

Decade-long NAFTA debate continues

By Jennifer Girardin
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MONTERREY, Mexico -- For 22 years, Pasteleria Jesther, a small bakery located in the heart of downtown, was the place where locals snatched up batches of freshly-made Mexican pasteries, like empanadas, and bought cakes to celebrate traditional quinceañeras.

No more.

For the past decade, owner and operator Horacio Montemayor says business has been slowly dwindling due to the passage of the North American Free Trade Agreement, which cleared the way for free trade across Canadian, U.S. and Mexican borders.

These days, Mexicans are more apt to go to Wal-Mart for pre-made Sara Lee products because of convenience and price.

Before NAFTA took effect in January of 1994, presidential candidate Ross Perot summed up criticism of the agreement when he said U.S. jobs would be sent over the borders to Canada and Mexico, creating "a huge sucking sound." NAFTA might help other countries, critics said, but not the United States.

Proponents just as forcibly argued that without stiff tariffs on goods, prices would drop, the quality of life for everyone would improve and the United States would finally have something good to say about its relations with Canada and Mexico.

Ten years later, the NAFTA debate continues.

Consumers almost certainly have benefited, but everything else is up for grabs:

Jobs have been gained and jobs have been lost; businesses have been hurt and businesses have been helped; economies have faltered and economies have soared. It all depends on your point of view.

Booming trade

U.S. trade with Mexico took off after NAFTA. Exports and imports both totaled about \$40 billion in 1993. In 2003, the latest year for which figures are available, the U.S. exported \$97.5 billion worth of goods to Mexico and imported \$138 billion.

Mexico is by far Arizona's main trade partner, followed by Malaysia and then Canada. Arizona exported \$3.2 billion worth of goods to Mexico in 2003, almost double what it was before NAFTA, according to the Arizona Department of Commerce.

Most of those exports were machinery, semi conductors and aircraft, said Fernando Jimenez, international trade specialist and Mexico liaison for the Arizona Department of Commerce. Optics, medical instruments and plastics are also popular.

Mexico sends more goods to Arizona than the other way around, however. Arizona

imported \$4.7 billion of Mexican goods in 2001, according to a study by the Thunderbird American Graduate School of International Management.

Overall, Arizona ranks fourth in importing Mexican goods, behind Texas, Michigan and California.

All of that trading has been a plus for consumers, said Tom Fullerton, an economist and professor who specializes in international trade and Mexico and Latin American economies at the University of Texas at El Paso.

"Prior to 1994, grocery stores in El Paso didn't carry many Mexican products. Now pick any aisle and there are lots available," Fullerton said.

The same is true in Mexico, where almost everyone now has access to U.S. products that were once only available to the wealthiest, he said.

"The winners have been the consumers because there is a greater variety of products at lower prices," Fullerton said. "It helps standards of living to improve."

For example, where once duty fees added more than 40 percent to the cost of shipping a load of cantaloupes to the United States, the fees now add just 9.3 percent.

A price to pay

But cheap imports - from cantaloupes to jeans -- have come at a price on both sides of the border.

In Mexico, farmers have been unable to compete with U.S. corn and other products. "A lot of small producers just disappeared," said Javier Bolanos Cacheo Martinez, coordinator of the Office of Economic Development for the state of Nuevo Leon in Mexico. Partly as a result, it is estimated that millions of rural Mexicans have fled to the United States illegally.

Some Mexican businesses also have had trouble competing against big U.S. corporations like Wal-Mart, which have become increasingly popular with Mexican consumers. Mom-and-pop restaurants now compete against huge American chains like Burger King and Chiles.

In Monterrey and other big Mexican cities, there almost seem to be more American businesses than Mexican.

The unemployment rate has actually increased in Mexico since the inception of NAFTA. In 1995, the unemployment rate was about 11.2 percent; today it's at 15 percent.

However, Fullerton attributes the increase to "structural factors in the Mexican economy," rather than trade agreements.

He and other economists remain convinced that, overall, NAFTA has been good for Mexico's economy. Mexico went from the 13th to the ninth-largest trading nation in the world since NAFTA was implemented.

The trade agreement has also been good for U.S.-Mexico relationships, said Jose Mendez, international economics professor at Arizona State University.

"[NAFTA] has caused individuals to work together. Our relationship [with Mexico] is more positive and mutually beneficial," he said.

Lost jobs

Economists are less certain about the economic benefits of NAFTA for the United States.

The loss of U.S. jobs as a result of employers shifting production to Mexico or

Canada range anywhere from 15,000 to 800,000. The U.S. Department of Labor puts the number at about 500,000.

There was no giant "sucking sound" of U.S. jobs going over the border, according to Mendez, who puts the number at the lower end of the range.

"But we're talking about an economy with about 100 million workers. When our economy hiccups we lose that in a month," he said. "For the U.S. there has been virtually no impact, just as economists predicted beforehand."

Economist Fullerton said about 120,000 workers have lost their jobs, but it's not clear whether that was due to companies relocating to Mexico or to other global markets.

"It's difficult to provide an accurate estimate due to several factors," Fullerton said. "At the beginning of NAFTA's implementation, the U.S. unemployment rate was at 6.1 percent. It eventually went down to 4 (percent) in 2000 and has since gone back up to 5.4 percent, but that's mostly due to cyclical factors in the economy."

