

REPORT DOCUMENTATION PAGE			Form Approved OMB No. 0704-0188		
Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.					
1. REPORT DATE (DD-MM-YYYY) 28-10-2011		2. REPORT TYPE FINAL		3. DATES COVERED (From - To)	
4. TITLE AND SUBTITLE Economics and Migration: NAFTA's Impact on Mexico		5a. CONTRACT NUMBER			
		5b. GRANT NUMBER			
		5c. PROGRAM ELEMENT NUMBER			
6. AUTHOR(S) LCDR Patrick J. Beam, USN Paper Advisor (if Any): N/A		5d. PROJECT NUMBER			
		5e. TASK NUMBER			
		5f. WORK UNIT NUMBER			
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Joint Military Operations Department Naval War College 686 Cushing Road Newport, RI 02841-1207		8. PERFORMING ORGANIZATION REPORT NUMBER			
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S)			
		11. SPONSOR/MONITOR'S REPORT NUMBER(S)			
12. DISTRIBUTION / AVAILABILITY STATEMENT Distribution Statement A: Approved for public release; Distribution is unlimited.					
13. SUPPLEMENTARY NOTES A paper submitted to the Naval War College faculty in partial satisfaction of the requirements of the Joint Military Operations Department. The contents of this paper reflect my own personal views and are not necessarily endorsed by the NWC or the Department of the Navy.					
14. ABSTRACT The supporters of the North American Free Trade Agreement (NAFTA) believed that the agreement would solve many of the economic problems plaguing the developing economy of Mexico. For Mexico, the goal of NAFTA was a strengthened and prosperous economy leading to increased employment and higher wages. The U.S. believed a strengthened Mexican economy through the passage of NAFTA would result in fewer Mexicans illegally immigrating to the U.S. in search of jobs. NAFTA's effect on the economy of Mexico as a whole has resulted in only marginal gains and it failed to reduce the rate of illegal immigration to the United States from Mexico. To realize the economic advantages NAFTA has to offer, Mexico will need to revise its fiscal policies and implement institutional reforms designed to combat corruption and improve the rule of law. Recommendations to the Mexican government will list institutional reforms required to strengthen the economy and create a more conducive environment for the provisions of NAFTA's to operate in. Recommendations provided to the United States government will help strengthen the Mexican economy and decrease the flow of illegal immigrants to the U.S.					
15. SUBJECT TERMS NAFTA, Mexico, Economy, Immigration					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 22	19a. NAME OF RESPONSIBLE PERSON Chairman, JMO Dept
a. REPORT UNCLASSIFIED	b. ABSTRACT UNCLASSIFIED	c. THIS PAGE UNCLASSIFIED			19b. TELEPHONE NUMBER (include area code) 401-841-3556

**NAVAL WAR COLLEGE
Newport, R.I.**

Economics and Migration: NAFTA's Impact on Mexico

by

**Patrick J. Beam
Lieutenant Commander, United States Navy**

A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

Signature: _____

28 October 2011

Contents

Introduction	1
Economic and Migratory Conditions Prior to NAFTA	2
NAFTA's Effect on the Economy of Mexico	3
NAFTA's Effect on Mexican Immigration to the United States	9
Counterargument to the Effects of NAFTA	12
Conclusions and Recommendations	14
Notes	18
Bibliography	21

Abstract

The supporters of the North American Free Trade Agreement (NAFTA) believed that the agreement would solve many of the economic problems plaguing the developing economy of Mexico. For Mexico, the goal of NAFTA was a strengthened and prosperous economy leading to increased employment and higher wages. The U.S. believed a strengthened Mexican economy through the passage of NAFTA would result in fewer Mexicans illegally immigrating to the U.S. in search of jobs. NAFTA's effect on the economy of Mexico as a whole resulted in only marginal gains and it failed to reduce the rate of illegal immigration to the United States from Mexico. To realize the economic advantages NAFTA has to offer, Mexico will need to revise its fiscal policies and implement institutional reforms designed to combat corruption and improve the rule of law. Recommendations to the Mexican government will list institutional reforms required to strengthen the economy and create a more conducive environment for the provisions of NAFTA's to operate in. Recommendations provided to the United States government will help strengthen the Mexican economy and decrease the flow of illegal immigrants to the U.S.

No nation was ever ruined by trade, even seemingly the most disadvantageous.

-Benjamin Franklin, Principles of Trade, 1774

Introduction

The supporters of the North American Free Trade Agreement (NAFTA) believed that the agreement would solve many of the economic problems plaguing the developing economy of Mexico. It would formalize the free trade that was growing between the United States and Mexico and would harness the deregulation and privatization efforts taking place in the latter. Mexico is the only country of the three member nations of NAFTA with a developing economy. Therefore, Mexico had the most to gain from NAFTA. It was believed much of NAFTA's overall success would be measured by the economic growth in Mexico.

For Mexico, the goal of NAFTA was a strengthened and prosperous economy leading to increased employment and higher wages. Furthermore, the U.S. believed a strengthened Mexican economy through the passage of NAFTA would result in fewer Mexicans illegally immigrating to the U.S. in search of jobs. Unfortunately, NAFTA has not met these expectations. NAFTA's effect on the economy of Mexico as a whole resulted in only marginal gains and it failed to reduce the rate of illegal immigration to the United States from Mexico. In order to realize the economic advantages NAFTA has to offer, Mexico will need to revise its fiscal policies and implement institutional reforms designed to combat corruption and improve the rule of law.

