

## **POSSIBLE ENVIRONMENTAL EFFECTS OF A NAFTA: THE BORDER AREA**

- The U.S.-Mexico border area currently faces a variety of environmental problems characteristic of expanding urban areas where infrastructure and environmental enforcement have not kept pace with rapid growth.
- In the past, rapid border growth has been due to the establishment and expansion of the "maquiladoras," assembly-oriented manufacturing plants that benefit from Mexican Government incentives for firms that export most or all of their production.
- Among other things, maquiladoras are allowed to import components free of Mexican duty when the products are exported. Until recently, maquiladoras were compelled to locate in the border region.
- With implementation of the NAFTA, maquiladora firms will become more like domestic Mexican firms. They will be able to use domestic or NAFTA-sourced imports without distinction. They will be able to sell their output in Mexico or abroad, depending on market opportunities.
- What will this mean for border area investment and growth? Two scenarios present the range of possibilities:
  - Scenario 1, in which investment and production in the border region is assumed to grow at the same accelerated rate as that of the rest of Mexico, with the new border growth attributable to investments by firms new to Mexico locating close to the border to minimize risk and maximize their use of border area transportation and support services.
  - Scenario 2, in which firms respond to the change in trade status by increasingly locating new facilities further south in Mexico to be closer to Mexican domestic markets and suppliers and to avoid the higher labor costs and turnover of the border region.
- Without a NAFTA, however, the border area could be under as much or more stress, as it is reasonable to expect the Mexican Government to put increasing emphasis on the maquiladora sector, while limiting the ability of such firms to sell into the domestic market.
- The growth estimates are similar among the three scenarios, and the range of growth possibilities is quite wide. The uncertainty in the forecast range reflects the large number of variables influencing the border's growth, regardless of a NAFTA. In this regard, we anticipate that a NAFTA will have a moderate influence on the underlying growth factors, slightly accelerating border growth in scenario 1 from what it would have been, and slowing border growth in scenario 2.
- Completion and implementation of the NAFTA also is likely to strengthen the two countries' commitment to cross-border environmental cooperation, while allowing the Mexican Government to raise through taxation and fees additional resources for environmental protection and infrastructure development.