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THE FAILED EXPERIMENT

NAFTA at Three Years

June 26, 1997

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THE FAILED EXPERIMENT: NAFTA AT THREE YEARS

Executive Summary

The President is required to submit "a comprehensive study on the operation and effects" of NAFTA to Congress by July 1st. In this report, several organizations concerned with the well-being of working families and the environment perform their own evaluation of NAFTA's track record. Although NAFTA clearly has been good for some North Americans, the costs – to *many more* North Americans – have been much heavier:

U.S. Wages

For nearly two decades, the real wages of American blue-collar workers have been declining. Imports from low-wage countries are an especially important cause of increasing wage inequality, and Mexico is one of America's most important low-wage trading partners.

- Between 1993 and 1995, Mexican goods made up 26.7% of the increase of U.S. imports from non-industrialized, low-wage countries. Mexico was also responsible for 43.5% of the increase in U.S. deficits with these countries.

- Many firms have used the threat of moving to Mexico as a weapon against wage increases and union organization. In a survey commissioned by the NAFTA Labor Secretariat, Professor Kate Bronfenbrenner of Cornell found that over half of the firms used threats to shut down operations to fight union organizing drives. When forced to bargain with a union, 15% of firms actually closed part or all of a plant—triple the rate found in the late 1980s, before NAFTA.

Trade Balances and Job Losses in the U.S.

- In 1996, exports were 36.3% higher to Mexico and 33.4% higher to Canada than in 1993. *Growth in U.S. imports from Mexico and Canada, however, was much larger—82.7% and 41.1%, respectively, over the same period.* As a result, a U.S. surplus with Mexico of $1.7 billion in 1993 became a deficit of $16.2 billion in 1996. America's overall deficit with the NAFTA countries hit $39 billion in 1996, an increase of 332% from 1993.

- Based on standard employment multipliers, the increase in the U.S. trade deficit with Mexico and Canada has cost the U.S. 420,208 jobs since 1993 (250,710 associated with changes in the trade balance with Mexico, and 169,498 with Canada). NAFTA was responsible for 38% of the decline in manufacturing employment since 1989. NAFTA and globalization generally have changed the composition of employment in America, stimulating the growth of lower paying services industries and accelerating the deindustrialization of our economy.

NAFTA and the Peso Crisis

- The 1995 peso crisis is commonly used to excuse the sharp deterioration of the U.S. trade balance with Mexico. However, NAFTA was the foundation for an aggressive export-led growth strategy in Mexico. This assumed that expanding Mexico's exports would create jobs for Mexico's rapidly expanding workforce and steadily increase living standards. The peso *had* to fall in order for this strategy to succeed. As Professor Robert Blecker of American University put it, "*Mexico had to devalue the peso in order to attract the direct foreign investment and export-oriented manufacturing that the NAFTA agreement was designed to promote.*"

- The peso crisis is also intricately linked with the politics of NAFTA. The artificially high peso held down inflation in Mexico, helped to win votes in the U.S. Congress for passage of NAFTA in 1993, and improved the electoral prospects of Mexican Presidential candidate Ernesto Zedillo in 1994.

- The real value of the peso has been climbing steadily since late 1995 at 5 – 7% *per quarter.* The Mexican government has been stimulating the economy in advance of next month's elections. Past experience suggests that Mexico's next sudden devaluation, and even deeper depression, are only a matter of time.

Mexico

- The peso collapse has devastated Mexico's economy. The number of unemployed workers doubled between mid-1993 and mid-1995, to nearly 1.7 million. Additionally, there were 2.7 million workers employed in precarious conditions in 1996. To make ends meet, many families are forced to send their children—as many as 10 million—to work, violating Mexico's own child labor law. An estimated 28,000 small businesses in Mexico have been destroyed by competition with huge foreign multinationals and their Mexican partners. Real hourly wages in 1996 were 27% lower than in 1994 and 37% below 1980 levels. Of the 1995 working population of 33.6 million, 19% worked for less than the minimum wage, 66% lacked any benefits, and 30% worked fewer than 35 hours per week. During three years of NAFTA, the portion of Mexican citizens who are "extremely poor" has risen from 32 to 51%, and 8 million people have fallen from the middle class into poverty.

Canada

- Canada has been mired in recession since shortly after entering into the U.S.-Canada Free Trade Agreement in 1989. Unemployment increased from 7.5% in 1989 to 11.3% in 1992. Joblessness fell back to 9.4%, but has risen slightly in 1997, to 9.6%. Canada's policies and practices are being harmonized with those of the rest of North America -- downward. Between 1989 and 1995, Canada's real interest rate was 2.9% higher than in the U.S. As a result, Canada is cutting government outlays sharply and dismantling its social safety net, while increasing its unemployment rate.

NAFTA and Labor Rights

Significant areas of labor rights are excluded from effective review by NAFTA enforcement agencies.

- To date the North American Agreement on Labor Cooperation (NAALC) has completed only five public reviews of complaints of labor violations. Four of these five complaints have centered upon labor rights violations in Mexico. None of the workers involved in these complaints - more than 200 in total – was reinstated or compensated for serious labor rights violations. A new section is needed in the NAFTA agreement to provide real remedies for labor violations.

The Environment and Public Safety

Three years of evidence demonstrate conclusively that the unregulated expansion of North American trade has made an already heavily polluted border region much dirtier and more dangerous; and that the institutions created by NAFTA to handle environmental and public safety problems are utterly inadequate.

- The NAFTA clean up plan for the U.S. Mexico border has failed, generating only 1 percent of the promised clean-up money. Ozone levels in El Paso have increased steadily since NAFTA. The rate of Hepatitis-A in the border region rose to between 2 and 5 times the U.S. average.

- NAFTA opened the U.S. borders to trucks that don't meet U.S. safety standards. Fewer than 1 percent of the 3.3 million trucks entering the U.S. each year are inspected. 50% of those inspected are rejected for major safety violations.

- NAFTA has weakened food safety inspections. Strawberries, head lettuce, and carrots from Mexico have violation rates of 18.4%, 15.6% and 12.3%, respectively, for illegal pesticide residues.

- The Ethyl Corporation of Virginia has filed a $250 million suit against Canadian government, under NAFTA rules, after Canada banned a toxic gasoline additive. If Ethyl wins its case, governments will have to pay polluters not to pollute in order to protect public health.

- NAFTA weakened border inspections of U.S. trade. A tragic side effect was to increase the transshipment of illegal drugs. Transshipment of illegal drugs through Mexico has increased greatly. 80% of the cocaine now entering the U.S. comes through Mexico.

Conclusions

Before it can be expanded, NAFTA should be revised to include enforceable labor and environmental standards, effective adjustment assistance, financial market regulation, and protection of national safety nets for those left out of the benefits of trade.

* * *

INTRODUCTION

During the debate over the North American Free Trade Agreement (NAFTA), supporters and opponents based their cases largely on divergent predictions of the treaty's likely impact. Supporters expected NAFTA to produce major benefits for the economies of the three signatory countries (the United States, Canada, and Mexico), the living standards of their populations, labor relations throughout North America, and the continent's environment; opponents foresaw worsening problems on all fronts.

Today, the agreement has been in effect for three and a half years. Just as important, the policies of breakneck deregulation that Mexican governments have followed in preparation for greater, NAFTA-style North American economic integration have been in effect for a decade. Thus, NAFTA has begun to establish a track record. There is no more need to rely on predictions.

The President is required to submit "a comprehensive study on the operation and effects" of NAFTA to Congress by July 1. This report will no doubt reiterate the position taken consistently by the Administration for the last three years—that the treaty has either fulfilled expectations or is moving steadily in that direction. Indeed, the Administration considers NAFTA to be so successful as to justify its extension to include the entire Western Hemisphere. NAFTA critics strongly disagree.

In this report, several organizations concerned with the well-being of average men and women throughout the continent perform their own evaluation of NAFTA's track record and the economic strategies that produced it.

The organizations behind this report believe that the overriding goal of economic policy should be the creation of conditions that lead to high and rising standards of living, including improvements in environmental quality, health, and social conditions, throughout society. Except as they support this goal, increased employment, reduced inflation, higher productivity, greater volume of trade, even faster overall economic growth cannot be ends in themselves. Economic policy is successful only if it produces better lives up and down the income ladder, and it fails if it does not achieve these results. The evidence presented in this report makes abundantly clear that, by this test, the NAFTA approach to North American economic integration has failed dismally. NAFTA should not be extended, but rather repealed or drastically modified.

NAFTA clearly has been good for some North Americans. Exports to Mexico and Canada have produced many new jobs in the United States. U.S. and Canadian investments in Mexico now enjoy strong legal protection. Financial speculators in North America and around the world benefited from a U.S. taxpayer-financed bailout of Mexico. And employers in North America

and worldwide have been able to hire workers in the United States, Mexico, and Canada at ever lower wage and benefit levels.

