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The Mexican and US economies in the NAFTA era

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This article analyses several aspects of the divergent economic evolution of North America at the 20-year mark of the North American Free Trade Agreement (NAFTA), with a particular focus on the Mexican economy. Mexico's principal economic role in NAFTA has been that of a secondary exporter, with automobiles, electronics, and industrial equipment leading the way. Yet, as Mexico has no endogenous base for industrial growth, there are no Mexican companies that export manufactures linked to industrial diversification, improvements in productivity, increases in formal employment, and the real income of growing groups of workers. For Mexico, this has meant the multiplication of activities with little or no technological content, the growth of the informal economy, consistently high levels of unemployment, and secular economic stagnation.

Keywords: *NAFTA, manufactures, trade policy*

JEL codes: *F530, L6, O24*

1 INTRODUCTION

In the 2 decades since NAFTA took effect, the economy of Mexico has undergone an important transformation. The negotiation and approval of NAFTA took place in a period in which the discourse of free trade and the optimal allocation of resources through market forces held complete dominance. NAFTA was defended on the grounds of ideas regarding economic integration, understood as the 'removal of artificial barriers that obstruct continuous economic activity through national frontiers' (Balassa 1961a, p. 3), which consequently implied the relocation of production (Balassa 1961b).

After signing NAFTA, the Mexican government participated in other negotiations aimed at joining a significant number of trade agreements from the same mold. The first free trade agreements (FTAs) to follow were signed with other countries in Latin America. In 2000, the European Union–Mexico Free Trade Agreement came into force. The Mexican government has now signed a total of 12 FTAs with 44 countries, as well as 28 Reciprocal Promotion and Protection of Investment Agreements (RPPIAs) and nine trade agreements (Economic Complementarity Agreements and Partial Scope Agreements) within the framework of the Latin American Integration Association (ALADI) (ProMéxico 2014).

To date, NAFTA continues to operate under the terms in which it was ratified, and the ideas underlying its negotiation continue to dominate the economic strategies of the governments of Mexico as well as other parties to the agreement. The Mexican government continues to promote legal changes to allow for the full action of the market, and it insists on the free circulation of goods and capital as a condition for the economic growth that will provide for the long-term welfare of its population.

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However, as this article will argue, the operation of NAFTA has not produced an integration of the economies of North America, the relocation of productive activity has been limited, and NAFTA has not allowed for growth in Mexico alongside the other two economies that form the agreement. In addition, changes in the Mexican economy have not converged with those of the other two economies, and there has been no significant increase in formal employment. The multiplication of FTAs has not resulted in a significant diversification of Mexican exports, and investment coming into the country has reinforced the link between certain industrial activities and segments of the US economy. Mexico has seen no positive change in GDP growth.

The classical formulation held that 'economic integration … can take several forms that represent varying degrees of integration. These are a free-trade area, a customs union … and complete economic integration' (Balassa 1961a, p. 2). In the case of NAFTA, however, no advances toward economic union have taken place, much less toward economic integration. In the related academic literature, several facts are singled out as positive, particularly the remarkable expansion of manufacturing exports from Mexico and increased foreign investment in some manufacturing areas of the country (Alba 2005; Hufbauer and Schott 2008; 2005; Moreno-Brid 2013; USTR 2008; Weintraub 2004). Other more critical texts highlight the economic gaps between member countries (Blecker 2009; Blecker and Esquivel 2013), the lack of job creation or job losses (Polaski 2006), and impacts on Mexico's agricultural sector (Puyana and Romero 2005). The book coordinated by Smith and Selee (2013) in which Blecker and Esquivel's chapter appears, presents a comprehensive review of the relationship between Mexico and the US, recognizing that from the Mexican side the most relevant studies have emphasized the dependence of Mexico on the US, while from the US side, the prevailing consideration is of the interdependency between the two countries (Smith and Selee 2013, ch. I).

Regardless of the point of view, a basic historical fact is that the opening of the Mexican economy and the capital account occurred before Mexico signed NAFTA. Indeed, as this article analyses, the relationship between the two economies includes much more than the elimination of customs duties. But, as this article will show, Mexico's connections with the US economy are concentrated in a few industrial activities and are an extension of investment by a small number of foreign firms in Mexican territory in response to the market conditions of its northern neighbor, fracturing to an ever greater degree the productive chains in Mexico while investment restrictions in Mexico have been continuously lifted, even after NAFTA went into effect.