In this paper the author will discuss NAFTA's effects on the Mexican economy and migration patterns of Mexican workers seeking employment in the U.S. Next, a comprehensive analysis of the Mexican economy will display both the positive and negative

effects of NAFTA which led to the marginal economic gains. Recommendations to the Mexican government will list institutional reforms required to strengthen the economy and create a more conducive environment for the provisions of NAFTA to operate in. Finally, recommendations provided to the United States government will help strengthen the Mexican economy and decrease the flow of illegal immigrants to the U.S. Though NAFTA is a trilateral agreement that includes Canada, the focus of this paper will be the economic and migratory relationship between Mexico and the United States and how NAFTA affects it.

Economic and Migratory Conditions Prior to NAFTA

Mexico's adjacency to the U.S. has resulted in strong economic and political bonds between the two countries throughout history. Beginning in the 1960s, businesses in the U.S. began shifting manufacturing to Mexico in an effort to skirt higher taxes, wages, and benefit pressures placed on them by labor unions.¹ Advancing to the 1980s, a virtual free trade border zone allowed the U.S. to take advantage of cheap Mexican manufacturing. Factories called *maquiladoras*, whose primary objective was to produce goods bound for the U.S., operated primarily in this free trade zone. After joining the General Agreement on Tariffs and Trade (GATT) in 1986, Mexico began unilateral economic reforms initiating privatization in several industries and implementing widespread deregulation.² The Mexican economy was in the latter stages of this economic reform program when NAFTA was enacted in 1994.³

The U.S. began tightening its immigration policies in 1965 by making amendments to the Immigration and National Act. The Act restricted paths to legal immigration, imposing numerical limits and quotas on Mexicans seeking to immigrate to the U.S. Despite

modifications intended to restrict illegal immigration as well, expanding employment opportunities in America's farming, manufacturing, and service sectors resulted in increased illegal immigration across the border.⁴ The U.S., pursuing additional immigration improvements, passed the Immigration Reform and Control Act (IRCA) of 1986 in hopes of reducing the number of illegal immigrants crossing into the U.S. The law sought to accomplish this by the following processes; legalization for many of the undocumented migrants already living in the country, prevention and enforcement of employers hiring undocumented workers, and increased activities by the Border Patrol to prevent border crossings.⁵ However, the IRCA increased both legal and illegal immigration to the U.S. from Mexico.⁶ Therefore, evidence indicates that prior to the implementation of NAFTA, the U.S. attempted and failed to stem the flow of migration from Mexico.

NAFTA's Effect on the Economy of Mexico

Trade agreements such as NAFTA work at the margins of economies making it difficult to measure their effects against more powerful factors such as long-term structural change and short-term volatility.⁷ The 1994 exchange rate collapse is one of several factors that made it challenging to ascertain the initial effects that NAFTA was having on the Mexican economy. Additional factors such as the restructuring of Mexico's sovereign debt, government privatization, and financial liberalization in the early 1990s added to the difficulty of quantifying the effects.⁸

The results of NAFTA have varied by sector, but it is evident NAFTA has not been the economic savior of Mexico promised by its supporters or the catastrophe projected by its

critics.⁹ NAFTA has neither led to dramatic wage and job growth nor has it decimated employment in Mexico. In selected sectors of the Mexican economy NAFTA had discernable effects, both positive and negative, as discussed later in this paper.

Trade Relationship between Mexico and the U.S.

The rapid expansion of Mexican trade began in 1993 when the government's economic reform program began taking effect. The initial upsurge began prior to the enactment of NAFTA. This sharp rise is depicted in Figure 1. Though not solely responsible for the dramatic rise, NAFTA's provisions did ensure the continuation and in some cases acceleration of this upward trend.¹⁰ NAFTA was also the catalyst that eliminated many tariffs and other trade restrictions that had stifled trade between the U.S. and Mexico. The average Mexican tariff fell from 12% in 1993 to 1.5% in 2001 due to NAFTA.¹¹ Though tariff reduction aided in continuing trade increases, the Congressional Budget Office and The World Bank both found that NAFTA had only a moderate effect on U.S.-Mexico trade growth. The CBO concludes that 85% of U.S. export growth to Mexico and 91% of U.S. import growth from Mexico would have occurred without NAFTA.¹²

Figure 1: Merchandise Trade (% of GDP)¹³



Source: The World Bank

NAFTA's Economic Developments

A comprehensive review of the results of NAFTA displays its overall positive results. NAFTA caused exports primarily to move toward manufacturing, but caused increased diversification as well. Mexico's import and export base, when compared against other emerging market economies, ranks as one of the most diversified because of this shift.¹⁴ Estimates indicate that Mexico's global exports would have been 50% less and foreign direct investment (FDI) 40% less without the implementation of NAFTA. Additionally, estimates claim that NAFTA has made Mexico richer than it would have been by approximately 4% of its gross domestic product (GDP) per capita.¹⁵ The World Bank also concludes that the productivity gap between the U.S. and Mexico has drastically decreased since NAFTA took effect. The Carnegie Endowment for International Peace asserts that NAFTA "likely played a significant role" in this reduction.¹⁶