But the costs -- to *many more* North Americans -- have been much heavier. Wages and living standards have seen downward pressure in all three countries, and workers' rights and bargaining power have been weakened. Damage to the North American environment has intensified. Food supplies are increasingly at risk of contamination. The cross-border trade in illegal drugs has accelerated. For the average citizen of any of the three signatory countries, NAFTA has been a failure.

Rather than produce large and growing U.S. trade surpluses with its neighbors, as proponents guaranteed, NAFTA has plunged America's regional trade into deep and probably chronic deficit. Instead of the promised net new jobs in the United States, NAFTA-encouraged trade and investment patterns have displaced more than 400,000 American jobs on net. Most important, NAFTA has helped to depress U.S. wages and living standards. Workers have been hurt by the availability of cheap labor in Mexico and by great reductions in the bargaining power they hold with their employers. NAFTA's labor side agreement has failed utterly to protect the rights of workers or the enforcement of labor standards. U.S. environmental and public health laws have been subverted, and the quality of the U.S. food supply has been dangerously compromised.

In Mexico, the costs of NAFTA have been even worse. NAFTA-style economics mired the country in slow growth and, after the treaty's passage, led directly to the peso's collapse in 1994. The toll: more than 2 million lost jobs; 28,000 small businesses destroyed; weaker, less enforceable labor standards and rampant violations of existing worker rights; a rise in already high levels of official corruption; a slowing of the democratic reform process; and the outbreak of revolutionary movements such as that in Chiapas. Indeed, one of the greatest ironies of NAFTA is that a treaty aimed in large part at stabilizing Mexico has heightened social and political disorder. In addition, environmental and public health conditions in the U.S.-Mexico border area have significantly worsened.

Canada's experience, too, has been negative. Canada entered a recession shortly after entering the U.S.-Canada Free Trade Agreement in 1989 and, as a result, has not escaped high levels of unemployment and poor wage growth. Free trade makes impossible Canada's strategy of high social spending and a strong safety net. International financial markets are making Canada pay dearly for this strategy and are forcing its gradual abandonment. Health care, education, and pension systems in Canada are being dismantled in the name of increased competitiveness under NAFTA.

The strategies and rules that produced such results should not be perpetuated, let alone extended. Instead, the entire NAFTA approach to North American economic development should be scrapped. The United States should take the lead in developing new, enforceable rules of trade capable of bringing the benefits of trade expansion to working people throughout North America and eventually the rest of the Western Hemisphere.

JOBS, WAGES, AND THE ECONOMY

United States

This section was prepared by the Economic Policy Institute

The Clinton Administration and other NAFTA supporters portray the agreement as an unqualified boon for the U.S. economy. The facts, however, tell an entirely different story: NAFTA and the policy of unregulated trade that it represents have harmed many more Americans than they have helped.

NAFTA's principal beneficiaries have been multinational investors. This result has followed naturally from the negotiating strategies of the Bush and Clinton administrations. Protections for the interests of investors and owners of intellectual property were their highest priorities and were included in the treaty's main text. The interests of workers and the environment were much lower priorities and were addressed only in weak side agreements.

Yet improving corporate profits is not the sole or even the most important measure of success for a nation's trade and other economic policies. The overriding concern should be promoting high and continually rising standards of living for the great majority of citizens. If economic policies do not achieve this goal, they must be judged failures. By this test, NAFTA has failed. In fact, since the passage of NAFTA and the adoption of NAFTA-style economics in Mexico years before, living standards have fallen in all three countries and for the great majority of North Americans. NAFTA was not a primary cause of this trend, but it has clearly made it worse.

Wages

Income inequality has risen substantially in the United States in recent years. For nearly two decades, the real wages and compensation of American blue-collar workers have been declining. Hourly compensation for non-supervisory production workers fell by about 9.5% between 1979 and 1995 (Mishel, Bernstein, and Schmitt 1997).

Several explanations for deteriorating living standards have been offered, including declining rates of unionization, erosion in the real value of the minimum wage, the globalization of the economy, large immigration inflows, and technological change. Disentangling the impact of these factors is difficult, because they interact in many ways. An emerging consensus, however, holds that trade policy alone is responsible for 15% to 25% of the growth in the income gap that has occurred in the 1980s and 1990s. The real effect may be substantially larger: Mishel *et al.* (1997) find that, between 1979 and 1989, trade can explain 29.8% of the relative decline in the

wages of non-college-educated workers and an even larger share of the decline in production worker wages.

Imports from low-wage countries appear to be especially important causes of increasing wage inequality. Mexico is one of America's most important low-wage trading partners. Between 1993 and 1995, Mexico was responsible for 26.7% of the increase of U.S. imports from non-industrialized, low-wage countries. Mexico is also responsible for 43.5% of the increase in U.S. deficits with these countries (Scott 1997). By encouraging increased imports from Mexico, NAFTA plainly has worsened the already substantial income inequality effects of current U.S. trade policies.

Trade with low-wage countries like Mexico drives down U.S. wages in several ways. First, it increases trade deficits, which destroy high-paying jobs in goods-producing industries. When the economy is at full employment, this is manifest as an increase in the share of overall employment in lower-paying non-traded-goods industries (e.g., services). As will be discussed later, by producing skyrocketing U.S. deficits with Mexico, NAFTA has led to precisely these results. Second, the import of parts and other production inputs reduces U.S. employment per unit of output. This hollowing out of production processes reduces the demand for blue-collar workers. Third, imports of lower-priced goods, especially from low-wage countries, depress wages by reducing the marginal value of worker output. Fourth, flows of investment abroad reduce investment in domestic goods production, lowering potential productivity and capacity at home. Fifth, and perhaps most important, wages in the goods-producing sectors have historically set the pattern for wages in the rest of the economy. The decline of U.S. manufacturing employment, and of manufacturing wages, puts severe downward pressure on blue-collar wages in the services sector, which accounts for the great majority of output and employment in the United States.

Finally, outward foreign direct investment (FDI) has had a chilling effect on the labor bargaining climate in the United States. Specifically, many firms have used the threat of moving to Mexico as a weapon against wage increases and union organizers. In a report commissioned by the NAFTA Labor Secretariat, Professor Kate Bronfenbrenner of Cornell University (1996) conducted a major survey of firms facing union organizing and contract campaigns. She found that over half of these firms used threats to shut down operations to fight union organizing drives. NAFTA has made these threats more credible. When forced to bargain with a union, 15% of firms actually closed part or all of a plant—triple the rate found in the late 1980s, before NAFTA (Bronfenbrenner 1996).

Indeed, corporations are using NAFTA and unregulated trade with other low-income countries to roll back most of the gains that American workers have won over the last century. In veiled threats, they warn—quite correctly—that any effort to maintain or upgrade labor standards in the U.S. will mean more job flight. NAFTA itself, for example, has been one of the biggest sticks used to fight such proposed measures as an increase in the minimum wage.

Worse, since NAFTA's implementation, U.S. and foreign multinationals have found Mexico's wage rates more attractive than ever. As discussed below, due largely to the NAFTA-related peso crisis, during the 1990s the already wide wage gap between U.S. and Mexican workers widened further—from a roughly 7:1 ratio on the eve of NAFTA's implementation to 11:1 today (Blecker 1997). Even with a first-class retraining program for American workers—which neither the administration nor Congress has been willing to finance—U.S. workers cannot be made anywhere near 11 times as productive as Mexican workers in competing industries. And U.S. workers' remaining productivity advantage will surely erode, for labor that is cheap to hire is also cheap to train.

Finally, continued high levels of immigration from Mexico also help drive down American wages. Americans were promised that NAFTA-induced prosperity would reduce illegal immigration from Mexico. Instead, the loss of 28,000 small businesses and 2 million jobs (Imaz 1997), along with a real wage drop of 20% (Blecker 1997) have had predictable results: many Mexicans continue to seek their fortunes in the United States.

Trade Balances

As promised by NAFTA supporters, U.S. exports to Mexico and Canada both rose quickly after passage. In 1996, exports were 36.3% higher to Mexico and 33.4% higher to Canada than in 1993. *Growth in U.S. imports from Mexico and Canada, however, was much larger—82.7% and 41.1%, respectively, over the same period.* As a result, a U.S. surplus with Mexico of $1.7 billion in 1993 became a deficit of $16.2 billion in 1996. The overall U.S. deficit with the other NAFTA countries hit $39 billion in 1996, an increase of 332% from 1993 (Scott and Lee 1997).

The trade deficit with Canada stems primarily from the appreciation of the U.S. dollar vis-à-vis the Canadian dollar between 1991 and 1996. This appreciation has resulted in large deficits in industries ranging from vehicles to wood to paper to steel.

