

1998

## NAFTA after Four Years: Successes, Problems, and Challenges

Bernard L. Weinstein

Follow this and additional works at: <https://scholar.smu.edu/lbra>

---

### Recommended Citation

Bernard L. Weinstein, *NAFTA after Four Years: Successes, Problems, and Challenges*, 4 *LAW & BUS. REV. AM.* 109 (1998)  
<https://scholar.smu.edu/lbra/vol4/iss3/6>

This Article is brought to you for free and open access by the Law Journals at SMU Scholar. It has been accepted for inclusion in Law and Business Review of the Americas by an authorized administrator of SMU Scholar. For more information, please visit <http://digitalrepository.smu.edu>.

# NAFTA after Four Years: Successes, Problems, and Challenges

*Bernard L. Weinstein\**

The North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994, and on that date Texas and the rest of the United States became party to the world's largest trading bloc. This comprehensive agreement will reduce tariffs and other restrictions on the flow of commodities, products, and capital over a fifteen year period with the aim toward stimulating commerce among the three original participants – the United States, Mexico, and Canada. Other Central and South American countries have expressed interest in joining NAFTA, and the agreement may well evolve into a hemispheric free trade area in the years ahead.

## **I. Trends in United States-Mexico Trade and the Mexican Economy.**

Well before NAFTA's implementation, trade among the three countries had grown substantially—especially that between the United States and Mexico. For example, in the nine-year period between 1984 and 1993, U.S. exports to Mexico nearly quadrupled, rising from \$12 billion to \$42 billion. Still, the proponents of NAFTA faced stiff opposition from organized labor and presidential candidate Ross Perot in the early 1990s, both camps claiming that the trade agreement would cause the loss of millions of high-paying manufacturing jobs in the United States.<sup>1</sup>

During the first four years of NAFTA (1994-1997), U.S. exports to Mexico jumped another sixty-nine percent to \$71 billion (see Figure 1). Prior to the peso devaluation in late-1994, the United States had maintained a balanced trade account with Mexico. But by 1997, mainly because of the booming U.S. economy, coupled with a cheaper peso, a \$14 billion deficit was posted with Mexico.<sup>2</sup>

---

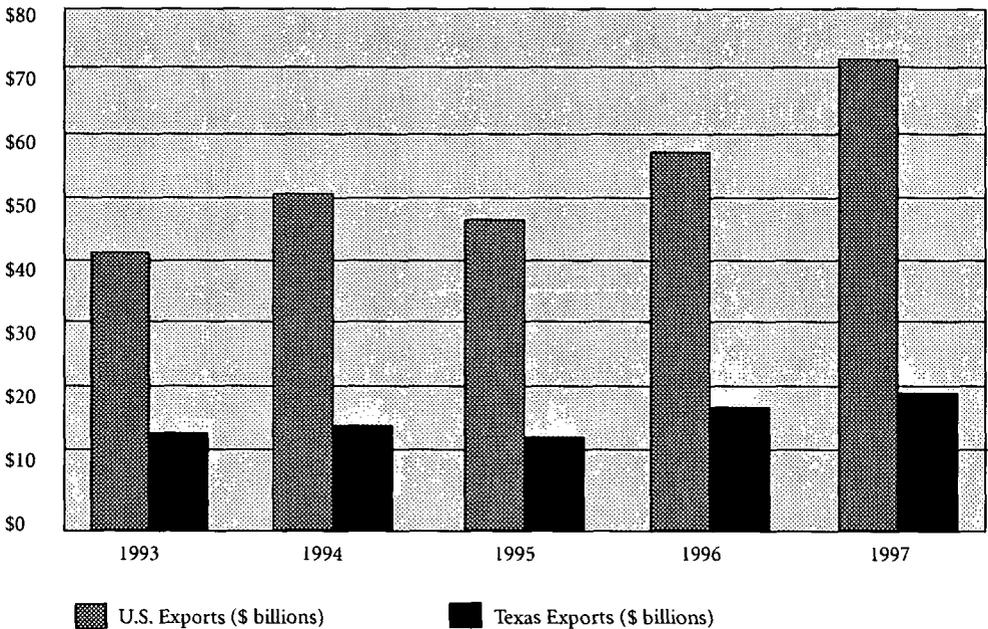
\* Director, Center for Economic Development and Research and Professor of Applied Economics, University of North Texas, Denton, Texas USA.

