

Seven Years Under NAFTA

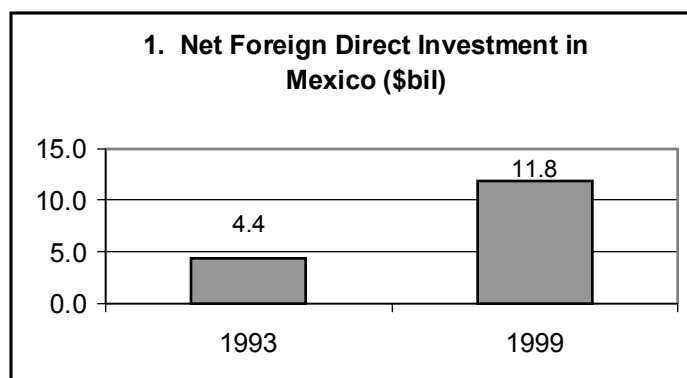
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Mexico

Since the North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994, supporters of the deal have pointed to the data presented below as signs of NAFTA's success.

• Foreign Investment Boom

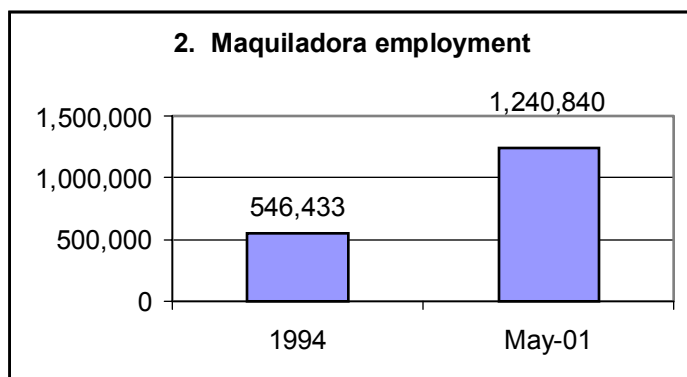
NAFTA made Mexico more appealing to foreign investors in two ways: 1) by requiring Mexico to allow free entry and exit of investment in all sectors and 2) by lifting trade barriers (making production there for export to the U.S. more profitable). As a result, U.S. companies have increased long-term investments in Mexican factories and other businesses. NAFTA also encouraged short-term, speculative investment in the Mexican stock market



Source: World Bank, *Global Development Finance 2001*.

• Jump in Maquiladora Employment

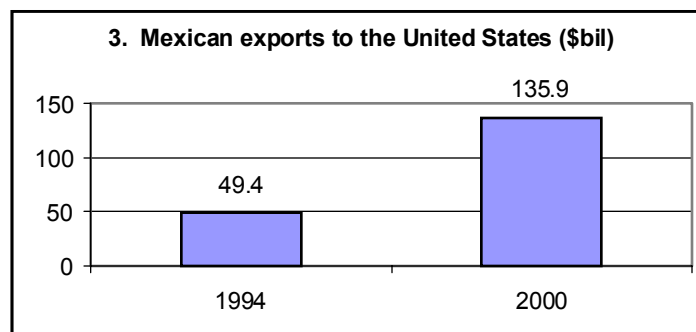
The number of Mexicans employed in factories that produce goods for export has more than doubled since NAFTA began. Although still concentrated in border cities, maquiladoras are spreading to other areas of Mexico.



Source: Instituto Nacional de Estadística Geografía e Informática (INEGI).

• Export Surge to the United States

Mexican exports to the United States have increased from \$49.4 billion in 1994 to \$135.9 billion in 2000.



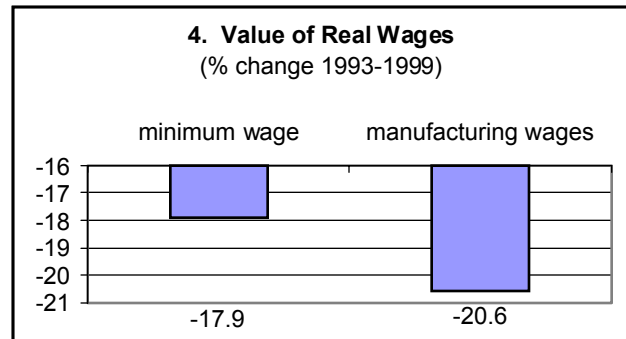
Source: U.S. Census Bureau, U.S. Trade Balance with Mexico.