The Office of the U.S. Trade Representative (USTR) argues that "the sharp negative swing" in the U.S.-Mexican trade balance was the result of "Mexico's peso crisis and resulting recession, not the NAFTA" (USTR 1997a). *But the peso crisis is a false alibi.* The adverse trends in U.S. imports from Mexico began well in advance of the peso crisis, and import growth has outpaced export growth in every year since. Indeed, the U.S. already had a monthly trade deficit with Mexico in October 1994 (months before the December 26 peso devaluation). More important, as will be discussed later, the peso crisis was itself a result of the Mexican growth strategy that NAFTA was intended to promote.

Most of the growing U.S. deficit with Mexico is concentrated in high value-added manufacturing industries. Transportation equipment has suffered an increased deficit with Mexico of $11.5 billion since 1993, or 64% of the deficit's total increase. In the slightly narrower sector of

vehicles and auto parts, the U.S. deficit jumped by more than 400%, to $14.6 billion. Other industries with large losses include electrical and non-electrical machinery (Scott 1997).

These findings contradict predictions that Mexico, under NAFTA, would specialize in the export of low-wage, low-tech manufactured goods such as clothing and textiles: The motor vehicle industry is a high-wage, high-skilled sector. The NAFTA experience shows that Mexican workers can easily be trained to perform some of the best jobs that U.S. industry creates.

Job Losses in the U.S.

In 1993, backers of NAFTA claimed that increased trade with Mexico would create at least 200,000 good jobs in the U.S. These claims were based on forecasts of sizable trade surpluses with Mexico for about 15 years. Despite the United States' large NAFTA deficits, however, USTR still claims that nearly 311,000 new jobs have been created by trade with the NAFTA countries (USTR 1997d). These claims are based on the obvious point that exports create jobs. Yet they completely ignore the flip side—that the far greater flows of NAFTA imports have been displacing many more jobs.

The USTR notes that not all imports destroy jobs, because many imported goods are not available in the United States. Yet this point is only minimally relevant to current U.S. trade with Mexico, because the great majority of the increase in imports has occurred in manufactured products such as motor vehicles and parts. These could easily have been produced in the United States, and jobs are destroyed when these goods are imported.

In addition, a large portion of U.S. exports to Mexico consists of components used in the manufacture of products that are then re-exported back to the United States. In many cases, the manufacture was formerly done in U.S. factories, without exports. When those factories closed and moved to Mexico (or Canada), the parts followed the facilities to their new location. *These "new" exports in no way result in the creation of any new jobs or output in the U.S.* Therefore, since a significant share of U.S. exports to Mexico and Canada are used to produce goods for the U.S. market, the only sensible, consistent way to measure the impact of trade is to use changes in the trade balance.

USTR's insistence on considering only the effects of exports while ignoring imports in evaluating NAFTA's impact raises serious questions about the office's intellectual integrity. Its position amounts to permitting only the benefits, but none of the costs, of NAFTA to be examined—to balancing a checkbook by counting only deposits, but not withdrawals.

When imports are included, Scott and Lee (1997) have shown that the increase in the U.S. trade deficit with Mexico and Canada has cost the U.S. 420,208 jobs since 1993 (250,710 associated with changes in the trade balance with Mexico, and 169,498 with Canada).

Many NAFTA proponents counter that the kinds of export sector jobs NAFTA has created pay higher-than-average wages, allegedly so high that they make up for net job losses. Thus USTR argues, "Our export industries are among our most productive and dynamic of all U.S. industries. The jobs they support pay wages that are 13% to 16% higher than the U.S. national average wage" (USTR 1997d). But the relevant comparison for export jobs is not with the national average. The national average includes plenty of low-wage service jobs that are not directly subject to international competition. Industries in which imports are increasing rapidly pay wages well above the national average. In fact, an Economic Policy Institute analysis found that average wages in these industries are slightly higher than wages in industries where exports are growing rapidly.

Part of the legislation accompanying NAFTA's passage provided for worker training and other adjustment programs for workers displaced by NAFTA-generated trade. These programs must also be counted as failures. The Department of Labor has certified that, by May of this year, 127,000 workers had lost their jobs because of increased imports from Canada or Mexico. Only 5,300 workers have actually received NAFTA transitional adjustment assistance (USTR 1997d). Clearly, these programs are helping only a tiny fraction of the population they were intended to reach.

The USTR notes that 8.6 million workers were involuntarily displaced from their jobs between January 1994 and October 1996. They then argue that NAFTA was responsible for a tiny share of these displacements. However, imports compete primarily with the manufacturing sector, which is a relatively small part of the total economy. Between 1989 (the last cyclical peak) and 1996, the U.S. lost 1.1 million manufacturing jobs (Bureau of Labor Statistics 1997). The NAFTA Trade Adjustment Assistance Program (NAFTA-TAA) certified job losses were 11.5% of this total. If we instead use our estimate of 420,000 jobs lost, which includes job opportunities that were not created, then NAFTA was responsible for 38% of the decline in manufacturing employment since 1989. NAFTA was clearly a major factor in the continued decline of U.S. manufacturing employment.

Fortunately, U.S. economic growth has been strong over the last three years. Many displaced workers have found alternative work. Even in 1995, however, the median number of weeks that workers spent looking for work was 13.7 (USTR 1997d). The USTR lauds this as a positive sign; however, few families have the resources to support themselves through such a long "transition" period. The bottom 40% of American families have only enough assets, on average, to survive two weeks without employment (Rasell 1997).

Why, however, does this NAFTA damage not affect U.S. macroeconomic indicators more substantially? After all, as the USTR points out, the U.S. economy saw a net increase of 1.7 million jobs in 1995 (USTR 1997d). The answer is simple, though usually overlooked.

The United States is currently in the midst of one of the strongest and most prolonged economic upswings in decades. Unemployment, at last notice, is down to 4.8%. This is very good news. But economies forever swing between expansion and recession; despite our best efforts, this cycle has never been conquered. The bottom of the last U.S. recession came in 1991-92; since then, the economy has been in expansion. It is impossible to attribute this economic expansion to NAFTA; it began well in advance of the beginning of freer trade with Mexico, and is far too large to have been produced by U.S. trade with Mexico.

This expansion, moreover, has obscured many of NAFTA's negative effects. Extraordinarily strong job creation in the domestic market has more than made up for the number of jobs lost to Mexico. But the U.S. unemployment rate will not remain below 5% forever, and when the next downturn comes, the jobs lost due to NAFTA will be sorely missed. Even now, wage growth is lower than it would have been had those jobs been kept.

In real terms, U.S. wages increased by about \$.03 per hour in 1996 (see Figure 1). However, this still leaves workers about \$.04 per hour below where they were in 1991. At this late stage in the recovery, it is normal to see an uptick in wages. They increased \$.02/hour in 1983 and \$.03/hour in 1986. However, there is *no evidence that any reversal has taken place in the long-run trend of declining real wages,* which began in 1973. Between 1947 and 1973 real wages increased, on average, by \$.14/hour. Next to this performance, even 1996's cyclical increase is tiny. On average, wages have been falling by \$.035/hour since 1973.

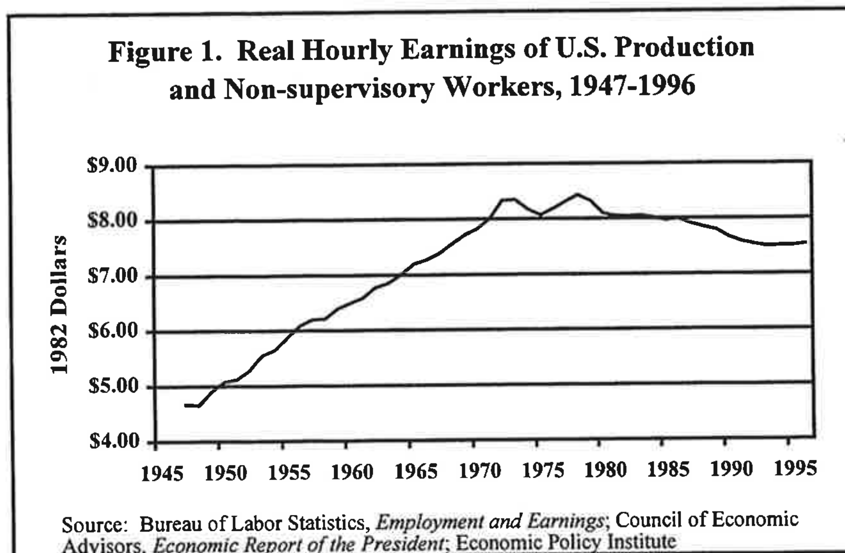


Figure 1. Real Hourly Earnings of U.S. Production and Non-supervisory Workers, 1947-1996

Source: Bureau of Labor Statistics, *Employment and Earnings*; Council of Economic Advisors, *Economic Report of the President*; Economic Policy Institute

Just as important, NAFTA and globalization generally have changed the composition of employment in America, stimulating the growth of lower-paying services industries and accelerating the deindustrialization of our economy.