2 HISTORY AND PRESENT

The signing and implementation of NAFTA signified a change in the relationship between the economies of Mexico and the US. The transformation aimed to deepen the links established during the 10 to 15 years prior to the agreement. However, the strong economic relationship between the countries dates back to the end of the nineteenth century and cannot be reduced merely to the question of trade. Investment by US firms in Mexico had already gained importance by that time, and by 1880, the US had constructed a continental transportation system, based on the railroad, that was the largest such network in the world. The project was financed with resources from the large investment banks that by the end of the century played an important role in the financing of industrial mergers and the consequent rationalization of production (Chandler 1990). Some of the businessmen who participated in those projects

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invested in Mexico. The Mexican Central Railroad, one of the largest private enterprises initiated during the administration of Porfirio Díaz, was constructed with capital from Boston investors who had previously underwritten railroads in the US (Kuntz 1997, pp. 42–43). The end of the nineteenth century and the beginning of the twentieth saw additional investment in electrical generation, petroleum extraction, and mining, and the 1910s saw the beginning of manufacturing enterprises, which became significant in the 1940s.

With the end of the Second World War, US firms increased their investments in Mexico. US-based transnational corporations would frequently acquire Mexican companies with related productive activities as part of a long-term strategy to supply the internal market (Fajnzylber and Martínez Tarragó 1976, pp. 249–251); the strategy also included the construction of new plants and the expansion of production made possible by credit from the Mexican financial system. The presence of US-based firms in various branches of manufacturing became important in the 1970s. These transnational firms, accompanied by others, were leaders in the industrial system developed from the late 1940s to the early 1970s. The way in which import substitution evolved both stimulated their presence and favored their growth. Transnational firms 'do not consist of enclaves in certain localized areas of the industrial structure, but rather form an integrated whole that is articulated by means of inter-industrial relationships' (ibid., p. 365).

This phenomenon did not change in subsequent years: one element that characterizes the economic relationship of Mexico and the US is the implantation in Mexico of an important number of US-based firms, in large part transnational firms with a noteworthy role in the economic dynamic of Mexico from the late 1940s to the time of the debt crisis in the early 1980s. With the subsequent implementation of the economic policies of the Washington Consensus, the economy was transformed, yet US-based transnational firms remained a continuous feature. However, these firms have modified their relationship with the Mexican internal market, and to a certain extent with its credit system. Here, the implementation of NAFTA, and more generally the process of economic opening and financial liberalization, is relevant.

During the NAFTA negotiations, Mexican government officials were emphatic about the positive results they claimed the agreement would bring. Herminio Blanco, who headed the trade negotiation on the Mexican side, maintained that the agreement would generate strong incentives for capital accumulation in his country:

> The reason is simple: if in addition to the important competitive advantages Mexico already has, Mexican products in the future are guaranteed access under preferential conditions to one of the richest markets in the world, Mexico will become a privileged location for domestic as well as foreign investment. (Blanco 1994, pp. 267–268)

According to this vision, NAFTA would promote more accelerated growth in export sectors and generate more jobs. The fundamental change was the intensification of the opening – the condition for the move toward economic integration. According to Blanco, 'recent experiences show that the process of integration leads to an increase in wages in countries with relatively low income levels' (ibid., p. 272).

From the perspective of the Mexican government, the opening of the economy and capital account liberation was to provide an advantage to the country, enhanced by the guarantee of rules for trade and foreign investment under the NAFTA umbrella. Another selling point of what was called the integration of the economies of NAFTA was that the agreement was to create higher salaries and greater welfare. The starting point of this analysis is described in a text published by Pedro Aspe

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(1993) which argues that the economy in Mexico had undergone a profound change that laid the foundations for a new growth process with private enterprise as the principal driver, therefore also constituting a new transmission mechanism for the economy. These were the most relevant aspects of the context in which Mexico opted for NAFTA.

The liberalization of trade was presented as a necessary path, and NAFTA as a step toward economic integration as a result of market forces. Some economists even claimed that the economic reform in Mexico – with NAFTA as one of its results – would have little or no effect on the diversion of trade; on the contrary, it would increase economic efficiency in terms of prices, allocation of resources, and technology (Dornbusch 1990).

As will be shown below, the significant change NAFTA brought about in the economic relationship between Mexico and the US involves the important participation of a small group of US-based transnational firms, several of which had decades of history investing in Mexico. Some, like the auto firms that before NAFTA had built plants in regions of the country best suited for export, help to explain the project to develop a platform for exports through economic liberalization (Vidal 2001).