Despite the overall positive effects of NAFTA, there were also negative effects. NAFTA's policies failed to address the differing levels of economic development between the U.S. and Mexico. NAFTA was the first international trade agreement that linked the economies of a developed and a developing nation. In addition, it is an example of a free trade agreement that failed to link political integration with the economic integration that occurred.¹⁷ Though slight economic convergence with the U.S. has occurred, several factors such as institutional gaps, deficiencies in education, and innovation policies have limited the per capita GDP growth in Mexico. Additional means by which Mexico can increase the capacity of gains brought about by NAFTA is to ensure its policies continue to address macroeconomic volatility.¹⁸ Had the Mexican government made attempts to reform its

institutions and fiscal policies to match the provisions of NAFTA the economic convergence with the United States would have been much greater.

Economic Interdependence between Mexico and the United States

NAFTA's policies have caused more synchronization between the business cycles of the U.S. and Mexico.¹⁹ This synchronization causes economic activity in the U.S. to have a very strong effect on Mexico. An example of this is the economic crisis that began in the U.S. in 2008 and how it is dragging the economy of Mexico down with it. Eighty percent of exports from Mexico are destined for the U.S., so when American consumers stop purchasing, Mexico feels the effect. The converse has proved true as well; economic booms in the U.S. usually equate to strong economic growth in Mexico.²⁰ To prevent such volatility in the market and dependency on the U.S., Mexico has engaged in twelve other Free Trade Agreements involving 42 countries since 2006.²¹

NAFTA's Effect on Wages

Similar to other areas of the Mexican economy, NAFTA's affect on wages has varied, but overall has resulted in slight gains. The World Bank concluded that NAFTA had a positive effect on wages and employment in some Mexican states, but the wage differential within the country increased due to NAFTA.²² Furthermore, the income gap that Mexico experiences with the U.S. has declined since the implementation of NAFTA and the rate of income convergence is much faster than the average Latin American economy.²³

Following the 1994 peso devaluation crisis, real wages declined by 15 percent. GDP fell as well by 6.9 percent and unemployment climbed by approximately two million.²⁴ The peso devaluation crises caused the Mexican currency to plunge approximately 50 percent,

resulting in a deep recession for the country. The Carnegie Endowment and World Bank both conclude that NAFTA was not the cause for the loss in real wages during this period and accredit it to the peso devaluation.²⁵ Some economists note that due to NAFTA, Mexico was able to rebound much quicker from the crisis.²⁶ Additionally, compared to other emerging markets in the 1990s, the Mexican economy has performed very well since NAFTA took effect.²⁷

Mexican states tied to FDI, exports, and *maquiladoras* had higher and faster growing wages over other states when NAFTA began due to their closer ties with the American economy.²⁸ The Mexican states that were initially better prepared to reap the benefits of NAFTA were those in the north, the poorer southern states generally saw less gains from NAFTA's provisions.²⁹ The Mexican government's reform programs were responsible for the economic disparities between the states; NAFTA is only responsible for increasing them.

Mexican Institutions and Fiscal Policies

Stated previously, free trade agreements work at the margins of economies. They are not designed to change economic institutions and fiscal policies, but they can provide influence. NAFTA put pressure on Mexico to improve its institutions in the areas of investor protection, intellectual property rights, labor, and environmental trade; the focus clearly being on Mexico's ability to enforce its own laws. Unfortunately, the government of Mexico did not respond to this pressure and failed to build adequate regulatory and institutional policies.³⁰ This failure in institutional change is one of the greatest reasons NAFTA has not brought widespread success to the Mexican economy.

Mexico was suffering from large macroeconomic imbalances at the commencement of NAFTA. This challenging environment made it difficult for the Mexican economy to benefit from NAFTA's trade integration policies. On the other hand, Mexico positioned itself well to maximize the trade liberalization terms of the agreement. Soon after NAFTA's start, the economy of Mexico experienced a decline in volatility. This decline in volatility is mainly credited to healthier fiscal and monetary policies initiated between 1996 and 2001 and not because of NAFTA.³¹ This example illustrates how economic factors with stronger influences than NAFTA can strengthen the Mexican economy. Additionally, it demonstrates the need for Mexico to continue making institutional changes to better integrate with the policies of NAFTA.

The Agricultural Industry and NAFTA

Many of Mexico's agricultural reforms coincided with the implementation of NAFTA making it difficult to determine the precise effect the trade agreement had on the industry.³² Some predictions stated that NAFTA would have a devastating effect on the agricultural industry in Mexico; in some aspects the opposite occurred. Both domestic production and trade in agricultural goods has risen since the enactment of NAFTA.³³ NAFTA allowed Mexico to gain access to agricultural markets in Canada and the U.S. that were not previously available.³⁴ Even with a slight rise in agricultural output, a study by the Carnegie Endowment shows a shift in Mexican employment from agriculture to manufacturing, but cannot specifically state how much this shift can be credited to NAFTA.³⁵ The Institute for International Economics (IIE) suggests that the proportion of the agricultural labor force in relation to the overall labor force was very high when NAFTA began. The

study also states that many of the workers were likely to lose their jobs anyway as the country became more industrialized and efficient in agricultural production.³⁶

