Economic integration, economic crises and economic cycles in Mexico

Integración económica, crisis económicas y ciclos económicos en México

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Abstract

This article analyzes the peculiarity of the dynamics of economic fluctuations of the Mexican economy, within the framework of its integration with the US and Canada; the article demonstrates how the Mexican economy make endogenous the macroeconomic crises from the USA (2001 and 2007), and how the business cycles of both countries became more aligned to each other.

Based on the heterodox economic theory of crises and cycles, we check the “empirical law of economic dynamics” of the Mexican capitalist system according to the logic of the multiplier–accelerator theory that allowed us to study the dynamics of business cycles for the period of the study (1993–2013). To do this, we construct and estimate a stationary VAR model and utilize the Granger causality tests and quarterly data.

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Resumen

En este artículo se analiza la peculiaridad de la dinámica de las fluctuaciones económicas de la economía mexicana en el marco de su integración con Estados Unidos y Canadá, y se demuestra cómo la economía mexicana endogeneizó las crisis macroeconómicas provenientes de Estados Unidos (2001 y 2007) y cómo los ciclos económicos de ambos países se fueron alineando.
Con base en la teoría económica heterodoxa de las crisis y los ciclos, verificamos la «ley empírica de la dinámica económica» del sistema capitalista mexicano según la lógica de la teoría del acelerador-multiplicador que nos permitió estudiar la dinámica de las fluctuaciones para el período de estudio (1993-2013). Para ello, construimos y estimamos un modelo VAR estacionario y utilizamos las pruebas de causalidad a la Granger y datos trimestrales.

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Códigos JEL: C32; E32; F02

Palabras clave: Integración económica; TLCAN; Crisis; Ciclos económicos; Crecimiento

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**Introduction**

With the signing of the North American Free Trade Agreement (NAFTA), a very important phase in the history of the Mexican economy began. This phase has been thoroughly analyzed, with regard to its impact on commerce, investments, and employment, among other important macroeconomic variables. Nevertheless, we consider it necessary to study the macroeconomic implications of this economic integration period, in terms of the dynamics of the economic cycles and their relation to the economic crises that have arose since 1994 and up to present day; considering that the macroeconomic short-term stabilization policies and the series of structural reforms implemented have tended to modify the dynamic of the cycles and the behavior of economic crises.

Particularly, during the period of the NAFTA, the policies of public spending and monetary control turned into powerful macroeconomic instruments to permanently adjust to the aggregate demand, becoming pro-cyclical policies. That is why the macroeconomic dominant features of the period were: the deceleration, economic stagnation, the presence of more unstable economic cycles, and more acute macroeconomic crises. In this work, we analyze and confirm how after the crisis of 1994, the Mexican economy endogenized the macroeconomic crises of the USA (2001 and 2007), and how the cycles of both countries aligned as a result of the growing integration of the Mexican economy to that of the American economy. This way, a new macroeconomic instability stage arose in the history of the country.

This article comprises the following sections: in the first we define the concept of economic cycle and of crisis in a heterodox view; in the second we analyze the main macroeconomic characteristics of the period, the behavior and the morphology of the cycles and of the economic crises of Mexico during the period being studied; in the third we study the co-movements of the supply and demand aggregated components with regard to the Mexican economic cycle and their synchronization level with regard to the American cycle; and in the fourth we present the econometric results of the VAR model that we applied in order to simulate the effects of the random shocks on the Mexican economic system; and finally, we present our conclusions.

**Theoretical framework: crisis and growth cycles**

The main heterodox economic theories that have studied the relation between the macroeconomic crises and the economic cycles establish that the cycles and the crises are explained by
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