The idea behind NAFTA was not to create a supranational institution, and much less to encourage the action of state agents to push economic integration forward. Everything would be the result of market forces, of the elimination of factors that created discrimination in the movement of goods and capital between the signatory countries. However, the economic changes in Mexico did not result in sustained growth. What is noteworthy are the actions of a small group of transnational firms that use their investments in Mexico as a key element of their productive activity in the US market.

3 NAFTA AND THE MEXICAN ECONOMY

In 2013, Mexico's exports were 31.9 percent of GDP, a significant increase over the figures ranging between 7.4 and 8.5 percent in the period 1986–1991. There was a drastic increase in 1995, to 27.8 percent of GDP, during the contraction of GDP in the currency and banking crisis, with its accompanying recession, that began in 1994. From that time to the present, Mexico's exports as a share of GDP have been similar. According to government sources, the central bank, and various economic studies, the expansion of exports from Mexico is excellent news. The Banco de México highlights the rapid advance in sales to other countries, with growth in the late 1990s matched by only one of the 30 other countries that together account for 80 percent of world exports (Banco de México 2001, pp. 33–34).

Mexico's rank among major exporting countries advanced from number 28 in 1980 to number 12 in 2001. There was also an increase in Mexico's exports as a proportion of the world total: from 0.95 percent in 1980, to 1.45 percent in 1994, to 1.56 in 1995 (Cervantes 1996, p. 178). In 2001, the figure reached 1.6 percent, but it did not increase significantly thereafter: in 2010, it was 1.7 percent. Some authors emphasize the transformation or change in the pattern of Mexican external trade in those years, as evidenced by the increase in exports, and particularly their greater weight relative to GDP (Cervantes 1996; Ramos Francia and Chiquiar Cikurel 2004). As Ramos Francia and Chiquiar Cikurel (2004, p. 477) put it: 'The long-term trend in the country's export levels changed significantly beginning with the trade opening.' From this perspective, the increase in exports is not the product of policies of economic development, much less an industrial initiative or government-supported investment. In its first stage it

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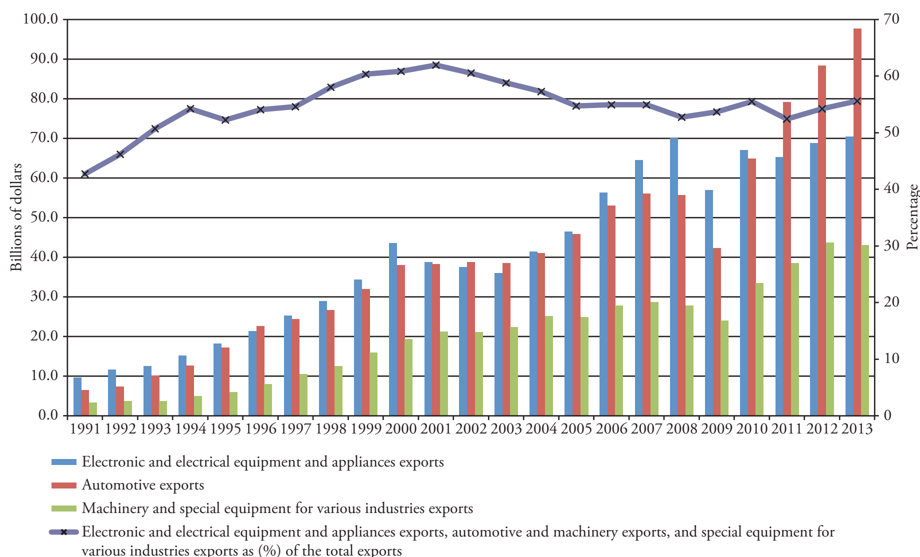
arose from a trade opening unilaterally, lowering the barriers to international trade, and in a second stage from the formalizing of investment and trade treaties (Ramos Francia and Chiquiar Cikurel 2004).

The increase in exports has, however, been accompanied by other changes that reveal its limited effect on economic growth in Mexico. Among the characteristics of exports are the following: (a) an increase in manufactures as a total of exports, which has remained at or above 80 percent from 1995 to 2013; (b) the increase in exports has brought with it an increase in imports, with the latter increasing at a greater rate than the former in several years; (c) export of manufactures is highly concentrated in three groups of industrial activities; (d) a high concentration in the destination of manufacturing exports and crude petroleum (80 percent goes to the US); (e) a large part of the foreign trade is intra-industrial trade between the two countries, or even transactions within a single firm.

