A Brief Analysis of the Impact of NAFTA on the United States and Mexico.

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1. Background

NAFTA, the North American Free Trade Agreement, is a trilateral trade bloc in North America. It is comprised of two highly industrialized countries—The United States and Canada, and Mexico, which is a developing country. It is the world's largest trading bloc according to 2010 IMF data. The agreement to form NAFTA came into effect in January 1, 1994. The first steps towards NAFTA were taken by President Ronald Reagan of the United States who was a firm believer in free markets and first proposed a North American free trade area.

The rationale behind NAFTA was that opening up the continent to free trade would increase prosperity for all thee countries by giving them access to a larger market and a wider choice of goods and services to consume. The goal was to promote free movement of goods, services and capital across the national boundaries of the three countries. All three countries agreed to give each other "Most Favored Nation" status. Proponents also argued that by engaging in free trade with their close neighbors first, the participants would be eventually be competitive when they engaged in free trade with a wider range of countries.

The impact of NAFTA has stoked much controversy, and more than a decade after it first went into effect, it is difficult to exactly determine the impact that NAFTA has had on these countries. Due to the limitations of a short paper, this paper will focus on only the United States and Mexico and three specific issues related to those two countries that have been impacted by NAFTA—The impact on the U.S manufacturing sector, the consequences on the Mexican agriculture sector and the subsequent mass migration of Mexican citizens into the United States.

2. Impact on the United States manufacturing sector

According to the Office of the United States Trade Representative, U.S trade in goods and services with NAFTA in 2009 totaled 1.6 trillion dollars, and has grown by a significant amount since NAFTA was implemented in 1994. The United States conducts a large proportion of its external with its two neighbors, and so trade with NAFTA represents a large part of U.S international trade. According to the same data set, exports to Mexico totaled 163.3 billion dollars in 2010, and imports from Mexico totaled 229.7 billion in 2010. As we can see from the data, the United States has a trade deficit with Mexico, but if this is broken down, the U.S has a service surplus, and a goods deficit with Mexico.

One obvious advantage that Mexico had when it engaged into a free trade agreement with the United States was that being a developing country, its wages were much lower than the United States and it had a competitive advantage in manufacturing goods which required relatively more labor intensive inputs. Indeed, manufacturing jobs that are labor-intensive (like apparels) have moved to Mexico due to the cost advantage offered to firms who offshore their production there. The negative impact of NAFTA has been greater on the U.S manufacturing sector compared to U.S service and agriculture sectors. For example, U.S textile and apparel employment decreased from 1,662,000 to less than 750,000 between 1993 and 2007 (U.S Department of Labor, Bureau of Labor Statistics; 1994, 2008). This was mainly due to capital intensive operations in the United States being supplemented Fender Guitars, a manufacturer of musical instruments based in Arizona, used to manufacture all of its products in California pre-NAFTA, but now makes most of its products just south of the border in Mexico. . According to the

Economic Policy Institute, the United States lost 879,280 manufacturing jobs from 1993 to 2003 to the displacement of production caused by NAFTA. This phenomenon has helped larger U.S firms and consumers, but it has harmed manufacturing employment in the United States. The overall impact is still very hard to determine as there have been both winners and losers in the United States due to NAFTA.

NAFTA has largely benefited large U.S manufacturing firms who now have access to larger and cheaper range of inputs in the form of Mexican workers. Although they shifted manufacturing jobs from the U.S to Mexico, the demand for their products has only grown and so have their profits. It is not only the U.S workers in the manufacturing industry who have suffered from the opening up of free trade with Mexico, but small scale U.S manufacturers have been devastated by NAFTA as well. Before NAFTA, small scale U.S manufacturers filled niches left in the U.S market not met by large corporations, but as large corporations has taken advantage of cheap Mexican labor and flooded the market with cheaper goods that smaller firms' products can not compete with.

