

Adrián de León-Arias  
Patricio Aroca *Editors*

# NAFTA's Impact on Mexico's Regional Development

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Editors

# NAFTA's Impact on Mexico's Regional Development

 Springer

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# Introducción

In this book, the dynamics of continuity and change in economic activity across Mexican regions and the overall regional development are analyzed along the last thirty years (1980–2020). This subject is of interest in the literature on regional economic development, while the Mexican case, through its history since Colonial times, has been clearly polarized and, more recently, challenged with trade opening, mostly with the USA, since the late 1980s, and afterwards with the North American Free Trade Agreements (NAFTA and USMCA), as well as a more protagonist role of the local and regional economic agents in their economic development strategies. In this respect, this volume looks for an explanation of the diversity of regional patterns as a result from trade integration and local dynamics with emphasis in different perspectives and Mexican regions and the U.S. Southern States.

In the way about how regional economic development in Mexico under trade integration and local developments are analyzed, this book is oriented to readers interested in academic fields related to examine geographical space and economics such as new economic geography, geographical economics, (proper) economic geography as well as to international economics, regional economic development, and Mexican economy, additionally, a couple of chapters deals with input–output explorations.

Moreover, this book is of interest to academic and professional researchers in those fields in order to be acquainted to recent contributions in regional economic development as stepping stone to generate a more general framework to analyze the impacts of recent developments in regional trade integration, such as Brexit or USMCA, looking for the impacts of such developments in subnational economies.

This book is an excellent reference for policymakers at national and subnational levels, while this book would help to identify areas of interest to policy implementation to encourage the dynamics of regional development as well as graduate students in those fields while gives an updated review to this day of the themes presented which can be useful for thesis research.

It is relevant to note that regional economic development in Mexico is a significant case which, in particular, after the implementation of NAFTA, has been subject

of international academic attention in fields such as regional economics, new geographical economics, (proper) economic geography, among others, because dynamics of that development pattern became an excellent laboratory, altogether with the European Union case, to analyze economic or trade integration in a context of imperfect competition, spatial agglomerations of economic activity, divergent geographical patterns of endogenous growth, as well as industrialization strategies and evolutionary patterns.

Furthermore, in the 1990s decade, the trade and investment globalization wave, as well as, the expansion of regional trade agreements took the attention of economic researchers on the evaluation of the benefits and costs of such international cooperation strategies and related to the research topics of this book, about their subnational impact, that is, taking into consideration the relevance of the impact of such trade agreements on regions inside nations.

In the series of issues mentioned above, for the case of Mexican regional economic development, relevant contributions were Livas and Krugman (1992), as well as Hanson (1994) which, taking into consideration agglomeration economies and geographical (economic) distance, topics related to new geographical economics, in a context where Mexico city that concentrated industrial activities was located relatively far from the USA, while cities with recent industrialization, at that time, and geographical close to the USA could take advantage of agglomeration economics generated by closeness to the new central market, the American economy. This and other more general hypothesis were evaluated in a growing literature.

While previously mentioned research focused on regional development under trade liberalization mostly related to location, other economists extended these regional evolutions in a perspective more dynamic, related to economic growth, with an emphasis on productivity, see, for instance, Esquivel (1999), De León Arias (1999), and Aroca González et al. (2005). In these works, they observed that, if well employment and economic activity was growing in the Northern Border in relation to Mexico city, altogether with some states located geographically around that city, labor productivity growth was accelerated in regions as Central Mexico rather than in the Northern Border region. Then, more availability of human capital, infrastructure, and capacity to generate knowledge spillovers was identified as significant growth factors in explaining productivity growth in a regional perspective in Mexico. Nonetheless, these studies showed that regional economic growth could be described not only through reception of trade and foreign investment but also in terms of the endogenous characteristics of the regions.

The historical dynamic role of those endogenous factors in Northern and Central Mexico regions under international trade integration has been validated by analytical contributions of the so-called proper economic geography, in particular following the recommendation of Garretsen and Martin (2010) of linking new economic geography and history. In the research presented in this book, geographical space becomes endogenous and function of the process being explained.