Given the dominance of the US economy and the heavy weight of a small number of US-based firms in the composition of Mexico's foreign trade, it is possible to argue that NAFTA is an important factor in their evolution. As can be seen in Figure 1, exports of automobiles and electrical, electronic, and industrial equipment have made up more than 50 percent of exports since NAFTA took effect. Previous studies have highlighted the concentration of manufacturing exports in the US market and the increase in FDI (Blecker and Esquivel 2013), and have considered that in the medium term, the positive trends of FDI would remain relatively stable and would create North American industrial structures (Dussel 2000). The principal destination of these exports is the US market. However, little emphasis has been given the fact that a large part of these sales are carried out from Mexico by subsidiaries of transnationals that, even



Source: Based on information from Banco de México, Annual report, 2001, 2002, 2005 y 2012. INEGI, Economic Information Bank, External sector, available at www.inegi.gob.mx, feb.

Figure 1 Electronic and electrical equipment and appliances exports, automotive and machinery exports, and special equipment for various industries exports, 1991–2013

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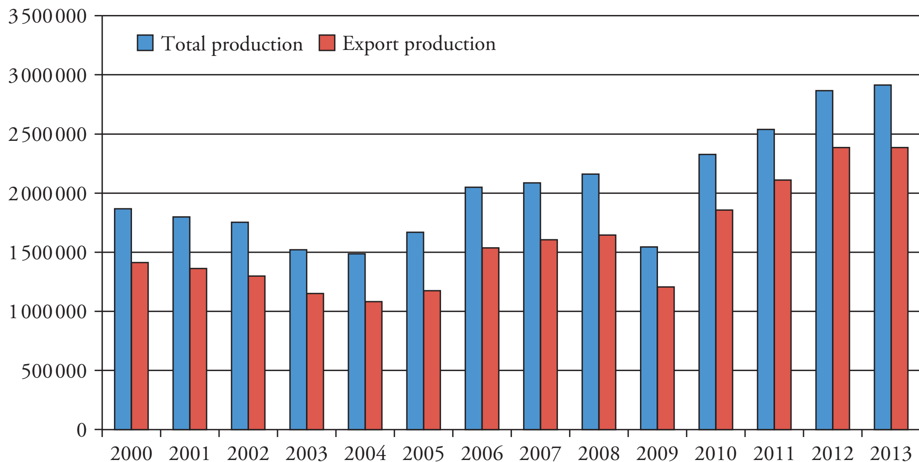
if they are not headquartered in the US, have decided to locate part of their production in Mexico in order to supply the US market.

The operation of automobile firms in Mexico is an important part of this process. Mexico's auto production places it among the ten largest manufacturers in the world. However, unlike the other members of the group, Mexico exports the vast majority of the cars it produces (82.6 percent in 2013). As shown in Figure 2, the Mexican automobile industry has been in this situation since 2000. Most of these exports go to the US. Of the seven auto manufacturers exporting from Mexico through the beginning of 2014, five account for 95 percent of the industrial activity. General Motors heads the list, and is followed by Ford, Chrysler, Nissan, and Volkswagen. All of these companies manufacture in Mexico a subset of the vehicles they sell in the region, as well as parts in the manufacturing process that are imported from other countries. Imported car parts come from subsidiaries in South America in some cases, Asia in others, and also some European countries. This scheme of importing into the Mexican economy is the result of decisions made in corporate headquarters, and a significant share of imports comes from the headquarters or other businesses of the firms operating in the US or Canada. As parts coming from subsidiaries in other regions are intra-firm transactions, their prices are administered. Other parts come from suppliers who work for the company; some of these were part of the company in years past. The relationships of subsidiaries with other companies within the corporation and with the corporate headquarters itself make it possible to increase exports by simultaneously increasing the importation of parts to manufacture cars sold in the US market.

There is a similar phenomenon at work in the production of electrical, electronic, and industrial equipment. These manufactures are dominated by the *maquila*, which means that a large part of the inputs used in the assembly of these items, as well as the machinery that is part of the production process, is imported. In 2006, the last year



Source: INEGI, Automotive Industry in Mexico 2005 and 2011, available at www.inegi.gob.mx, retreived February 2006 and March 2012. AMIA, Press release, December 2013, available at www.amia.com.mx, March 2014.

Figure 2 Automotive industry in Mexico: total production and export production (figures in units)

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in which the Banco de México reported the trade accounts of the *maquiladoras* separately, the exports by these companies were 45 percent and their imports 34.2 percent of the total. The greater share of automobile industry exports must be added to these figures, given that they also have imported content: in 2006, automobile exports were 21.2 percent and imports 12.5 percent of the total. There is, then, an increase in manufactured exports, a large part of which has a high degree of imported content and is produced with imported equipment and machinery.