NAFTA's Effect on Mexican Immigration to the United States

NAFTA sought to remove barriers to capital flow across the border while immigration policies sought to stem the flow of migrants crossing the border in search of work.³⁷ Many members of the U.S Congress convinced themselves that passage of NAFTA would help solve the problem that the U.S. was having with illegal immigration. The same was true south of the border, as Mexican President Carlos Salinas asserted that freer trade would mean “more jobs...[and] higher wages in Mexico, and this in turn will mean fewer migrants to the U.S. and Canada. We want to export goods, not people.”³⁸ Statistical data using border apprehensions to judge the rate of immigration across the border indicates that when the Mexican economy is strong, the rate of immigration into the U.S. declines. The study also finds the vice-versa is true as well; when the Mexican economy is weak, immigration to the U.S. increases.³⁹ The reality has been that NAFTA's economic effects on immigration have been minimal and the continued rate of immigration to the U.S. is due to much stronger and enduring forces within the economy.⁴⁰

Immigration Rates and Policies

The peso devaluation of 1994 is believed to be one of the many factors that caused increased Mexican immigration to the U.S. Not only were wages significantly higher in the U.S., money sent back to Mexico by the workers went a lot farther than it did prior to the crisis. Many were quick to blame NAFTA for the rise in immigration during this period, but effects from the collapse of the peso far outweighed any effect of NAFTA. Arguably, some

of NAFTA's policies did cause some Mexicans who would not have migrated to immigrate to the U.S., but the peso crisis was a much larger source of the increase.⁴¹

The U.S. has attempted to prevent Mexican workers from immigrating across the border through strict policies and border security measures. The Immigration Reform and Control Act of 1986 was primarily a result of the continued Mexican immigration to the U.S. The goal of the legislation was to limit the use of illegal immigrant labor by installing sanctions on employers who used them. Additionally, the Act included measures to reduce the flow of illegal immigrants crossing the border. NAFTA was envisioned as a further arm of this immigration strategy. The theory was that by increasing job growth in Mexico the amount of illegal immigrants seeking employment in the U.S. would decline.⁴² However, the population of Mexican immigrants living in the U.S. has actually increased since the Act was passed. These stricter policies have caused illegal immigrants from Mexico who would historically return home once seasonal work was complete to now remain in the U.S. for fear of being apprehended crossing back and forth across the border. Critics were quick to blame NAFTA for the rise in illegal residents, but it was the tougher immigration policies that were to blame.⁴³

Several factors are responsible for the increase in migration from rural farming areas in the early 1990s. The deregulation of land by the Mexican government, abandonment of farm subsidies, and the selling of land to foreigners are just a few of the reasons. The elimination of agricultural subsidies and privatization of collective farms forced many rural farmers to uproot and seek economic opportunities in other areas of the country, many relocating to urban centers. NAFTA's opening of food, seed, and feed markets to competition from the U.S. and Canada also led to increased migration of peasants from rural

farms. Many found themselves unable to compete in an industrialized grain industry once protection of agriculture by the Mexican government broke down.⁴⁴ Though NAFTA is in part responsible for some of the migration of rural peasant farmers in the 1990s, the Mexican government is just as culpable due to its policies instituted during this period.

Irrespective of the strength of the Mexican economy, many Mexicans are predisposed to immigrate to the U.S. Such an abundance of immigration has already occurred that it is unlikely to slow down even if the Mexican economy improves. This is primarily due to the sustained higher wages and standard of living in the U.S. and the family connections already established north of the border from previous migration.⁴⁵ The U.S. labor market is able to absorb an estimated 300,000 to 400,000 illegal workers every year.⁴⁶ Whether unemployed in search of work, or predisposed because of family reasons, the U.S. continues to draw Mexicans north despite NAFTA's goals.

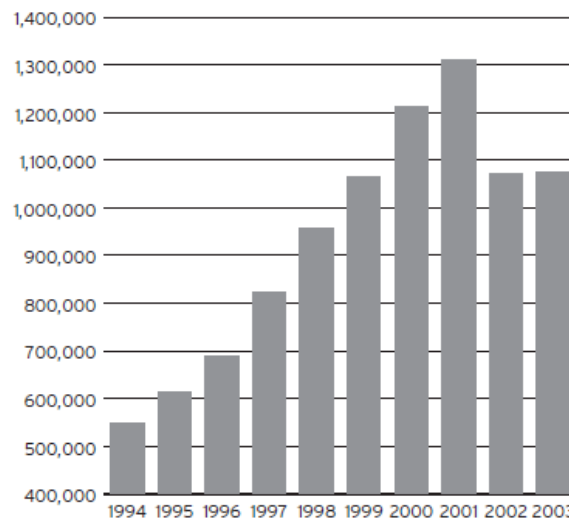
Internal Migration

NAFTA has also caused an increase in internal Mexican migration. Mexican states that were initially better prepared to gain from the benefits of NAFTA have grown faster than the poorer, generally southern states.⁴⁷ This growing economic disparity between states in Mexico has caused the upsurge in internal migration. States with high levels of foreign direct investment, trade, and *maquiladoras* all increase labor demand, raising wages and lowering unemployment, increasing migration to those states.⁴⁸

Internal northbound migration in Mexico began in the 1970s when the *maquiladoras* were established in northern states. The *maquiladoras* essentially operated in a free trade border zone that took advantage of cheap Mexican labor to produce finished goods for U.S.

consumers. The *maquiladora* industry attracted hundreds of thousands of workers from all over the country. NAFTA is responsible for expanding this industry. The *maquiladora* industry's rapid growth is depicted in Figure 2. Unfortunately, the local and state governments did not build the infrastructure to support the massive amounts of workers flocking to them, resulting in many border cities becoming shantytowns. When these workers made it to the northern border cities, many continued and crossed the border into the U.S. because of the higher wages and better quality of life.⁴⁹

Figure 2: Maquiladora Employment in Mexico⁵⁰



Source: INEGI, Monthly Indicators of the Maquila Industry.

