**Globalization and Poverty in Mexico**

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With all the talk these days about globalization and its discontents, the tendency is to focus on the alleged damage suffered by people with the greatest exposure to its most common manifestations, such as lower trade barriers and relaxed rules for foreign investment. But what about people who have been largely bypassed by globalization?

In Mexico, it appears that people living in areas with the least exposure to globalization -- regions that are not attracting foreign investment and are lacking in industries that serve international markets -- are lagging behind those residing in regions that have felt its full force. In Globalization, Labor Income, and Poverty in Mexico (NBER Working Paper No. [11027](http://papers.nber.org/papers/w11027)) NBER Research Associate Gordon Hanson asserts that in the 1990s, incomes fared relatively poorly in parts of Mexico that experienced little of the effects of globalization when compared to the so-called "high exposure" states of northern Mexico whose export-oriented industries have been magnets for foreign investors.

Hanson finds that average labor earnings decreased by 10 percent for "low exposure" states, which are located mainly in the south, relative to high exposure states. In addition, during the 1990s, the low exposure areas saw a comparative increase in workers who could not earn enough to keep their families out of poverty. "This is further evidence that during Mexico's globalization decade individuals born in states with high-exposure to globalization have done relatively well in terms of their labor earnings," he states.

Hanson acknowledges that incomes traditionally have been higher in the northern states than in the south. However, prior to the mid-1980s, when Mexico began dropping barriers to trade and investment, income differences between the two regions were actually narrowing. "The process of income convergence in Mexico came to a halt in 1985, coinciding with the onset of trade liberalization," he writes. "Since 1985, regional incomes have diverged in the country. The pattern of income growth I uncover does not appear to have been evident in the early 1980s or before."

The benefits of liberalization also helped northern states weather economic crisis. While incomes in both regions suffered during the peso collapse of the mid-1990s, Hanson finds that "the deterioration was much less severe" in the northern tier, as it occurred during the banking crisis and a subsequent nationwide downturn in economic activity.

Mexico has become a popular tableau for the study of the effects of globalization. According to Hanson, that's because the country has been so aggressive at opening up its economy to the rest of the world. Mexico started in 1985 by unilaterally cutting tariffs and eliminating other restrictions on trade. It then acted in 1989 to end many restrictions on foreign investment, and culminated the liberalization process in 1994 with the signing of the North American Free Trade Agreement (NAFTA). Hanson observes that, "partly as a result of these policy changes, the share of international trade in Mexico's GDP has nearly tripled, rising from 11 percent in 1980 to 32 percent in 2002."

Hanson notes that there could be several interpretations of his findings. One is the simple fact that when barriers to trade and investment fall, incomes will rise in areas that are most adept at participating in the global economy.

But Hanson says that others may view the income growth in the north and its relative stagnation in the south as unrelated to globalization. For example, some observers might associate the income gains in the northern states with the privatization and deregulation of Mexican industry and the reform of Mexico's land-tenure system. Hanson says that these changes actually should be of more benefit to the less unionized and more agrarian southern states and ultimately do not offer an alternative explanation for his findings.

Still, Hanson reports that while there is much evidence that globalization, or, in the south, the lack thereof, has a strong association with income levels, he observes that one has to be cautious about forcefully stating cause and effect. "In the end, we can only say that I find suggestive evidence that globalization has increased relative incomes in Mexican states that are more exposed to global markets," he writes.

Also, if this is in fact the case, Hanson points out that it's still not clear how governments should respond to such a connection. "The policy implications are unclear," Hanson concludes, "as I leave unanswered the question of how one goes about increasing regional exposure.

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