1. Supporters of NAFTA also tended to exaggerate the economic and employment benefits. One Texas economist claimed NAFTA would create 1 million new jobs in Texas alone during its first ten years.

2. It should be kept in mind that as the U.S. economy becomes more closely integrated with those of Mexico and the Canada, country-to-country trade statistics become less significant.

---

FIGURE 1. GROWTH OF EXPORTS TO MEXICO



Source: U.S. Department of Commerce, International Trade Administration.

Though the Mexican economy contracted sharply after the peso devaluation in late 1994, it has made a remarkable recovery over the last two years. Mexico's export-driven economy grew at a seven percent average annual rate in 1996 and 1997, one of the fastest country growth rates in the world. And, Mexico is currently receiving more foreign direct investment than any other country. Without question, participation in NAFTA has facilitated Mexico's economic recovery from the debacle following the peso collapse.<sup>3</sup>

Arguably, Texas has gained more from trade with Mexico than any other state. In 1997, Texas' exports to Mexico grew by twenty-one percent and totaled \$18.9 billion, about twenty-seven percent of the U.S. total. By contrast, California, with a much larger economy than Texas, exported only \$9.9 billion worth of goods to Mexico last year. According to the U.S. Department of Commerce, about 378,000 jobs in Texas are *directly* related to Mexican exports, three and one-half times the number in California (see Table 1). Texas' leading export industries, in terms of Mexican sales, include electronic equipment, primary and fabricated metals, computers, and transportation equipment.

3. It took Mexico five years after the 1982 peso crisis before economic output rebounded to pre-crisis levels. By contrast, Mexican output rebounded by the end of 1996 from the 1995 crisis. After the 1982 devaluation, it took Mexico seven years to return to international capital markets. This time it took only seven months.

Though Texas is the largest exporting state to Mexico, other parts of the country have been expanding their trade relations as well, most notably the industrial Midwest (see Table 2). Between 1996 and 1997, export growth to Mexico from the U.S. industrial heartland ranged from eighteen percent in Ohio to thirty-eight percent in Michigan. In 1997, the United States exported almost \$6 billion in auto parts and accessories to Mexico, and the lion's share emanated from the Midwest. Over-the-road trucks hauled the bulk of these shipments, and Interstate 35 provided the principal entry into Mexico. As Mexico's economy continues to improve, two-way trade with the Midwest will surely grow in tandem.

TABLE 1. EXPORTS TO MEXICO AND RELATED JOBS

State	1997 Exports (\$ billions)	Related Jobs*
Texas	\$ 18.9	378,000
California	9.9	198,000
New York	1.8	36,000
Massachusetts	.5	10,000

\*Based on 20,000 jobs per \$1 billion in exports.

Source: U.S. Department of Commerce, International Trade Administration.

TABLE 2. EXPORTS TO MEXICO FROM THE MIDWEST

State	1997 Exports (\$ millions)	Change from 1996
Michigan	\$ 6,458.0	+ 37.8%
Illinois	2,189.7	+ 18.7
Ohio	1,583.7	+ 17.7
Missouri	1,042.4	- 4.3
Kansas	449.2	- 30.2
Wisconsin	427.3	+ 21.9
Indiana	2,573.3	+ 1.7
Iowa	167.7	+ 52.0
Nebraska	142.0	-15.5
Minnesota	822.8	- 2.8

Source: U.S. Department of Commerce, International Trade Administration.

California's exports to Mexico have also grown rapidly, jumping ninety-four percent between 1993 and 1997. Major exports include electric and electronic equipment, computers, and auto parts. Northeastern states, such as New York and Massachusetts, are also expanding their trade with Mexico, posting gains of fifty-four percent and twenty-five percent respectively, between 1993 and 1997. The Northeast's principal exports to Mexico are instruments and electronic equipment.<sup>4</sup>

## II. Has NAFTA Fulfilled its Promise?

In 1997, four major studies were released assessing the economic impacts of NAFTA. Three of these reports conclude that NAFTA has been a qualified success, while the fourth argues it has been an economic disaster.

In ratifying the NAFTA, Congress required the Administration to prepare a comprehensive assessment of its impacts. This report was issued in July 1997.<sup>5</sup> The President's report estimates that NAFTA export expansion supported between 90,000 and 160,000 jobs in 1996, while increasing U.S. exports to Mexico by \$12 billion and imports from Mexico by \$5 billion. The analysis also finds that NAFTA contributed \$13 billion to U.S. real income and \$5 billion to business investment in 1996, controlling for the impact of Mexico's financial crisis.