This foreign trade arrangement is the result of the intra-industrial control of trade between Mexico and the US. As discussed above, the preponderance of firms that participate in each of the branches of export-oriented industry are part of a single company (that is, Ford and Ford Mexico), meaning that such trade is actually a process of cross-border transfers within that company. The topic of intra-company trade as a characteristic of manufactured exports from Mexico has been emphasized in various studies (Contreras and Carrillo 2003; Ramírez 2001; Soria 2004; Vidal 2011). They are transfers within a single transnational company whose increase is associated with opening in trade, investment, and financial placement.

The implementation of NAFTA provides the security necessary for establishment of an export platform from Mexico that is not necessarily linked to the country's internal market. A notable aspect of this relationship is that a part of the productive structure in Mexico is not linked with segments in the US. In the case of the Mexican economy, there are only a limited number of industrial activities that depend almost entirely on the US market and on the investment decisions of a small group of transnational firms. This dependence does not exist in those same manufacturing activities in the US with relation to Mexico and much less does it define the global decision-making by the corporations that have created this Mexican export platform. For example, in the automotive industry it is considered that automobile sales in the US in 2013 totaled 15 883 969 vehicles. The two million vehicles exported from Mexico are an important figure, but there were also more than three million vehicles imported from companies like Toyota and Honda. These companies, headquartered in Japan, have not created an export platform in Mexico – indeed, part of their sales in Mexico are imports. The automotive industry in Mexico depends on the behavior of the US market and on the profits expected by the larger firms that participate in that market. It is on that basis that they establish their rhythms of production and the ratio of imported parts and those produced in Mexico. The Mexican market is supplied mainly with imported vehicles, including with vehicles that are in their majority produced in Mexican territory.

NAFTA has thus generated security for some transnational companies whose development strategies included the creation of Mexican export platforms that were not necessarily connected to an increase in the productive capacity of the country. The presence of a trade deficit (not counting petroleum exports) since 1994 implies that conditions have yet to be established that would allow for the increase in manufacturing exports to be accompanied by increases in industrial production to provide inputs to the firms that export their goods. During the entire period in which NAFTA has been in effect, the petroleum trade balance has been positive, which has allowed for a reduction in the deficit that has afflicted the rest of foreign trade. According to figures from the Banco de México, the deficit in the non-petroleum trade balance has been consistent, and increases in manufactured exports have not necessarily reduced it. As argued elsewhere, this dynamic creates difficulties in financing the imports that are necessary to maintain the export platform as well as the other imports that supply the internal market, themselves in constant increase (Vidal 2011). The case of Mexico is one of a model of growth through manufactured exports, without the capacity to finance the

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model from its own foreign trade. It is a secondary exporter, without an endogenous base, that exemplifies the type of subordinated industrial linkage created by NAFTA.

In other texts that critically analyse these processes, the problems of the strategy based on the export of manufactures in terms of greater job creation, wage increases, and improvements in income distribution are correctly identified (Blecker and Esquivel 2013). Critical literature also highlights the difficulties in fostering linkages in the production chain as well as in productive regional integration within the context of FDI and the advance of manufacturing exports (Dussel 2000). The literature has also highlighted the significant weight of some manufacturing activities in exports (Alba 2005), yet in these texts there is no indication that the creation of the export platform and its extension is insufficient to finance its growth from external trade alone, a point emphasized in this article.

In 2009, there was a strong contraction in the Mexican GDP, of the order of 6 percent. It was related to the recession in the US, but was of a much greater magnitude. In that year, the decline in manufactured exports from the previous year was 18 percent. Subsequent years saw a recuperation: in 2010, manufactured exports reached a total of 245 billion dollars, a figure greater than that of 2008, and the years that followed saw growth in exports greater than that of the GDP. In 2008, exports accounted for 26.7 percent of GDP; in 2010, the figure was 28.8 percent, and in 2013 it is estimated to have reached 31.9 percent. Consistent with the model of export manufactures with high imported content, these also grew, and the degree of economic openness measured as the sum of imports and exports relative to GDP was 63.9 percent; in 2008, it was 55 percent. This increase was not associated with a comparable increase in GDP, much less an increase in manufacturing GDP; there was no increase in manufactures as a proportion of GDP. In 1997, manufacturing industries represented 19.2 percent of GDP. Several years later, in 2003, the figure lowered to 17.8 percent. From that point forward there has been no increase: in 2012, it was 17.6 percent. The recent behavior of export manufactures clearly shows its minimal relation to growth in the country's industrial activity, growth in investment in other activities to create links with export firms, or the development of additional companies to supply the needs of those connected with the export process. In short, there is no diversification of manufacturing activity produced by increases in exports or in the activity of the internal market.