In addition to U.S jobs being shipped to Mexico, U.S workers have suffered from NAFTA in other significant ways as well. Most of the jobs that were displaced due to trade were high-wage jobs which enabled U.S workers to attain middle class status. The possibility of jobs being moved to Mexico has also weakened the bargaining power of U.S labor unions. This effect is hard to quantify, but has had a large impact in the bargaining power of U.S workers. As large corporations could threaten to move jobs to Mexico if the unions did not comply with their demands, the corporations were in a significantly better position as regards to labor negotiations. This has the final effect of suppressing real wage gains for manufacturing workers in the United States. Finally this has had the impact of increasing income inequality in the United States as well, as labor has lost out and investors has gained due to large profits earned by the firms they invested in.

The impact of these job dislocations had not been uniform in the United States with some states and industries losing out more than others. The industrial heartland has suffered the most as it has seen its factories close and jobs shipped to Mexico. The auto-parts industry, a lot of which was based in Michigan and the surrounding Midwest states, has moved a lot of its productive capability to Mexico, where it does not have to deal with powerful labor unions in Mexico. Another industry that has seen a lot of jobs displaced is the apparel and the textile industry, but also other industries whose products are labor-intensive.

It is hard to quantify the exact effect that NAFTA has had on U.S jobs vis-à-vis Mexico in the manufacturing sector, as the U.S economy grew rapidly in the 90's and slowed down in the first decade of the 21st century. A booming economy increases jobs in all sectors, and a slowing economy caused employment to decrease in every sector. Because these rapid changes in the business cycle has coincided with the years after NAFTA was implemented, it is again difficult to exactly point out whether the U.S has lost jobs in the manufacturing sector due to NAFTA. Another fact that makes it difficult to determine the displacement of jobs is the fact that the United States has opened up trade with countries in Asia and losses of U.S manufacturing jobs can be attributed to opening up of trade with Asian countries like China as well. But it is safe to conclude that NAFTA has indeed shifted at least some U.S manufacturing jobs and capability to

Mexico. U.S exports to Mexico rapidly grew under NAFTA, but this was far outpaced by import growth. According to BLS data, U.S NAFTA related job displacement has increased from 97,060 in 1993 to 976,339 in 2002 (BLS 2002). And according to the same data set from the BLS, manufacturing industries constituted 78 percent of all job losses caused due to NAFTA. The displaced workers in most cases do manage to find employment in the service sector, but these jobs pay much lower than unionized manufacturing jobs. The U.S workers in manufacturing sectors which have been responsible for a larger share of merchandise exports to Mexico after the implementation of NAFTA (mainly high tech industries) have gained in real terms, but this only constitutes a small proportion of U.S workers.

3. Impact on Mexican farmers

Critics of NATFA have argued that, like the U.S manufacturing sector, the Mexican farming sector has suffered greatly under NAFTA. Opponents of NAFTA claim poor Mexican farmers have been the biggest losers of NAFTA. The United States had a very clear advantage in the agricultural sector before NAFTA went into affect. Most farming in the United States in done is large scale farms by large corporations and they enjoy huge economies of scale. The United States is also far more advanced in science and technology and the agriculture sector in the United States has benefited largely from advances in science. Everything from pest-resistant seeds to combined harvesters gives the United States a large advantage in agricultural products. In addition to these advantages, the United States has had a long standing policy of supporting its farmers through subsidies. The 2002 Farm Bill legislation in the United States authorized about

259 billion dollars in farm subsidies and federal subsidies accounted for about 40 percent of U.S agriculture sector profits. After NAFTA, Mexico was flooded with below-cost corn and many rural Mexican farmers went out of business as they could not compete with subsidized U.S corn. This would later go on to have a large effect on the United States, as a large percentage of these rural Mexican farmers displaced by NAFTA moved to the United States in the coming years.

Mexican farmers are at a steep disadvantage compared to their U.S counterparts as they don't access to the same levels of scale, subsidies and scientifically advanced seeds and fertilizers. Prior to NAFTA, a large percentage of the rural Mexican population farmed corn in small tracts of land mainly to feed themselves, but also to trade what they did consume. According to the Sierra Club, these poor farmers received a price 70 percent lower than what they were getting before NAFTA once the market became flooded with U.S corn. The Sierra Club also noted that about 2 million Mexican farmers have been forced to abandon their subsistence farming since NAFTA was implemented. According to UNTCAD estimates in 2007, NAFTA has helped to create only 700,000 manufacturing jobs in Mexico, but that is far from the 2 million jobs that have been lost in the agriculture sector. Not only that, but real incomes of many Mexican farmers have seen a persistent decline since NAFTA came into effect as corn prices have fallen. And like in the U.S. manufacturing sector, whatever support the Mexican government has given to its farming sector has gone to its large farms and agriculture businesses, the small players have lost out under NAFTA. Poverty levels have increased drastically in Mexico since NAFTA according to World Bank statistics.

