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William Maloney, Lead Economist
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Dear Drs. Lederman, Maloney, and Serven,

Thank you very much for your letter of March 20, 2007 in response to our January 26 letter regarding your paper, "Lessons from NAFTA for Latin America and the Caribbean." Unfortunately, your response does not address the main technical problem raised in our letter and paper.

Below we have pasted the graph that we linked to in our letter. As you can see, the ratio of US to Mexican PPP GDP per capita, according to your calculations, closely tracks the real exchange rate of the Mexican peso.[1] We cannot think of any reason for that to be true, other than an error in the methodology used in your paper to estimate the ratio of US/Mexican PPP GDP per capita. We have pointed out what that error appears to be.[2] It is clear that this error, if corrected, leads to a different result for the study – namely, the analysis no longer shows that NAFTA contributed to Mexico's economic growth. Furthermore, even if the results are assumed accurate, they show that NAFTA actually lowered Mexico's long-term GDP.

So we submit to you these 2 brief questions, implicit in our last letter:

1) Do you think there is a reason, other than a methodological error, for these two variables to be so closely related? If so, what is it?

2) If the answer to #1 is no, and that this relationship is indeed the result of a methodological error, then can you show how your results would still hold with a corrected estimate of US/Mexico PPP GDP per capita?

[1] Real exchange rate given by OECD nominal exchange rate deflated by the ratio of the US and Mexican GDP deflators. In this annual data, the levels correlate with r =0.90 and the changes with r =0.96. Changes in the gap are 30 percent of changes in the real exchange rate with t=17.

[2] Getting Mexico to Grow with NAFTA: The World Bank's Analysis. http://www.cepr.net/index.php?option=com_content&task=view&id=152&Itemid=8

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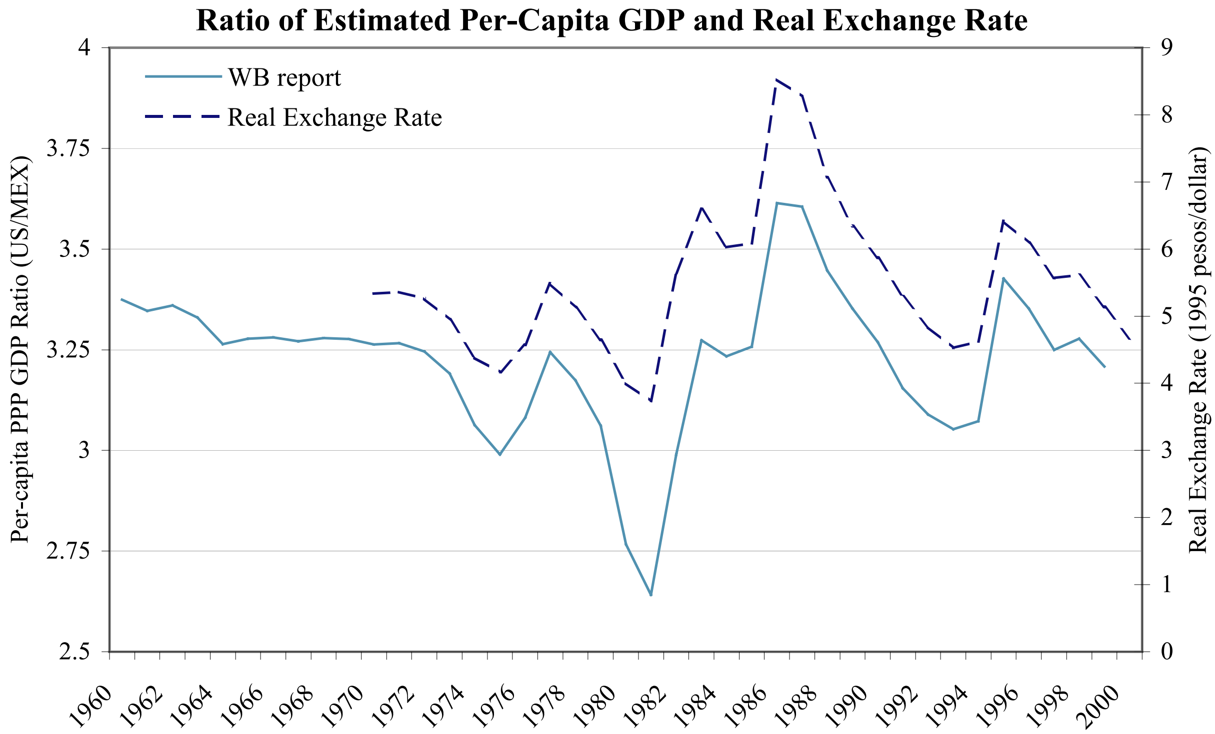

The main point in your response appears to be an assertion that most economic research supports the claim that NAFTA increased growth in Mexico. Our comment was not intended to make an assessment as to whether or not NAFTA increased growth in Mexico; it was simply examining whether your work could in fact be viewed as supporting that conclusion.

We look forward to your reply. We are going to post our side of this correspondence to our web site, and if there are no objections, will post yours also.

Sincerely,

Mark Weisbrot
Dean Baker
David Rosnick

P.S. We are not sure what is meant in your reply by the statement, "Your estimate is, in fact, low relative to the mainstream economics literature." We did not offer an estimate of the impact of NAFTA on economic growth in Mexico.

CC: François Bourguignon, Chief Economist and Senior Vice President