NAFTA and the Peso Crisis

The 1995 peso crisis is commonly used to excuse the sharp deterioration of the U.S. trade balance with Mexico. Indeed, NAFTA supporters portray the crisis, which threw the Mexican economy into its deepest depression in history, as a shocking bolt from the blue that had nothing to do with the trade agreement. As the USTR's office writes, "The reason for the sharp negative swing [in the U.S. trade balance] with Mexico was Mexico's peso crisis and resulting recession, not the NAFTA" (USTR 1997a).

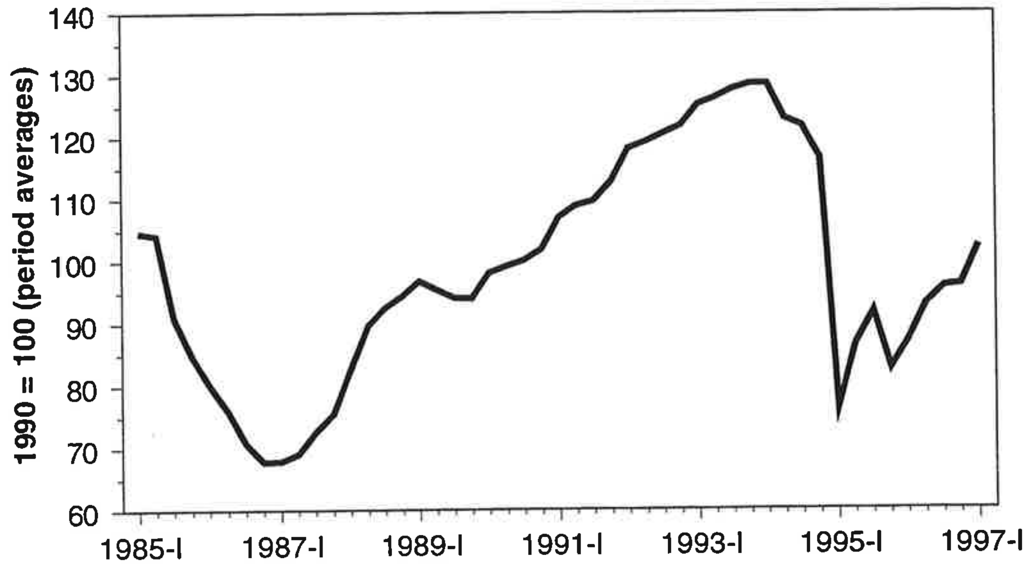
The facts, however, say otherwise. Between 1987 and 1994, the peso appreciated by about 75% in real terms against the U.S. dollar. As a result, Mexican labor became much more expensive in dollar terms, rising by 56% from 1990 to 1994 (Table 1). Mexico began to run unsustainable current account deficits, and eventually was forced to devalue. When the crisis hit, the peso lost about 50% of its value in 1995 (Figure 2), and the Mexican depression began.

What role did NAFTA play? As Blecker (1997) points out, NAFTA was the foundation for an aggressive export-led growth strategy in Mexico. The peso *had* to be kept low or devalued if it rose in order for this strategy to succeed. "Simply put," in Blecker's words, "*Mexico had to devalue the peso in order to attract the direct foreign investment and export-oriented manufacturing that the NAFTA agreement was designed to promote.*" Indeed, attracting foreign investment was one of former Mexican President Carlos Salinas de Gortari's main reasons for supporting NAFTA in the first place.

The peso crisis is also intricately linked with the politics of NAFTA, in which the United States consciously promoted the regime of Carlos Salinas as a government of competent reformers. Now all agree that the Mexican government's handling of the financial collapse was disastrous. Had the Mexican government begun to devalue the peso earlier during its rise, a more gradual, less brutal adjustment might have been possible. Yet the Salinas government postponed the devaluation to serve its political goals. First, keeping the peso high held down inflation at home because the high peso made Mexican imports artificially cheap and made Salinas popular with Mexican voters. Second, postponing the devaluation until after the 1994 presidential election helped the electoral chances of Salinas' hand-picked successor, Ernesto Zedillo. (The overvalued peso, supplemented by a sudden boost in government spending immediately before the election, was instrumental in securing Zedillo's victory.) Finally, the high peso helped to win votes in the U.S. Congress for passage of NAFTA in November 1993. The overvalued Mexican currency gave the United States a temporary trade surplus with Mexico in 1991-93, creating the illusion that NAFTA would be a net job creator instead of a net job loser for Americans.

Because political considerations and short-term financial pressures are still perpetuating irresponsible Mexican macroeconomic policies, another peso crisis and Mexican economic crash seem to be approaching. Mexico's still-towering unemployment rate, its lack of strong, independent unions, and its rising labor surplus are preventing Mexican wages from rebounding even to their modest pre-crisis levels. With Mexican labor costs still 40% below these levels,

FIGURE 2
Real Value of the Mexican Peso, Quarterly, 1985 to 1997



Source: International Monetary Fund, International Financial Statistics, various issues, and author's calculations.

TABLE 1
Hourly Compensation Costs for Production Workers in Manufacturing in the U.S. and Mexico, in U.S. Dollars, 1990-96

	United States	Mexico	Mexico as Percentage of U.S.
1990	$14.91	$1.58	10.6%
1991	15.58	1.84	11.8
1992	16.09	2.17	13.5
1993	16.51	2.40	14.5
1994	16.86	2.47	14.8
1995	17.20	1.51	8.8
1996 (*estimated*)	17.77	1.51	8.5

Source: U.S. Department of Labor, Bureau of Labor Statistics, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1995," Report 909, September 1996, and author's calculations.

foreign investors have been rushing back in (Blecker 1997). Thanks to the deregulation of Mexican finance required by NAFTA, the Mexican government is powerless to stop or even control these inflows. Thus, as a result of this new investment boom the peso has risen to unsustainable levels once again.

The real value of the peso has been climbing steadily since late 1995. It has already regained about 30% of its pre-crisis value, and is now growing about 5-7% *per quarter*. Moreover, the Mexican government has recently increased spending in order to stimulate the economy in advance of July's congressional elections. The result is a picture remarkably similar to that of early 1994. If past experience is any guide, Mexico's next sudden devaluation and an even deeper depression are only a matter of time.

Another round of devaluations will likely provide more convenient excuses for NAFTA's continued poor performance. Mexico will become even more attractive as an export platform. As new and expanded plants are completed in the maquiladora zone and elsewhere in Mexico, the bilateral trade deficit should soar ever higher. But Mexico's economy will be ever more tightly locked into a vicious cycle of financial boom and real economic bust. This vicious cycle is part of the current NAFTA package. Despite the supporters' protestations, we can't have one without the other. Given this reality, NAFTA should be revised to include safeguards to dampen excessive financial market volatility in Mexico.

Mexico

This section was prepared by the Economic Policy Institute and the United States Business and Industrial Council Educational Foundation

A NAFTA that hurts American workers might be partially justifiable if it spurred sound, vigorous economic development in Mexico. Yet as suggested above, a decade of NAFTA-like economic policies has shown no sign of jumpstarting desperately needed Mexican economic growth or of bettering the lives of the great majority of Mexicans. Indeed, despite promises that NAFTA would strengthen Mexico's stability, these policies are accomplishing exactly the opposite, by widening the already daunting gap between rich and poor.

Since the mid-1980s, Mexico's development strategy has aimed at "export-led growth." Mexican and U.S. leaders have predicted that boosting Mexico's exports will create jobs for Mexico's rapidly expanding workforce and steadily push living standards upward—as happened in East Asia. Tragically for Mexican workers, however, the Mexican government neglected many of the policies responsible for East Asia's success—e.g., sharply reducing rural poverty, improving education, and promoting high levels of domestic savings and investment. Instead, Mexican leaders viewed simple, NAFTA-driven liberalization of trade and foreign investment flows as a panacea.

Creating a more investment-friendly Mexico has done a world of good for multinational corporations who take advantage of Mexico's cheap wages to improve their own bottom lines and global competitiveness. In fact, Mexico has become a remarkably effective export platform to the United States. Many of the new U.S. exports to Mexico are parts to be further manufactured or assembled in maquiladoras; over 80% of Mexico's exports are sent to the United States (Hinajosa *et al.* 1996). Yet this NAFTA- and FDI-centered strategy does not contribute to Mexican economic development. Because these factories interact so little with the Mexican economy, they do not provide boosts to other firms. Quite the contrary: 28,000 small businesses in Mexico have been destroyed by competition with huge foreign multinationals and their Mexican partners. Wages remain low and profits are sent abroad. Exports boom, but domestic markets remain virtually unaffected.

Indeed, the maquiladora sector is coming to dominate the Mexican economy. By the end of 1996, maquiladora sales accounted for 40% of Mexico's total exports and 47% of manufactured goods exports (MWFB 1997). Maquiladoras employ an estimated 811,000 workers, up 60% since 1992 alone (Shaiken 1997).

