

Abstract: “NAFTA, the Peso, and U.S.-Mexico Commodity Trade”

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Before its 1994 implementation, it was anticipated that the North American Free Trade Agreement would have a significant impact not only on the overall volume of U.S.-Mexico trade, but also on specific importing and exporting industries. Mexican as well as U.S. producers feared that foreign competition would hurt production in their industries.

Now, after more than a decade, it is possible to assess NAFTA’s effects and the accuracy of these predictions. This dissertation examines the impact of NAFTA on imports, exports, and the overall trade balance between the United States and Mexico, in the context of a study of the general effects of changes in the real exchange rate on U.S.-Mexico bilateral trade. While trade tends to be relatively insensitive to changes in the exchange rate, trade liberalization is shown to have had more of an effect.

Using annual import and export data from 102 industries over the period 1962- 2004, I perform three different analyses. The first study assesses the effects of changes in the real exchange rate on the Mexico-U.S. trade balance (Mexican exports minus imports), first without and then controlling for the post-NAFTA period. The second analysis examines how exchange rate volatility—a measure of risk in international trade—affects these imports and exports, pre-and post-NAFTA. The third study separates the export and import components into two separate equations to examine the individual effects on exports and import values by industry, also measuring the influence of NAFTA and Mexico’s entry into the General Agreement on Tariffs and trade (GATT).

All three studies utilize time-series cointegration techniques. Each of the 102 industries are investigated separately, to examine specific industry effects. NAFTA’s effects on industries in the key sectors of agriculture, textiles, and manufacturing, as well as Mexican industries with economies of scale, will be given particular attention. These will be compared both U.S. and Mexican studies that had described which industries might be affected. Overall, trade liberalization seems to have had an impact on many of these industries.