Another critique of NAFTA is that it has made Mexico go from a country sufficient in agriculture, to a country that is dependant on the United States for its food, as Mexico is large consumer of corn and corn makes up a substantial proportion of the average Mexican family's diet. It is reasonable to conclude that the Mexican farmers and farming sectors have been harmed by NAFTA.

4. Post NAFTA Mexican Immigration to the United States

The final chapter in the ever evolving story of NAFTA has been the subsequent large scale migration of displaced Mexican farmers and workers. Having been driven from their subsistence farming, many poor Mexican farmers found them with no choice other than to migrate to the United States to earn a living. Since the United States restricts immigration, many of them crossed the border illegally and work in the United States without work authorization. Most of them initially worked in the farming sector, but eventually they moved onto other occupations such as working in restaurants and construction. The number of migrants only increased in the late 90's and the 2000's and was at its peak in 2007 after which it leveled off mainly due to collapse in the U.S housing market. Estimates by the Department of Homeland Security put the number of illegal immigrants from Mexico at around 10 million at its peak. The remittance sent home by these workers has a large impact on the Mexican economy.

Contrary to common held beliefs not all migration to the U.S. from Mexico is illegal, although illegal immigration far outweighs legal immigration. First, many Mexican migrants who become U.S citizens sponsor their family members to immigrate to the United States under the family based provision of U.S Immigration Laws. Second, the U.S gives out a very small number of temporary farm workers visas to Mexicans. Third, Mexican professionals with a college degree who secure a job in the United States are eligible to work in the United States under the TN visa, which is easier to obtain than the traditional H1B visa.. The TN Visa is a provision of the NAFTA agreement designed to promote labor mobility with North America.

This large immigrant population has several effects on the U.S economy. First, it has provided the U.S farming, construction and restaurant industries with cheap workers and has helped to keep inflation low. But at the same time, some U.S workers have been displaced because of the large number of migrants willing to work for below legal minimum wage levels. Critics of illegal immigration claim that the illegal immigrants use up public services without paying taxes. Supporters of these illegal immigrants claim that they do jobs that American citizens normally do not do, and fill up an important void in the U.S labor market. But it is true that some, if not many, U.S workers have lost jobs due to competition from low wage illegal immigrants.

5. Conclusion

Although NAFTA has created so much controversy and it has its fair share of proponents and detractors, the fact is that NAFTA has created both winners and losers in the United States in Mexico. One important point to note about analyzing issues related to NAFTA is that are efforts to determine its specific complicated by the occurrence of other economic events, so it is difficult to exactly quantify the effects that NAFTA has had on the economies of the U.S. and Mexico. The post NAFTA years were marked by the strong economic growth in the United States in the 1990’s, the opening up of U.S.

trade with Asian countries, the Mexican currency crisis and slowdown in the U.S economy in the early years of the 2000's. If we are going to analyze U.S manufacturing employment post-NAFTA, we have to isolate the effects of NAFTA only as economic growth, slowdown and opening up of trade with other countries also affects U.S manufacturing employment levels.

The winners from NAFTA have been the U.S agribusinesses, manufacturing companies utilizing cheap labor in Mexico and American consumers. The subsequent large scale migration of low-skilled workers has supplied the U.S economy with cheap labor and helped to keep inflation low. The Mexican workers in their manufacturing sector have seen gains and so have Mexican professional workers who now have improved access to working in the U.S because of the TN Visa provision. The U.S manufacturing workers and smaller U.S manufacturers have lost out a great deal because of NAFTA. The biggest losers of NAFTA have been poor Mexican farmers. They, more than anyone else, have had their entire lives disrupted as a result of it.

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