Negative Indicators

Despite the increases in foreign investment and exports, however, Mexico has faced falling wages, increased environmental problems, and extreme financial volatility under NAFTA.

• Wage Drop

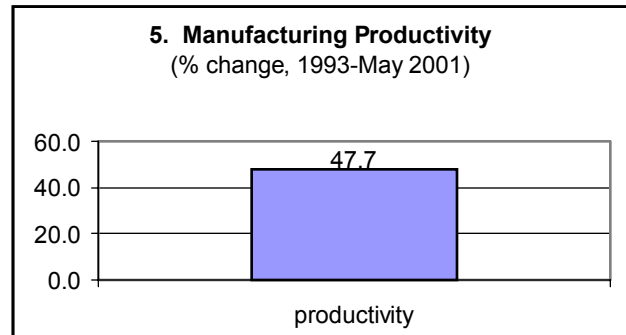
Despite the flood of foreign investment in Mexican manufacturing, average workers have seen little of the benefits. The real value of the minimum wage has dropped nearly 18 percent while that of the average manufacturing wage has dropped nearly 21 percent. Complaints filed under the NAFTA labor side agreement have documented systematic repression of workers who try to demand higher wages or organize unions to advocate on their behalf. Unfortunately, however, the NAFTA labor agreement has proved to be a weak mechanism for enforcing labor rights.



Source: 6th Report of the government of Ernesto Zedillo, 2000, cited in "NAFTA At Seven," Economic Policy Institute, April 2001.

• Productivity

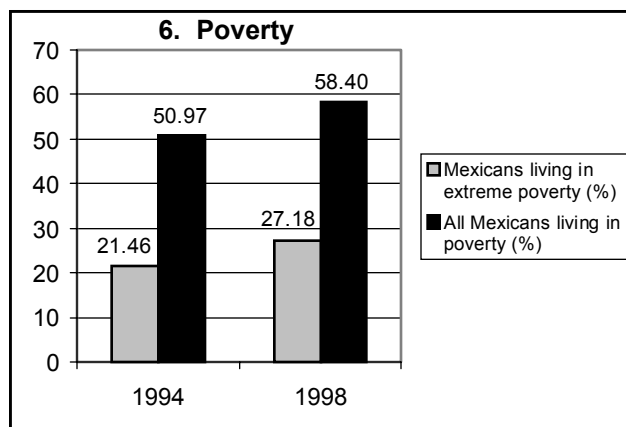
Free trade economists argue that increased productivity is the key to higher wages. However, the drop in real manufacturing wages in Mexico has coincided with a dramatic increase in manufacturing productivity. Between 1993 and May 2001, productivity rose 47.7 percent.



Source: INEGI.

• Poverty Increase

The number of Mexicans living in poverty has grown since NAFTA began. The total number of Mexican poor comprises 58.40% of the population, up from 50.97% in 1994.

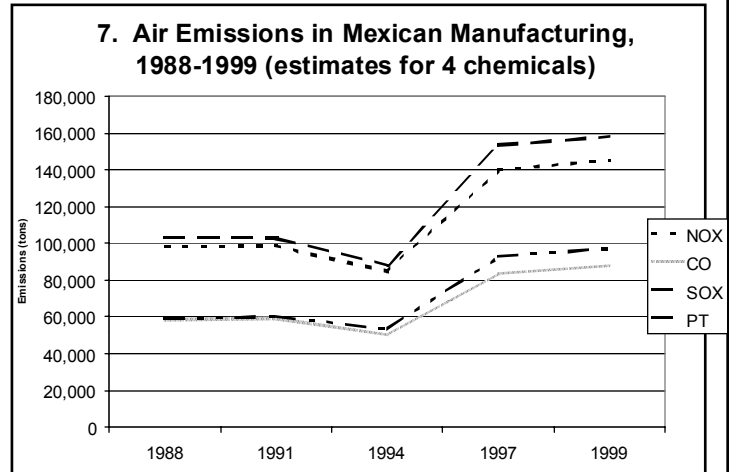


Source: World Bank, May 21, 2001.