The "export platform" strategy, however, has done little to promote broad prosperity in Mexico. Experts can argue about how much of Mexico's current woes are due to the peso crisis alone. But Mexico's experiment with NAFTA-style economics began in the mid-1980s, and the

inadequacy of that policy had been established well before the latest financial collapse. During the six years of Salinas' reign, for example, the Mexican economy expanded by only 2.6% annually—far too low to create jobs for the roughly 1 million Mexicans entering the labor market every year. In fact, in late 1995, the U.S. Embassy in Mexico City reportedly estimated that a stunning 35% of all economically active Mexicans were either unemployed or underemployed (Moore and Anderson 1996).

But such joblessness did not start with the peso crisis, either. Mexican manufacturing employment peaked in 1991, at about 1.4 million, and has since fallen to 1.33 million. One big reason: Mexican manufacturing productivity rose 6.6% annually between 1988 and 1993 (Wise 1997). These productivity increases should at least have been increasing wages for employed Mexicans. But even in 1994, just before the peso collapse, real hourly wages stood 13% below 1980 levels.

The pre-NAFTA decade also saw major increases in economic inequality in Mexico. During this period, the wealthiest 10% of Mexicans' share of national income rose from 34% to 41%. Every other decile's share declined. During the same period, only the top 20% of households experienced increases in real monetary income greater than 1% annually. Moreover, as in the United States, before the peso crisis, middle-class Mexican families were able to tread water mainly because women have flooded into the workforce (Wise 1997).

The peso collapse has simply been the coup de grace for Mexico's development hopes. The figures are staggering. Unemployment in Mexico continues to skyrocket: the number of unemployed workers doubled between mid-1993 and mid-1995, to nearly 1.7 million (RMALC 1997). Additionally, there were 2.7 million workers employed in precarious conditions in 1996. To make ends meet, many families are forced to send their children to work, in opposition to Mexican law. UNICEF reported 800,000 children living and working on the streets of Mexico City alone (*Reforma*, December 14, 1996).

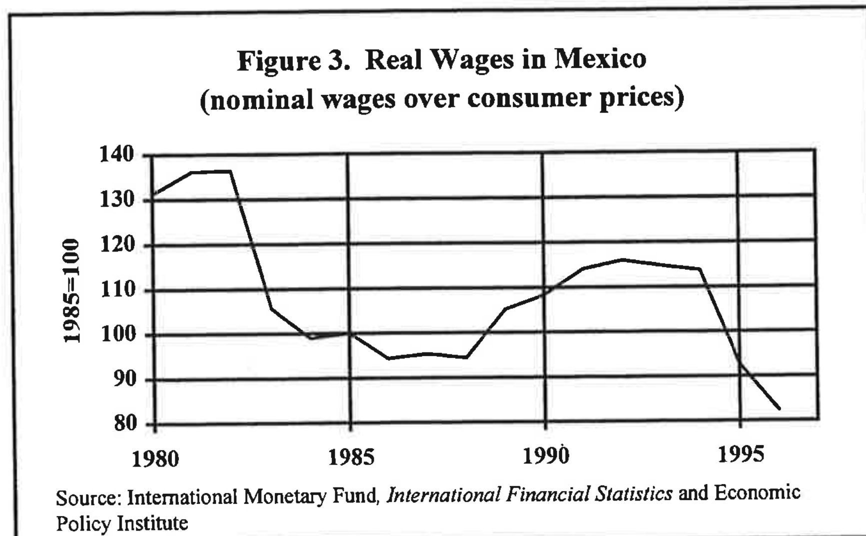


Figure 3. Real Wages in Mexico (nominal wages over consumer prices)

Source: International Monetary Fund, *International Financial Statistics* and Economic Policy Institute

Consequently, the impoverishment of millions of Mexicans deepens. In 1996, as shown in Figure 3, estimated real hourly wages were 27% lower than in 1994 and 37% below 1980 levels. Of the 1995 working population of 33.6 million, 19% worked for less than the minimum wage, 66% lacked any benefits, and 30% worked fewer than 35 hours per week (RMALC 1997). During three years of NAFTA, the portion of Mexican citizens who are "extremely poor" has risen from 32 to 51% (UNAM 1996), and 8 million people have fallen from the middle class into poverty (Imaz 1996).

Nor do the dismal wage numbers reflect productivity trends. Since NAFTA was implemented, the manufacturing sector has grown by a solid 9.8% and productivity has increased 12.6%. Yet average maquiladora wages remain about half of the country's manufacturing average—thanks in large part to NAFTA's failure to prevent Mexico from continuing to repress independent labor unions.

Combine these developments with Mexico's mounting political troubles and on-again, off-again guerilla uprisings, and a sobering irony emerges: NAFTA-style economics could well produce the very chaos that the agreement was supposed to prevent.

Canada

This section was prepared by the Economic Policy Institute

NAFTA and globalization have affected Canada differently than either Mexico or the United States. Canada has benefited from an improving trade balance with the U.S. Employment in autos and in a number of other industries has moved north because of declining Canadian wages (resulting from a declining Canadian dollar). Yet Canada has been mired in recession since shortly after entering into the U.S.-Canada Free Trade Agreement, which took effect in 1989. Unemployment in Canada began to increase almost immediately thereafter, from 7.5% in 1989 to a high of 11.3% in 1992. Joblessness fell back to 9.4% in 1996, but has begun increasing again in 1997, and now stands at 9.6% (*Economist* 1997).

The reasons for Canada's difficulties are straightforward. Between 1989 and 1995, the real interest rate in Canada (defined as the federal funds rate minus the consumer price index) was 2.9% higher than in the U.S., on average (IMF 1997). Until last year, the real rate in Canada was higher in every year. As a result, the government is cutting outlays sharply. They are projected to fall from 50% of GDP in 1992 to 44% in 1997. Canada is essentially being forced to dismantle its social safety net while increasing its unemployment rate. This lose-lose situation stems directly from Canada's decision to merge its economy with that of the United States and Mexico, which employ radically different social and economic systems. Canada's policies and practices are being harmonized with those of the rest of North America—downward.

Recommendations

Greater North American economic integration need not produce such abysmal results. But a stronger, more equitable North American economy requires fundamental changes in the current NAFTA-centered integration approach. Labor rights provisions will need to be made stronger and more enforceable, to prevent employers from oppressing Mexican workers and arbitraging the difference between U.S. labor rules and their weaker Mexican counterparts. As explained below in the Labor Rights section of this report, these agreements should include provisions on minimum wages, health and safety standards, the right to organize unions, prohibition of child labor, and other measures. Provisions to safeguard labor (and environmental) standards should be just as effective as the existing provisions protecting intellectual property and other investor interests.

The United States, the International Monetary Fund, and other foreign institutions and organizations also need to start giving the Mexican government dramatically different policy advice. Mexico needs to stimulate growth by raising, not lowering, the incomes of its workers. Mexico must rely less on exports as the main source of growth and work more on the development of domestic markets. A substantial increase in Mexico's minimum wage and renewed public spending on infrastructure would help to jumpstart its domestic economy. A more progressive tax system, targeting the excess profits of foreign investors as well as the ebb and flow of portfolio capital would help solve Mexico's financial problems.

A prosperous Mexico whose population enjoyed political democracy and social justice could be a valuable trading partner for the United States and Canada. Great possibilities exist for mutually beneficial North American trade that respects workers and the environment in all three countries. The United States and Canada could do well exporting capital equipment and high-technology products to an expanding Mexican economy. Good jobs and good wages can be created throughout the continent. But this potential will not be realized under today's NAFTA-centered economic and social regime.

NAFTA AND LABOR RIGHTS

This section was prepared by the International Labor Rights Fund

During his first election campaign for president, candidate Bill Clinton expressed alarm that workers in North America faced a serious threat to their income and job security from a North American Free Trade Agreement (NAFTA) that failed to include enforceable labor standards. Clinton observed that multinational corporations (MNCs) could take advantage of "their ability to move money, management, and production away from a high-wage country" to a low-wage country. "We can also lose incomes," Clinton said, "because the companies who stay at home can use the threat of moving to depress wages, as many do today" (Clinton 1992).

MNCs operating in Mexico, according to candidate Clinton, presented special concerns: "[I]f you look at the experience of the maquiladora plants, those who moved to Mexico right across the border, there is certainly cause for alarm. We can see clearly there that labor standards have been regularly violated" (Clinton 1992).

But the actual NAFTA ignores this concern and simply preserves the status quo by relying upon each NAFTA country to enforce its own existing labor laws. This labor "side agreement," the North American Agreement on Labor Cooperation (NAALC), provided no effective means to alter the verified Mexican record of not enforcing its labor laws and was wholly inadequate to deal with the complex issues of cross-border labor regulation. Likewise, it failed to address the significant shortcomings of U.S. and Canadian labor laws and the trend toward labor deregulation as a strategy for retaining and attracting capital investment. Subsequent experience under NAFTA demonstrates that, without serious enforcement mechanisms to improve domestic enforcement of labor laws and some process for maintaining reasonable minimum standards to resist deregulation, worker rights will remain abandoned by NAFTA.

