NAFTA
Economic Crisis and Regional and Sectoral Impacts[1]

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Rick Wilking/Reuters

Auto manufacturing is one of the hardest hit sectors.

Introduction

The North American Free Trade Agreement (NAFTA), which recently turned 15, generated not only an important increase in trade and investment flows among its signers, but also quite different effects in each country. The regional impacts associated with integration usually create new imbalances instead of mitigating them, since only some regions manage to successfully insert themselves into the productive chains and improve their capacity to export or be the destination of investment flows from large multinational corporations. These are the regions considered "winners," since they increase their economic growth rates and job opportunities.

However, the onslaught of the financial and economic crisis that began in the United States demands that we think about how determinant the economic relationship is for countries that are highly dependent on another, stronger economy, since the most integrated Mexican and Canadian regions are the ones that are hardest hit by the crisis in the short term. This article studies the conditions of economic articulation between regions and sectors, the crisis and its repercussions.

Economically Integrated Regions and Sectors

In Mexico, the states that concentrate productive investment, mainly from the U.S., are Nuevo León, Baja California, Chihuahua, Tamaulipas, Sonora, and Coahuila —all border states— plus Mexico City's Federal District, the State of Mexico, Jalisco, Puebla and Querétaro. These are the "winner" states in terms of attracting foreign direct investment (FDI) and of

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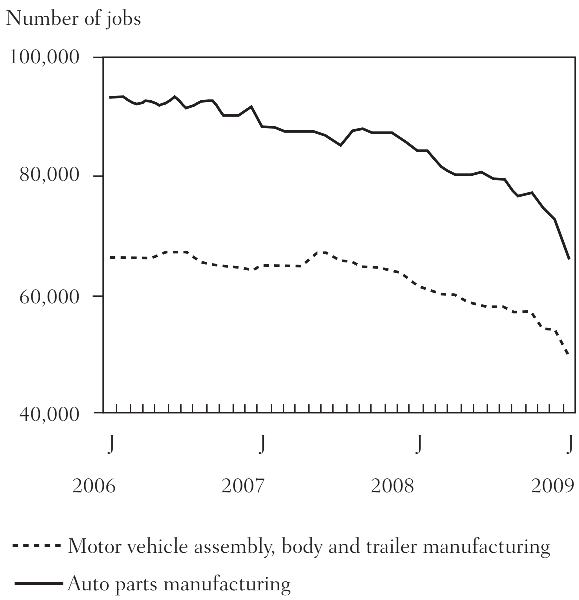
Graph 1
Employment in Canadian
Motor Vehicle Manufacturing



Source: Statistics Canada, *The Daily,* April 29, 2009, http://www.statcan.gc.ca/daily-quotidien/090429/dq090429a-eng.htm.

exporting large volumes of their output. Even before NAFTA, some cities in these states were already important focuses for FDI, but the agreement allowed them to consolidate their position, whether because of their proximity to the United States (which reduces transportation costs), because they had a supply of specialized labor and/or because they were part of industrial corridors.[2]

In these locations, during the integration process, certain specific industries achieved a level of specialization, which increased their competitiveness and market participation. This is the case of electronic and electrical manufacturing, the auto, autoparts, textile and clothing industries, and sectors that have concentrated FDI since the maquiladora and auto assembly plants were set up, whose products go above all to the United States.

Canada, for its part, has a longstanding, deep trade and productive relationship with the United States. All along its long shared border, there is intense north-south economic activity by adjacent cities and regions. However, manufacturing is concentrated in the province of Ontario, and from there, large volumes are exported to the U.S. market, including processed foods and electronic and computer products, but,

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above all, cars. Ontario hosts the main auto assembly plants: 12 of them manufacture cars and light trucks (see table 1).

We should remember that a key element in the history of productive and trade integration is the 1965 U.S.-Canadian AutoPact, which structured automobile production regionally and guaranteed Canada's participation both in auto production and trade. Later, the north-south integration was consolidated even more with the 1988 Canadian-U.S. Free Trade Agreement, and then NAFTA in 1994.