A June 1997 assessment of NAFTA impacts by the International Trade Commission (ITC) also found that the agreement had a modest positive impact on the U.S. economy during its first three years of operation.<sup>6</sup> Though the ITC was unable to quantify a discernible effect on U.S. output, aggregate investment, or aggregate employment, it concluded that NAFTA has significantly affected the overall level of U.S. trade with Mexico, but not with Canada. Among nearly 200 industrial sectors examined by the ITC, U.S. exports to Mexico increased substantially in thirteen of them due to NAFTA, while no sector showed decreased exports to Mexico due to NAFTA.

A recent study by Sidney Weintraub of the Center for Strategic and International Studies (CSIS) points out that the United States has been adding jobs at the rate of 2.25 million per year since NAFTA went into effect and that employment gains and losses attributable to NAFTA are dwarfed by other developments in the U.S. economy.<sup>7</sup> Weintraub argues that NAFTA prevented Mexico from considering easy outs to the peso crisis, such as restricting imports that probably would have made the downturn longer-lasting and more widespread.

- 
4. Complete trade data from the International Trade Administration may be accessed at <[www.ita.doc.gov](http://www.ita.doc.gov)>.
  5. *Study on the Operation and Effects of the North American Free Trade Agreement*, President's Report to Congress (Washington, DC: July 1997).
  6. *The Impact of the North American Free Trade Agreement on the U.S. Economy and Industries: A Three-Year Review*, USITC Pub. 3045 (Washington, DC: U.S. International Trade Commission, June 1997).
  7. Sidney Weintraub, *NAFTA at Three* (Washington, DC: Center for Strategic and International Studies, 1997).
-

In a dissenting voice, a NAFTA assessment prepared by the labor union funded Economic Policy Institute (EPI) concludes that the increased U.S. trade deficit with Mexico and Canada on balance has cost the United States 420,208 jobs since 1993.<sup>8</sup> The critique also notes that the real wages of U.S. blue-collar workers have declined for almost two decades and suggests that imports from low-wage countries, such as Mexico, are the reason.<sup>9</sup>

In any case, the effects of NAFTA should be evaluated in political, as well as economic terms. As Paul Krugman has pointed out, the agreement was a Mexican idea, proposed by then-President Carlos Salinas to lock in the reforms he had begun and to build confidence about Mexico's future as a liberalized economy.<sup>10</sup> Rejecting NAFTA would have been a stiff rebuff to Mexican political and economic reformers.

### III. Infrastructure Bottlenecks and NAFTA's Future.

Interstate 35 is sometimes referred to as the NAFTA highway. Running from Duluth, Minnesota to Laredo, Texas, which is the nation's busiest inland port, it serves as the principal artery for the movement of products between the "Industrial Heartland" of the United States and the Mexican border. I-35 is also the primary trucking route between the Southwest, including Texas, and Mexico. All the major east-west interstates, such as I-80, I-70, I-40, I-30, and I-20, intersect I-35 north of the Austin-San Antonio corridor, while I-10—the southernmost east-west interstate—intersects I-35 in San Antonio. A huge percentage of the products traded among Mexico, the United States, and Canada travel along some part of I-35 in Texas, and virtually all the Mexican-bound or originating traffic must navigate the "chokepoint" between San Antonio and Austin.

As a result of traffic volumes rising more than 100% during the last four years, the Austin-San Antonio Corridor now records the slowest average speed per mile of any stretch of I-35 between Canada and Mexico. Since the beginning of the decade, loaded truck crossings at Laredo have jumped from 17,000 per month to more than 100,000 per month. Because of this rapidly growing congestion, by the end of the decade it will take longer for a truck to drive from Dallas to San Antonio than it did thirty years ago, before there was an interstate.

By the turn of the century, two-way trade between the United States and Mexico will likely top \$170 billion, with most of the production still moving by truck and still traveling along parts of I-35, most especially the corridor between Austin and San Antonio. With its existing infrastructure, the corridor will be hard-pressed to handle the increased volume. Thus, construction of a proposed bypass has become an economic and logistical imperative for the Austin-San Antonio region, as well as the nation. The developing congestion crisis on I-35 is especially threatening to crucial high-technology and other NAFTA-related industries across the country. This is particularly true for America's booming electronics companies who depend on "just in time" inventory delivery schedules.