The NAALC diluted the enforcement of labor laws under NAFTA even further by creating three tiers of rights for which different levels of scrutiny would be applied. After a very long dispute resolution process, which may take up to three years to complete, the NAALC provides for penalties only when a panel rules that a violation has occurred in the area(s) of workplace health and safety, child labor, or minimum wages. In theory, violations in this category entitle workers to benefit from the full range of redress offered by the NAALC, including consultation mechanisms, expert evaluations, and a dispute resolution panel. However, if there is a violation of a right considered to be a technical labor standard (including such issues as forced labor, labor protection for children and young persons, minimum employment standards, employment discrimination, equal pay for men and women, prevention of occupational injuries and illness, workers' compensation, protection of migrant labor, etc.), the only sanction available is a consultation and/or expert evaluation process. At no time can any technical labor standard

violation, even if the breach is consistent with a widespread pattern of non-enforcement, lead to a trade penalty.

A fundamental set of labor principles—the freedom of association and protection of the right to organize, the right to bargain collectively, and the right to strike—are also eligible only for consultation; they are ***exempt*** under the agreement from all other enforcement mechanisms. In other words, a justified complaint concerning the non-enforcement of these fundamental rights or those considered technical labor standards by a party to the side agreement cannot lead to *any* tangible legal sanctions under the NAALC.

To date the NAALC has completed only five public reviews of complaints launched by labor unions and human rights organizations. One other case is pending. Four of these five complaints have centered upon labor rights violations in Mexico relating to the inability of workers to freely organize and form labor unions. Workers in these cases were fired, harassed, and intimidated by their employers for attempting to exercise their domestic legal rights to join independent labor unions. Despite a review of these cases by the National Administrative Offices (NAO), the workers involved in each complaint—more than 200 in total—were not reinstated or compensated for labor rights violations, due to the limitations of NAALC remedies. The NAOs generally refrained from overt criticism of the MNCs involved in the complaints; instead, they commissioned academic studies, organized government seminars, and provided informational sessions concerning the labor rights of workers in the respective NAFTA countries.

The United States Trade Representative (USTR) cites case No. 940003 as an example of the success of the NAALC (USTR 1997c). In that case, Mexican workers attempted to organize an independent union in accordance with domestic law. The employer, a subsidiary of Sony, discharged many of the workers. A rigged election confirmed the existing leadership of the Mexican Workers Confederation (CTM) affiliate, a union which is closely allied with the Institutional Revolutionary Party (PRI). The election triggered a worker demonstration at the plant, which was violently suppressed by police acting in concert with Sony.

The provisions of NAALC did nothing to change the situation at Sony. A subsequent attempt to organize an independent union was thwarted when the government's Conciliation and Arbitration Board, which included members of the sitting CTM union and the government, refused to register the union. The NAO process did not alter the biased manner in which Mexican labor tribunals, which regularly include CTM and PRI members, reject applications of independent unions. The workers who were fired and beaten for attempting to organize the union remain terminated and uncompensated. Moreover, the NAALC did not punish the employer in any concrete way. That USTR cites this case as a successful application of NAALC indicates the utter ineffectiveness of labor rights protections under NAFTA.

With such a small number of cases over three and a half years, labor unions and human rights groups across North America do not feel that NAALC offers a useful tool for addressing labor rights violations. The approach of MNCs to NAALC proceedings reinforces the perception that

nothing serious is at stake: every MNC noted in a complaint chose not to publicly participate in hearings. MNCs, like labor unions, workers, and NAALC complainants, have realized one key point. In the words of the USTR, "[n]othing in the agreement requires the U.S. to change its laws or the enforcement of those laws" (USTR 1997c). This statement is equally true of Canada and Mexico. In short, the NAALC has done nothing significant to enforce labor laws in North America. As candidate Bill Clinton realized back in 1992, it leaves many workers vulnerable to gross exploitation.

The denial of basic worker rights is not confined to Mexico. U.S. and Canadian workers are also being denied their rights to associate and organize unions, and are forced to accept lower wages and benefits. MNCs have taken advantage of the NAALC's weakness and have influenced wage bargaining and union organizing by threatening to move production to Mexico. Kate Bronfenbrenner, Director of Labor Education Research at Cornell University, was commissioned by the U.S. NAO to study plant closings in the U.S. under NAFTA. She found that "NAFTA has created a climate that has emboldened employers to more aggressively threaten to close, or actually close their plants to avoid unionization. The only way to create the kind of climate envisioned by the original drafters of the NLRA, where workers can organize free from coercion, threats, and intimidation, would be through a significant expansion of both worker and union rights and employer penalties in the organizing process both through substantive reform to U.S. labor laws and by amendments to the [NAALC]" (Bronfenbrenner 1997).

The NAALC cannot serve as a vehicle for improving the enforcement of labor laws. It simply was not intended to serve this function. In order for workers to benefit from NAFTA, labor unions and their partners must insist that a labor clause, reflecting the need to improve enforcement of labor laws in North America, be a central part of the NAFTA agreement. It must not be relegated to the uncertain status of a "side agreement." At a minimum, the labor clause must:

- Create real remedies for labor violations. Article 43 (Private Rights) of NAALC, which prevents a right of action under domestic law against another party (country) on the ground that that party has acted in a manner inconsistent with the agreement, should be repealed. An express private right of action must be created that allows workers, unions, and other groups to bring legal actions in domestic courts against corporations that operate in two or more NAFTA nations and violate NAALC's principles. Parent and/or partner corporations should be made fully liable for NAALC violations performed by subsidiaries or joint ventures, thereby eliminating corporate veil defenses against these violations. Finally, targeted trade sanctions (i.e., the loss of favorable NAFTA trade benefits) should be permitted against businesses found liable under domestic law for violation of NAALC labor principles and/or a Code of Conduct created under NAALC.

- Eliminate the "three-tier" division of rights enforcement that excludes the most fundamental labor rights (freedom of association, right to organize, right to bargain, right to strike,

prohibition of forced labor, sanctioning of discrimination, equal pay, workers' compensation, protections for migrant labor, etc.) from sanctions.

- Adopt an enforceable Corporate Code of Conduct for businesses operating in two or more NAALC countries, modeled on the codes already recognized by the U.S., Canada, and Mexico in the Organization for Economic Cooperation and Development (OECD) *Guidelines for Multinational Enterprises* and the International Labor Organization (ILO) *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy.*

- Require an annual Labor Information Audit for all businesses operating in two or more NAALC countries. This should include specific information on the terms and conditions of employment for all employees, and report information pertaining to all the company's operations, whether under its own corporate form or through subsidiaries, joint ventures, or other business forms.

THE ENVIRONMENT AND PUBLIC SAFETY

This section was prepared by Public Citizen's Global Trade Watch, the Institute for Policy Studies, and the Sierra Club

The Clinton Administration promised that NAFTA would improve the environment in the U.S.-Mexico border region and strengthen the enforcement of environmental laws and regulations, as well as laws affecting other aspects of public health and safety, in all three NAFTA countries. Officials also assured that NAFTA would protect the rights of member countries to establish and enforce their own laws in these fields.

We now have three and a half years of experience under NAFTA, however, and the evidence demonstrates conclusively that the unregulated expansion of North American trade has made an already heavily polluted border region much dirtier and more dangerous. The institutions created by NAFTA to handle environmental and public safety problems are utterly inadequate.

Pushing Border Ecology to the Breaking Point

In October 1992, presidential candidate Bill Clinton stated, "Before we implement the [NAFTA], we must establish an environmental protection commission with substantial powers and resources to prevent and clean up water pollution" (Clinton 1992). Clinton's promise reflected the expectation that the great expansion of trade predicted as a result of NAFTA would strain the ecology of the fragile border region to the breaking point. After Clinton's election, his Administration promised that NAFTA would eliminate the incentive for factories to continue crowding into the Mexican border free-trade zone (Clinton Administration 1993).

Yet new industry, along with a huge influx of new workers and residents, continues to concentrate along the border. In fact, the number of maquiladora workers rose 50% during the first three years of NAFTA (Shaiken 1997). As of mid-1995, 85% of these workers were employed in one of the six Mexican states that border the United States (SECOFI; *El Mercado Valores* 1995). Development in the maquiladora region brings much needed jobs to Mexican workers. However, these jobs do not begin to make up for the overall job loss in Mexico under NAFTA. Moreover, the environmental results have been intensified air and water pollution, and greater threats to public health.

As a result of this unrestrained industrial buildup, dangers from hazardous waste in the border region have increased. According to Environmental Protection Agency (EPA) official Joe Schultes, hazardous waste coming across the border increased 30% in 1995 (Schultes 1995; Public Citizen 1996). The same year, surveys of water from wells in U.S. border communities found sulfate concentrations of nearly twice what is considered safe for drinking water, along

with high levels of arsenic contamination (Lopez 1995). Ozone levels in El Paso have steadily increased since NAFTA: in 1992, El Paso had dangerous ozone levels 53% of the year; this increased to 58% in 1993, 67% in 1994, and 75% in 1995 (El Paso Air Quality Project, as reported in Public Citizen 1996, 42).

