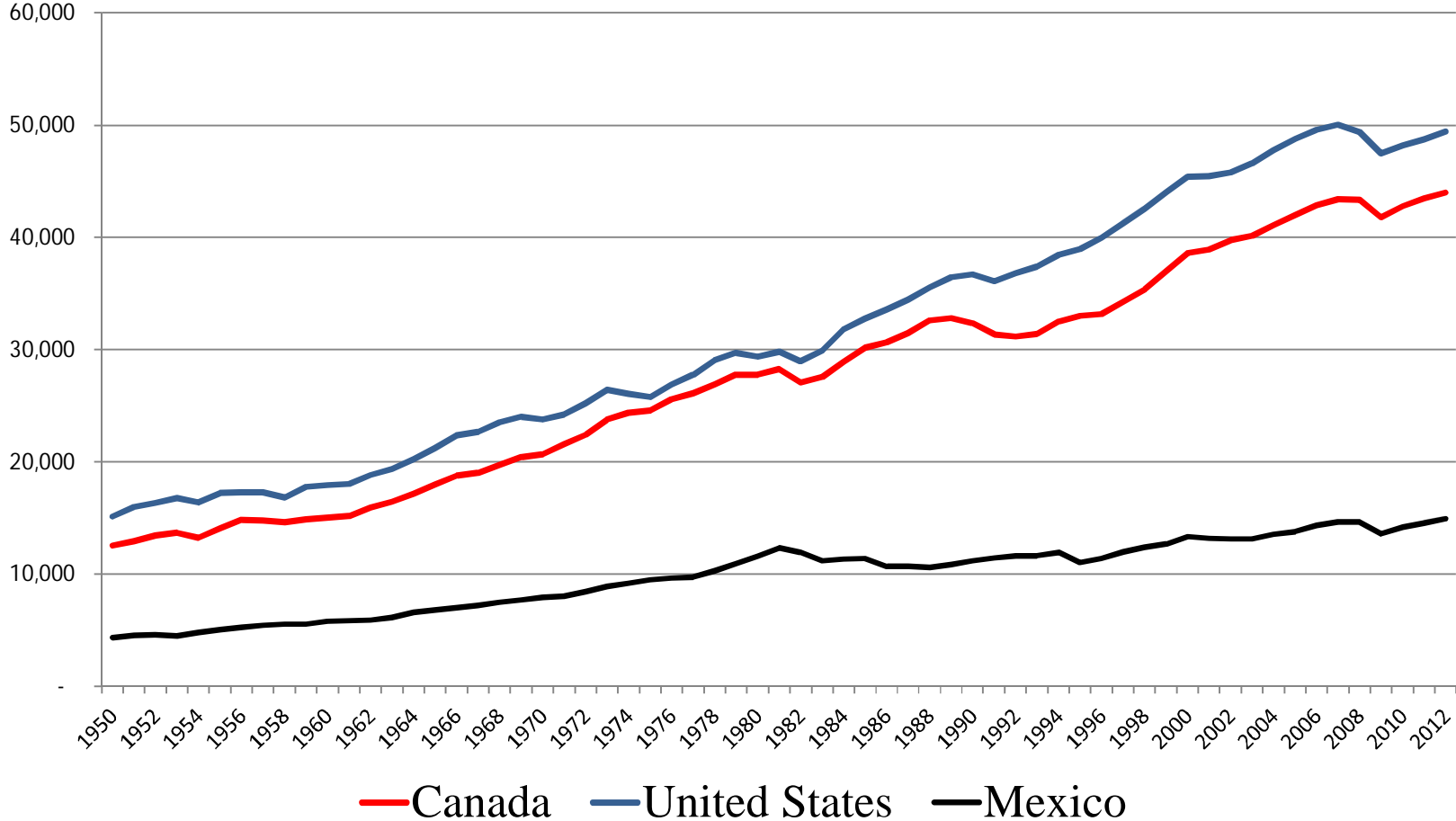


**NAFTA at 20**  
**EFFECTS ON THE NORTH AMERICAN**  
**MARKET**  