Environment

• Industry-Related Pollution

A Tufts University study reveals that air pollution from Mexican manufacturing has about doubled since NAFTA went into effect. However, despite promises by NAFTA promoters, the increase in pollution from both industry and the growing population has not coincided with sufficient investment in environmental infrastructure. Moreover, researchers have documented that while there was a dramatic increase in environmental inspections of factories in the NAFTA debate period, these government inspections dropped off sharply after NAFTA was approved. As a result, public health is threatened on both sides of the border.



Gallagher, Kevin, P. "Trade Liberalization and Industrial Pollution in Mexico: Lessons for the FTAA." *The Environment and the FTAA: What Can We Learn from the NAFTA Model?* Dan Esty and Carolyne Deere, eds. (New Haven: Yale, forthcoming 2001)

• Natural Resource Destruction

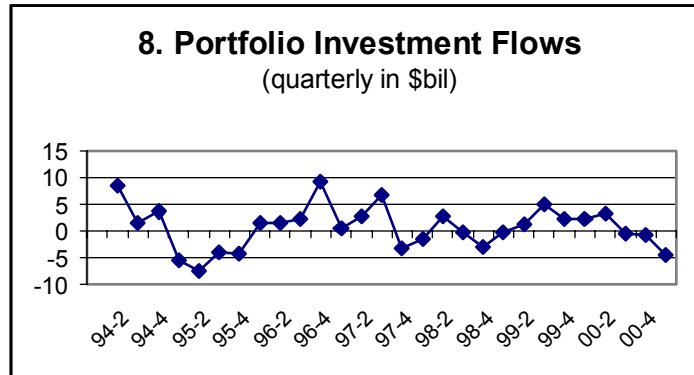
In preparation for NAFTA, Mexico repealed Article 27 of the Constitution, which gave people rights to communal land ownership. Then under NAFTA, other barriers to foreign investment were eliminated or reduced. Restrictions on foreign ownership of property were eliminated (previously they had been limited to 49 percent). NAFTA also lifted barriers to imports of U.S. corn, making it impossible for hundreds of thousands of Mexican small producers to compete. All of these measures paved the way for a dramatic increase in U.S. investment in Mexico's forestry sector. In the first four years of NAFTA, more than a dozen U.S. wood product companies set up operations in Mexico, and much of their investment is in regions possessing some of North America's largest remaining intact forests.



Investment

• Financial volatility

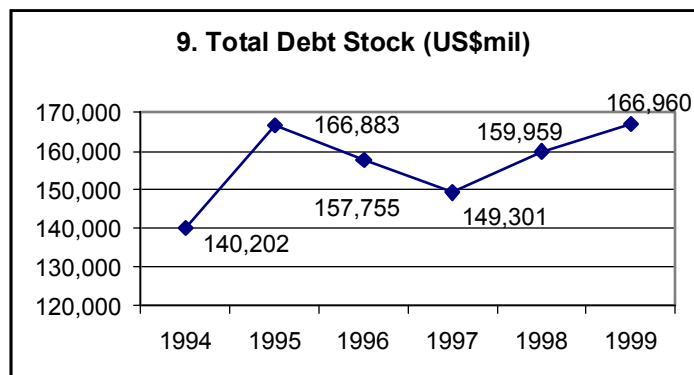
The same NAFTA provisions that have encouraged capital flows into Mexico have also made the country vulnerable to rapid capital flight. In late 1994, jittery investors began pulling their capital out by the billions. Unable to stabilize the economy, the Mexican government devalued the peso, plunging into economic crisis. For ordinary Mexicans, this meant sky-high interest rates, widespread bankruptcies of Mexican-owned businesses, and a 39% plunge in purchasing power. Portfolio flows (“speculative investments in stock and the money markets) plunged again in the wake of the 1997 Asian financial crisis.