Regional and Sectoral Effects Of the Economic and Financial Crisis

Although the crisis originally showed up in the sphere of mortgages when thousands of them were issued to purchase houses in risky conditions,[3] it spread to the entire financial system because these loans were bought and sold by many financial institutions, banks and insurance companies. For this reason, when the loans could not be collected, the overdue loan portfolio became huge, leading to a crisis.

Dozens of financial institutions went bankrupt. All this contracted credit for many other economic activities, both for consumption and for production. When the demand for goods dropped, so did production, thus increasing unemployment.

Among other measures, just a few weeks after taking office, President Obama sent Congress an economic stimulus package to deal with the domestic economy's difficulties. The debacle originated in the information about the main economic indicators, whose levels were the worst in recent U.S. history.

Among the most important were the marked drop in gross domestic product (GDP), which indicated a recession, and the low consumption of durable goods; the dramatic mortgage situation, defined by foreclosures and a drop in the demand for new homes; banks like Citibank and insurance companies like AIG going under; plus the industrial crisis and that of some very important automakers like GM and Chrysler.

We would have to add to this list the reports about job losses since December 2007 (when the recession began),

Table 1
Major Motor Vehicle Assembly Plants in Canada

LOCATION	PRODUCTS
CAMI Automotive, Inc.	
Ingersoll, Ontario	Chevrolet Equinox; Pontiac Torrent; Suzuki XL-7, a GM-Suzuki joint venture
DaimlerChrysler Canada, Inc.	
Brampton, Ontario	Chrysler 300, Dodge Magnum, Dodge Charger
Windsor, Ontario	Dodge Caravan, Chrysler Town and Country, Pacifica
Ford of Canada, Ltd.	
Oakville, Ontario	Ford Freestar, Ford Edge and Lincoln MKX
St. Thomas, Ontario	Ford Crown Victoria, Mercury Grand Marquis
General Motors of Canada, Ltd.	
Oshawa, Ontario	Chevrolet Monte Carlo, Impala
Oshawa, Ontario	Buick LaCrosse (Allure in Canada), Pontiac Grand Prix
Oshawa, Ontario	GMC Sierra and Chevrolet Silverado pickups
Honda Canada Manufacturing, Inc.	
Alliston, Ontario	Civic, Acura CSX
Alliston, Ontario	Acura MDX, Pilot, Ridgeline
Toyota Motor Manufacturing Canada, Inc.	
Cambridge, Ontario	Corolla and Matrix
Cambridge, Ontario	Lexus RX350

Source: Industry Canada, http: www.ic.gc.ca/eic/site/auto-auto.nst/eng/am00767.html.

putting the drop at 3.6 million jobs. In fact, in January 2009, when the Obama administration began, the U.S. economy lost almost 600,000 jobs, adding to the 597,000 and 577,000 lost in November and December 2008, respectively.

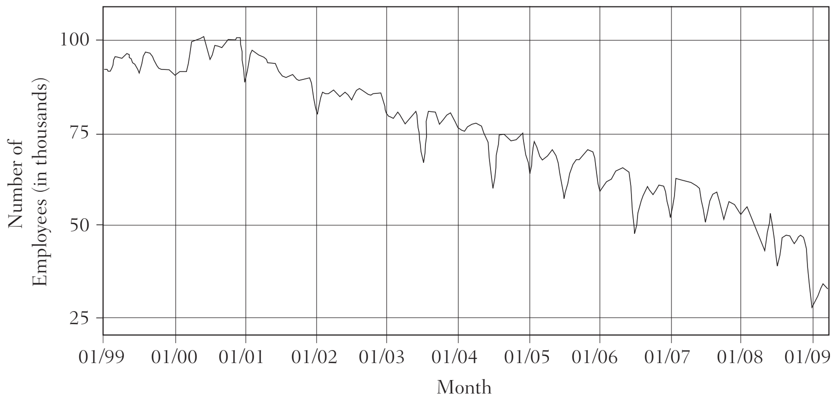
The US$787-billion economic package that Congress passed, turning it into the American Recovery and Reinvestment Act of 2009 last February 17, represents enormous public spending. One third of the package (US$275 billion) is earmarked for tax cuts, which could potentially stimulate private consumption, and almost US$500 billion will be spent on infrastructure, energy and educational projects. This law provides higher benefits for the unemployed and low-income persons in health programs.[4]

These proposals have implied an unusual level of state intervention in the economy through public spending as well as control —even if only temporary— over the previously very powerful financial institutions (like Citibank and AIG), and manufactures like General Motors.