**JUNE 5-6, 2014**

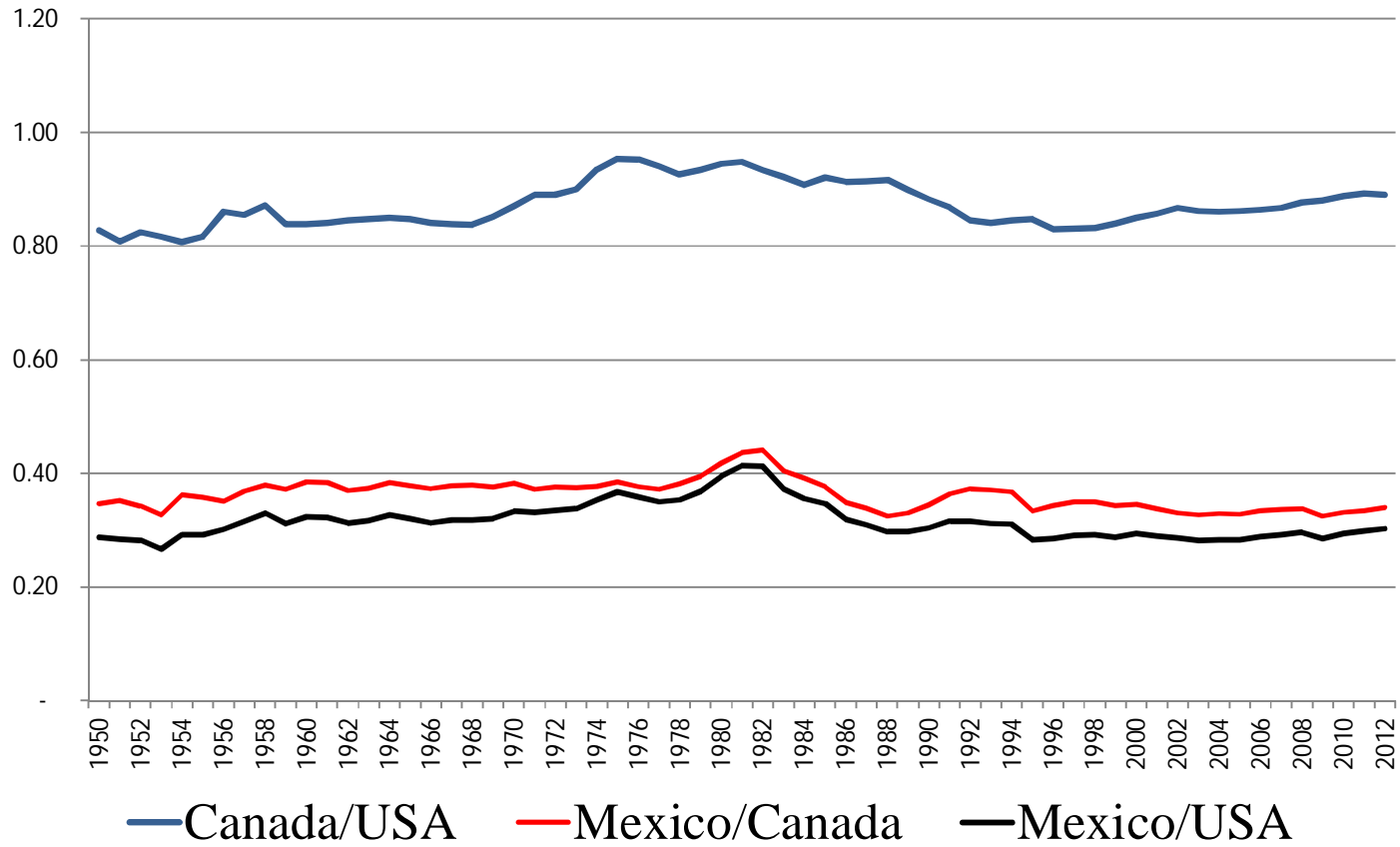
**Session 10**  
**The Future of NAFTA**