Counterargument to the Effects of NAFTA

Marginal gains credited to NAFTA do not accurately portray the destabilizing and destructive effect that NAFTA had on the economy of Mexico. Growth in Mexico brought about by NAFTA was insufficient to bring true prosperity to the country. Real wages declined in the first 7 years of the agreement, income disparity increased as well as Mexican

immigration to the U.S. and poverty remains widespread throughout the country.⁵¹

Additionally, the minimal economic gains achieved by NAFTA have been completely wiped out by the extensive environmental costs. NAFTA forced rural farmers to cultivate marginal land due to lost income caused by falling commodity prices, leading to extensive deforestation in southern Mexico.⁵²

NAFTA had a positive impact on Mexico's short-term industrial employment, but it devastated the Mexican agricultural industry. The agricultural trade deficit Mexico experiences with the U.S. has grown since 1994 and in 2002 it was higher than it had ever been.⁵³ Twenty percent of all Mexicans depend on agriculture for their livelihood. Low-cost U.S. corn exports to Mexico increased due to the provisions of NAFTA, severely impacting the nearly 3 million Mexican farmers who depend on rain-fed corn production as part of their income.⁵⁴ There was no way for rural Mexican farmers to compete against the heavily subsidized commercial farms in the U.S.

Because NAFTA has not brought widespread prosperity to Mexico, workers in search of employment continue to cross the border illegally into the U.S. Workers are fleeing Mexico because of NAFTA-induced plummeting wages and a weak economy that cannot support the expanding work force.⁵⁵ Additionally, NAFTA not only failed to reduce immigration to the U.S., it increased it by offering commercial trucking as a conduit to cross the border. An estimated five million commercial trucks cross the border each year carrying \$250 billion worth of goods, accounting for 70% of the trade between the two countries.⁵⁶ A large portion of these trucks are involved in NAFTA related trade. Due to the limited infrastructure supporting this vast trade between the two countries, U.S. officials are able to inspect only a small fraction of the trucks crossing the border. This has allowed commercial

trucks carrying illegal immigrants along with their legal cargo to cross the border uninspected.⁵⁷ Finally, NAFTA's provisions have also reduced the amount of return migration back to Mexico because of the weak economy it produced cannot support them.

Though the facts to the above counterargument are true, they address specific aspects of the Mexican economy and fail to examine NAFTA's effect as a whole. Overall, NAFTA has brought economic gains to the economy of Mexico. NAFTA has not reduced the rate of migration because much stronger factors beyond its reach continue to encourage Mexicans to immigrate to the U.S. Mexico must reform its financial institutions and economic policies, and the U.S. must address its immigration policies for a decline in immigration to occur.

Conclusions and Recommendations

NAFTA's affect on the economy of Mexico as a whole has resulted in only marginal gains and it failed to reduce the rate of illegal immigration to the United States from Mexico. Its affect on the economy of Mexico is varied, but when viewed comprehensively it reveals minor overall gains for the developing economy. The privatization and deregulation policies instituted by the Mexican government are primarily responsible for the change in economic strength during the 1990s. NAFTA continued this change in strength and in some cases accelerated its trending effects. Immigration rate changes triggered by the provisions of NAFTA are minimal at best and the surge in illegal immigration to the U.S. has been primarily caused by factors unrelated to or beyond the scope of NAFTA. The intense hype leading up to the implementation of NAFTA put pressure on the agreement to perform beyond its capabilities. Opponents thought it would be a great failure resulting in the collapse of the Mexican economy. Supporters thought it would be the solution to all of

Mexico's economic woes. NAFTA's modest results have proved neither correct. What many failed to recognize is that free trade agreements such as NAFTA work at the margins of an economy and are not capable of delivering the overestimated results that critics and supporters proclaimed. NAFTA did have the capability to make measured advances to the economy of Mexico for which it succeeded in some areas and failed in others. In order to realize the economic advantages NAFTA has to offer, Mexico will need to revise its fiscal policies and implement institutional reforms designed to combat corruption and improve the rule of law.

The following is a list of recommendations the governments of Mexico and the United States must take in order to ensure the economy is able to operate effectively in a free trade environment. It has been twenty years since negotiations for NAFTA began in June of 1991, and since then the economic environment of the world has changed considerably leaving much of the rationale behind the provisions of NAFTA to no longer be germane. However, revisions to NAFTA will have little effect if the Mexican economy is not structured properly to leverage NAFTA's policies.

