



## THE TEN YEAR TRACK RECORD OF THE NORTH AMERICAN FREE TRADE AGREEMENT

# THE MEXICAN ECONOMY, AGRICULTURE AND ENVIRONMENT

January 1, 2004 marks the tenth anniversary of the North American Free Trade Agreement's implementation. NAFTA promoters — including many of the world's largest corporations — promised it would create hundreds of thousands of new high-wage U.S. jobs, raise living standards in the U.S., Mexico and Canada, improve environmental conditions and transform Mexico from a poor developing country into a booming new market for U.S. exports. NAFTA opponents — including labor, environmental, consumer and religious groups — argued that NAFTA would launch a race-to-the-bottom in wages, destroy hundreds of thousands of good U.S. jobs, undermine democratic control of domestic policy-making and threaten health, environmental and food safety standards.

Why such divergent views? NAFTA was a radical experiment — never before had a merger of three nations with such different levels of development been attempted. Plus, until NAFTA, "trade" agreements only dealt with cutting tariffs and lifting quotas setting terms of trade in goods between countries. But NAFTA contained 900 pages of one-size-fits-all rules to which each nation was required to conform all of its *domestic* laws — regardless of whether voters and their democratically-elected representatives had previously rejected the very same policies in Congress, state legislatures or city councils. NAFTA required limits on the safety and inspection of meat sold in grocery stores; new patent rules that raised medicine prices; constraints on local governments' ability to zone against sprawl or toxic industries; and elimination of preferences for spending your tax dollars on U.S.-made products or locally-grown food. Calling NAFTA a "trade" agreement is misleading, NAFTA is really an investment agreement. Its core provisions grant foreign investors a remarkable set of new rights and privileges that promote relocation abroad of factories and jobs and the privatization and deregulation of essential services, such as water, energy and health care.

Remarkably, many of NAFTA's most passionate boosters in Congress and among economists never read the agreement. They made their pie-in-the-sky promises of NAFTA benefits based on trade theory and ideological prejudice for anything with the term "free trade" attached to it. Now, ten years later, the time for conjecture and promises is over: the data are in and they clearly show the damage NAFTA has wrought for millions of people in the U.S., Mexico and Canada. Thankfully, the failed NAFTA model — a watered down version of which is also contained in the World Trade Organization (WTO) — is merely one among many options. Throughout the world, people suffering with the consequences of this disastrous experiment are organizing to demand the better world we know is possible. But, we face a race against time. The same interests who got us into NAFTA are now pushing to expand it and lock in 31 more countries in Latin American and the Caribbean through the proposed Free Trade Area of the Americas (FTAA) and five Central American countries through a Central American Free Trade Agreement (CAFTA).

**W**hen NAFTA was being debated, a key argument made both in the U.S. and Mexico was that NAFTA provided Mexico's best path to bringing its standard of living closer to that of its northern neighbors. Both governments also promised border-area residents and environmental groups that NAFTA would lead to improved environmental conditions. Now, a decade later, the actual results of the NAFTA model on Mexico can be reviewed. Whether measured by the explosive rural crisis caused by NAFTA; the government data showing horrifying levels of poverty, increased economic inequality and NAFTA-related environmental damage; or by the diversity of Mexican workers and farmers united in their outrage about NAFTA, it is obvious that NAFTA was harmful to Mexico.

Ten years of NAFTA has resulted in over 1.5 million Mexican farm livelihoods destroyed as cheap U.S. corn was dumped in Mexico, dropping prices paid to Mexican farmers by 70%. Displaced rural workers have migrated to Mexico's overcrowded cities where underemployment and

unemployment have kept wages for scarce jobs low or made the perilous journey to the U.S. to seek work, with such migration more than doubling under NAFTA as Mexico's economy failed to create nearly enough jobs for its workers.<sup>1</sup> Despite this, NAFTA defenders often point to Mexico's increased exports to the U.S. and inflow of foreign investment as evidence of success. Yet, NAFTA rules forbade Mexico from adopting the policies that could have harnessed these inflows to create permanent gains for the Mexico's economy. And while exports increased, the average wage paid Mexico's manufacturing workers declined from \$5 per day (which was not a living wage) to only \$4.

