Donald Trump, NAFTA, and Mexico

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Trump's Anti-Mexico Discourse

In his campaign for the U.S. presidency, Donald Trump aggressively denigrated Mexico. First, he declared that many Mexican immigrants were criminals, and they must be deported. To support this effort, he also proposed Mexico would pay for a wall built to keep its people from pouring over the border to take U.S. jobs. Second, he called for a renegotiated North American Free Trade Agreement (NAFTA) to benefit the U.S. more.

Some analysts shrugged off these statements suggesting they were simply typical campaign rhetoric in present-day U.S. America. They said they were exaggerated, "populist" statements aimed at securing votes of people who had lost manufacturing jobs over the past couple of decades. Donald Trump was appealing to some of the basest feelings of middle America. He was speaking to those who felt betrayed not only by the political establishment in its dealings with Mexico, but also by its lack of restraint in handing out money to undeserving people, among them illegal immigrants from Mexico. They also believed they were under attack by a seemingly unstoppable flow of job-grabbing illegal immigrants and mind-numbing drugs that were streaming across their nation's southern border.

Many analysts believed that Trump would tone down his rhetoric if elected president. Congressional support for two key initiatives (immigration and protectionist trade reform) would eventually be required. They believed that the Republican Congress that would emerge from the election would instead support free trade and the low-cost labor that accompanies immigration, especially that of illegal aliens.

But the pundits seem to be wrong. Donald Trump's tone and aims have not changed much. In his much-lauded State-of-the-Union Address, with its considerably moderated tone, his core ambitions for Mexico and Mexicans persisted. Meanwhile, Congressional leadership has at least put up the front that the Republican Party is unified, and, thus, supports the president's views. But after swiftly approving his rather radical cabinet, it is not acting quite as quickly to pass some of the president's campaign ideas that require legislative reform, such as a replacement for Obamacare. Certainly, lobbyists are pressing Congress to support each initiative that emanates from the Oval Office. Still, U.S. corporations, which are enjoying the present terms of NAFTA, are similarly sending out lobbyists to prevent any proposed changes from being passed untouched by the U.S. Congress. So, while it is clear that we cannot currently know the precise outcome of this process, we *can* be sure that any proposed changes to NAFTA will on balance favor the U.S. at the expense of Mexico. There will be no win-win outcome as neoliberal policy-makers have tried to make us believe on both sides of the border.

Now, while U.S. firms, especially those big corporations that could be affected by Trump's new rules, like the automotive industry, have strong lobbyists in Washington, D.C.,

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Mexican immigrant workers do not, and that makes a big difference.

So far, NAFTA has not been beneficial to Mexico and unfair to the U.S., as President Trump argues. I will briefly show heres that NAFTA's outcomes have been quite the opposite. I recognize, despite the logic I shall present, that many U.S. citizens, will still *feel* the prejudices against Mexicans that Trump exudes. This kind of "post-truth" is tough to counter. We can only hope that hard data will counter the "alternative facts" they already believe.

NAFTA AND MIGRATION AS SEEN FROM MEXICO[1]

Unemployment and Migration in Mexico

Every year in Mexico nearly a million new people go out looking for jobs. Job creation within our nation and migration to the U.S. combined have not kept pace. The result is an *informal sector* that represents about 60 percent of Mexico's labor force and that produces about 25 percent of nation's GDP. Still, widespread unemployment and poverty remain evident.[2] NAFTA is not to blame for this, but rather the lack of jobs paying a living wage.

Unemployment has been an acute problem in the Mexican economy for a long time. As a result, migration to the U.S. is a long-standing tradition; and NAFTA has not stemmed the tide. In fact, some analysts found it surprising, as exports boomed and GDP grew in the immediate wake of NAFTA, that migratory flows to the U.S. also increased precipitously. A most startling piece of information on this post-NAFTA migration stream was the sizeable share of migrants who were skilled and fairly well educated.[3]

According to Mexican official (Conapo) and unofficial (El Colegio de la Frontera Norte, or Colef) sources, there also has been a northward migratory march within Mexico; in 2007 the count was approaching 2 million people. Unofficially, close to 50 percent crossed over to the U.S. that year. The rest remained in Mexico near the border. By 2014, the tide of northbound migrants ebbed to something closer to 700 000 annually, about a quarter of whom made the border crossing. Anti-immigration policies applied by the U.S. are credited with reducing the cross-border migration flows.[4]

Why NAFTA?

So why did Mexico opt to participate in NAFTA? After all, its economy was buoyant thanks to the General Agreement on Tariffs and Trade (GATT) (today's World Trade Organization) and the most-favored-nation trade status granted by the United States.

The Mexican economy's performance from 1982 to 1993 proved that the new 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,[5] was failing in terms of economic growth, job creation —to prevent migration to the U.S.—, and the trade balance. It seemed that the strategy needed some adjustment. This came as a complete reform of Mexico's law on foreign investment.

