

Neoliberal reforms and NAFTA in Mexico

Reformas neoliberales y TLCAN en México

Abstract

Mexico signed in 1993, with the US and Canada, the North American Free Trade Agreement (NAFTA) which entered into operation in January 1994. In all these years, there have been a few formal assessments of NAFTA, from the Mexican side. Even fewer convincing answers for basic questions regarding why the governments of the US and Mexico signed such an agreement at that time.

In this paper we evaluate the performance of the opening of the economy and NAFTA, as a growth strategy, in three main economic variables: Gross Domestic Product, Exports and Employment. Also, we propose answers for the two political economy questions mentioned above.

Using hard data, we prove that neoliberal reforms that started in 1982, of which NAFTA is one of prime political importance, have failed completely in promoting economic growth and employment and that the benefits of growing exports have accrued mostly to private US firms.

Abstract

México firmó en 1993, con Estados Unidos y Canadá, el Tratado de Libre Comercio (NAFTA) que entró en operación en enero de 1994. En estos años, hubo evaluaciones formales de NAFTA, del lado mexicano. Incluso menos convenciendo por las respuestas que ofrecía para cuestiones básicas en cuanto a por qué los gobiernos de Estados Unidos y México firmaron en aquel tiempo tal acuerdo. En este artículo evaluamos el funcionamiento de la apertura de la economía y el NAFTA, como una estrategia de crecimiento, en tres variables económicas principales: Producto Interior Bruto, Exportaciones y Empleo. También proponemos respuestas para las dos preguntas de economía política mencionadas anteriormente. Con datos duros, demostramos que las reformas neoliberales que comenzaron en 1982, de cual de las cuales el NAFTA es una de importancia política principal, han fallado completamente en la promoción del crecimiento económico y el empleo y que las ventajas de fomentar las exportaciones han beneficiado sobre todo a firmas privadas estadounidenses.

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Introduction: the political economy of NAFTA

Among some Mexican analysts there has always been the idea that the following question has not been clearly answered: Why was the Mexican government interested in joining NAFTA? This, despite that Mexico was already enjoying the benefits of full free trade since joining the GATT (today's WTO) in 1986 and had been receiving for many years the Most Favored Nation's treatment by the United States, regarding trade.

Another question, but in the opposite direction, has not also been satisfactorily answered: What was the reason the US accepted Mexico to join NAFTA? This, considering that for the US, North America is really two countries at most: the US and Canada, and Mexico in those years had lost all power of trade negotiation having joined the GATT, in other words, it was already open to free foreign trade.

The Mexican economy performance from 1982 to 1993 proved that its strategy for growth based on exports, by means of opening the economy, depreciating the currency, and reducing the role of the state to a minimum, was badly failing in terms of economic growth, jobs creation, as to prevent migration to the US, and trade balance. So, the *strategy* needed some adjustment and this came as a complete reforming of the Mexican law of foreign investment. The President of Mexico at that time campaigned in the early nineties in the US, in favor of NAFTA, promising this change of the law and allowing new US investors to import all sorts of inputs from anywhere in the world, to produce exports.

Besides, since Mexico had successfully grown economically and to some degree industrialized the economy in the period 1951-1981, under a so-called *state-led growth strategy*, the risk that any new president would be tempted to return to this strategy was high, so NAFTA was interpreted as a political lock up for all the neoliberal reforms.

On the other hand, given that migration from Mexico to the US was unstoppable for Mexico and unacceptable for the US, NAFTA could not include any rules to allow for regulated migration and the Mexican authorities assumed that private foreign investment (attracted mainly by low wages and very weak unions to deal with) would be enough to create sufficient jobs to stop migration.

Thus, the three main economic variables performance to check NAFTA's success or failure for Mexico, can be defined as: GDP growth, Employment growth and Exports growth. It is implied that economic policy of any kind should be evaluated by its objective results and we are testing one of various neoliberal reforms that took place in Mexico in the last 33 years: the foreign trade *strategy*.

The periods over which we are comparing these variables are three: one last period of state-led growth strategy 1970-1981, a period of the "Structural Adjustment Program" 1982-1993, and a period of full operation of NAFTA, 1994-2015.

The initial period 1970-81 was chosen because it was the one that covered the two political administrations of Mexico, right before the introduction of the neoliberal economic reforms. The government policies followed in these two administrations were blamed for the foreign exchange crisis that allowed the IMF and the World Bank to impose on Mexico a Structural Adjustment Program (SAP), which in fact started in

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