**José Romero**  
**(El Colegio de México)**

# GDP per Capita, in 2012 EKS\$

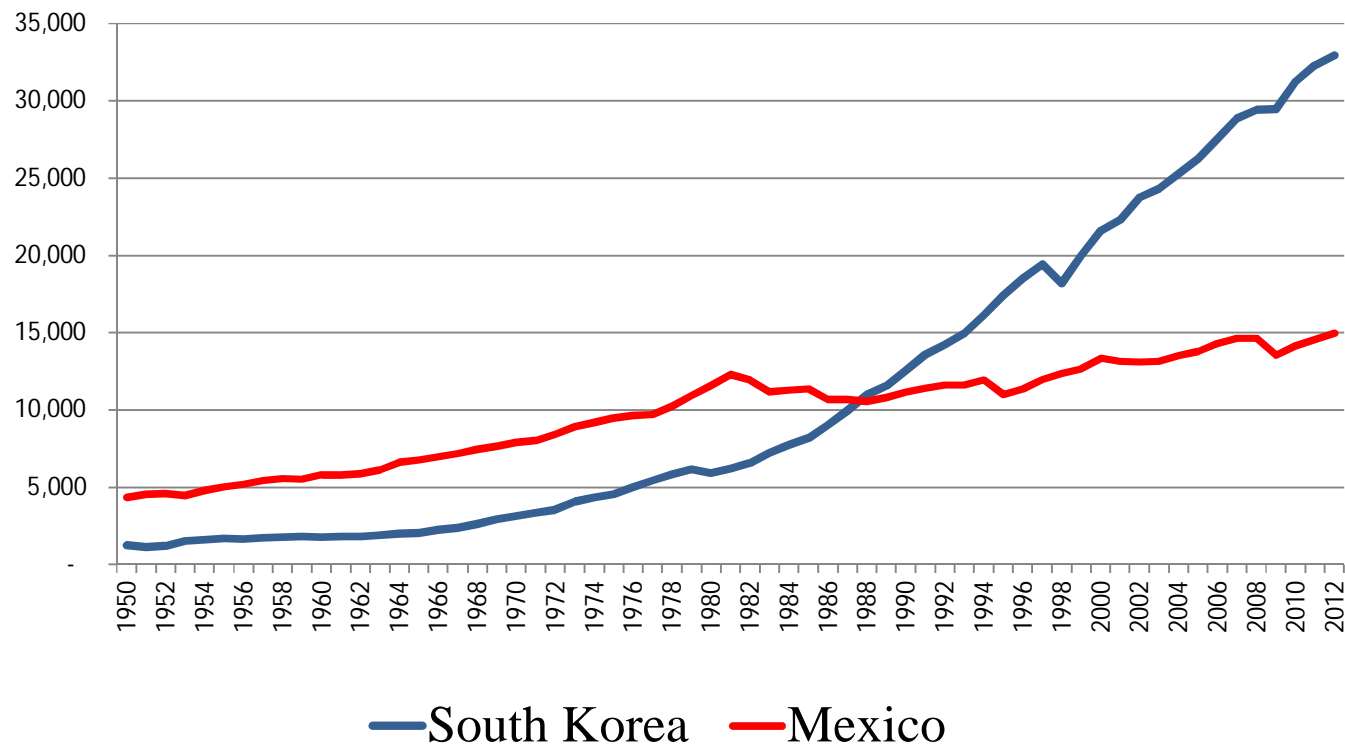


# Convergence within NAFTA



Trade Liberalization (elimination of tariffs and quotas)  $\neq$   
Export Growth Strategy (Industrial policy, etc.)

### GDP per Capita, in 2012 EKS\$



## Economic and Social Consequences since 1983

Trade liberalization (1983)  
and Inclusion of Agriculture  
in NAFTA



Contributes to impoverish  
the Mexican population  
and increases migration.

Trade Agreements &  
National Treatment to FDI



Industrial policy in the  
manufacturing sector  
impossible.

Trade liberalization, Trade  
Agreements & Oil Exports



Overvaluation. Investment  
in tradeables sectors not  
profitable.

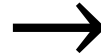
Small full open economy  
(Propensity to Import  $\approx 0.41$ )



Impossible to use fiscal policy as a source of growth, even in the short run.

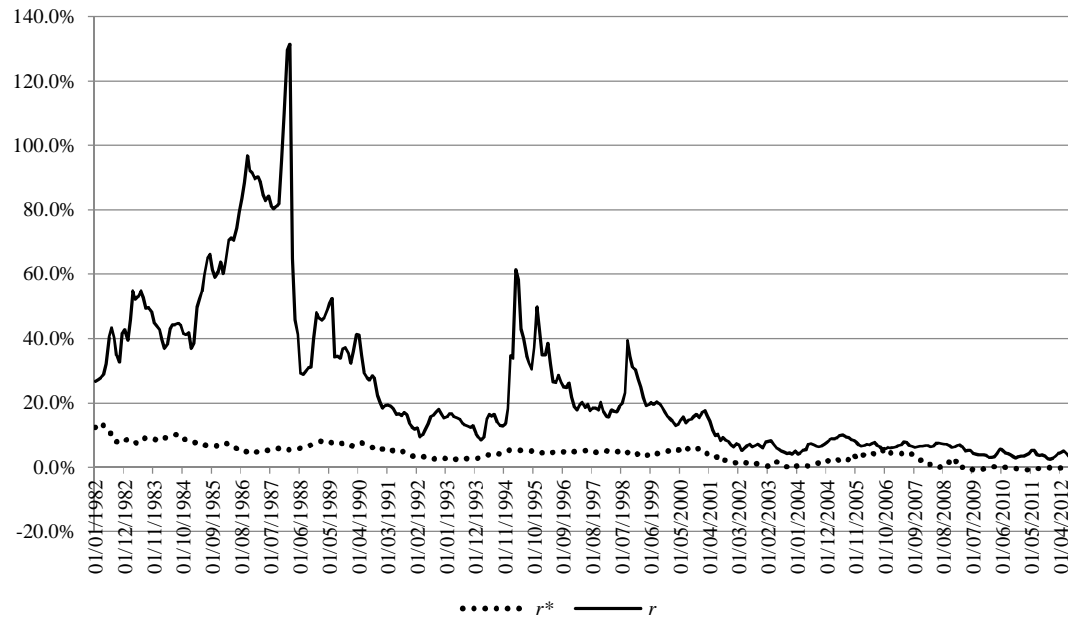
Fiscal stimulus increase employment in Mexico and China almost in the same proportion. Generates current account problems.