Source: Banco de Mexico.

• Debt Burden

Mexico's total debt burden was more than \$25 billion greater in 1999 than it was in the first year of NAFTA. Just to service this debt, the Mexican government has paid between \$24 and nearly \$44 billion per year since 1993, money that otherwise could be spent on anti-poverty and other social programs. The stranglehold of debt pressures countries like Mexico to attract foreign investment by any means necessary.

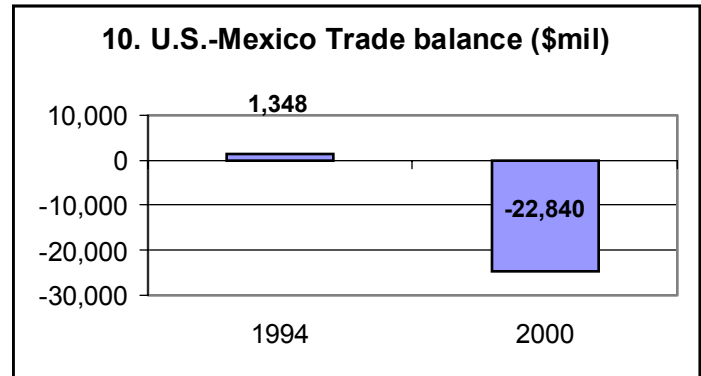


Source: World Bank, *Global Development Finance 2001*.

United States Under NAFTA

- **Booming Trade Deficit with Mexico**

Despite the promises of U.S. officials, U.S. exports to Mexico have increased since NAFTA passed, but not as fast as Mexican exports to the United States. Hence, whereas the U.S. had a small trade surplus with Mexico before NAFTA, it now has a huge trade deficit, and these increased imports do displace U.S. jobs.



Source: U.S. Census Bureau, "U.S. Trade Balance with Mexico."

- **Jobs Impact**

The exact number of U.S. workers affected by NAFTA is difficult to calculate. However, we do know that as of July 2001, about 356,000 U.S. workers had qualified for a special NAFTA retraining program for people who lose their jobs because their employer moved production to Mexico or Canada or was hurt by import competition from those countries. U.S. communities on the border with Mexico have been especially hard hit, as thousands of manufacturing jobs have been shifted to the Mexican side. Moreover, the industries with the most NAFTA-related job losses, apparel and electronics, are prime employers of women and people of color.



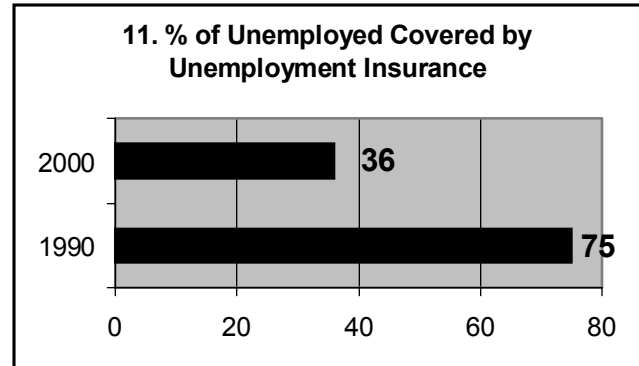
One intimidation tactic used by employers is the posting of maps of North America in the factories with an arrow pointing from the current plant site to Mexico.

- **Wage Impact**

After several years of stagnation, real wages in the U.S. increased in recent years, but only slightly, despite record high corporate profits and CEO pay and record low unemployment. Many experts say workers are not getting their fair share because highly mobile corporations bargain down wages or fight unions by threatening to move to Mexico or other low-wage countries. A Cornell University study of more than 600 union organizing campaigns found that in 62% of the cases, management fought the union by threatening to close the plant.