In some way, collaborations presented in this book in their analytic dimension follow a couple foundational perspective pointed out by Ohlin [1967 (1933)]: (1) in explaining regional industrial activity taking into consideration the varying supply of

productive factors in different places and where some factors are freely mobile and others not, moreover those factors “placed in the group called nature” are completely immobile Ohlin (Ibid, p. 2). And (2) following this argument, Ohlin, in appendix II to his original book, also pointed out the role of productive conditions and analysis of development through the time (Ohlin, Ibid, p.314) as conditions of analysis of regional development.

It may be relevant to note that in some chapters of this book, there is call for explanation where “*history matters*” and where this expression indicates that current and future economic outcomes are strongly influenced by past events—hence, analysts often observe heterogeneous and path-dependent developmental trajectories across economic growth patterns, which can be better understood by illuminating differences in starting conditions, past successes and failures, or lasting institutional features. In this general form, the guideline history matters can be applied to a variety of regional economic development experiences.

In the same perspective, collaborations in this book also—some kind—follow recent debate about the role of historical dynamics in the new geography economics (NGE) or geographical economics, collaborations in this book are close to the so-called proper economic geography (PEG), as defined by Martin (1999) while most of them involve a commitment to study regions where local specificity matters and taking into consideration the role of historical-institutional factors in the development of those regions and giving history and geography a central role in their explanation.

Additionally, research reported in this book continues the contributions of a large group of Mexican and other countries’ researchers who have taken advantage of the case of Mexico’s regional development under NAFTA, as far as it showed a feedback between internal or endogenous factors and trade flows and FDI from an analytical and historical point of view. For a review of these contributions, see De León Arias and Llamosas (2016) and De León Arias (2019).

Most of the collaborators in this book are researchers who have been analyzing on Mexico and US Southern border regional economic development since 1990s and advanced their investigations in the context of expectation and results for those regions from the Mexico’s free trade agreements. In this book, they were asked for long run regional economic development exploration based on their expertise developed in previous research. In the following, abstract of the chapters is presented.

In the chapter “**A Review of Regional Development, Disparities, and Public Policies in Mexico: Reflections on an Environment of Strategic Reconfigurations**” by Alejandra Trejo, *Colegio de Mexico*, taking into account the context of a recent turbulent world dynamics with geopolitical change and the reversal of major trends appears to be underpinning a return to protectionism as a strategic political tool. In addition to that international changes, author added that Mexico is facing internal political rearrangement in which particular visions of the national model are being adopted; therefore, these national and international adjustments offer an opportunity for a broad discussion of the Mexican development paradigm and its regional impacts. This chapter then contributes to the debate on

regional economic development in Mexico and reflects on some of its main dilemmas. After a succinct review from a historical perspective, a more detailed account is provided of regional development and spatial disparities in the opening up and liberalization phase. She also discusses key elements in the evolution of planning and regional policy in the country throughout the twentieth century and to date. The work concludes with four reflections about Mexico's regional development perspectives and challenges.

In the chapter **“Regional Advantages: Why U.S.–Mexico Trade Is Robust and Permanent,”** James Gerber, *SDSU Emeritus professor*, observed that while Mexico and the USA have the second largest bilateral trade relationship in the world, after only U.S.–Canadian trade, and the free trade agreement facilitates the flow of goods and services, there are other factors which are also important enough that an abrogation of the agreement would not likely alter the volume of trade in a significant way. In particular, according to professor Gerber, Mexico–U.S trade is driven by five factors in addition to the effects of the trade agreement. First, the proximity of the USA and Mexico reduces transportation costs. Second, the size of both the USA and Mexican economies creates a large demand for each other's goods and services. Third, economic policy reforms in Mexico and the USA encouraged closer trade ties, particularly in the border region where Mexico's export processing zone was deeply integrated with the American economy. Fourth, new information and communication technologies led to the development of cross-border value chains that further integrated manufacturing systems. And fifth, state and local efforts along the border have strengthened cross-border economic ties.