Regarding the environment and public health, not only have promised improvements not been forthcoming, but the increased industrialization of the border under NAFTA has resulted in massive increases in toxics dumping and water contamination. The NAFTA environmental side agreements have proved useless in addressing the damage.

After living with NAFTA for ten years, many Mexicans now realize that the Zapatistas — whose January 1, 1994 uprising was timed to coincide with NAFTA's start date — had a critique that applied beyond Mexico's indigenous peoples when they warned that "NAFTA is our death sentence."

## AGRICULTURE, RURAL CRISIS

At NAFTA's start date, nearly one quarter of Mexico's active labor force was involved in the agricultural sector — about 8 million people. Under NAFTA this number fell to approximately 6.5 million by 2003.<sup>2</sup> Much of Mexican agriculture — and the backbone of Mexico's rural economy — consisted of *campesinos* who farmed small plots of land (called *ejidos*) that were permanently deeded to Mexico's peasant farmers by the land reforms at the core of Mexico's post-revolution 1917 Constitution. In preparation for NAFTA, Mexico was required to amend its Constitution to allow foreign ownership of land. This undermined the *ejido* system, allowing plots to be sold or, in most cases, seized by creditors. NAFTA also required elimination of programs that small farmers had relied on — price floor guarantees, low-interest loans and subsidies for fuel and fertilizer.

Prior to NAFTA, corn was Mexico's most important crop, accounting for 60% of cultivated land with 3 million producers.<sup>3</sup> NAFTA lifted Mexico's quotas (that allowed corn imports only if local production did not meet national needs) and transformed them into tariffs to be phased out over 15 years. Under pressure from industrial interests seeking access to cheaper corn, however, the Mexican government chose to ignore the NAFTA timetable and effectively liberalized the sector within three years instead of 15. U.S. corn exports to Mexico have more than quadrupled since 1993, and have been sold at prices below what it cost U.S. farmers to grow it, causing in a 70% drop in the real prices paid to Mexican farmers for their corn under NAFTA.<sup>4</sup>

There has, however, been little incentive or possibility for Mexican farmers to shift crops, with most continuing to produce corn until they lost their land due to debt. The subsequent decline in domestic production has left Mexico increasingly dependent on importing its staple food — corn. In 1996, the Mexican government reported that one in five Mexican children suffered from malnutrition when the U.S. corn crop was smaller than expected.<sup>5</sup> If remaining tariffs, including those on corn and beans, are completely removed in 2008 as scheduled, many more Mexican farm families will be displaced, with estimates running as high as 15 million, or about one in six Mexicans.<sup>6</sup> Deprived of their livelihoods, these displaced farmers have become economic migrants, in search of scarce *maquila* jobs, or making increasingly desperate efforts to cross the border into the U.S. Over 1600 Mexican migrants have died attempting to reach the U.S. since 1998.<sup>7</sup>

Contrary to free-trade economic theory, however, Mexican consumers have not benefited from import competition and lower farm prices. The prices of goods in

the basic food basket increased 257% during the NAFTA era, while the prices paid to agricultural producers for all goods combined rose only 185%.<sup>8</sup> The price of the staple food corn tortillas actually has risen since NAFTA — by 50% in Mexico City and even higher in rural areas.<sup>9</sup>

Growing hunger and desperation about NAFTA's rural devastation has fuelled a new Mexican social movement coordinated under the name "The Countryside Can't Take It Any More" (*El Campo No Aguanta Más*), and sparked massive national protests that rocked the political landscape in 2002 and 2003, including a takeover of the Ciudad Juarez international bridge (halting U.S. imports), and a march that brought over 100,000 to the capital's central Zocalo square on January 31, 2003.

## INVESTMENT, EXPORTS HAVE NOT BENEFITED THE BROADER ECONOMY

During the NAFTA debate, Mexicans were promised NAFTA would dramatically increase trade and investment inflows which would create better jobs, raise wages and lift millions out of poverty. Ten years later, increased investment and exports have not translated into the promised benefits. Mexican government data show that net foreign direct investment in Mexico rose under NAFTA from 1986-93 annual average of \$3.46 billion to \$24.73 billion in 2001. Mexico had also become the world's eighth-largest exporter by 2002, yet still it ranked only 54th with regard to human development indices.<sup>10</sup> Despite the increased investment and exports, Mexican per capita income only grew at 9% under NAFTA, less than one-fifth of its growth rate in the 1960s and 1970s.<sup>11</sup>

