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Introduction

BACKGROUND

The North American Free Trade Agreement (NAFTA) of the United States, Mexico, and Canada was implemented on January 1, 1994. Since then, trade and investment in the region have expanded dramatically and new NAFTA related institutions such as the North American Development Bank (NADB) and the Border Environment Cooperation Commission (BECC) have been put into place. Meanwhile, NAFTA has been loudly praised by its proponents and mercilessly damned by its critics. The volume of books and articles analyzing its impact has steadily increased and efforts are underway to extend the agreement to the rest of the Western Hemisphere (Clement et al. 1999; Economic Policy Institute 2001).

Nevertheless, very little has been written about the effects of NAFTA on the highly urbanized communities of the U.S. Mexican border region, which constitute the main points of contact between these greatly contrasting countries. In 1993, when ratification of the agreement was being debated in those two countries, most border communities were led to believe that NAFTA would bring them higher levels of prosperity, improved infrastructure, a cleaner environment, and better cross-border relations with their neighbors on the other side.

In 1999, five years after the agreement's implementation, this study was initiated in order to assess the validity of these

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expectations and to fill a gap in the literature on the impact of NAFTA. Most systematic studies have focused on NAFTA's impact at the national level, while most of the information available on U.S. Mexican border communities has been anecdotal, published in relatively obscure academic journals, or scattered about in local newspapers.

NAFTA, of course, is only one of many factors that have impacted these communities in the period since the implementation of the agreement. Other factors, such as financial crises in Asia and Russia increased financial instability in most of the world's emerging economies and added to Mexico's economic woes during the latter part of the decade. Yet, perhaps the most important event during this period was the Mexican peso crisis of December 1994, which dramatically changed the dollar-peso relationship, turning Mexico's trade deficit into a surplus, and plunging the nation's economy into a deep, but relatively short, recession. This crisis resulted in a significant decline in retail sales in many U.S. border communities. The retail sector is of fundamental importance in most U.S. border communities and, in some cases, Mexican sales account for more than 50% of the total sales and 25% of the jobs in the community. Retail sales tax rebates are also an important source of funds for local governments. Additionally, a devalued peso means that many U.S. border residents find it worthwhile to make more of their purchases in Mexico, potentially further reducing retail sales and sales tax rebates on the U.S. side.

While the Mexican national economy was in crisis, lower wage rates in dollar terms and new regulations established by NAFTA made foreign investment generally more attractive in Mexican industry and specifically increased the appeal of the maquiladora (or assembly) industry. This resulted in an economic boom and near zero unemployment rates in the Mexican border region, despite high rates of internal migration from the interior of the country to the northern border region.

Ironically, at the same time that the Mexican economy was in crisis, the U.S. economy was enjoying one of the longest and strongest expansions in its history and a sustained stock market boom. Given the strong link between the health of the

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U.S. economy and the macroeconomic performance of the Mexican economy, the U.S. expansion clearly boosted Mexican exports, the Mexican national economy, and the local economies of U.S. border communities. Many of the benefits and costs of the economic expansion spilled over to the Mexican side of the border region. Meanwhile, democratic reforms and administrative decentralization (devolution of powers) in Mexico opened up new opportunities and challenges for subnational governments and gave border government entities increased flexibility for collaborating with their counterparts in the United States.

ORGANIZATION OF THE STUDY

While it is possible to identify the main factors operating on these communities in the 1990s, no systematic analysis has been carried out to determine just how these widely differing border communities have fared during the NAFTA era, which roughly coincides with the decade of the 1990s.¹ This study attempts to remedy this deficiency in two ways: (1) through an analysis of existing demographic and economic data and (2) through a survey of knowledgeable persons from government, business, nongovernmental organizations, and academia in the main U.S. and Mexican border communities.

The study was carried out by members of a newly formed consortium of individuals and organizations in the United States and Mexico the Network of Border Economics/Red de la Economía Fronteriza (NOBE/REF). This organization is supported by the El Paso Branch of the Federal Reserve Bank, which maintains a website (<http://www.nobe-ref.org>) and provides a point of contact for the consortium. San Diego State University (SDSU) and El Colegio de la Frontera Norte (COLEF) in Baja California also support NOBE/REF. Beyond the Federal Reserve Bank of Dallas, SDSU, and COLEF, NOBE/REF members include border-based universities and businesses, as well as Banco de México (Mexico's central bank) and Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI), (National Institute of Statistics, Geography, and Information).

OBJECTIVES AND ASSUMPTIONS OF THE STUDY

This study, which focuses on the county-municipal level, has two main objectives:

1. To determine how the demographic, economic, environmental, and infrastructure situations in U.S. and Mexican border communities have changed during the NAFTA era.
2. To determine what kinds of demographic, economic, and quality-of-life indicators² and analytical tools are needed by these communities in order to enable them to monitor and analyze their own situations on an ongoing basis.

The study is also intended to:

- 1 Assist local, state, and national decision makers in both Mexico and the United States to better understand the complex situation of border communities and thereby develop more informed policies.
- 1 Assist academics and other researchers to identify issues and trends that deserve further study as well as to develop the skills and contacts that will be required as NOBE/REF begins to implement its agenda of collaborative, border-related research projects
- 1 Assist the private sector, especially businesses and organizations located in the border region, by providing a more comprehensive analysis of the economies of the border and by updating the key indicators that businesses need to make decisions related to day-to-day operations and long-term investments and strategies.

A major assumption of the study is that, given the significant differences among the border communities, the impact of NAFTA and of other factors, such as the 1994 peso devaluation, have been and will continue to be different in each U.S. and Mexican border community. Despite these differences, however, it is likely that there will be some trends that are common, in varying degrees, to all border communities.