

# Has NAFTA Improved the Environment in Mexico?

The North American Free trade Agreement (NAFTA) took effect in 1994. By lowering tariff barriers and promoting the freer flow of goods and capital, NAFTA integrated the United States, Canada, and Mexico into a single, giant market. The agreement has apparently been successful in promoting trade and investment. Has it also been successful in promoting environmental protection in Mexico?

According to a study by Kevin Gallagher (2004) it has not, although not necessarily due to the forces identified by the pollution havens hypothesis. Some effects clearly resulted in less pollution and others more, although on balance air quality has deteriorated.

The pollution havens hypothesis might lead us to expect a relocation of heavily polluting firms from the United States to Mexico, but that apparently did not happen. None of the numerous statistical tests performed by the author supported the hypothesis.

In terms of positive effects on air quality from trade, Gallagher found significant shifts in Mexican industry away from pollution intensive sectors; the post-trade Mexican industrial mix was less polluting than the pre-trade industrial mix (the opposite of what would be expected from the pollution havens hypothesis). He even found that some Mexican industries (specifically steel and cement) were cleaner than their counterparts in the United States, a fact he attributes to their success in securing new investment for more modern plants with cleaner technologies.

The largest trade-related source of air quality degradation was the scale effect. Though the post-trade industrial mix generally shifted away from the most polluting sectors (meaning fewer average emissions per unit output), the promotion of exports increased output levels considerably. Increased output meant more emissions (in this case almost a doubling).

One expectation emanating from the Environmental Kuznets Curve is that the increased incomes from trade would result in more environmental regulation, which in turn, would curb emissions. That expectation was not met either. Gallagher found that both real government spending on environmental policy and the number of Mexican plant-level environmental compliance inspections fell by 45 percent after NAFTA, despite the fact that income levels reached the turning point expected by the pre-trade studies.

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**Source:** Gallagher, K. P. *Free Trade and the Environment: Mexico, NAFTA and Beyond* (Palo Alto, CA: Stanford University Press, 2004).