Full opening to Capital Markets



Impossible to use monetary policy to promote growth, even in the short run.

### REAL INTEREST RATE MEXICO - USA



1982-2012 difference average ( $r-r^*$ ): 20.25 percentage points, SE: 20.25.  
2002-2012 difference average ( $r-r^*$ ): 4.54 percentage points, SE: 1.57.

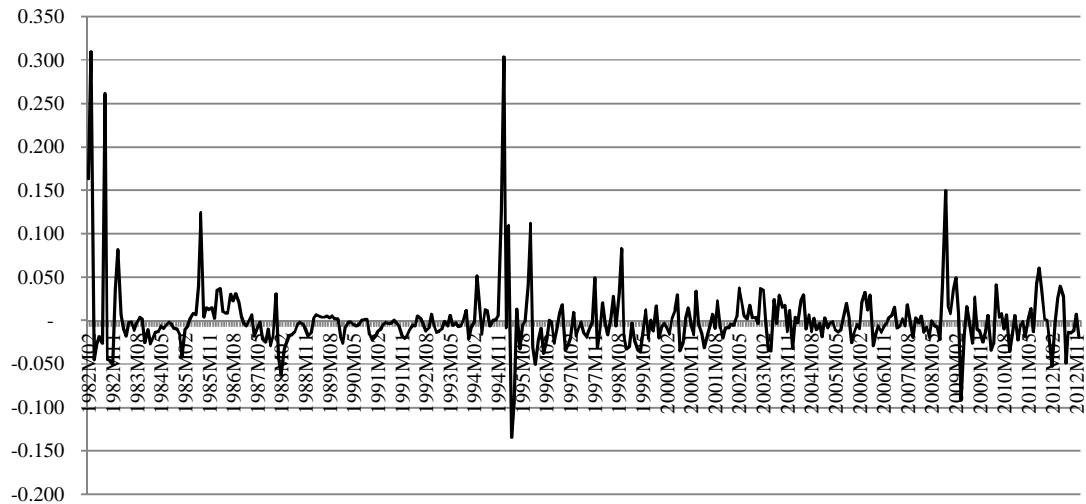
Small full opened economy  
and full open capital markets



Impossible to use real exchange rate as an  
instrument for growth.

A credible devaluation produces an increase  
in prices in the same proportion.

### REAL EXCHANGE RATE GROWTH (1982-2012)



Source: INEGI and Banco de México.  $E[\Delta q_t] = E[\Delta e_t + \Delta p_t^* - \Delta p_t] \approx \frac{\sum_{i=0}^n \Delta q_t}{n} 0.000481 \approx 0$ ; SE: 0.038, N=376.



Lack of the following policies to promote growth:

- Trade Policy
- Industrial Policy
- Fiscal Policy
- Monetary Policy
- Exchange Rate Policy