The vast majority of Mexican workers have not benefited from NAFTA. Instead, the minimum wage, which approximately 25% of the country's 40 million workers earn, has declined 20% and hovers at around \$4/day. Half of the workforce makes less than \$8/day.<sup>12</sup> The huge influx of migrants from the collapsing rural economy and weak economic growth under NAFTA has helped keep wages stubbornly low, and failing to keep up with inflation, let alone productivity gains. Attempts by Mexican workers to unionize have been harshly — often violently — countered. NAFTA's empty shell of a labor side agreement has proved useless. This reality, combined with the 1995 peso crash — caused in part by the currency being artificially propped up as part of the campaign to get NAFTA approved — has meant real wages for most workers are well below their pre-NAFTA levels.<sup>13</sup> The Mexican government recently estimated that over half of the population earns less than what is required to cover the basics of food, clothing, housing, health care, public transportation and education.<sup>14</sup>

Increased exports and investment have not produced broader benefits, in part because of specific NAFTA provisions limiting regulation of foreign investors. Thus, Mexico became an "easy in, easy out" investment locale. NAFTA's investment terms forbade the Mexican government from adopting policies, such as local content,

export sales and technology transfer requirements, to foster the development of a Mexican industrial base independent of transient foreign investors. NAFTA's investment rules — which also form the core of the proposed FTAA — ensured that when companies moved to cheaper locations there would be few residual benefits. Fully one third of the 800,000 manufacturing jobs that the Mexican government says were initially created under NAFTA have disappeared as companies have raced downward to take advantage of still cheaper labor in such countries as China, Malaysia and Guatemala.<sup>15</sup>

NAFTA's export-driven model benefited large multinational corporations while generally decimating small and medium-sized Mexican businesses, which not only faced new competition from huge companies whose Mexican operations enjoyed an array of rights and privileges under NAFTA, but which also lost benefits from assorted credit programs and procurement preferences banned by NAFTA. The disappearance of these domestic businesses essentially destroyed most of Mexico's "productive chains," making the national economy increasingly dependent on imported inputs and retail goods.<sup>16</sup>

Export growth under NAFTA was largely concentrated in the *maquiladora* manufacturing sector. Many of these foreign-owned assembly plants provided state-of-the-art facilities, yet the fancy new factories were built from imported machinery and the companies that operate them purchase less than 3%, on average, of their components and packaging in Mexico.<sup>17</sup> This near-total disconnection from domestic industries is one of the major reasons why growth in the *maquiladora* sector in the 1990s failed to create long-term jobs or generally promote growth in the broader economy. Small and medium-sized Mexican businesses that survived the initial NAFTA shock were faced with a difficult uphill struggle: between 1992 and 1998, the share of total Mexican employment provided by micro, small and midsize firms fell from 51 to 42.8%.<sup>18</sup> Credit has also become a problem for domestic businesses. As Mexico's banking system was bought up by foreign (largely U.S.) interests, lending to Mexican business declined from 10% of GDP in 1994 to 0.3% in 2000.<sup>19</sup> Meanwhile, NAFTA's service sector rules helped huge U.S. firms, such as Costco and Wal-mart that undercut local businesses and rely heavily on foreign suppliers, to dominate Mexico's retail sector.

Ten years into NAFTA, some of the pact's greatest boosters have become its fiercest critics, creating the protest group, *El Barzón*. These people once owned Mexico's small and medium-sized language, accounting and other services, or its candy, shoe, toy and other manufacturing interests, but have slipped from the middle class into poverty after losing their businesses under NAFTA.

## NAFTA'S ENVIRONMENTAL IMPACT

U.S. and Mexican government officials argued that increased trade and investment under NAFTA would generate wealth needed to clean up the environment. They

also argued that NAFTA would remove incentives for concentrating industrial development along the U.S.-Mexico border, dispersing environmental damage already occurring there.