For this reason there is a structural weakness in economic growth. There are no companies in the Mexican economy that advance by their own means through solid strategies of increasing export manufactures linked to industrial diversification, to improvements in productivity, to increases in formal employment and real income of growing groups of workers.

The difficulties in maintaining economic growth through exports by a small group of manufacturers of goods with high imported content are also seen in the evolution of imports to the US. As shown in Figure 3, from the beginning of the last decade to the present, imports originating in Mexico have represented from 10 to 12 percent of total products entering the US. There are few firms based in Mexico that grow through an export manufacturing strategy. Some of the larger Mexico-based companies that have internationalized and as part of their business strategy have acquired or established subsidiaries in other countries place emphasis on their purchases and investments in the US. But their activities in that country have no connection with those in Mexico. That is, several of them manufacture the same product in Mexico as in the US – cement, food, or steel, for example. For this reason, their contribution to the growth of export manufactures in Mexico is not important. This is one more aspect of the relationship between Mexico and the US under NAFTA that confirms

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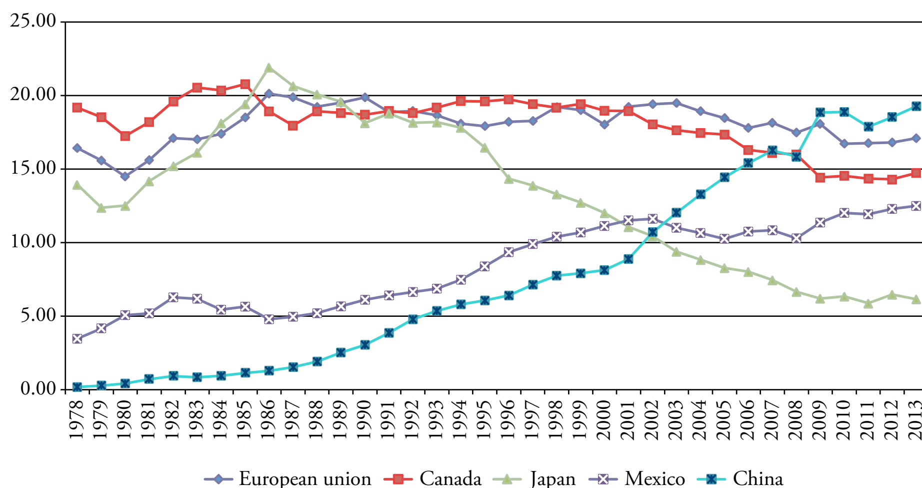

Note: First semester of 2013 figures.
Source: Based on information from the US Department of Commerce. Bureau of Economic Analysis, Interactive Data, International Transactions Accounts Data, table 2. Trade in Goods, available at www.bea.gov, September 2013.

Figure 3 US imports by country of origin, 1978–2013 (as percentage of the total imports)

the difficulties of maintaining growth through an increase in export manufactures with high imported content.

4 ECONOMICS, INEQUALITY, AND STAGNATION

After 2 decades of NAFTA, supranational institutions to promote the process of integration between the signatory countries from a global perspective still have not been established. The negotiations did not foresee moving in this direction, and the initial agreement has not been amended. The exception was the creation of a North American Development Bank (NADB), based in San Antonio, Texas. The NADB, a sibling institution of the Border Environment Cooperation Commission (BECC), focuses specifically on infrastructure projects in the border region between Mexico and the US. The makeup of the bank's boards of directors leaves no doubt as to the nature of its tasks and the fact that it was created by agreement between the governments of the two countries. The head of the US board is the Secretary of the Treasury, and that of the Mexican board is the Secretary of Finance and Public Credit. Both include representatives from states and residents from both sides of the border. In other areas, the governments often resort to existing institutions, and frequently dealings are done between the US and Canada on the one hand, and the US and Mexico on the other. In sum, the operation of NAFTA does not contemplate the creation of supranational institutions or significant action by the signatory governments to encourage the process of integration.