• Workers in Canada

Canada first entered into a free trade agreement (FTA) with the United States in 1988. Between 1989 and 1996, the country's manufacturing sector experienced a 13% decline. The income gap between the top 10% of families and the bottom 10% rose from 50-1 to 314-1. Because of competitive pressures under the FTA and NAFTA, Canada has sharply reduced its social programs. For example, the year after the FTA took effect, 75% of unemployed Canadians were covered by unemployment insurance. By 2000, only about 36% qualified (varies by province).



Source: Canadian Centre for Policy Alternatives.

• Investor Rights

NAFTA's Chapter 11 goes further than any other agreement in the world to extend rights and protections to international investors. The most controversial aspect of the agreement is that it allows private investors to sue the governments of the NAFTA parties directly to demand compensation for a breach of any of Chapter 11's long list of obligations. This unprecedented power granted to corporations restricts the ability of governments to protect the environment and public welfare and to ensure that foreign investment supports social, economic, and environmental goals.

Impacts of NAFTA's investment rules:

- following a challenge brought by the U.S.-based Ethyl Corporation, Canada paid US\$13 million in compensation and withdrew a 1997 ban on the use or sale of a gasoline additive, MMT.

Panels have found violations of NAFTA investment rules based on:

- a Mexican municipality's decision to deny a permit to Metalclad Corporation for a hazardous waste facility;
- another Canadian regulation challenged by S.D. Myers Inc. that briefly prohibited exports of toxic PCB wastes.

Pending investor challenges include:

- Methanex Corporation's suit over a California decision to phase out MTBE, a groundwater-polluting gasoline additive.

NAFTA's Vicious Cycle

1 INCREASED U.S. CORN EXPORTS: During NAFTA's first six years, U.S. corn exports to Mexico increased an astounding 1,397 percent, from \$35 million worth in 1993 to \$527 million in 1999. On the surface, this sounds like good news for U.S. farmers and for Mexicans looking for lower prices on their staple food. The reality is more complicated.

7 U.S. AGRIBUSINESS: By contrast, the corporations that helped pressure Mexico to allow duty-free U.S. corn imports under NAFTA have done very well. Cargill, the world's largest grain trader and the top-ranked private U.S. company had net earnings in 1999 of \$597 million, up from \$350 million in 1992. In 1999, the firm further increased its power by purchasing part of its closest competitor, Continental Grain.

6 U.S. FARMERS: In 1995, Congress justified cuts in agricultural subsidies by claiming that increased exports would in part make up the difference. Instead, U.S. farmers, at the mercy of volatile international markets and weather, are facing their worst crisis since the 1980s. In 2000, the price of corn sunk to the lowest level in a quarter century—\$1.80 per bushel compared to \$5 as recently as 1995. Family farmers are expected to drop to less than 1% of the total population.

2 FARMERS UPROOTED: Thousands of Mexican peasants, stripped of subsidies and unable to compete with U.S. producers, have been driven from their land. Once able to feed their own families, they must now obtain cash to buy food, despite limited income opportunities.

5 BORDER PATROL: U.S. spending on immigration controls has skyrocketed from \$967 million in 1993 to \$2.56 billion in 1999. There are now more than 9,000 border patrol agents, more than double the number in 1993. In 1999, 356 migrants died in desperate attempts to elude the patrol while crossing the border.

4 IMMIGRATION: uprooted Mexican farmers have contributed to increased immigration flows to the United States. According to the Institute for Agriculture and Trade Policy, "In one of free trade's brutal ironies, many of these Mexican trade policy refugees are joining the swelling flow of immigrants who are harvesting and processing U.S. food in often dangerous and low-wage conditions."

3 POVERTY INCREASE: The World Bank reports that 82% of rural Mexicans were living in poverty in 1998, up from 79% in 1994.

This is an updated excerpt from *Field Guide to the Global Economy*, by Sarah Anderson and John Cavanagh, with Thea Lee (New Press, 2000). For more information, contact the web site of the Institute for Policy Studies: www.ips-dc.org or call: 202234-9382.