1. In order to ensure its domestic economic policies are compatible with NAFTA, the government of Mexico must conduct extensive institutional reforms. Specific institutional reforms include:

- Reforms to combat corruption and improve the rule of law.
- Labor legislation reform designed to reverse growing income disparity.
- Reforms to reduce state owned enterprises and monopolized industries.
- Reforms to promote increased investor protection, patent development, and protection of intellectual property.

- Development of programs to increase Mexican innovation and research and development.
- Educational programs designed specifically to advance Mexico technologically in order to diversify the economy from primarily manufacturing to more invention and creation.

Mexico's institutions are severely lacking, especially with regards to corruption and rule of law. Legal and regulatory structure in Mexico is largely to blame. Many provisions of NAFTA that could provide positive results to the Mexican economy are hopeless because domestic institutions are not capable of leveraging them. Mexico's labor code serves neither workers nor employers well, and is a barrier to economic growth.⁵⁸ Many of Mexico's economic sectors are dominated by one or two strong companies, which reduce foreign investment and other potential instruments of economic growth. NAFTA alone is not enough to ensure technological convergence between Mexico and the U.S. Mexico must improve its educational system to address its technology and innovation deficit. NAFTA was projected to put pressure on Mexico to improve its institutions in the areas of investor protection, intellectual property rights, and labor and environmental trade. But without the ability to enforce its own laws Mexico will continue to be unable to make the necessary progress. Innovation in Mexico is lacking as displayed by their low patent numbers. Educational reforms and improvements in research and development will assist Mexico in expanding technology and will better diversify the economy.

2. The government of the United States must make the following changes in order to better support the provisions of NAFTA and assist the government of Mexico in strengthening its economy:

- Expand the scope of aid programs designed to assist Mexico in economic development and transitioning to a more privatized, competitive economy.
- Enact comprehensive immigration reform to match domestic immigration and migrant worker policies to those of NAFTA's provisions.
- Infrastructure improvements at the border designed to support NAFTA's trade volume.

A strong Mexican economy equates to a more competitive trading partner and a better destination for U.S. investment. Only one eighth of one percent, or \$28 million in USAID worldwide bilateral economic aid funds in FY 2010 were dedicated to Mexican development and reform initiatives.⁵⁹ This is far less than required to make substantive change. The U.S. should expand the North American Development Bank (NADBank) and the Border Environment Cooperation Commission (BECC) to programs that include transportation and infrastructure projects throughout the whole of Mexico.⁶⁰ Additionally, targeted economic assistance will aid in transitioning Mexico's state owned oil sector and monopolized companies into more competitive industries. Furthermore, the U.S. must address the root cause of illegal immigration, which is the economic disparity between the U.S. and Mexico. Current U.S. policies are resulting in the opposite desired effect. The U.S. must also target employers who hire undocumented migrants, which promotes illegal immigration and undermines the provisions of NAFTA. Finally, infrastructure improvements would not only streamline the flow of trade between Mexico and the U.S., it would aid in securing the over 2,000-mile border between the two countries.

There are numerous steps required to strengthen the Mexican economy, and both Mexico and the United States must take action for the greatest change to occur. The detailed measures above will aid in this change. NAFTA did not cause many of the challenges facing

the Mexican economy, thus changes to NAFTA alone will not solve them. While NAFTA is neither the hero nor villain of the Mexican economy, it remains an integral aspect of the U.S.-Mexico economic relationship.

Notes

¹ Patricia Fernandez-Kelly and Douglas S. Massey, "Borders for Whom? The Role of NAFTA in Mexico-U.S. Migration," in *NAFTA and Beyond: Alternative Perspectives in the Study of Global Trade and Development*, ed. by Patricia Fernandez-Kelly and Jon Shefner. (Thousand Oaks, CA: Sage Publications, March 2007), 100.

² Daniel Lederman, William F. Maloney, and Luis Severn, *Lessons from NAFTA for Latin America and the Caribbean*, (Palo Alto, CA and Washington, DC: Stanford University Press and The World Bank, 2005), 10.

³ M. Ayhan Kose, Guy M. Meredith, and Christopher M. Towe, "How Has NAFTA Affected the Mexican Economy? Review and Evidence," working paper, *International Monetary Fund*, April 2004, www.imf.org/external/pubs/ft/wp/2004/wp0459.pdf (accessed September 9, 2011), 9.

⁴ Fernandez-Kelly and Massy, "Borders for Whom? The Role of NAFTA in Mexico-U.S. Migration," 107.

⁵ Frank D. Bean and B. Lindsay Lowell, "NAFTA and Mexican Migration to the United States," in *NAFTA's Impact on North America: The First Decade*, ed. by Sidney Weintraub, (Washington, DC: CSIS Press, 2004), 274.

⁶ Philip Martin, "NAFTA and Mexico-U.S. Migration," working paper, University of California, Davis, 16 December 2005, http://giannini.ucop.edu/Mex_USMigration.pdf, (accessed September 9, 2011), 5.

⁷ J. F. Hornbeck, *NAFTA at Ten: Lessons from Recent Studies* (Congressional Research Service, 13 February 2004), <http://fpc.state.gov/documents/organization/34486.pdf>, (accessed September 9, 2011), 6.

⁸ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 181.

⁹ John J. Audly et al., "NAFTA's Promise and Reality," *Carnegie Endowment for International Peace*, 2004, <http://carnegieendowment.org/files/nafta1.pdf>, (accessed October 7, 2011), 7.

