

## **Abstract**

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### **Mexico's Manufacturing Exports and the Environment under NAFTA**

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One of the most controversial topics in the discussions that preceded the North American Free Trade Agreement (NAFTA) was the potential role of Mexico as a "pollution haven," given its lower environmental standards compared to its northern counterparts.

This paper investigates whether Mexico's export industry has become more or less pollution-oriented since NAFTA was launched and whether its exports have found a special comparative advantage in the most polluting areas. The paper provides analytical insight into the Mexican export structure, considering its technological content; an estimate of the increase in industrial pollution linked to the export activity from the pre- to the post-NAFTA period, as well as its decomposition in a "scale effect" and a "composition effect"; and finally, an analysis of the most polluting export sectors' competitiveness in the United States market.

The results of the study indicate that since NAFTA was launched there has not been a shift of the most polluting industry towards Mexico, albeit there has been an intensification of trade in some of these sectors between Mexico and its northern neighbor. Furthermore, Mexico has tended to specialize in technologically sophisticated products, which are comparatively less polluting than the more traditional manufactured export goods. Consistent with this characteristic was the result of the decomposition of the estimated pollution expansion linked to Mexican exports into two effects for the period 1992/93–1997/98. The positive and predominant "scale effect" and the negative "composition effect" indicate that the pollution expansion was a consequence of considerable growth in the Mexican export sectors rather than a greater weight of polluting sectors.

The former results have to be weighed with care since the reorientation of Mexican exports toward technologically sophisticated products is only partial—only a portion of total production processes are typically completed in the country—and, often, particularly in the maquila industry, they may generate new environmental problems. Also, the most polluting sectors of the Mexican export market, though growing at a lower rate than Mexican total exports, are still quite competitive in US markets for those products.