Although the resources involved in these proposals are enormous, they may be insufficient for achieving a swift, consistent recovery, which would be bad news for the economies of Mexico and Canada, both very dependent for trade and production on the United States. As I already mentioned,

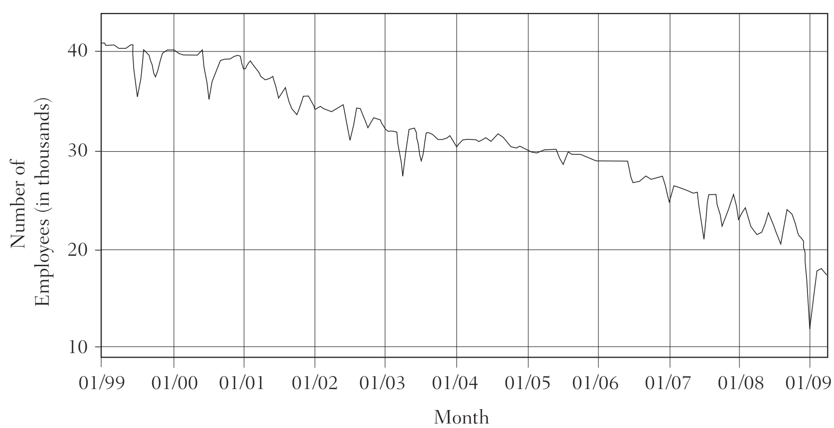
The effects are clear in the manufacture and sale of automobile products in Mexico. The Mexican Automobile Industry Association reported a 46.6 percent drop in production and a 40.7 percent decline in exports.

GRAPH 2
MICHIGAN: MOTOR VEHICLE MANUFACTURING (ALL EMPLOYEES)



Source: Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, http://data.bls .gov/PDQ/servlet/ SurveyOutputServlet

GRAPH 3
OHIO: MOTOR VEHICLE MANUFACTURING (ALL EMPLOYEES)

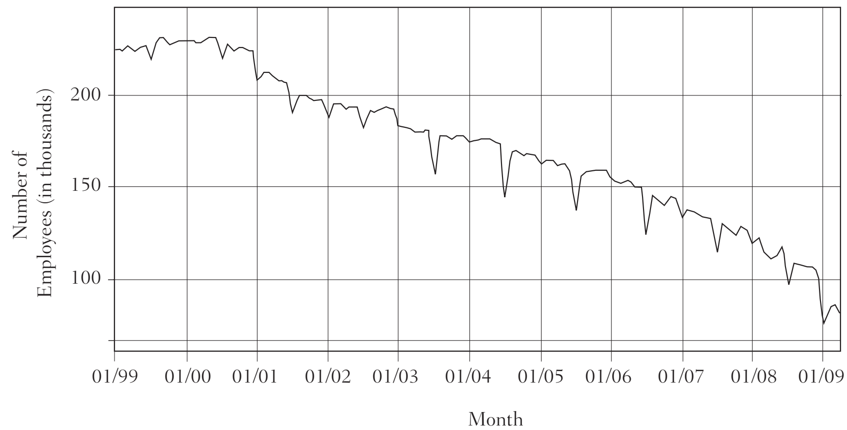


Source: Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, http://data.bls .gov/PDQ/servlet/ SurveyOutputServlet.

the impacts of the crisis are bigger for more productively integrated sectors, particularly the auto industry that is going through a profound restructuring. U.S. auto manufacturers have laid off tens of thousands of workers not only in their home country but also worldwide. The government gave General Motors and Chrysler more than US$17 billion, forcing them to clean up their accounts, present restructuring plans and, if they could not (as happened with General Motors), declare bankruptcy.