So, the president of Mexico negotiated with the U.S. to sign NAFTA. He promised change, particularly for laws that allowed U.S. companies to import inputs from anywhere in the world and to produce exports. Preferential trade through NAFTA was clearly better for Mexico than simple free trade. To the Mexicans, he promised, "We are going to export goods not labor."

Besides, since Mexico had successfully grown economically and to some degree industrialized the economy in a period of about 40 years before 1981 under what was called a "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 for all the neoliberal reforms.

Results of NAFTA for Mexico

Table 1 shows the annual average growth rates of three key economic indicators for Mexico across three periods covering 45 years: gross domestic product (GDP), exports, and employment. During the first period under the state-led growth strategy (1970-1981), according to these indicators, Mexico's economy flourished. Under the practice of neoliberal reform, the other two periods, it has performed less well. The NAFTA period (1994-2015) has been better for Mexico than the years when neoliberal reforms first got underway (1982-1993).[6] Regardless of this, performance of these indicators remains below that achieved under the state-led growth strategy.

NAFTA produced a big change in trade as illustrated in Figure 1. Mexico's trade balance within NAFTA, mainly with

Table 1: GDP, Exports, and Employment Average Annual Growth Rates			
	1970-1981	1982-1993	1994-2015
GDP (constant pesos)	6.9	1.7	2.6
Population	3.2	2.1	1.4
Real per capita GDP	3.6	-0.4	1.2
Exports (constant pesos)	11.9	6.1	8.4
Employment	4.8	2.0	1.4

Source: Instituto Nacional de Estadística y Geografía (INEGI), http://www.inegi.org.mx/sistemas/bie/.

the U.S., has been positive since the start, reaching about US$122 billion in 2015. But the trade balance with the rest of the world (ROW) has moved in the opposite direction, with a net deficit of US$147 billion in 2015. Mexico's net overall trade balance in 2015 was a deficit of US$25 billion. It is important to note that this deficit is close to what existed prior to NAFTA. While most of Mexico's trade surplus is with the U.S., most of its deficit is with Asian countries, mainly China. In any case, exports represent more than 30 percent of Mexico's aggregate demand, and imports also represent more than 30 percent of its aggregate supply.

We can safely say that NAFTA had been favorable to Mexican exporters. Many of these are foreign multinational corporations, mostly U.S. firms. But foreign firms that export to Mexico also have benefited since NAFTA's inception. And, while most of these firms are exporting from Asia, they, too, are multinationals based in the U.S. So, U.S. capitalists clearly benefited from NAFTA. The so-called "rules of origin" of NAFTA never applied.

Labor in Mexico under NAFTA

In another article, I showed that, in fact, right after NAFTA's implementation in 1994, the share of the labor force linked to exports (including maquiladoras) was about 15 percent of all people employed in Mexico.[7] Unfortunately, the absolute level of total labor did not change much. This means, as I showed in yet another article,[8] that as new exporting plants and firms hired workers, other firms that were producing for both local markets and exporters shed workers as their production was displaced by imports. So, the net gain in jobs was, in fact, nil.

In particular, just prior to NAFTA (1988-1993), the so-called *displacement coefficient* (imports divided by total supply) was close to 50 percent in industries producing vehicle engines and parts and transport equipment. This suggests that half the supply in these industries was imported, products that might have been produced locally.

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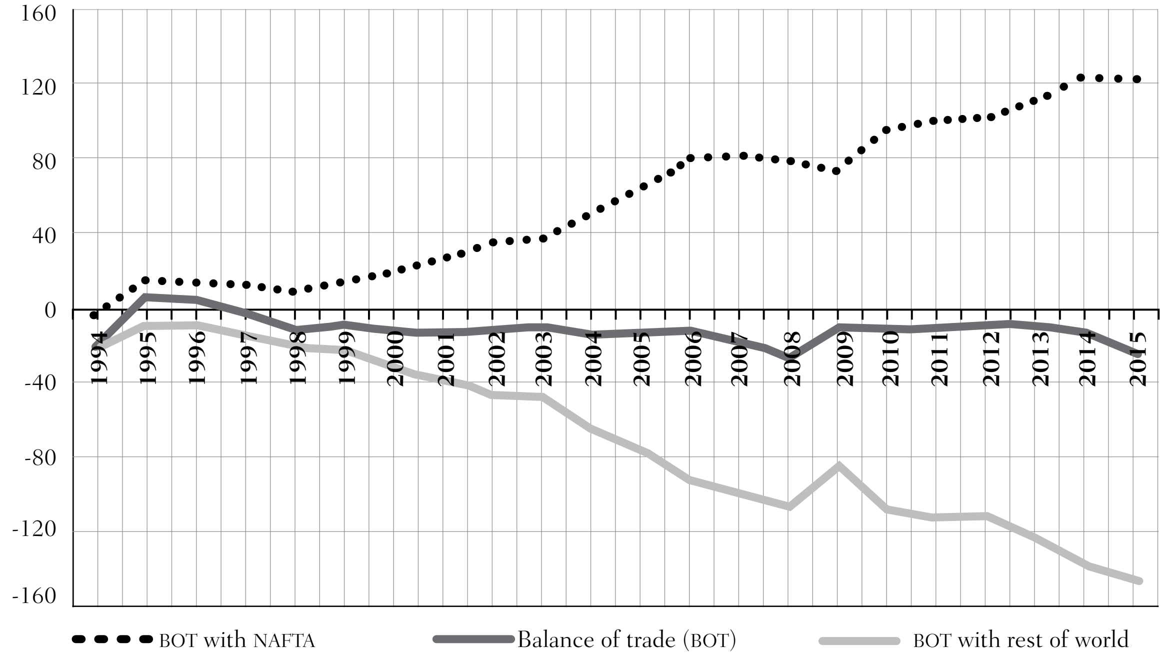
NAFTA for the U.S.