In the chapter **“Regional Economic Development in Mexico: Past, Present, and Future,”** Rafael Garduño, *Universidad Panamericana-Aguascalientes*, analyzes factors such as climate, security, production, specialization, trade, infrastructure, and investment and their effect on the Regional Economic Development in Mexico in the last years with focus in the regional concentration of economic activity, production efficiency, and economic growth.

In the chapter **“Identification and Spatial Hierarchy of Industrial Conglomerates with Census Data. A Suggested Procedure and Application to the Mexican Case of Study”** professor Jesús A. Treviño Cantú, *Universidad de Nuevo León*, develops a new methodological combination and sequence of existing techniques of spatial analysis to identify industrial conglomerates and set up their spatial hierarchy. While the word “conglomerate” refers to the fusion of concentration and agglomeration processes of magnitude or intensity, in this contribution, concentration is the occurrence of high global values, regardless of their location. Conversely, agglomeration is the concentration of adjacent high local values. Both agglomeration and concentration create conglomerates of magnitude or intensity when they are merged through a geographical overlay procedure. While magnitude refers to size, intensity refers to importance of the studied variable. For the first time in the study of the spatial pattern of manufactures, the spatial hierarchy is obtained by overlaying conglomerated and non-conglomerated high values of magnitude and intensity.

Potential benefits of the suggested procedure for an area-based public policy are illustrated by assessing industrial employment in 2,352 and 2,457 Mexican

municipalities in 1998 and 2013, respectively. The procedure in this study may easily be extended to identify spatial patterns of diseases, crime, poverty, aging population, pollution, or environmental justice in different areas or countries.

In the chapter, **“Regional characteristics of labor productivity in Mexico’s manufacturing sector,”** professor Eduardo Mendoza, *Colegio de la Frontera Norte*, studies labor productivity in the manufacturing sector of Mexico for the period 2007–2020/01. In particular, an analysis of the structure and trends of labor productivity at the state level is studied. Results show that labor productivity at the regional level has shown an uneven growth. In addition, the study discusses the determinants of labor productivity in Mexico and establishes an econometric model to explore the impact of the determinants of labor productivity such as foreign direct investment, schooling, and gross capital formation which have positive effects on labor productivity growth.

In the chapter **“Value Added in Exports under NAFTA: A Binational Input–Output Model,”** professors Noé Arón Fuentes, Alejandro Brugués, Gabriel González-König, *Colegio de la Frontera Norte*, highlight the stylized fact that Mexico has had a significant gross trade surplus with the USA during the NAFTA period, proving the existence of a notable deficit for Mexico in terms of the added value incorporated in this trade. The value-added flow in Mexico's gross exports to the USA only reaches 164.4 billion, while the domestic content of the USA gross exports is 188.7 billion. In the disaggregation of added value, the great difference between domestic and foreign components incorporated in exports stands out, while for the USA the foreign added value in its exports reaches 2.5 billion for the case of Mexico, this concept is 50.2 billion, which is more than 20 times the amount it represents for the USA. A conclusion that derives directly from this last aspect is that during NAFTA an important part of the income from Mexican exports goes to remunerate productive factors used in the USA.

Edgardo Ayala and Joana Chapa in the chapter **“Structural Change in the Exports and Foreign Direct Investment of the Southeast Gulf Mexican States”** presents a combination of econometric and multi-sectoral techniques to show that NAFTA has not only benefited northern states in Mexico, but also to the south region of Mexico. A structural break in manufacturing exports and foreign direct investment is found in the Southeast Gulf of Mexico, which encompasses the states of Veracruz, Tabasco, Campeche, Quintana Roo, and Yucatán, most likely caused by those major liberalization reforms. Manufacturing exports might increase by 48.3% of pre-NAFTA levels, whereas FDI rose by 71.6%. The increment in manufacturing exports is linked to a rise of 1.0% in gross value added and 1.7% in employment of the region. Meanwhile, FDI expansion likely contributed with an additional increment of value added and employment of 1%.