Although the free mobility of goods and capital is defended, the same cannot be said regarding the mobility of labor. There has been no agreement established to regulate immigration for employment purposes. What has in fact happened is a

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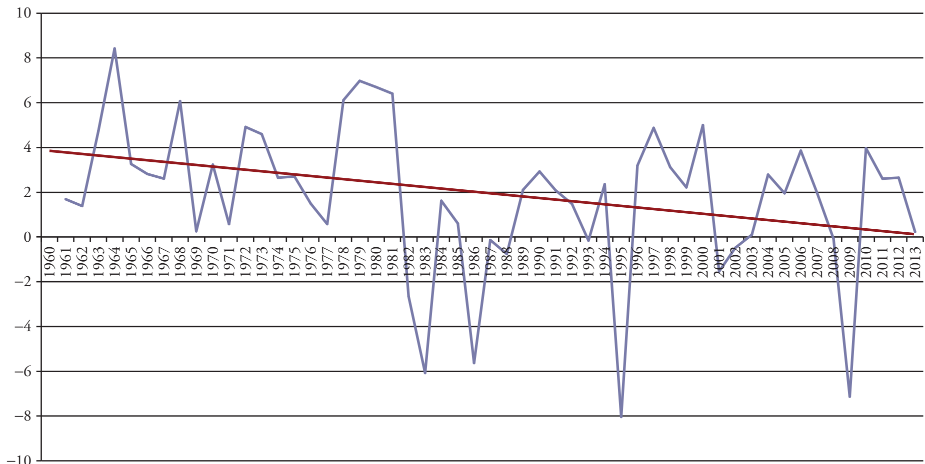
strengthening of border controls on the part of the US and Canada. The border dividing Mexico and the US is carefully patrolled, and inside the US there are various enforcement operations to locate and expel immigrants lacking the documentation required to enter the country. Canada has established a visa requirement for Mexican nationals. Within Mexico, the government has maintained that NAFTA would create conditions for sustained economic development, and it would therefore be possible to control emigration to the US. However, that has not been the result, and the NAFTA agreements have not been amended.

For 2 decades, the trade and investment agreements between the US, Mexico, and Canada have counted on an integration brought about by the market. The governments have maintained that economic change will come about as a result of market dynamics, and in the case of Mexico, with the maintenance of the agenda of the Washington Consensus as the means to bring about the required structural change. In this sense, the consequences for growth and income distribution are the result of the policies of structural adjustment and the development of various productive activities within the framework of NAFTA, and constitute an operational pattern that is considered to require no changes.

For the past 2 decades, the Mexican economy has been characterized by unstable growth. As can be seen in Figure 4, per capita GDP has shown a minimal increase with a declining trend. This behavior began before NAFTA took effect but has not changed in recent years. The question of employment has also shown no positive results, least of all in terms of the consistent increase in formal employment. For decades, the Mexican economy has operated with an important informal sector, defined as that part of the employed population dedicated to the production of goods or services for the market, either from the home or without established facilities for carrying out its activities. Other parts of this sector are composed of commercial or business activities not registered by the government, with most hiring workers without providing any type of social security or job stability. They carry out activities that use rudimentary techniques on a small scale.



Note: 2013 estimated data.
Source: Based on World Bank data, Data World Development Indicators, www.worldbank.org, October 2013.

Figure 4 Mexico's GDP per capita (annual growth based on US dollars 2005=100)

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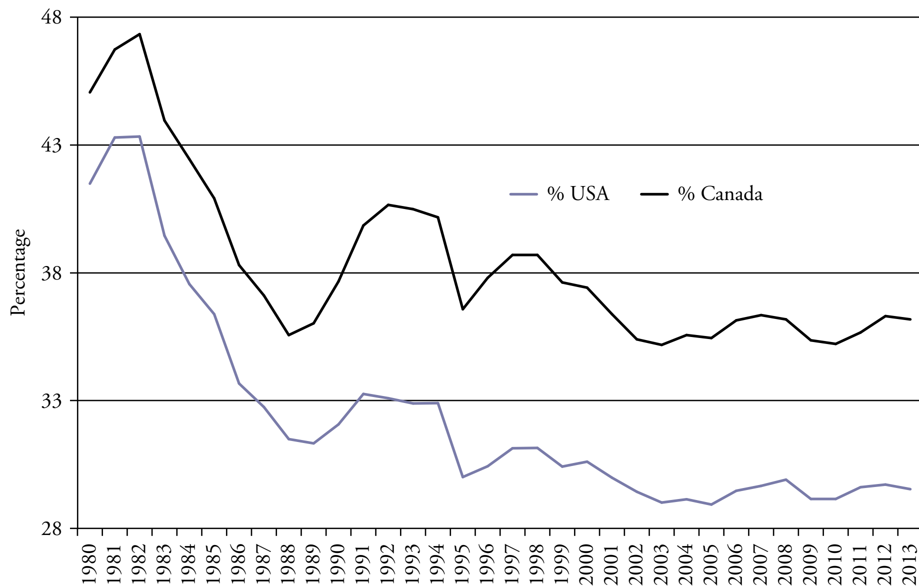
However, another group should be included alongside this one: those who work in the formal sector yet under informal conditions. These people are hired by medium or large companies and sometimes even by agencies of the federal, state, or local government, yet do not enjoy the conditions of formal employment. They have no social security, their status as temporary workers is maintained for indefinite periods, there are no standard working days, and the figure of the boss or contractor is only vaguely defined. Taken together with those who work in the informal sector, these workers underline the pervasiveness of informality in Mexican employment. Nearly three-fourths of the total population work under such conditions. Data on this phenomenon reported by Mexico's official statistical agency show no important changes in this area in recent years. There is no indication that under the operating conditions of the Mexican economy an increase in investment in export industries, or the maintenance of the economic strategy of the past 2 decades, will bring about any transcendent change in the composition of the working population.

