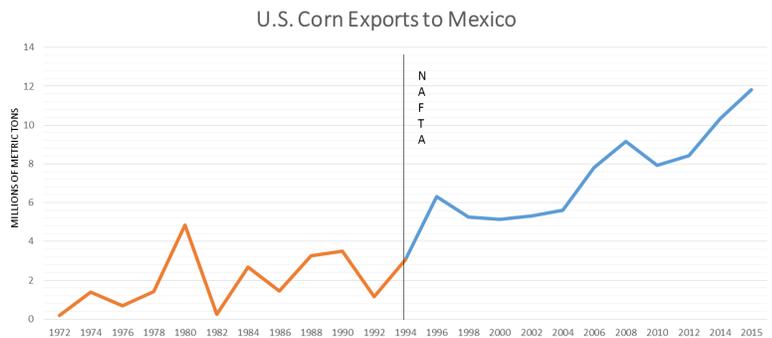


NAFTA's Legacy for Mexico: Economic Displacement, Lower Wages for Most, Increased Immigration

NAFTA Devastated Mexico's Rural Sector and Increased Poverty

Prior to NAFTA, 36 percent of Mexico's rural population earned less than the minimum income needed for food, a share that grew by nearly 50 percent in NAFTA's first three years alone. After two decades of NAFTA, the percentage of the population unable to afford food has barely budged. Today, over half of the Mexican population, and over 60 percent of the rural population, still fall below the poverty line, contrary to the promises made by NAFTA's proponents. On the 10-year anniversary of NAFTA, the *Washington Post* reported: "19 million more Mexicans are living in poverty than 20 years ago, according to the Mexican government and international organizations." According to a study by the Center for Economic and Policy Research, those who are unable to afford housing, clothing, transportation, healthcare, education, and food declined from 52.4 to 52.3 percent, a marginal effect after 20 years of NAFTA.

Before the North American Free Trade Agreement (NAFTA), Mexico only imported corn and other basic food commodities if local production did not meet domestic needs. NAFTA eliminated Mexican tariffs on corn and other commodities. NAFTA terms also required revocation of programs supporting small farmers. But NAFTA did not discipline U.S. subsidies on agriculture. The result was disastrous for millions of people in the Mexican countryside whose livelihoods relied on agriculture. Amidst a NAFTA-spurred influx of cheap U.S. corn, the price paid to Mexican farmers for the corn that they grew fell by 66 percent, forcing many to abandon farming. From 1991 to 2007, about 2 million Mexicans engaged in farming and related work lost their livelihoods. Mexico's participation in NAFTA was conditioned on changing its revolutionary-era Constitution's land reforms, undoing provisions that guaranteed small plots ("ejidos") to millions of Mexicans living in rural villages. As corn prices plummeted, indebted farmers lost their land, which newly could be acquired by foreign firms that consolidated prime acres into large plantations.



Source: U.S. Foreign Agricultural Service

According to a *New Republic* exposé: "as cheap American foodstuffs flooded Mexico's markets and as U.S. agribusiness moved in, 1.1 million small farmers – and 1.4 million other Mexicans dependent upon the farm sector – were driven out of work between 1993 and 2005. Wages dropped so precipitously that today the income of a farm laborer is one-third that of what it was before NAFTA. As jobs disappeared and wages sank, many of these rural Mexicans emigrated, swelling the ranks of the 12 million illegal immigrants living incognito and competing for low-wage jobs in the United States."

Though the price paid to Mexican farmers plummeted after NAFTA, the newly deregulated retail price of tortillas – Mexico's staple food – shot up 279 percent in the pact's first 10 years. This contradicts free trade theory, which predicts that gains from liberalization come on the import side as all consumers enjoy lower prices, while injury only occurs to those in sectors directly displaced by imports. But, NAFTA included service sector and investment rules that facilitated consolidation of grain trading, milling, baking and retail. So in short order the relatively few remaining large firms dominating these activities were able to raise the prices paid by Mexican consumers and reap extra profits as corn costs simultaneously declined.

