

The Effect of NAFTA on US – Mexico Intra Industry Trade

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ABSTRACT

This study seeks to assess the effect of the North American Free Trade Agreement (NAFTA) upon the structure of the international trade between the United States and Mexico. It uses one, two, and three-digit Standard International Trade Classification (SITC) data for the 1996 to 2010 period and employs the Grubel-Lloyd methodological approach to calculate the inter and intra-industry trade indexes for commerce between the two members of NAFTA. It validates the hypothesis that there is an inverse relationship between the level of data disaggregation and the intra-industry trade coefficients. It also concludes that, despite an overall decline in the USA-Mexico intra-industry trade, industries such as the machinery and transport equipment sector experienced an increase in the exchange in the same product categories during the period in question.