

foreign policy *in focus*



Interhemispheric Resource Center
and
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North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA) sets guidelines for the elimination of most trade and investment barriers between Canada, the U.S., and Mexico over a 15-year period. In place since January 1, 1994, NAFTA is an experiment that builds upon a U.S.-Canadian Free Trade Agreement signed in 1988. Never before has an agreement gone so far to integrate the economies of nations that are so unequal. The gap between average U.S. and Mexican wages is about 8-to-1, which is twice as large as the wage gap between the European Union's richest and poorest members.

Congress approved NAFTA in November 1993 after a bitter public campaign that pitted a broad coalition of

Key Points

- Never before has an agreement gone so far to integrate the economies of nations so unequal.
- President Clinton attempted to appease NAFTA critics by promoting side agreements.
- Leaders of the new Republican-controlled Congress vowed to exclude labor and environmental conditionality from future trade pacts.

social groups, including unions, many environmentalists, human rights advocates, family farmers, and consumer groups, against Fortune 500 corporations allied with several large environmental groups, many Latino organizations, and much of the academic and small business communities.

Supporters asserted that NAFTA would lead to a net increase of good U.S. jobs because trade liberalization would spur U.S. exports to Mexico and Canada in high-

wage industries. Others argued that NAFTA would help Mexico build a stronger democracy and more modern economy. In a public-relations blitz, President Clinton, former President Bush, and former Secretary of State Kissinger declared that Mexico's economic development merited NAFTA membership.

NAFTA opponents argued that the trade pact would undermine U.S. jobs and wages by providing extra incentive for U.S. corporations to move to Mexico to take advantage of high unemployment, low wages, and rising productivity. One factor behind these conditions, opponents claimed, was that the Mexican government denied basic worker rights and condoned lax environmental enforcement. By increasing the power and mobility of U.S. corporations, NAFTA would increase the ability of U.S. firms to spread sweatshops and child

labor in the U.S. and chip away at U.S. labor protections. Indeed, 40% of business executives surveyed told the *Wall Street Journal* in 1992 that they were likely to shift some production to Mexico if NAFTA passed; one-quarter said they would likely use NAFTA to bargain down U.S. wages. Critics also highlighted the unequal negotiating process in which the U.S. government demanded exceptions to benefit its most vulnerable sectors.

To appease critics, Clinton promoted side agreements on labor and the environment. The side deals created a number of institutions to handle complaints regarding violations of labor and environmental laws and to arrange financing for environmental cleanup. Less than a year into the NAFTA experiment, President Clinton proclaimed the trade pact a successful model for the Western Hemisphere and announced plans to expand NAFTA to include additional countries, beginning with Chile. However, progress on NAFTA expansion has been rocky. The Mexican government was forced to devalue the peso in December 1994, sending the U.S. trade deficit with Mexico soaring. Millions of Mexicans lost jobs, property, and savings.

Although NAFTA did not create the crisis, it contributed by creating a climate of investor optimism that kept short-term capital flowing into Mexico despite deep social and economic problems, including an overvalued peso. As the public sensed that NAFTA had played a role in the crisis, the trade pact's popularity plunged. Late 1995 polls showed that a majority of Mexicans and Americans felt that NAFTA had done more harm than good.

In early 1995 leaders of the new Republican-controlled U.S. Congress threw a monkey wrench into NAFTA expansion by vowing to exclude labor and environmental conditionality from future trade pacts. A fight about this issue derailed legislation to grant the administration the "fast-track" authority required to enter into official trade talks with Chile. Despite these setbacks, Canada and Chile negotiated a bilateral agreement, signed in November 1996 that is intended to serve as the basis for the accession of Chile to NAFTA.

NAFTA did not create the problems related to increased trade and investment among three unequal nations. It accelerated them. Since the mid-1960s, corporations have pitted U.S. communities and workers against those in Mexico, pressuring those in the U.S. to accept lower wages and labor and environmental conditions. NAFTA simply made it easier for corporations to move jobs, plants, and money around North America, strengthening their power to drive down wages and environmental conditions in Canada and the U.S..

As of November 1, 1996, more than 90,000 workers have qualified for a NAFTA retraining program, which is available for U.S. workers who lose their jobs because their employer moved production to Canada or Mexico or lost revenues as a result of increased imports from those countries. The actual number of jobs lost is far greater, since many laid-off workers are unaware of the retraining program or do not qualify. There are also documented cases of corporations using threats to move to Mexico to bargain down U.S. and Canadian wages. NAFTA has forced workers to take these threats more seriously.

Even though U.S. workers are hurt by the wage gap with Mexico, NAFTA has had a net negative impact on Mexican workers as well. Inasmuch as NAFTA exacerbated the late 1994 peso plunge, it contributed to lost jobs for millions of Mexicans in the past two years. And while it may be true that several hundred thousand new jobs have been created on the Mexican side of the border as a result of increased exports to the U.S. and Canada, wages are low, working conditions poor, and the environmental nightmare spreads.

NAFTA's North American Development Bank, designed to provide low-interest financing for environmental projects, did not approve a single project until September 1996, nearly three years into NAFTA, despite the Clinton administration's promise that the bank would inject up to \$3 billion in the border region. NAFTA's environmental threats extend beyond the U.S.-Mexico border. The agreement locks in an unsustainable structural adjustment model that the World Bank and IMF began imposing on Mexico in the early

1980s, a model that measures success by increases in natural-resource extraction, such as several new mining ventures in Mexico.

Nor has NAFTA supported the efforts of Mexican workers who are struggling to increase their wages and improve working conditions. Complaints have been filed under the labor side pact regarding violations at four plants (three in Mexico and one in the U.S.), but not a single worker involved has benefited. A major flaw of the pact allows trade sanctions only in the case of violations related to minimum wage, health and safety, and child labor.

Violations of core labor rights, including freedom of association, collective bargaining, and strikes, can only lead to consultation. Moreover, complaints can only be filed against a government for failing to enforce its own laws, while the corporate lawbreakers face no sanctions whatsoever.

NAFTA also served as a kind of "Good Housekeeping Seal of Approval" for the Mexican economy that further encouraged a flood of foreign money into the Mexican capital market. More than three-quarters of this capital was in portfolio investment, or "hot money," rather than productive investment. In this respect, again NAFTA built on a decade-old structure. Since the early-1980s, Mexico's shift toward a free-market, privatized model initiated the dangerous dependence on short-term, "hot money."

During the period of the NAFTA negotiations and since, the U.S. kept up the pressure on Mexico to free up any form of capital controls. Since NAFTA forbids investment controls, the Mexican government was helpless to prevent the rapid capital flight that occurred after the December 1994 peso devaluation.

Key Problems

- NAFTA did not create the problems related to increased trade and investment among three unequal nations. It accelerated them.
- NAFTA made it easier for corporations to move jobs, plants, and money around North America, strengthening their power to drive down wages and environmental conditions in Canada and the U.S.
- The agreement locks in an unsustainable structural adjustment model that the World Bank and IMF began imposing on Mexico in the early 1980s.

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The North American economies have been undergoing a process of integration for decades. Rather than trying to stop integration by erecting walls or other barriers, a practical approach would focus on reshaping the process so that workers and communities—not the Fortune 500—become the primary beneficiaries. A wide range of citizen groups in all three countries are calling for a new, improved agreement to replace NAFTA that would be specifically designed to serve as a tool for equitable development.

Narrow the gap by bringing the bottom up

Given the gaping disparity in incomes and environmental enforcement, our countries need a set of rules for economic integration that will help create a more level playing field for workers and communities across North America. Unless we narrow these gaps, there will be no way to reduce the incentives for U.S. corporations to move to Mexico to exploit the country's workers and environment.

Any serious effort to reduce inequalities in North America must also address the issue of Mexico's debt. In

1995 Mexico paid an estimated \$57.8 billion to foreigners just to meet its external and internal debt obligations. This staggering drain places the Mexican government in the desperate position of attracting foreign investment by any means necessary. Unless a realistic debt-reduction plan is developed, the Mexican government will most likely continue to rely on the strategy of attracting foreign investment by offering a system of labor repression and lax environmental enforcement.

In addition, both the environmental and labor side agreements need serious revision. First, they must become part of the main body of a new trade agreement rather than tacked on as weak side pacts.

Second, penalties for violations of labor and environmental laws need to be much more severe and designed so that both the negligent governments and the corporate violators feel the pain. So far, the most serious outcome of complaints filed under the side agreements has been consultation among government officials.

Another way to use trade as a lever for narrowing the gaps would be to place a small tax on cross-border trade, perhaps 0.5%, that would be used to respond to local needs, particularly those generated by shifts in investment resulting from increased trade. Possible uses could include environmental cleanup and infrastructure, regional development funds, and trade-adjustment assistance for dislocated workers. These funds should be managed democratically, so that affected communities have the opportunity to participate in project design, planning, and execution.

Allow controls on the casino economy

The Mexican economic crisis serves as a lesson on the potential dangers posed by an unregulated capital market. For example, the Chilean government struggled with Canadian trade negotiators regarding the right to preserve restrictions on the repatriation of foreign investment capital. A new agreement on integration should allow countries to maintain mechanisms such as controls on capital that support the country's national development strategy. Other examples of controls that should be permitted include performance requirements on foreign investment to promote employment generation or technology transfer.

A similar problem exists in the U.S. where the municipal, state, and national governments often attempt to attract foreign and domestic investment through exorbitant incentives. Here an important movement is working to create new rules and incentives to root capital more firmly in local communities and to use governments to enforce certain minimum standards, such as paying "livable wages" and agreeing to repay government subsidies if the firm decides to leave.

Give the people a voice

In the age of democracy, NAFTA's process, policies, and politics were mired in corporate elitism. Although NAFTA negotiators were required to consult with non-governmental advisors, the trade-advisory panels set up to fulfill this legal requirement were stacked with representatives of large corporations. Official negotiations took place behind closed doors and the administration largely ignored the concerns raised by labor unions, farm groups, consumer activists, and others. In the environmental sector, only groups that supported NAFTA got seats at the table. Although NAFTA includes processes for dispute resolution, these are carried out by panels of unelected, unaccountable officials and, with the exception of public hearings on labor and environmental cases, all are decided in secret. Any future agreement should allow representatives of affected sectors to participate in evaluations, negotiations, and dispute settlement processes. The results of those processes should be made public.

A small number of nonrepresentative "trade experts" designed the NAFTA experiment. Their rules for North American economic integration are not set in stone. The trends toward greater inequality and environmental destruction promoted by NAFTA are not inevitable. One upcoming opportunity to push for change is the four-year review of NAFTA's side agreements—which is required in the pact—with the goal that problems that surface during this evaluation be remedied through renegotiation. The coalitions that came together in each of the three countries in opposition to NAFTA should pressure their governments to take this review process seriously and use it as an opportunity for public debate around a more democratic alternative to the current NAFTA that would lead the continent to greater economic equality and environmental sustainability.

Written by Sarah Anderson, John Cavanagh, and Saul Landau of the Institute for Policy Studies (IPS)

Key Recommendations

- A practical approach to economic integration would focus on reshaping the process so that workers and communities—not the Fortune 500—become the primary beneficiaries.
- The environmental and labor side agreements need serious revision.
- A new agreement on integration should allow countries to maintain mechanisms such as controls on capital that support the country's national development strategy.

sources for more information

Organizations

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Summit of the Americas Center
Florida International University
Americas Net
Website: <http://americas.fiu.edu/>

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