After NAFTA, Mexican Wages Shrank, Poorly Paid Temporary Employment Grew

Real average annual wages in Mexico have fallen below pre-NAFTA levels contrary to the promises by NAFTA supporters that the pact would raise Mexicans' living standards. The reality is that real wages in Mexico have dropped 9 percent since NAFTA. This means that the average Mexican worker is making 14,000 pesos, or \$1,500, less per year today than the year before NAFTA.

One comprehensive study found that inflation-adjusted wages for virtually every category of Mexican worker decreased over NAFTA's first six years, even as hundreds of thousands of manufacturing jobs were being shifted from the United States to Mexico. With millions of Mexicans displaced from rural communities competing for the hundreds of thousands of manufacturing jobs, employers could keep wages pitifully low. The workers that experienced the highest losses of real earnings were employed women with basic education (-16.1 percent) and employed men with advanced education (-15.6 percent).

Since NAFTA, there has been a shift from formal employment to informal, non-wage- and benefit-earning employment. Even formal employment provides fewer benefits than in the pre-NAFTA era. Maquiladora (sweatshop) employment, where wages are almost 40 percent lower than in heavy non-maquila manufacturing, surged in NAFTA's first six years. But since 2001, hundreds of factories and hundreds of thousands of jobs in this sector have been displaced as China joined the World Trade Organization and Chinese sweatshop exports gained global market share.

An estimated 28,000 small- and medium-sized Mexican businesses were also destroyed in NAFTA's first four years alone, spurring the *El Barzon* movement of formerly middle class Mexican entrepreneurs protesting NAFTA. Losses included many retail, food processing and light manufacturing firms that were displaced by NAFTA's new opening for U.S. big box retailers that sold goods imported from Asia.

NAFTA Led to Surge in Immigration and Dangerous U.S.-Mexico Border Crossings

NAFTA's boosters claimed that the pact would improve Mexican living standards and thus limit immigration to the United States. Former Mexican president Carlos Salinas infamously cleared that the U.S. decision over NAFTA was a choice between "accepting Mexican tomatoes or Mexican migrants that will harvest them in the United States."

According to the Pew Hispanic Center, the number of people immigrating to the United States from Mexico remained steady in the three years preceding NAFTA's implementation. However, during NAFTA's first six years, the number of annual immigrants from Mexico more than doubled from 370,000 per year in 1993 (the year before NAFTA went into effect) to 770,000 per year in 2000 – a 108 percent increase. The immigration surge coincided with the NAFTA flood of subsidized corn into Mexico.

The total number of undocumented immigrants from Mexico who are living in the United States more than doubled under NAFTA, from about 2.9 million in 1995 to a peak of 6.9 million in 2007, just prior to the financial crisis. The number of undocumented immigrants in the United States sharply declined when the number of available jobs plummeted as the economy fell into the Great Recession. As the U.S. economy has slowly recovered, the number of undocumented immigrants in the U.S. has leveled off at 5.8 million.

Under NAFTA, Mexico Missed Chance to Achieve European-level Living Standards

NAFTA supporters promised the deal would yield strong growth rates for Mexico. Yet, after the first two decades of NAFTA, Mexico's real gross domestic product per capita growth rate has been a paltry 18.6 percent. In contrast, from 1960 through 1980, Mexico's per capita gross domestic product grew 98.7 percent. Indeed, Mexico's gross domestic product per capita growth under 22 years of NAFTA ranked 18th out of the 20 countries of Central and South America. Mexico would be close to European living standards today if it had continued its previous growth rates. But, unfortunately, the International Monetary Fund projects Mexico's income per capita growth rate to remain below the average rates in Central and South America for years to come.

Income inequality has also remained a problem. The richest 20 percent of Mexico's population collects over half of the nation's income while the poorest 20 percent earn just 5 percent. Despite the promises of NAFTA proponents, the nation's income inequality index remains among the highest in the world.

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