Okay then, but why did the U.S. let Mexico join NAFTA? Practically speaking, we must understand that at that time, the U.S. perceived North America as just two countries: the U.S. and Canada. Mexico not only was no exporting powerhouse but, at that juncture, had lost all power at the trade negotiations table, having joined GATT; that is, it was already open to free foreign trade.

To answer this question, recall that prior to NAFTA negotiations, Mexico heavily restricted foreign investment. Indeed, in some economic sectors and geographic areas, foreign investment was forbidden altogether. These were called "strategic sectors" and "strategic areas." Outside these strategic sectors and areas, foreign investment could make up to 49 percent of firm ownership. So, foreign investors needed a Mexican partner who could own a majority of shares. Prior to NAFTA, the entry of U.S. capital was limited to so-called "runaway plants," "offshore plants," or "maquiladoras" that could produce with 100 percent foreign capital, but using only Mexican labor. They could import all inputs from abroad and sell the result abroad, but they could not sell in local Mexican markets. So, unfettered investment was a very important motive for U.S. interests to get Mexico to the NAFTA negotiating table; the other was the low cost of labor (even skilled labor) to the south. For U.S. firms, Mexico's labor legislation and labor unions were comparatively weak. The general availability of semi-skilled labor, lower tax rates, a cheaper water supply, and other available public infrastructure also made Mexico worth courting from the perspective of U.S. firms.

On the other hand, the large migratory flows from Mexico were unacceptable to the U.S. government and exorbitantly expensive for both governments to stop along their nearly 3 200-km border. (Indeed, even today they have only the ability to stop illegal entries along 200 km.) Despite some discussion, it was clear for political reasons that NAFTA could

Figure 1: Balance of Trade (1994-2015)
(billions of US dollars)



Source: Developed by the author with data from the Instituto Nacional de Estadística y Geografía (INEGI), http://www.inegi.org.mx/sistemas/bie/.

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not include rules to regulate migration. Negotiating officials from both the U.S. and Mexico hoped that the rush of private U.S. investment flowing into Mexico would create enough jobs south of the border to slow migration flows to a trickle.

NAFTA Results for the U.S.

From its inception, U.S. labor unions felt NAFTA gave Mexico an "unfair" competitive edge on two counts. One pertains to environmental protection rules; the other involves labor rights.[9] Initially, the three NAFTA countries agreed to establish strict common rules for all parties involved and enforce their application. But by 2008, it was clear that exporting firms established in Mexico enjoyed more relaxed labor and environment rules. The result was that NAFTA at least gave the appearance of hurting U.S. workers. Evidence was clearest when U.S. firms opened plants in Mexico before —or not long after— closing them in the U.S. They did so to exploit both low Mexican wages as well as free trade agreements enjoyed by Mexico that enabled lower-cost imported inputs from abroad. Plus, production technology was also less expensive since, environmentally speaking, Mexico was a relative pollution haven. The confluence of these conditions made for higher profits on each unit produced. These profits have been returning to the parent corporation in the U.S. or shown as reinvested in Mexican plants. But even then, it increased the value of capital for the investing multinationals. In any case, the true winners in this game are capitalists, both executives who suggested relocation and stockholders in the multinational corporations that own the plants relocated in Mexico.