Not surprisingly, the incidence of disease linked to environmental contamination and crowding has also increased. The incidence of hepatitis-A—transmitted through water and food contaminated by untreated sewage—in the border region rose to between 2 and 5 times the U.S. national average (Varady and Mack 1995). In Maverick County, Texas, the rate doubled from 5.3 times the state average in 1993 to 10.3 times in 1994. Webb County, El Paso County, and Cameron County had, respectively, 2.7, 1.8, and 1.8 times the Texas rate in 1994 (Texas Department of Health 1995).

Unsafe Food Enters the U.S.

NAFTA's safety hazards are not confined to the border region. NAFTA's passage has greatly increased the amount of tainted food and illegal drugs coming into the United States. Increased shipping volume, NAFTA requirements that limit inspections, and inadequate funding have combined to overwhelm government inspection systems charged with guaranteeing the safety of imported food. Reduced inspections under NAFTA have also had the tragic effect of increasing imports such as drugs.

Between 1993 and 1995, imports of fresh and frozen fruits from Mexico increased 45.2%; vegetables rose 31.4% (Blankenship 1997). The U.S. border inspection service is completely unable to handle the increased traffic. A May 1997 Government Accounting Office (GAO) study (GAO 1997b) of border inspections found that:

- fewer than 1% of the 3.3 million trucks entering the U.S. each year are inspected,
- at "the Mexican border crossing with the heaviest passenger vehicle volume in the country, a supervisory inspector said the staff were inspecting less than 0.1% of the passenger vehicular traffic because of the high volume of traffic,"
- NAFTA importers "have put pressure on APHIS [the Animal and Plant Health Inspection Service] to carry out its increased inspection responsibilities more quickly." At most of the ports studied, the APHIS inspection program could not keep up with the increasing demands. Due to heavy workloads, APHIS inspectors do not conduct complete inspections, allowing possibly unsafe agricultural products into the U.S., and

- "Because of staffing shortages, one work unit along the U.S.-Mexican border can provide inspector coverage of a busy pedestrian crossing for only 8 out of the 18 hours of port operations."

The inspection system's failure allows a greatly increased amount of produce contaminated with illegal pesticides to enter the United States from Mexico. The non-government Environmental Working Group (EWG 1995) analyzed Food and Drug Administration (FDA) pesticide records on 42 fruits and vegetables that comprise 96% and 83% of domestic fruit and vegetable consumption, respectively. EWG found that:

- Imported crops from Mexico contained very high rates of illegal pesticides. Strawberries, head lettuce, and carrots have violation rates of 18.4%, 15.6%, and 12.3%, respectively; and

- Illegal pesticides were underreported by FDA on crops from Mexico. The FDA publicly reports that 4% of crop imports from Mexico contained illegal pesticides; its internal records indicate that the rate was actually 7.4%. Worse, the FDA-reported rate for strawberries was 10%; EWG found the actual rate to be 18%.

Toxic chemicals and illegal drugs also slip through the loose inspection net. According to the U.S. Drug Enforcement Agency, 70% of the cocaine entering the United States now comes across the U.S.-Mexico border (*Washington Post*, September 25, 1996). Also, two years after NAFTA's passage, more than a quarter of the approximately 5,000 Mexican trucks that crossed into Texas each day carried corrosives, chemicals, explosives, jet fuel, poisons, toxic waste, or pesticides (Office of the Attorney General, State of Texas 1995).

Unsafe Trucks Enter the U.S.

U.S. highway safety has suffered under NAFTA, as cross-border truck traffic increased dramatically with the boom in imports from Mexico. Inspectors are no more successful at finding and stopping unsafe trucks than unsafe cargo. Mexican truck safety standards are dangerously weaker than in the U.S. For example, Mexico does not require front brakes on tractor-trailers; they are required in the U.S. Just as worrisome are the weak Mexican standards for truck drivers: for instance, the U.S. limits drivers to 10 consecutive hours behind the wheel, while Mexico permits 13 (Chua-Eoan 1995). NAFTA has provided neither the financial support nor regulatory incentives to bring Mexican standards up to U.S. levels.

Unsafe trucks will eventually gain legal access to U.S. highways under NAFTA rules that subordinate public health and safety concerns to trade expansion (NAFTA 1993). In December 1995, the Clinton Administration postponed a NAFTA requirement to allow Mexican trucks to travel freely throughout the border states. It is now considering lifting the temporary freeze, despite the lack of inspection capacity or adequate inspection funding. Foreign trucks are to be

allowed unimpeded access to the entire United States by the year 2000. The Department of Transportation delegates most inspection duties to the states, yet the GAO characterized the efforts of Texas and Arizona, where 75% of Mexican trucks enter this country, as "less than comprehensive" (GAO 1997a).

Massive Social Dislocation and Reduced Food Security in Mexico

Mexico's poor majority, much of it concentrated in rural areas, has been hard hit by NAFTA. Many of the Mexican farmworkers currently living in the country's north have been victimized twice by NAFTA. Most are indigenous peoples from Mexico's south, who were displaced from their lands when NAFTA opened the Mexican market to a flood of cheap, subsidized U.S. corn.

In 1992, a Mexican farmer, discussing a U.S. proposal for elimination of the Mexican import license system for corn, said, "If the U.S. sends subsidized corn into Mexico, send it in trains with benches to bring back the Mexican farmers who will need jobs" (Quoted in Suppan 1997). Mexican corn imports totaled nearly $1.1 billion in 1996, by themselves as large as the Mexican trade deficit for the agricultural and forestry sectors combined (de Ita 1997). Today, having been forced to move north to work as wage laborers in export agriculture, the former corn farmers live in deplorable conditions.

The health, safety, and labor conditions of Mexican farmworkers are also deteriorating, exerting a competitive squeeze on their U.S. counterparts. In the Culiacan Valley in the state of Sinaloa, for example, Mexican growers contract with U.S. agribusiness companies to supply nearly half the winter fresh fruits and vegetables consumed in the United States. Many of these U.S. buyers look the other way as the valley's 250,000 farmworkers slather the fields with pesticides that are often prohibited in the United States, without benefit of safety equipment, clean water, or sanitation facilities (Schrader 1995). Due to the lack of adequate housing, many of the workers are forced to camp in the fields and bathe in pesticide-contaminated drainage ditches. Not surprisingly, investigators have found a high incidence of leukemia among farmworkers in the valley, nearly 3,000 of whom are hospitalized each year for pesticide poisoning (Schrader 1995). The typical Mexican farmworker earns only $3 working sunup to sundown. Often growers hire entire families—including small children—to work in the fields and packing plants.

NAFTA's impact on Mexican farm families clearly belies the predictions of one administration official, who stated before the NAFTA vote, "We do not expect many displacements [of people] as a result of NAFTA, and few communities will face difficult adjustment" (Shafer 1993).

Now that NAFTA has put Mexico's corn farmers out of business, Mexico is facing food security problems. In June 1996, an interagency task force coordinated by the Mexican Commerce Ministry declared that Mexican corn farmers could not supply Mexico due to drought. It decided to import 7 million tons of corn duty-free, declining to collect the then-existing 189% tariff.

Farm organizations were not consulted about this decision, advocated by U.S. exporters such as Cargill, Continental, Purina and Pilgrim's Pride, as well as by Mexican companies with direct ties to the government (de Ita 1997).

Weakened Standards

"The Environmental Agreement," the Clinton Administration promised, "establishes a framework for the United States, Mexican and Canadian cooperation on environmental matters and commits the parties to effective enforcement of their environmental laws," (Clinton Administration 1993). Yet each NAFTA country has repeatedly violated its commitment to stronger environmental enforcement.

In the United States, the Environmental Protection Agency has responded to industry pressure by relaxing the restriction on how quickly farmworkers can re-enter fields sprayed with several dangerous pesticides. The re-entry period for captan, a potent carcinogen widely used to kill fungus in strawberry fields, was reduced in 1994 from four days to one. As a result, captan use has doubled while worker exposures have climbed to levels several hundred times higher than those considered "safe" (Boyd 1997).

Timber giant Boise Cascade, which under NAFTA has moved mill operations from Oregon and Idaho to Guerrero, Mexico, has exploited job insecurity in the U.S. to wrest more timber from U.S. national forests. With thinly veiled threats like "How many more mills will be closed depends on what Congress does....The number of timber sales will determine our decision to move south," Boise extracted a law from the 104th Congress that mandated a vast increase in logging in the national forests. The same law suspended all environmental protections, as well as the citizen's right to seek redress in court (Ross 1996).

