PAYING FOR NAFTA

by Kevin P. Gallagher

As many nations now seek deeper integration into the world economy through such fora as the Free Trade Area of the Americas or the World Trade Organization, they would do well to consider Mexico's experience. The Mexican economy, which successive governments have been liberalizing since 1985, is now one of the most open in the world. However, the country is also a showcase highlighting the environmental costs that can accompany trade-led growth when the proper regulatory institutions are absent.

During negotiations for the North American Free Trade Agreement (NAFTA), proponents of the deal asserted free trade would automatically lead to improved environmental conditions in its member countries, particularly Mexico. By increasing incomes, they argued, free trade would produce the funds to underwrite environmental improvement. In actuality, environmental degradation has increased. Furthermore, statistics from Mexico's National Institute for Statistics, Geography and Information Systems (INEGI) document how this environmental degradation has undermined the benefits of Mexico's trade-led economic growth.

According to INEGI, between 1985 and 1999 rural soil erosion grew by 89%, municipal solid waste production by 108%, water pollution by 29% and urban air pollution by 97%. The results have been costly. INEGI studies estimate the financial costs of environmental degradation at 10% of GDP from 1988 to 1999, an average of $36 billion in damage each year—$47 billion for 1999. The cost of this destruction overwhelms the pace of economic growth, which has hovered at an average of 2.5% annually over the same period, or $14 billion per year.

Costly environmental degradation is occurring because the proper mechanisms were not put in place to help Mexico manage its economic growth in an environmentally sustainable manner. This is unfortunate because in the years leading up to the signing of NAFTA, Mexico had begun to show environmental improvements. Spending on environmental protection was on the rise and Mexico had implemented a much-needed industrial environmental inspection program. With the onset of NAFTA, however, and its consequent fiscal and financial woes, attention to the environment nose-dived. According to INEGI, since 1994 real spending on environmental protection declined by 45%. Even at their highest levels, allocations for environmental protection were paltry in comparison to Mexico's counterparts in the Organization for Economic Cooperation and Development (OECD); as a percentage of GDP, they were only a fifth the size of those made by other OECD nations.

NAFTA's "Environmental Side Agreement" created institutions, including the North American Commission for Environmental Cooperation (NACEC), to monitor and ensure that member states follow environmental regulations. They have set some important precedents, but they are not equipped to deal with Mexico's environmental crisis. At most, Mexico receives only a third of the NACEC's $9 million annual budget. NACEC has been effective in carrying out its limited mandate, enabling citizen groups to monitor environmental progress and convening cross-national information sharing and research efforts in North America. But the $3 million budgeted for Mexico is dwarfed by the country's budget shortfalls and is buried beneath environmental degradation's $36 billion price tag. Mexico's environmental crisis clearly underscores the fact that, without the proper environmental policies in place, the environmental consequences of trade-led growth could undermine the very goals of economic integration. ■

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