While chapter contributions in this volume were written during 2020 and March 2021, new issues were developed along, such as some institutional consolidation from the *old* NAFTA to the *new* USMCA, and the regional policy in the new federal administration, both of them were somehow already taken into account in some of the chapters, but not so the impact of COVID-19 which surely remains as a question to be not only as a subject of study but also a social and economic challenge.

Regarding regional policy in the new federal administration which began in the late 2018, one of the challenges in the near future is improving the design and evaluation of the significant efforts in terms of public investment directed to Mexican South. In particular, Federal Government has implemented large infrastructure projects for that region.

Mexican South has been the Mexican lagged region in terms of economic development for the long time. Aroca González et al. (2002) evaluated the effect of the trade opening of economy at large in the 1990s on this region and identified such policy as insufficient as development strategy.

Another emergent area of interest in current regional inquiry is, of course, the design of methodologies in evaluating the regional impact of COVID-19. The analysis of the impact of such virus has become a relevant topic of research in all areas, where regional impact is not the exception. While that inquiry at this time (March, 2021) is mostly in process, there are investigations which are looking for learning from identified impacts by previous virus contagious like SARS (in this respect, see SOUTHGN.COM 2020).

Among some other relevant research methodological approach is Bonet-Morón et al. (2020) who developed an input–output formulation for analyzing the regional economic impact of COVID-19 in Colombia. There is also an investigation on the evaluation of the economic cost of the closing of no essentials activities by means of a multisectorial and regional analysis with SAM models (Dávila-Flores y Valdés-Ibarra 2021).

Niembro and Cala (2020) identified the magnitude of the regional impacts, including related issue of informal labor and self-employment for the Argentina case by building an index of territorial economic impact by COVID-19.

Of methodological interest in the recent literature on the economic impact of COVID-19 is the analysis based on data at granular level in real time using anonymized data from private companies. Even more in the case of regional research these studies can be extended to key locational indicators disaggregated by ZIP code industry income group and business size. See Chetty et al. (2020).

In general, the analysis of impact of COVID-19 on economies has renewed the inquiry from a regional and urban perspective as pointed out by Hadjimichalis (2020) for the European Union but it can be appreciated to any national economy.

Additionally, it is interesting to note that besides the perception of deep insecurity and crime which have been extended in Mexico in recent decades, however, in these chapters presented few references to the issues of crime and insecurity, that it may be of interest for researching in the future.

Regional immediate experiences in Mexico after national debates on the transition from NAFTA to USMCA and during year 2020 under the Covid-19 impact have recovered the concept of regional resilience while regional conditions show persistence of growth patterns and a relevant flexibility on part of regional governments, firms and societies.

As editors of this volume we would thank to all and each one of the chapter's authors and their institutions the generosity in sharing their recent research through this book. Additionally, to the COES (Center for Conflict and Cohesion Studies)

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# A Review of Regional Development, Disparities, and Public Policies in Mexico: Reflections on an Environment of Strategic Reconfigurations



Alejandra Trejo-Nieto

**Abstract** Recent turbulent world dynamics with geopolitical change and the reversal of major trends appear to be underpinning a return to protectionism as a strategic political tool. In addition to political reconfiguration at the international level, Mexico is facing internal political rearrangement in which particular visions of the national model are being adopted. These national and international adjustments offer an opportunity for a broad discussion of the Mexican development paradigm and its regional impacts. This chapter contributes to the debate on regional economic development in Mexico and reflects on some of its main dilemmas. After a succinct review from a historical perspective, a more detailed account is provided of regional development and spatial disparities in the opening up and liberalization phase. I also discuss key elements in the evolution of planning and regional policy in the country throughout the twentieth century and to date. The work concludes with four reflections about Mexico's regional development perspectives and challenges.

**Keywords** Regional development · Regional disparities · Territorial policy · Trade · Mexico

## 1 Introduction

Recently the dynamics of world geopolitical change and the reversal of major trends appear to be underpinning a return to protectionism as a strategic political tool. Britain's exit from the European Union (Brexit) and the United States interest in reversing the North American Free Trade Agreement (NAFTA), the emergence of

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