Now, ten years later, it is clear that NAFTA-related business activity has increased air and water pollution and generated tons of hazardous waste which is being dumped. Instead of industrial development becoming more dispersed throughout the country, it intensified along the border, inflicting still more environmental degradation on already heavily-polluted areas. During the NAFTA era, the number of *maquiladora* factories nationwide more than doubled from 1700 plants in 1990 to 3600 in 2001 — with 2700 plants located along the border by 2001. According to Mexican government figures, the cost of NAFTA-related environmental damage was an estimated \$47 billion — in 1999 alone.<sup>20</sup> Meanwhile, the institutions that were set up to facilitate and fund environmental cleanup and protection programs have proven themselves to be wholly inadequate — leading the U.S. environmental groups that had supported NAFTA in 1993 to reverse position.

Since NAFTA, spending on the environment in Mexico has fallen 45% in real terms and plant-level environmental inspections declined at a similar rate.<sup>21</sup> Under Mexican law, hazardous waste created by U.S. companies in the *maquila* zones must be shipped back to the U.S. for treatment.<sup>22</sup> Yet Mexico's Institute of National Ecology calculated in 1997 that only 12% of 8 million tons of hazardous wastes generated in the *maquila* zones received adequate treatment and as little as 30% is actually returned to the country of origin (typically the U.S.). The only tool to monitor waste flows was the U.S. government's "Haztracks" database, but it was cancelled by the Bush administration in 2003.

While Mexico's general population increased 40% between 1980 and 2000, the border population has more than doubled.<sup>23</sup> Mexico's overcrowded border cities, have struggled to meet their basic sewage and waste disposal needs. The lack of adequate sewer systems means that water sources are contaminated with garbage and human wastes. The human costs of this growing environmental disaster have been devastating. The rates of diseases related to unsafe water (such as hepatitis A and shigellosis) and failed public health infrastructure (such as tuberculosis) have skyrocketed, with hepatitis A infection rates on the border more than double the Mexican national rate.<sup>24</sup> Contamination from toxic waste and industrial chemicals has been linked to a startling concentration along the border of clusters of high cancer rates, devastating birth defects and lupus. Since NAFTA, new clusters of neural stem birth defects, such as anencephaly and spina bifida, have devastated families living in Matamoros and Piedras Negras — adding to the unusual concentration of these rare birth defects already clustered in other *maquila* towns.<sup>25</sup>

The new water projects and sewage treatment facilities that NAFTA supporters promised in 1993 have been hamstrung by the cumbersome rules of the institutions ostensibly designed to fund them. The North American Development Bank has an estimated lending capacity of

almost \$3 billion but by the end of 2001 had only doled out \$15 million, in large part because the impoverished communities involved cannot raise the required equity financing and user fees.<sup>26</sup> Meanwhile, a 218% increase in truck traffic (between 1991 and 2001) carrying goods northward from Mexican assembly plants has contributed to severe smog problems in the Tijuana-San Diego and Ciudad Juarez-El Paso areas.<sup>27</sup>

Plus, NAFTA's "Chapter 11" provisions have been used to attack environmental and health policies. For example, a California company, Metalclad, was awarded \$15.6 million in compensation from the Mexican government after it claimed that its NAFTA investor rights were violated by the

municipality of Guadalupe's denial of a construction permit. Metalclad wanted to build a toxic waste disposal facility on a site which had been previously contaminated with 20,000 tons of toxic waste. The community wanted the area cleaned up and other conditions met before the site was expanded. The Mexican company from which Metalclad had purchased the site had been denied the same permit — showing that this was not a case of discrimination against foreign investors. The NAFTA panel that heard Metalclad's claim, however, did so behind closed doors with the affected citizens and local governments entirely excluded and with NAFTA investment rules — not Mexican or U.S. law — applied.<sup>28</sup>

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<sup>1</sup> Bureau of Citizenship and Immigration Services, Office of Policy and Planning, *Estimates of the Unauthorized Immigrant Population Residing in the U.S.: 1990 to 2000*. 2003.

<sup>2</sup> Carnegie Endowment report, "NAFTAs Promise and Reality," 2004, p.17.

<sup>3</sup> Alejandro Nadal, "The Environmental and Social Impact of Economic Liberalization on Corn Production in Mexico," study for Oxfam Great Britain and World Wildlife Fund International., Sep. 2000.

<sup>4</sup> Oxfam International, "Dumping Without Borders," Briefing Paper, Aug. 2003, at 2.

<sup>5</sup> Government of Mexico, National Nutrition Institute, 1997, cited in Suppan and Lehman. *Food Security and Agricultural Trade under NAFTA* (Minneapolis: IATP), July 11, 1997 at 4.

