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

NAFTA Devastated Mexico's Rural Sector and Increased Poverty

The North American Free Trade Agreement (NAFTA) was sold to the people of all three countries with grand promises. Mexicans were promised NAFTA would raise their wages and bring Mexicans' standards of living closer to the United States and Canada. Instead, after 25 years, real wages in Mexico are down from already low pre-NAFTA wages, two million Mexicans engaged in farming lost their livelihoods and lands, tens of thousands of small businesses have gone bankrupt as American big-box retailers moved in, and poverty remains widespread. And, Mexican taxpayers have paid foreign investors more than $204 million in compensation following Investor-State Dispute Settlement attacks.

Prior to NAFTA, 21.4 percent of Mexico's population earned less than the minimum income needed for food, a share that has barely budged in the 25 years since NAFTA's implementation. 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."

Before 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. Amid 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.

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." The exposé noted that, as jobs and wages fell, many rural Mexicans joined the ranks of the 12 million undocumented immigrants 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. This problem is ongoing; Recent reports show that U.S. exports of corn, wheat, soybeans and rice are all sold below production costs, devastating Mexico's agricultural sector.

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

Wages in Mexico have fallen below pre-NAFTA levels, contrary to the promises by NAFTA supporters that the pact would raise Mexicans' living standards. According to government statistics, real average annual wages have declined in Mexico under NAFTA, and those making the least have been hurt the most, with the minimum wage declining 14 percent. Manufacturing wages in Mexico are now 40 percent lower than in China.

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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, and a lack of independent unions in Mexico to bargain for better wages, employers could keep wages reprehensibly low.

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 manufacturing outside of *maquilas*, 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.

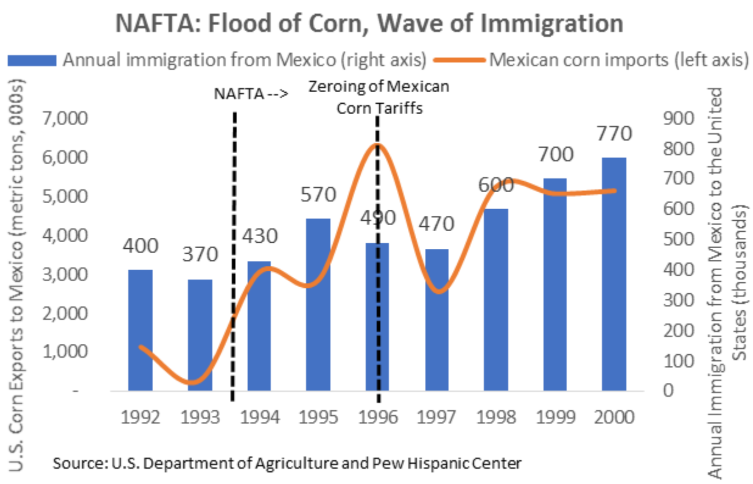
Meanwhile, workers in new, high-tech manufacturing facilities, including many outsourced from the United States, are paid less than $2 per hour. With "protection unions" endemic, workers arrive at a new plant to find that a fake union has already agreed with the company what wages and benefits will be. The result is Mexican wages that are now lower than those paid to workers in China. One example: Workers represented by the independent Steelworkers union in Goodyear's American plant earn $26.63 hourly. But when Goodyear decided to open a new plant in North America, it chose Mexico, where it pays workers $1.88 per hour.

And 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 Migration and Dangerous U.S.-Mexico Border Crossings

NAFTA's boosters claimed that the pact would improve Mexican living standards and thus limit migration to the United States. Former Mexican President Carlos Salinas infamously declared 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."

The number of people migrating 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 had more than doubled, coinciding with a flood of U.S. subsidized corn into Mexico. From 1993 to 2000, annual immigration from Mexico increased from 370,000 to 770,000.



With annual immigration on the rise, the total number of undocumented immigrants from Mexico living in the United States increased from about 2 million in 1990 to a peak of 6.9 million in 2007 when the financial crisis limited job opportunities and slowed migration rates. As the U.S. economy has slowly recovered, the number of undocumented immigrants in the U.S. has leveled off at 5.7 million. Tens of thousands of Mexican migrants who survived the perilous border crossing became seasonal crop workers, while others found work in landscaping, construction, food services and personal services.

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

NAFTA supporters promised the deal would yield strong growth rates for Mexico. Yet, since 1994, Mexico's real gross domestic product (GDP) per capita growth rate has been less than 1 percent. Mexico ranks 18th of 20 Latin American countries in growth of real GDP per person from 1994 to 2017. Had Mexico grown at the higher rate it did prior to 1980, it is estimated that Mexico would be close to European living standards.

Income inequality has also remained a problem. The richest 20 percent of Mexico's population collect 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.