- 
8. *The Failed Experiment-NAFTA at Three Years* (Washington, DC: Economic Policy Institute, Institute for Policy Studies, International Labor rights Fund, Public Citizen's Global Trade Watch, Sierra Club, and U.S. Business and Industrial Council Educational Foundation, June 26, 1997).
  9. The EPI report has been widely criticized because it did not separate the impact of Mexico's financial crisis from NAFTA's effects on trade flows.
  10. Paul Krugman, *How is NAFTA Doing?* THE NEW DEMOCRAT, May/June 1996, at 18-21.
-

Separation of commuter and truck traffic, with an attendant reduction in congestion, will not only facilitate the movement of people and commerce within the corridor, but will also benefit manufacturers and freight forwarders in California, the Midwest, and the Northeast by reducing delivery times and transportation charges on shipments to and from Mexico. Much as construction of the proposed Alameda Corridor<sup>11</sup> in the Los Angeles Basin will facilitate two-way trade between the United States and the Pacific Rim, building a bypass around Austin and San Antonio will facilitate two-way trade between all sections of the United States and Mexico. Highway safety will be improved as well.

In short, the fluidity of traffic along Interstate 35, and most especially between Austin and San Antonio, is a vital issue of national concern. It affects businesses across the country, as well as those in Texas. The full economic potential of NAFTA will not be realized if traffic comes to a standstill in the Austin-San Antonio corridor. A bypass around this chokepoint will afford benefits to businesses and consumers nationwide.

#### **IV. Union Pacific Railroad Service Disruptions: Implications for NAFTA Trade**

As discussed above, international trade is of growing importance to the health of both the Texas and U.S. economies. Indeed, according to the U.S. Department of Commerce, about forty percent of the nation's growth over the past year can be attributed to exports and imports.

The Union Pacific Railroad's (UP) 1996 merger with the Southern Pacific Railroad has resulted in logistical problems that have disrupted activity at two of the nation's busiest ports—Los Angeles and Houston. At the Port of Los Angeles, which along with Long Beach accounts for twenty-five percent of all ocean-going container traffic, some vessels have been diverted because of congested terminals. Delays in loading and unloading cargo vessels are having the dual effect of increasing shipping costs and reducing the fees received by the Port.

The Port of Houston is affected somewhat differently since commodities, as opposed to containers, account for most of the volume. In 1996, the Port of Houston moved 86.5 million tons of cargo with a value of \$34.1 billion. Chemicals, petroleum products, plastics, fertilizers, cereals, and machinery constitute the major commodities and products. Though the Port of Houston has made no estimates of lost business, it is likely that several billions of dollars of shipments have been diverted from Houston and other Texas ports as a result of the UP's problems.

Union Pacific's service problems are particularly disruptive to NAFTA trade. The UP's lines stretch from the Canadian border to the Mexican border, and the UP recently acquired a Mexican concession through a joint venture. About sixty percent of U.S.-Mexico rail traffic crosses the border in Texas, with the Union Pacific accounting for the lion's share. The UP and the Tex-Mex share the huge gateway to Mexico at Laredo, which

---

11. The Alameda Corridor project would consolidate more than ninety miles of rail with 200 at-grade crossings into a single twenty mile high capacity and fully grade-separated facility linking the San Pedro Bay Ports with the national railroad system. It would also widen and improve the truck route paralleling the rail facility to expedite port truck traffic.

alone accounts for about eighty percent of rail shipments between Texas and Mexico. UP is also the primary railroad serving the Port of Houston, another important gateway for NAFTA trade.

In effect, the Ports of Laredo and Houston have also become “chokepoints” for NAFTA-related trade. Because of the UP’s problems, cargo is piling up at both ports, and shippers have been forced to use more expensive truck transport to get their products to and from Mexico. If the Laredo and Houston gateways are not unclogged soon, the rapid growth of U.S.-Mexico trade may be impaired with an attendant loss of jobs and income in both countries.

## **V. Conclusion.**

The primary problems facing NAFTA at present, especially as regards U.S.-Mexico trade, relate to surface transportation—both truck and rail. NAFTA protocols regarding cross-border trucking have been held hostage to parochial political interests, while drug-interdiction programs are resulting in lengthy and costly delays at U.S.-Mexico border crossings. In addition, movements by rail between the United States and Mexico have been delayed because of service disruptions on the Union Pacific Railroad, the major rail carrier between the two countries.

Major challenges for the years ahead are to dissipate latent protectionist sentiment in the United States and to improve the fluidity of road and rail traffic among the three NAFTA participants.

---