

The World Bank

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Dr. Mark Weisbrot
Co-director, Center for Economic and Policy Research (CEPR)
1611 Connecticut Ave. N.W., Suite 400
Washington, DC 20009

Dear Dr. Weisbrot:

Thank you for your continued interest in the research underlying our book *Lessons from NAFTA for Latin America and the Caribbean* (Stanford University Press and World Bank 2005). Since we are closest to that material and, in fact, have had previous discussions with you on the topic, François Bourguignon agreed that it made the most sense for us to continue our dialogue with you directly.

In your letter, you return to the areas of previous disagreement surrounding our finding that NAFTA had a positive, if modest, impact on growth. As we've discussed before, reasonable economists can differ on approach and appropriate data, particularly in this context. The book is upfront about the difficulties of estimating the impact of NAFTA given the short time elapsed as well as the other important events occurring around the same period. In the end, we attribute rather limited gains to NAFTA and a prominent theme of the book is that Mexico faces a long-standing growth challenge which emerged years if not decades before the negotiation of NAFTA. As we argue in the penultimate chapter, "NAFTA is not enough."

That said, we concluded (and continue to conclude) that NAFTA had a modest positive effect on Mexico- primarily by helping the economy recover quickly after the financial crisis of 1995-and over a period of eight years had an accumulated impact on GDP of roughly 4%. Several points merit mention here.

First, the literature supports our methodology as a legitimate one among various, and it is replete with similar analyses. The book and supporting background work on this precise issue went through an extensive review process by several non-Bank academic referees before each was accepted for publication.

Second, our estimate is not high relative to others by analysts both within and outside the Bank. In fact, it is substantially below some published estimates of well over 1% per year. We were aware of these more optimistic estimates at the time of publication, but chose not to report them in the book. Your estimate is, in fact, low relative to the mainstream economics literature.

Third, subsequent analysis with updated data continues to support our original estimates against both yours and those who were much more optimistic about NAFTA. Controlling for factors unrelated to NAFTA and pre-existing trends (before 1994), using our quarterly data or the Penn World Tables latest annual data, yields estimates which are very close to what we originally reported.

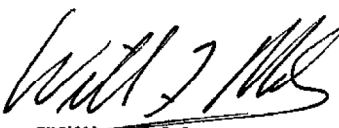
Of course, as both your and our work recognizes, if you argue that NAFTA caused the devastating 1995 financial crisis, then all bets are off. Again, reasonable analysts can disagree, but in all frankness, this is not the accepted view in the profession (see, for example, the well-known works by Tornell et al., Dornbusch and Werner, Velasco, Edwards, Stiglitz, etc.) and it seems rather forced at this point to insist that it was.

In sum, we stand by the conclusions of the book. Thank you again for a very stimulating dialogue.

Regards,



Daniel Lederman
Senior Economist



~~William Maloney~~
Lead Economist



Luis Servén
Lead Economist

cc: D. Lederman, L. Serven (DECRCG); W. Maloney, G. Perry, R. Delgado (LCRCE)