¹⁰ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 11.

¹¹ Ibid, 3.

¹² Hornbeck, *NAFTA at Ten: Lessons from Recent Studies*, 3.

¹³ The World Bank, "World Development Indicators," <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS/countries/MX?display=graph>, (accessed October 22, 2011).

-
- ¹⁴ Kose, Meredith, and Towe, "How Has NAFTA Affected the Mexican Economy? Review and Evidence," 15.
- ¹⁵ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 2.
- ¹⁶ Hornbeck, *NAFTA at Ten: Lessons from Recent Studies*, 4.
- ¹⁷ Fernandez-Kelly and Massy, "Borders for Whom? The Role of NAFTA in Mexico-U.S. Migration," 105.
- ¹⁸ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 6, 102.
- ¹⁹ Kose, Meredith, and Towe, "How Has NAFTA Affected the Mexican Economy? Review and Evidence," 21.
- ²⁰ Elisabeth Malkin, "U.S. Woes and NAFTA pull down Mexico," *The International Herald Tribune*, 31 December 2008, <http://www.lexisnexis.com/>, (accessed August 31, 2011), 11.
- ²¹ M. Angeles Villarreal, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications* (Congressional Research Service, 24 February 2011), <http://fpc.state.gov/documents/organization/152605.pdf>, (accessed September 9, 2011), 16.
- ²² Villarreal, *U.S.-Mexico Economic Relations: Trends, Issues, and Implications*, 19.
- ²³ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 41.
- ²⁴ *Ibid*, 5.
- ²⁵ Hornbeck, *NAFTA at Ten: Lessons from Recent Studies*, 5.
- ²⁶ M. Angeles Villarreal, *NAFTA and the Mexican Economy* (Congressional Research Service, 3 June 2010), <http://www.fas.org/sgp/crs/row/RL34733.pdf>, (accessed September 9, 2011), 4.
- ²⁷ Kose, Meredith, and Towe, "How Has NAFTA Affected the Mexican Economy? Review and Evidence," 25.
- ²⁸ Hornbeck, *NAFTA at Ten: Lessons from Recent Studies*, 5.
- ²⁹ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 59.
- ³⁰ *Ibid*, 48.
- ³¹ Kose, Meredith, and Towe, "How Has NAFTA Affected the Mexican Economy? Review and Evidence," 9, 19.
- ³² Villarreal, *NAFTA and the Mexican Economy*, 12.
- ³³ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 13.
- ³⁴ *Ibid*, 140.
- ³⁵ Hornbeck, *NAFTA at Ten: Lessons from Recent Studies*, 4.
- ³⁶ Villarreal, *NAFTA and the Mexican Economy*, 14.
- ³⁷ Fernandez-Kelly and Massy, "Borders for Whom? The Role of NAFTA in Mexico-U.S. Migration," 98.
- ³⁸ Martin, "NAFTA and Mexico-U.S. Migration," 7.
- ³⁹ Bean and Lowell, "NAFTA and Mexican Migration to the United States," in *NAFTA's Impact on North America: The First Decade*, 275.
- ⁴⁰ Audly et al., "NAFTA's Promise and Reality," 53.

-
- ⁴¹ Bean and Lowell, "NAFTA and Mexican Migration to the United States," in *NAFTA's Impact on North America: The First Decade*, 273.
- ⁴² Ibid. 268.
- ⁴³ Fernandez-Kelly and Massy, "Borders for Whom? The Role of NAFTA in Mexico-U.S. Migration," 98.
- ⁴⁴ Ibid. 99.
- ⁴⁵ Bean and Lowell, "NAFTA and Mexican Migration to the United States," in *NAFTA's Impact on North America: The First Decade*, 278.
- ⁴⁶ Tony Payan, *The Three U.S.-Mexico Border Wars: Drugs, Immigration, and Homeland Security*, (Westport, CT: Praeger Security International, 2006), 62.
- ⁴⁷ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 59.
- ⁴⁸ Ibid. 216.
- ⁴⁹ Tony Payan, *The Three U.S.-Mexico Border Wars: Drugs, Immigration, and Homeland Security*, 60.
- ⁵⁰ Audly et al., "NAFTA's Promise and Reality," 16.
- ⁵¹ Martin, "NAFTA and Mexico-U.S. Migration," 10.
- ⁵² Audly et al., "NAFTA's Promise and Reality," 7.
- ⁵³ Ibid. 17.
- ⁵⁴ Martin, "NAFTA and Mexico-U.S. Migration," 9.
- ⁵⁵ Hornbeck, *NAFTA at Ten: Lessons from Recent Studies*, 5.
- ⁵⁶ Tony Payan, *The Three U.S.-Mexico Border Wars: Drugs, Immigration, and Homeland Security*, 34.
- ⁵⁷ Ibid. 72.
- ⁵⁸ Lederman, Maloney, and Severn, *Lessons from NAFTA for Latin America and the Caribbean*, 59.
- ⁵⁹ Phillips Peters, "Prosperity in Mexico; The missing element in the U.S. immigration debate," Lexington Institute, November 2010, <http://www.lexingtoninstitute.org/prosperity-in-mexico?a=1&c=1138> (accessed September 9, 2011), 6.
- ⁶⁰ Villarreal, *NAFTA and the Mexican Economy*, 18.

