CHAPTER 1

North American Economic Integration in the Global Context

Norris C. Clement and Gustavo del Castillo V.

NAFTA'S Rocky Road

Implementation of the North American Free Trade Agreement (NAFTA) began on January 1, 1994. Scarcely eleven months later, on December 9 of the same year, thirty-four heads of state met for three days at the Economic Summit of the Americas in Miami to begin the creation of a Free Trade Area of the Americas (FTAA), to be implemented by the year 2005. At that same summit, Canada, the United States, and Mexico announced that negotiations with Chile would soon begin to provide for that country's accession to the NAFTA. This was to be the first step toward a hemispheric free trade agreement. Thus for a brief time it appeared that the "gospel of free trade" had finally been accepted throughout the entire Western Hemisphere.

A few days later, however, on December 20, Mexico's newly elected government announced that, in response to a growing trade deficit (i.e., imports > exports), dwindling international currency reserves, and a pressing need to refinance part of its short-term foreign debt, the government of Ernesto Zedillo would allow the peso to depreciate relative to the U.S. dollar, the currency of its principal trading partner. Almost immediately, Mexican and foreign investors panicked, selling stocks and exchanging pesos for dollars.[1]

Over the next few months the Mexican stock market, which had experienced a strong boom in recent years, lost a good portion of its gains, the peso fell to approximately half its previous value, inflation skyrocketed, and economic output and employment took

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[1] During the latter half of 1994 the Mexican government had financed the growing gap between exports and imports with inflows of investment capital, much of it attracted by the rapidly rising stock market. As the situation deteriorated, investors lost confidence in the economy and simply cashed out of the stock market and Mexican pesos.