So far, we have almost exclusively discussed semi-skilled labor and manufactures. We have not mentioned agriculture, for which U.S. negotiators crafted some protections within NAFTA for U.S. farmers —though none for Mexican peasants. The reasons for this have been thoroughly analyzed by Timothy Wise.[10]

Despite President Trump's clamoring, is trade with Mexico actually threatening or damaging the U.S. economy? Table 2 shows that in 2016, China produced 61 percent of the

Table 2: U.S. trade in goods and services by selected countries (billions of US dollars)						
	Exports		**Imports**		**Balance**	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**
China	165.145	169.818	499.226	479.574	-334.081	-309.756
Mexico	267.337	262.125	325.276	323.850	-57.939	-61.725
Canada	337.765	321.588	331.647	313.495	6.118	8.093
Japan	108.315	108.608	163.701	164.951	-55.386	-56.343
Germany	79.821	80.389	157.102	148.146	-77.281	-67.757
United Kingdom	123.462	121.188	111.454	106.571	12.008	14.618
Subtotal	11 081.845	1 063.716	1 588.406	1 536.587	-506.561	-472.870
Total	2 261.163	2 212.079	2 761.525	2 712.639	-500.361	-500.560

Source: U.S. Department of Commerce, Bureau of Economic Analysis, https://www.bea.gov/newsreleases/international/trade/tradinfo.htm.

total trade deficit of goods and services in the U.S., and Germany is second at 13 percent. Mexico and Japan fill out the top four, each comprising about 12 percent of the U.S. trade deficit (a deficit for the U.S. is a surplus for these countries). So, it seems the U.S. has greater balance of trade concerns than those with Mexico. Mexico also spends most of its surplus by buying goods from Asian countries like China.

Conclusions

I believe I have shown that NAFTA has not benefited Mexico very much. Perhaps the strongest piece of evidence is that migration to the U.S. has not stopped. While Mexico's exports to the U.S. have grown, imports from the other side of the Pacific Rim have grown equivalently. Moreover, exports have not spurred robust economic growth in Mexico, and for certain, job growth has been less than sanguine. In fact, free trade and NAFTA have hurt domestic capitalists in manufacturing and domestic farmers and peasents in agriculture. In this way, they may have aggravated and not solved our nation's unemployment and poverty problems.

The fact that Mexico is seen as the backyard of the U.S. and that its government behaves that way makes it vulnerable to verbal, political, and commercial attacks, without a proper response. But the real competition for the U.S. is not Mexico, but China and, in second place, Germany. We shall see what they have to say in the coming meetings between their leaders. VM

Notes

[1] This section and parts of the rest of the article were taken from Pablo Ruiz Nápoles, "Neoliberal Reforms and NAFTA in Mexico," forthcoming in *Economía UNAM* no. 41, May-Aug 2017.

[2] Mexico's National Council for the Evaluation of Social Development Policy (Coneval) estimated the population living in poverty in Mexico at 46 percent of the total, that is, 52 million people. Consejo Nacional para la Evaluación de la Política de Desarrollo Social, http://www.coneval.org.mx/InformesPublicaciones/Paginas/Publicaciones-sobre-Medicion-de-la-pobreza.aspx.

[3] Wayne Cornelius, "Impacts of NAFTA on Mexico-to-US Migration," in E. J. Chambers, and P. Smith, eds., *NAFTA in the New Millennium* (La Jolla, California: The University of Alberta Press/Center for US-Mexican Studies, 2002), pp. 287-304.

[4] J. J. Li and J. L. Ordaz, "Evolución de la migración México-Estados Unidos. El TLC a 20 años. Una amplia reflexión," BBVA Research (Mexico City: Facultad de Economía, UNAM, 2014),

[5] Jeffrey D. Sachs, "Trade and Exchange Rate Policies in Growth-Oriented Adjustment Programs," Working Paper No. 2226, NBER Working Paper Series (Cambridge, Massachusetts: National Bureau of Economic Research, April 1987).

[6] The NAFTA period also includes subsequent free trade agreements with Central America, the European Union, EFTA (Iceland, Lichtenstein, Norway, and Switzerland), Japan, Israel, Colombia, Peru, Chile, and Uruguay.

[7] Pablo Ruiz-Nápoles, "Exports, growth, and employment in Mexico, 1978-2000," *Journal of Post Keynesian Economics* vol. 27, no. 1 (Fall 2004), pp. 105-120.

[8] Pablo Ruiz-Nápoles, "Liberalisation, Exports and Growth in Mexico 1978-1994: A Structural Analysis," *International Review of Applied Economics* vol. 15, no. 2 (2001), pp.163-180.

[9] David A. Gantz, "Labor Rights and Environmental Protection under NAFTA and Other U.S. Free Trade Agreements," *The University of Miami Inter-American Law Review* vol. 42, no. 2 (Winter/Spring 2011), pp. 297-366.

[10] Timothy A. Wise, "Agricultural Dumping under NAFTA: Estimating the Costs of U.S. Agricultural Policies to Mexican Producers," Report 7, *Mexican Rural Development Research Reports*, Woodrow Wilson International Center for Scholars, 2010.