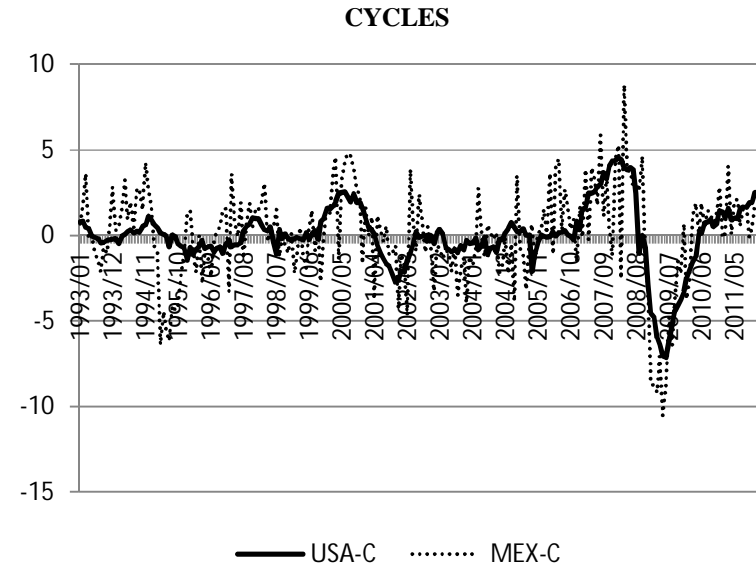
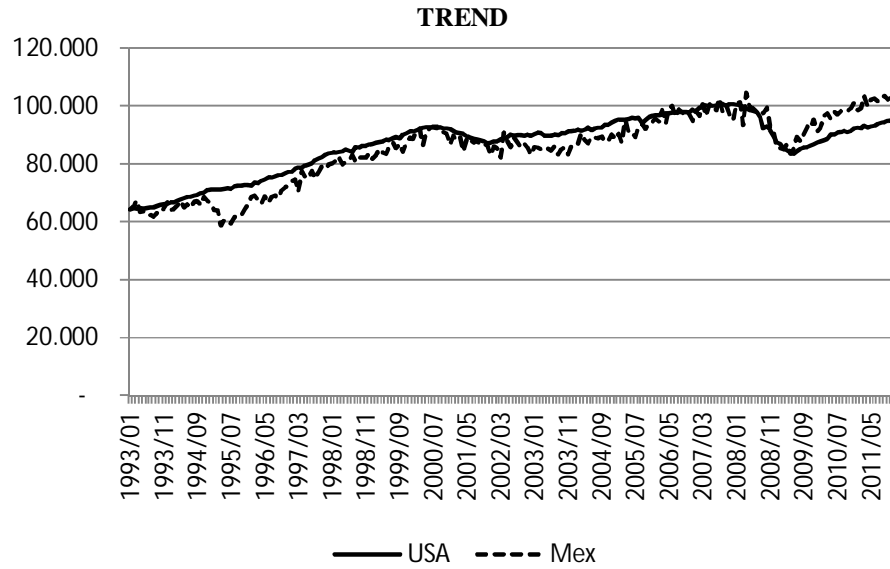
Only source of growth → US Growth

## Average Percentage Real GDP Growth

	USA	Mexico
1960-1982	3.3%	6.2%
S.D.	2.5%	2.6%
1983-2013	2.9%	2.2%
S.D.	1.8%	3.1%
1994-2013	2.5%	2.5%
S.D.	1.8%	3.3%

# INDUSTRIAL PRODUCTION, TRENDS AND CYCLES: 1993-2011

( $\lambda=14,400$ )



## **CONCLUDING REMARKS**

- **NAFTA DOES NOT HAVE A GROWTH STRATEGY AS A BLOCK.**
- **USA HAS ITS OWN GROWTH STRATEGY THAT DOES NOT INCLUDE MEXICO OR CANADA IN ITS CORE.**
- **FOR MEXICO, USA IS ITS ENTIRE WORLD; FOR USA, MEXICO IS ONLY ONE OF MANY PARTNERS AND IS NOT A PRIORITY.**
- **MEXICO CANNOT CONTINUE WITH THIS ECONOMIC PERFORMANCE FOR LONG. IT MUST CHANGE BEFORE SOCIAL UNREST BECOMES UNMANAGEABLE.**

- **MEXICO HAS TO MAKE CHANGES TO ALLOW ITS OWN INDUSTRIAL DEVELOPMENT**
  - **INCREASE THE PROFITABILITY OF THIS SECTOR TO INCREASE CAPITAL PER WORKER.**
  - **IT WILL ALSO NEED TO FAVOUR THE DEVELOPMENT OF NATIONAL FIRMS, ONLY THEN THE PROCESS OF LEARNING BY DOING, AND OTHER “ECONOMIC RADIATION” WILL TAKE PLACE.**
- **UNTIL NOW, THE OPENING OF THE MEXICAN ECONOMY TO TRADE AND CAPITALS, AND ITS RELATED POLICIES (INCLUDING NAFTA), HAVE NOT BEEN BENEFICIAL FOR MEXICO AS A WHOLE.**