This type of informal employment represents a striking difference between Mexico and the two other economies that make up NAFTA. It is one additional indication of the ongoing great gap between Mexico, on the one hand, and the US and Canada, on the other, in matters such as economic composition, technological capacity applied to production, and the level of satisfaction of social necessities in each country. While Mexico is a territory with a large number of emigrants, the US and Canada receive growing numbers of immigrants. Differences in the average incomes of the populations are also notable. As shown in Figure 5, the per capita GDP of Mexico has been less than that of the US and Canada from the time NAFTA took effect to the present. And the trend in Mexico is one



Note: GDP based on PPP, purchasing-power-parity.
Source: Based on information from the IMF, World Economic Outlook Database, October 2013, available at www.imf.org, January.

Figure 5 Mexico's GDP per capita as a proportion of the US and Canada's GDP per capita (GDP in PPP current prices)

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of decline, which suggests that these figures are yet another indicator that the social and economic gap between Mexico and the two other NAFTA economies is not narrowing but widening.

The unbridged economic gap between the United States and Canada on one side and Mexico on the other is present in the academic literature (Smith and Selee 2013); in other studies, the failure to achieve long-term and sustained growth is recognized, even as they consider the growth in manufacturing exports to be positive, noting that in the period 1994–1995 through to 2008 no other country besides China has recorded such an increase (Moreno-Brid 2013); and the problems observed in employment are also present in the literature (Polaski 2006). This text emphasizes the noticeable increase in labor informality in Mexico, even in the realm of large corporations and government, and the growing gap in terms of average income in Mexico relative to the other NAFTA partners, but all associated with the advancing strategy of growing manufactured exports.

Post-Keynesianism has always prioritized and focused on economic reality. Representative of this tradition in the late 1970s, Joan Robinson stated:

> The old argument has been transferred by the spread of the activities of transnational corporations. They are still concerned with extractive industries, but they are also engaged in exporting manufactures to Third World countries, partly through setting up assembly works close to markets and exporting components under the guise of 'import-saving' investment. Furthermore, the third stage of transnational activity, the use of cheap labour to supply exports to the centre itself, is spreading rapidly.
>
> The 'international division of labour' between the periphery and the centre is now managed almost entirely by the great corporations. Competing amongst themselves, they are driven by the need to make profits, without regard to any interest but their own. (Robinson 1979, p. 143)

This is the position that this article embraces. The poor growth of the Mexican economy is associated with the advance of the mentioned transformations, of which NAFTA has played a central role.

5 CONCLUSION

NAFTA took effect as part of a change in the economic relationship between Mexico and the US. The agreement did not create any specific organizations or institutions in which the three governments could participate, as it was not considered necessary to negotiate processes of cession of sovereignty. This situation continues to the present, and now, just as 2 decades ago, it is argued that trade opening, financial deregulation, and balanced public finances will allow for the economic integration, growth, and improved welfare of the three signatory countries. However, the economic and social gap between Mexico, on the one hand, and the US and Canada, on the other, has not narrowed. Average income levels in Mexico show a downward trend compared with those of the other two countries.

The growth of export manufactures from Mexico has not brought about an equivalent increase in production in other industrial activities in the country. It is manufacturing for export without an endogenous base, built on an increase in exports with a highly concentrated destination. A small group of transnational firms has organized the displacement of certain industrial activities into Mexican territory in order to supply the US and Canadian markets. These are the cross-border transactions at the heart of various transnational corporations, which, even if they are not US-based, invest in Mexico to supply

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that market. There is an extension toward Mexico of some activities in certain branches of industry in the US to supply that market. In Mexico this means a multiplication of activity with little or no technological content, growth of the informal economy, maintenance of high rates of informal employment, and continued economic stagnation.

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