

NAFTA disillusionment setting in Unemployment, migration blur pact's future

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MEXICO CITY - At 10 years old, the North American Free Trade Agreement is showing signs of a difficult adolescence ahead, trade experts warned Wednesday at a meeting in Mexico City.

Immigration-control measures such as Arizona's Proposition 200 have business leaders worried. Mexicans are becoming disillusioned with the pact as unemployment hits its highest level since 1997. U.S. leaders gripe that Mexico is dragging its feet on economic reforms, while Mexicans and Canadians complain that U.S. lawmakers are postponing an overhaul of immigration laws, which many had hoped would follow NAFTA.

"NAFTA in its first 10 years did a great job . . . but now we need NAFTA Plus," said Jessica Pacheco, a manager for Arizona Public Service Co. and chairwoman of the Border Trade Alliance, which organized the Mexico City conference.

The future of NAFTA has been a hot topic in recent months as the jockeying for Mexico's 2006 elections begins. In a speech at another trade forum Monday, U.S. Ambassador Antonio Garza said all three countries need to jump-start reforms if they want to compete with other trade blocs.

"Let's not fool ourselves about this point: The competition will be intense," he said. "Capital is cynical and will go where it's rewarded."

Trade among the NAFTA countries remains strong, but China recently replaced Mexico as the second-biggest exporter to the United States, and the European Union is closing in on the bloc in terms of productivity.

For Arizona, keeping Mexico's economy healthy and open is especially important. Mexico is Arizona's biggest foreign customer, having bought \$950 million of the state's exports in the second quarter of 2004, a rise of 24 percent from the year before, according to the Arizona Department of Commerce.

Most of those exports were machinery, aircraft, optics and medical instruments, and plastic.

Business leaders note that NAFTA lags far behind the European Union when it comes to cooperation. Trucks can't move easily from country to country, and neither can workers. Proposals for a "guest worker" program that would legalize millions of Mexicans living in the United States have gone nowhere.

Mexico, meanwhile, is becoming worried as the United States signs a raft of trade pacts with

other countries.

"The advantages that Mexico had are eroding," said Angel Villalobos Rodríguez, Mexico's top trade negotiator.

To loosen up the economy, President Vicente Fox wants to open Mexico's electricity and oil monopolies to private investment, but he has been blocked by a hostile Congress controlled by the Institutional Revolutionary Party.

Fox's government has lowered inflation - it was 4.5 percent in 2003 - but other indicators are not as encouraging. The official unemployment figure in Mexico hit a seven-year high of 4.35 percent in August, but experts say the real number is much higher because up to 60 percent of Mexicans work off the books in what is called the "informal sector," making them hard to track.

Last year, when the official figure was 3.3 percent, the U.S. government estimated that about 25 percent of Mexicans were "underemployed."

Frustrated with Fox's failure to spread the country's wealth, most Mexicans surveyed say they will vote for Andrés Manuel López Obrador, the populist, left-leaning mayor of Mexico City, in the next election.

López Obrador opposes Fox's efforts to open the state-run oil and electricity monopolies to more private investment.

In the United States, business leaders are concerned that Arizona's Proposition 200 reflects a backlash that could complicate efforts to ease the flow of workers across borders. Many U.S. industries, especially farming, depend on the cheap labor Mexicans provide.

"This is a Band-Aid fix," Pacheco said. "The fact that Arizona thinks it's going to do something about illegal immigration is very unfortunate, because it's not."