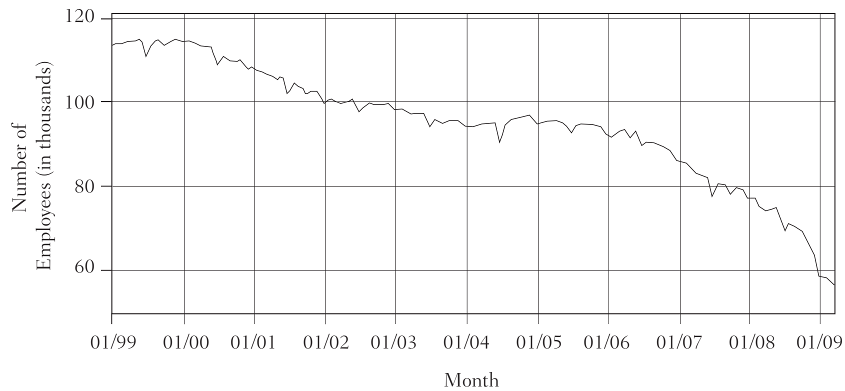
In Mexico, since January 2009, plants on the northern border and in states that produce for export have experienced technical lock-outs. This has been an attempt to stop

GRAPH 4
MICHIGAN: AUTO PARTS
MANUFACTURING (ALL EMPLOYEES)



Source: Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, http://data.bls.gov/PDQ/servlet/ SurveyOutputServlet

GRAPH 5
OHIO: AUTO PARTS MANUFACTURING (ALL EMPLOYEES)



Source: Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, http://data.bls.gov/PDQ/servlet/Survey OutputServlet.

a wave of lay-offs that in less than four months have left more than 50,000 people out of work in maquiladoras and the auto industry. The maquiladora plants and export companies on the country's northern border are the ones that have been the most immediately and hardest hit by the effects of the crisis, given the significant reduction in purchase orders, the credit crunch, the drop in production and the falling sales of basic and durable consumer goods.

The effects are clear in the manufacture and sale of automobile products in Mexico. When the Mexican Automobile Industry Association compared annual figures in April 2009, it reported a 46.6 percent drop in the production of vehicles, an almost 40.7 percent decline in exports, and a 38.2 percent decrease in automobile sales on the domestic market.

In Canada, the situation is similar: in Jauary 2009 alone, 129,000 jobs were lost. However, between October 2008 and February 2009, the figure comes to 295,000 jobs lost. More than half the job losses were in Ontario, with a particularly serious situation in the southwest, where the auto industry is concentrated.

Conclusion

The economic crisis has shown the degree of dependency among regions and sectors because of NAFTA. The impacts have extended to the labor market in all three countries, but in the areas where the auto industry is located, its effects are devastating. Nevertheless, the possibility of once again being "winner" regions is subject to the capacity of the U.S. economy to recover, which depends on the U.S. government's plans and programs, and particularly the results of restructuring in the auto industry. VM

Notes

[1] I would like to thank Marcela Osnaya Ortega from the CISAN Computing Department for having looked up and processed the statistical information and graphs.

[2] See José Gasca Zamora, "Una década de impactos regionales y territoriales del TLCAN en México," Monica Gambrill, ed., *Diez años del TLCAN en México* (Mexico City: CISAN-IIEc-Facultad de Economía-UNAM, 2006).

[3] The loans were linked to a sub-prime rate, called that because it was lower than the preferential rate, creating a high-risk situation, since mortgage-holders did not always have a job in the formal sector or had even had their ability to pay investigated.

[4] For a summary of the law detailing areas and amounts of investment, see http://www.communityinvestmentnetwork.org/nc/single-news-item-states/article/stimulus-bill-summary-american-recovery-reinvestment-act-of-2009.