Fullerton said it's clear that neither the U.S. nor the Mexican labor markets have been severely impacted by the trade agreement.

The Economic Policy Institute, a nonpartisan, nonprofit think tank and a major NAFTA critic, disagrees.

Since its implementation in 1994, NAFTA has resulted in the loss of more than 800,000 jobs, according to an EPI analysis of U.S. Bureau of Labor Statistics and Census Bureau data.

Of that, Arizona has suffered a loss of about 12,000 jobs, according to the institute.

On the flip side, NAFTA has also created jobs in Arizona, according to a 2002 study by the Thunderbird American Graduate School of International Management, located in Phoenix. The study concluded that 50,000 jobs in Arizona were tied to exports to Mexico.

The Arizona Department of Commerce makes the same point, but Fernando Jimenez, international trade specialist for the department, said Mexico has been much more aggressive than the United States in taking advantage of free trade.

His job is to try to attract Mexican businesses to Arizona and encourage Arizona businesses to export to Mexico, and he's been discouraged on both counts.

"Under NAFTA, Mexican companies have not been interested in establishing big operations here. The costs are too high," he said. "Mexico has the benefit of cheap labor. All they do is put people to work {ellipsis} and U.S. jobs are going there."

Arizona's exports to Mexico - about \$3.2 million a year - are miniscule when compared to Texas, for example, which exports nearly \$100 billion a year to Mexico.

"We're in diapers, basically," Jimenez said, and efforts to encourage more exports from Arizona have met with limited success. A recent trade mission to Monterrey, Mexico, for example, attracted one Arizona company last year and three this year.

Arizona businesses are "just not that interested," he said. "They think (Mexico) only buys from Texas."

Mexican officials, on the other hand, are having no such trouble.

Alejandro Gomez is Jimenez' counterpart for the Mexican state of Nuevo Leon in northwestern Mexico, and he isn't complaining about lack of interest.

About 1,700 foreign companies operate in Nuevo Leon, most from the United

States, Gomez said, and his Office of Economic Development is actively recruiting more.

Arizona, particularly the Valley of the Sun, is a prime target.

Gomez said a meeting last year for Monterrey companies considering exporting to the Valley drew a large crowd. Since then, 15 small companies from Monterrey began to sell food products in Phoenix. "One has seen sales grow 300 percent; another 150 percent," he said.

"Phoenix has a 25 percent Hispanic population. That's a natural fit for us."

Global changes

One of the difficulties in assessing the effect of NAFTA is that it isn't the only thing to change world markets in the intervening years.

Mendez, for example, said Mexico's economy had begun changing as early as 1980 when it joined with the World Trade Organization in an effort to go from a closed market to an open one. In subsequent years, Mexico also revised its foreign investment laws, privatized its banking system and paid off external debt.

"These are the things they did that had a far greater impact than NAFTA. NAFTA was the culmination of a series of steps to open the economy," he said.

Perhaps the most significant development has been globalization. U.S. jobs have gone to many countries other than Mexico, most notably China.

And China recently replaced Mexico as the second-biggest exporter to the United States.

It's getting much harder for Mexico to attract business there when labor costs are even cheaper elsewhere, said McLaren.

"When NAFTA came it was like 'Oh boy, let's go down there,'" she said. "Now it's China, and soon it will be India."

NAFTA won't be fully implemented until 2009, when all remaining tariffs on goods traded between NAFTA partners are scheduled to end. But already, the partners are saying it's time to take another look at the agreement.

"The time has come to start the second stage of the free trade agreement," said Romeo Flores Caballero, executive coordinator of the program for integration of northeast regional development for the city of Monterrey.

"We're convinced globalization is not working [because] it is concentrated on a few and affecting many," Caballero said while seated at a conference table at his downtown Monterrey office.

Monterrey, as well as other parts of Mexico, has seen its trade surplus taper off in recent years, and the Mexican unemployment rate is rising. Mexican officials also are concerned about trade pacts the United States has signed with other nations and are discouraged that the United States still has not reformed immigration laws, as President Bush proposed nearly three years ago.

For their part, U.S. officials say that Mexico has been slow to make economic and legal reforms and to invest in its educational system.

"Mexico hasn't adopted marketing reforms, [and] as a consequence, the Mexican economy is performing at less than its ability," Fullerton said.

And while NAFTA addressed the free flow of goods, it has yet to do anything about the free flow of workers, said Mendez and McLaren.

"We could go in the direction of the European Union and have workers be able to

move between labor markets like a Mexican worker can come to Wal-Mart if he wants to," Mendez said.

"It promotes efficiency, reduces costs and raises standards of living, though some workers do suffer," Mendez said.

But that would mean major changes in U.S. immigration law - something the United States has traditionally been loath to address.

While the arguments rage, Montemayor of bakery fame says he will simply try to keep his business going.

He figures his best bet is to focus on individual service and the quality of each batch of pastries that comes out of his oven. His store's motto: "la mejor calidad al mejor precio," "the best quality at the best price," is painted across the store's back wall and printed on business cards featuring a man wearing a chef's hat. The small bakery even has its own website.

If he can hang on - if he can survive the ups and downs of NAFTA and globalization long enough -- his kids will get a quality education and, hopefully, a better life.

That's enough to deal with for now.

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