Bibliography

- Audley, John J, Demetrios G. Papademetriou, Sandra Polanski, and Scott Vaughn. "NAFTA's Promise and Reality," *Carnegie Endowment for International Peace*, 2004, <http://carnegieendowment.org/files/nafta1.pdf>, (accessed 7 October 2011).
- Carlsen, Laura. "Armoring NAFTA: Battleground for Mexico's Future." NACLA Report on the Americas (September/October 2008), https://nacla.org/sites/default/files/A04105017_1.pdf (accessed 2 September 2011).
- Fernandez-Kelly, Patricia, and Jon Shefner, eds. *NAFTA and Beyond: Alternative Perspectives in the Study of Global Trade and Development*. The Annals of The American Academy of Political and Social Science. Vol. 610. Thousand Oaks, CA: Sage Publications, 2007.
- Hornbeck, J. F. *NAFTA at Ten: Lessons From Recent Studies*. Washington, DC: Congressional Research Service, 13 February 2004, <http://fpc.state.gov/documents/organization/34486.pdf> (accessed 9 September 2011).
- Kose, M. Ayhan, Guy M. Meredith, and Christopher M. Towe. "How has NAFTA Affected the Mexican Economy? Review and Evidence." Working paper, *International Monetary Fund*, April 2004, www.imf.org/external/pubs/ft/wp/2004/wp0459.pdf (accessed 9 September 2011).
- Lederman, Daniel, William F. Maloney, and Luis Servén. *Lessons from NAFTA for Latin America and the Caribbean*. Palo Alto, CA and Washington, DC: Stanford University Press and The World Bank, 2005.
- Malkin, Elisabeth, "U.S. Woes as NAFTA Pull Down Mexico," *The International Herald Tribune*, 31 December 2008, <http://www.lexisnexis.com/> (accessed 31 August 2011).
- Martin, Philip. "NAFTA and Mexico-US Migration." Working paper, University of California, Davis, 16 December, 2005, http://giannini.ucop.edu/Mex_USMigration.pdf (accessed 9 September 2011).
- Pastor, Robert A, "What Happened to the North American Idea," *Americas Quarterly*, Spring 2011, pp. 78-82, <http://www.proquest.com/> (accessed 25 August 2011).
- Payan, Tony. *The Three U.S.-Mexico Border Wars: Drugs, Immigration, and Homeland Security*. Westport, CT: Praeger Security International, 2006.
- Peters, Philip. "Prosperity in Mexico: The Missing Element of the U.S. Immigration Debate." *Lexington Institute*, November 2010, <http://www.lexingtoninstitute.org/prosperity-in-mexico?a=1&c=1138> (accessed 9 September 2011).

- Rosen, Fred. "Is the Mexican Economy Booming?" Blog entry posted 19 July 2011.
<https://nacla.org/blog/mexican-economy-booming> (accessed 2 September 2011).
- Sánchez, Manuel, and Nathaniel Karp. "NAFTA's Economic Effects on Mexico."
 Working draft, 14 April 2000, www.econ.umn.edu/~tkehoe/classes/SanchezKarp.pdf
 (accessed 9 September 2011).
- Schaefer, Agnes Gereben, Benjamin Bahney, and K. Jack Riley. "Security in Mexico:
 Implications for U.S. Policy Options." Santa Monica: Rand Corporation, 2009.
http://www.rand.org/pubs/monographs/2009/RAND_MG876.pdf (accessed 9
 September 2011).
- Seelke, Clare Ribando. *Mexico-U.S. Relations: Issues for Congress*. Washington, DC:
 Congressional Research Service, 2 September 2010,
<http://fpc.state.gov/documents/organization/145101.pdf> (accessed 9 September 2011).
- "Should NAFTA be Revisited?" *The International Economy*, Summer 2008,
<http://www.proquest.com/> (accessed 7 October 2011).
- Stacke, Christian. "Mexico-The Sick Man of NAFTA." *World Policy Journal*, Summer
 2003, <http://www.proquest.com/> (accessed 7 October 2011).
- Teslik, Lee H. "NAFTA's Economic Impact." Council on Foreign Relations, 7 July 2009,
<http://www.cfr.org/economics/naftas-economic-impact/p15790> (accessed 9
 September 2011).
- "The Americas: Bringing NAFTA Back Home; Mexico's Economy," *The
 Economist*, 30 October 2010, <http://www.proquest.com/> (accessed 25 August 2011).
- The World Bank, "World Development Indicators,"
[http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS/countries/MX?display=gr
 aph](http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS/countries/MX?display=graph) (accessed 22 October 2011).
- Villarreal, M. Angeles. *NAFTA and the Mexican Economy*. Washington, DC:
 Congressional Research Service, 3 June 2010,
<http://www.fas.org/sgp/crs/row/RL34733.pdf> (accessed 9 September 2011).
- Villarreal, M. Angeles. *U.S.-Mexico Economic Relations: Trends, Issues, and
 Implications*. Washington, DC: Congressional Research Service, 24 February 2011,
<http://fpc.state.gov/documents/organization/152605.pdf> (accessed 9 September 2011).
- Weintraub, Sidney, ed. *NAFTA's Impact on North America: The First Decade*. Washington,
 DC: CSIS Press, 2004.