<sup>6</sup> "Reform to New Trade Pact May Hurt Small Farmers," *Interpress Service*, Feb. 27, 2001.

<sup>7</sup> Jeff Faux, "How NAFTA Failed Mexico: Immigration is not a Development Policy." *American Prospect*, July/ Aug., 2003, p. 35.

<sup>8</sup> Manuel Angel Gomez Cruz and Rita Schwentesius Rindermann, "NAFTAs Impact on Mexican Agriculture: An Overview." In *Lessons from NAFTA*, Hemispheric Social Alliance report, 2003, at 29.

<sup>9</sup> "Rise in Tortilla Prices," *National Public Radio-Morning Edition*, Jan. 20, 2000.

<sup>10</sup> United Nations, *Human Development Indicators Report 2002*, at Table 1 (p. 149).

<sup>11</sup> Cited in Mark Weisbrot, "FTAA-Lite Reflects Inability to Reach Consensus on Substantive Matters." CEPR press release, Nov. 20, 2003. [www.cepr.net](http://www.cepr.net)

<sup>12</sup> Mary Jordan, "Workers Falling Behind in Mexico," *The Washington Post*, July 15, 2003, p. A15.

<sup>13</sup> Carlos Salas, "Highlights of Current Labor Market Conditions in Mexico," report submitted to Global Policy Network, Apr. 30, 2003. Available at [www.globalpolicynetwork.org](http://www.globalpolicynetwork.org)

<sup>14</sup> Kevin Gallagher, and Timothy A. Wise. "NAFTA: A Cautionary Tale." Testimony on the Free Trade Area of the Americas to the Office of the United States Trade Representative, Washington D.C. Sept. 20, 2002.

<sup>15</sup> Calculated from Mexican govt. statistics, Instituto Nacional Estadística Geografía e Informática (INEGI), series "Personal ocupado en la industria maquiladora de exportación según tipo de ocupación," Nov. 3, 2003.

<sup>16</sup> María Cristina Rosas, "Mexico's Foreign Trade Policy: Between Puebla and Cancun." *Voices of Mexico*, Apr. /June 2003, p. 30.

<sup>17</sup> Carnegie Endowment report, "NAFTAs Promise and Reality," 2004, p.16.

<sup>18</sup> Enrique Dussel Peters, "Industrial Policy, Regional Trends and Structural Change." In Zepeda (ed.) *Confronting Development*. (Stanford University Press, 2003) p.241-273.

<sup>19</sup> Jeff Faux, "How NAFTA Failed Mexico: Immigration is not a Development Policy."

<sup>20</sup> Kevin Gallagher, "Economic Progress, Environmental Setback: Are the Benefits of Free Trade Worth the Cost?" Americas Program, Interhemispheric Resource Center, Global Development and Environment Institute, Tufts University. May 1, 2002.

<sup>21</sup> Kevin Gallagher, and Timothy A. Wise. "NAFTA: A Cautionary Tale."

<sup>22</sup> Stephen Siciliano, "U.S. Mexico Border: Budget Constraints end EPA Program." *Bureau of National Affairs*, Washington D.C. Sept. 22, 2003.

<sup>23</sup> Lyuba Zarsky, and Kevin Gallagher, "Searching for the Holy Grail? Making FDI Work for Sustainable Development," report for the World Wildlife Fund, Mar. 2003, p.11.

<sup>24</sup> U.S.-Mexico Border Health Commission, "Demographical Profile of the U.S.-Mexico border," <http://www.nmsu.edu/%7Ebhc.com/>, Dec. 9, 2003.

<sup>25</sup> See Public Citizen's report "NAFTAs Broken Promises: The Border Betrayed," 1996, p. 20-25.

<sup>26</sup> Diane Lindquist, "Funds Languish While Border Water, Air Quality Needs Remain Unmet," *San Diego Union-Tribune*, Dec. 16, 2001.

<sup>27</sup> *San Antonio Express-News*, "Border Communities Need Free-trade Help," Mar. 14, 2001, p. 6B.

<sup>28</sup> Public Citizen, "NAFTA Chapter 11 Investor-to-State Cases: Bankrupting Democracy," 2001, p. 10-14.