). No one—whether in Mexico or Timbuktu—can invent successful businessmen or employers. Twelve years of economic opening and five years of NAFTA show that the potential of the Mexican business community is virtually infinite, but also that the only businessmen who will be successful are those who help themselves. For its part, the government has to create the conditions for the businessman to develop, but he alone can make a success of it. **MM**



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