Mexico, in October 1995, announced it would no longer require environmental impact statements for investments in such highly polluting sectors as petrochemicals, refining, fertilizers, and steel. Officials admitted that this was done to "increase investment" (Hall 1995). Another law, enacted in December 1996, further waives the environmental assessment requirement for new maquiladoras on land previously zoned for industrial use. As a result of these laws, nearby residents and businesses will have no idea what environmental effects to expect from new facilities and no opportunity to prevent contamination of their communities (LGEEPA 1996).

Canada is currently learning that NAFTA's investor protections can be used to prevent signatory countries from even establishing their own environmental protection and public health laws. Ethyl Corporation is suing the Canadian government for $251 million, on the grounds that a recent Canadian environmental law violates NAFTA. The law in question bans the use of MMT, a fuel additive that is also illegal in California. The manganese in MMT is considered a threat to

public safety; MMT is also believed to damage emissions control equipment in cars. Ethyl is seeking restitution to cover losses resulting from the "expropriation" of both its MMT production plant in Canada and its "good reputation."

NAFTA's investment chapter requires member countries to compensate investors when their property is "expropriated" or simply reduced in value. Ethyl claims that the Canadian law, by preventing future profits from the sale of MMT, is an expropriation. If Ethyl Corporation wins this lawsuit, the implications for public health and the environment are staggering: governments will have to compensate investors for reduced earnings potential whenever they impose regulations to protect public health and the environment. Since any and all investors affected by a new environmental rule could claim damages, compensation costs to government could be astronomical, effectively prohibiting regulatory protections. This lawsuit, brought by a corporation directly against a national government, is possible only due to the unprecedented "private legal standing" granted to corporations by NAFTA's investment chapter, which enables them to sue governments for monetary damages (Sforza and Vallianatos 1997).

NAFTA's Fatally Flawed Environmental Institutions

Central to the Clinton Administration's promises of improved environmental and public safety conditions under NAFTA were the creation by the treaty of three institutions designed to deal with these issues. These institutions are the Commission on Environmental Cooperation (CEC), to promote joint projects on environmental issues and hear complaints about failures to enforce environmental laws; the Border Environmental Cooperation Commission (BECC), to help communities develop clean-up projects and certify projects for financing; and the North American Development Bank (NADBank), to arrange financing for BECC-certified projects.

Clinton Administration officials concede that the progress made by these institutions during their first three years has been slower than promised. Yet they insist that these agencies are on the right track and provide three reasons for their ineffectiveness: factors such as the peso crisis, which diminished the ability of border communities to borrow from the NADBank; the failure of citizens' groups to file complaints with the CEC; and the lengthy delays in establishing the BECC caused by the public participation required in the process.

In fact, three years after NAFTA's implementation, it is clear that these institutions have neither the enforcement powers nor the resources to clean up the border or alleviate other trade-related environmental problems. A fundamental re-negotiation of NAFTA would be required to give them real enforcement power.

The office of the USTR boasts that "the BECC has certified 12 projects in just two years of existence....NADBank has approved financing for four of these projects" (USTR Environment). But the USTR fails to mention that NADBank has so far allocated only about 1% of the

promised $2 billion of clean-up funds and has not issued a single check. Indeed, due to U.S. and Mexican budget cutbacks, work on some water treatment plants under construction *before* NAFTA has been stalled.

USTR also fails to note that BECC's criteria have been attacked for their exclusion of the most needy communities. As predicted by critics of NAFTA's environmental side agreement, border communities are simply too poor to take out NADBank loans, which charge market interest rates. However, BECC has approved a project to subsidize infrastructure for a private industrial park development.

Even if the NADBank did allocate its entire budget, it would amount to only a small fraction of what is needed to address the border's pollution problems. A 1992 EPA study—which did not account for the explosion of maquiladora factories that has occurred since NAFTA's passage—estimated the need at $8 billion (Bentsen 1993). In 1993, the Sierra Club estimated the cost of needed cleanup and infrastructure improvements on the border at $20 billion (Seligman 1993).

The maquiladoras, meanwhile, are exempt from the taxes needed to support such basic community services as clean drinking water and sewers. As a result, workers earning $5 or $6 a day in some of the world's most technologically advanced factories go home to neighborhoods of cardboard shacks without running water, sewers, paved streets, or trash pick-up. Some argue that the NADBank's failures were caused by the peso's collapse, and had nothing to do with NAFTA. But, as discussed previously in this report, the peso crisis was directly related to NAFTA and the integration of the North American economies.

The CEC has also proved to be a weak institution. Although some groups involved in submitting complaints say that the CEC has been useful in drawing public attention to trade-related environmental issues, the CEC is widely criticized as an ineffective enforcement mechanism. Of the 10 complaints filed during the organization's three-plus years of existence, not a single one has led to either enforcement orders or economic sanctions against any NAFTA government. In addition, the CEC's refusal to hear numerous cases has dampened the enthusiasm of environmental organizations for bringing new cases.

Lack of support from the NAFTA governments has repeatedly undermined the CEC's efforts. In particular, a CEC project to evaluate NAFTA's environmental effects through case studies of three industrial sectors is stalled due to pressure from the Mexican government (DePalma 1997). Another project, to establish principles to define "high levels of environmental protection," has been twisted by pressure from industry and governments into advocacy of a narrow "regulatory reform" agenda (CEC 1996).

Conclusion

More than three years of experience with NAFTA have proven that unregulated trade between the U.S., Canada, and Mexico weakens environmental, health, and public safety standards and threatens public well-being in all three countries. The failure of the NAFTA-related environmental institutions to protect citizens and the environment can be traced to its structural flaws: at the heart of NAFTA are strong presumptions against government regulation of corporations and investors and against government enforcement of environmental, health, and safety standards. Instead of providing effective clean-up and enforcement mechanisms, the NAFTA institutions assume that private actors can be bribed to do the right thing by making capital available via government-guaranteed, market-rate loans. NAFTA's record to date shows these assumptions were completely wrong.

NAFTA AND THE WESTERN HEMISPHERE

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The Clinton Administration has declared it a priority to expand NAFTA to the rest of the hemisphere, beginning with Chile. The USTR argues that the United States needs rapid progress toward this hemisphere-wide "Free Trade Agreements of the Americas" (FTAA); otherwise we will lose Latin American market share to Asian and European competitors. According to the USTR web site, "the U.S. is not the only country that recognizes the region's potential. Competitors from Europe and Asia are actively engaging the region and seeking to change the trade rules of the game to their advantage. . . . It would be unacceptable if U.S. competitors in Asia and Europe were to negotiate better access and treatment for their goods and services than the U.S. achieves" (USTR 1997e).

This is a manufactured threat, with little basis in reality. Of course our European and Asian competitors want to sell to Latin American markets, but Latin American countries are unlikely to open their markets to imports from Europe and Asia without reciprocal access for their own exports. Both Europe and Japan have historically refused to open up their markets to goods from the Third World; neither has shown any signs of changing this fundamental policy. Among the major advanced nations, the United States takes by far the largest share of goods from the developing world.

The most serious threat to U.S. workers comes not from foreign competition but from NAFTA itself. USTR does not address how to avoid multiplying the effect of these problems as part of any NAFTA expansion. NAFTA fundamentally failed to set reasonable and enforceable substantive standards on issues like labor rights and environmental protection. This leaves the participating countries in a "race to the bottom": each country is forced to compete for foreign investment by trying to offer the most favorable regulation waivers to multinational firms. To now open the process up to other American economies, even more desperate for foreign investment, without democratic processes to include input from the affected people will lead to the further erosion of standards.

If, as the Clinton Administration repeatedly claims, the U.S. joined NAFTA to benefit U.S. workers, then there should be little objection to the inclusion of a meaningful labor clause. This clause should include reasonable minimum standards to ensure that U.S. workers are not forced to compete over wages and labor rights with millions of low-wage workers throughout the hemisphere. This policy would directly improve conditions for workers inside and outside the U.S. Done well, it can allow impoverished Latin American workers to join a new consumer class that will serve as an engine of growth throughout the Americas.

Part of the reason for the current emphasis on fast track authority and expanding NAFTA to the Western Hemisphere is that lobbyists and other agents of the multinational business community, shamelessly pursuing their own special interests, have been the major driving force behind U.S. trade policy. They have been accommodated by U.S. officials who have confused the interests of multinational corporations with the interests of American working families and the communities in which they live.

It is time to open up this process:

- There must be a process to include trade unions, non-governmental organizations, and other representative organizations in shaping any new trade agreements to emphasize sustainable development. Trade is not an end in itself and must instead be viewed as a tool for bringing prosperity to all, particularly those at the lower end of the economic spectrum; and

- Future agreements must have enforceable social and environmental provisions that address key issues of respect for worker rights, protection of the environment, and provision for economic development of those people who have traditionally been left out of the benefits of trade (especially migrant workers, indigenous peoples, and campesinos). Without such provisions, national laws will be subverted in a race to attract capital investment by slashing regulations and safety nets.

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