Nafta’s Promise, Unfulfilled

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MEXICO CITY — Mexico’s former president, Carlos Salinas, used to promise that free trade and foreign investment would jump-start this country’s development, empowering a richer and more prosperous Mexico “to export goods, not people.”

Fifteen years after the North American Free Trade Agreement took effect, only the first part of that promise has been realized.

Mexico’s exports have exploded under Nafta, quintupling to $292 billion last year, but Mexico is still exporting people too, almost half a million each year, seeking opportunities in the United States that they do not have at home.

Secretary of State Hillary Rodham Clinton will arrive in Mexico on Wednesday and President Obama will visit next month. Both are expected to emphasize the successes of American-Mexican economic cooperation, but it will be hard to ignore how much in Mexico has not changed under Nafta.

Economists here say much of the blame lies with Mexican leaders, unable or unwilling to take on oligarchs and unions controlling key sectors of the economy like energy and telecommunications. But they say some blame goes to the unintended consequences of Nafta.

In some cases, Nafta produced results that were exactly the opposite of what was promised.

For instance, domestic industries were dismantled as multinationals imported parts from their own suppliers.

Local farmers were priced out of the market by food imported tariff-free. Many Mexican farmers simply abandoned their land and headed north.

Although one-quarter of Mexicans live in the countryside, they account for 44 percent of the migrants to the United States. The contradictions of Nafta are apparent in Guadalajara and the rich farmland around it.

On the road from the airport to the city, Mexico's second-largest, a well-worn sign welcomes visitors to Mexico's Silicon Valley. After Nafta went into effect, the comparison seemed ambitious but not out of reach.

Global giants spent billions of dollars turning Guadalajara into a manufacturing hub for the information technology industry. The industry boomed, spurred by cheap labor and the sense that Nafta guaranteed investor-friendly policies. Today the city is ringed with low-slung factories that churn out everything from BlackBerrys to digital tape storage libraries for Sun Microsystems.

But investors came because the city was already a center of technology. I.B.M, Hewlett-Packard and others had come in the 1960s and 1970s when Mexico's market was closed.

After Nafta, the new factories imported parts from their global suppliers, wiping out local companies that had sold printed circuit boards or assembled computers under tariff protection, said Kevin P. Gallagher, a Boston University professor who has written about the Guadalajara information technology industry.

Things grew worse when the tech bubble burst, the American economy cooled and the companies moved to China, where they could pay even lower wages. Once China entered the World Trade Organization, Mexico lost much of the edge in exporting to the United States that Nafta had given it. Employment in Guadalajara's I.T. factories dropped 37 percent in 2001 and continued to slide for two years.

"The agreement could have brought investment with more value here," including research, testing and design, said Jesús Palomino, the general manager at Intel's design center in Guadalajara. "But we did not know how to define or negotiate or take advantage of it."

Mr. Palomino argues that attracting multinational manufacturers was too limited a focus. He oversees about 300 young engineers who test future Intel products and carry out research and development. The sophisticated Intel design center is an exception to the city's assembly plants. Those factories mostly hire low-wage labor.

"A new phenomenon has grown up under Nafta — high-productivity poverty," said Harley Shaiken, chairman of the Center for Latin American Studies at the University of California, Berkeley.

Low wages means low purchasing power. "It is not a successful strategy for globalization," Mr. Shaiken said.

Even Nafta's greatest success — exports — has become a liability, as Mexico feels the full brunt of declining consumption in the United States. The auto industry, for example, which has flourished under Nafta, has ground to a virtual standstill. Over all, Mexican auto exports fell more than 50 percent in the first two months of this year compared with 2008, and production dropped almost 45 percent.

The central bank forecasts that as many as 340,000 people could lose their jobs this year, and some investment banks predict the economy could contract as much as 5 percent.

That weakness has driven down the peso, which has lost about a quarter of its value in the last six months. Foreign direct investment fell last year to $18.6 billion from $27.2 billion in 2007.

Still, economists here say much of the responsibility for the lack of development in the last decade and a half lies largely with Mexican leaders and their unwillingness or inability to enact real reforms. "We have an economy that has atrophied because of the lack of reform," said Gerardo Esquivel, an economist at the Colegio de México.

Other developing countries benefited from globalization, particularly in Asia. But in Mexico, economic growth has averaged about 3 percent a year since Nafta took effect, far below what is needed to create jobs for the million young people who enter the work force each year and the millions more who barely scrape by.

As presidential candidates, both President Obama and Mrs. Clinton promised to renegotiate Nafta. But when Mr. Obama arrives next month, he will find Mexico's leaders reluctant to revisit the agreement. He will also find them seething over his signing of a spending bill that scrapped a pilot program allowing Mexican long-haul trucks to transport cargo throughout the United States. In retaliation, Mexico has imposed punitive tariffs on $2.4 billion worth of American goods.

Nafta guaranteed Mexico, Canada and the United States access to one another's highways for cargo transport by 2000.

Perhaps the Mexicans least prepared for globalization were Mexico's small farmers.

"It isn't possible for a peasant to make a living from the countryside," said Francisco Vargas, president of an association that groups together 2,500 farmers from Etzatlán, about 90 minutes west of Guadalajara.

The farmers hold other jobs to subsidize their farming. Mr. Vargas is a teacher. Another of the group's leaders is a retired accountant; a third has a sideline renting out construction equipment. Some farmers continue thanks to money sent by relatives working in the United States.

Farmers in the region have survived Nafta by raising corn yields through converting to modern farming techniques. They also lobby for government aid and band together to fight private oligopolies that sell seed and buy corn.

But their landholdings remain small, sometimes not more than about 10 acres, and they are at the mercy of rising costs and fluctuating prices. Seed is up about 20 percent because of the peso's devaluation, while corn is off the high of last year as global demand drops.

The farmers say that they have raised their yields to double Mexico's average of three metric tons per hectare, or more. (The average for the United States is more than nine tons per hectare.) Late last year, their high yields caught the attention of the federal government in Mexico City, which has promised new financing for the Etzatlán farmers and other commercial corn farmers.

"It's a race against time," said Antonio Hernández, an agronomist who advises the farmers for a coalition of farming associations in Jalisco state. "We have to demonstrate this before people abandon the land."

I.T. industry leaders and the local government in Guadalajara are trying to do the same thing: convince Mexicans that there is opportunity at home.

The group representing the industry in Mexico, known by its Spanish initials as Canieti, now promotes Guadalajara's ability to produce customized products for customers in the United States, specialized corporate software and portions of software for operating systems. Canieti officials also promote the advantage for "pizza products," like new cellphones that must be delivered on time.

The government and Canieti have put up $4 million to buy equipment and train 150 young people in computer animation, in a bid to attract joint ventures for co-productions and video games.

But Mr. Palomino, the general manager at the Intel design center, argues that the industry should also promote small local companies and encourage them to establish joint ventures in the United States. Those changes would nourish a culture of entrepreneurship that he believes has yet to emerge.

Professor Gallagher at Boston University argues that free trade on its own does not bring development. "Nafta was a great opportunity, but you had to build on it," he said.

This article has been revised to reflect the following correction: