Fair Trade or Free Trade? Understanding CAFTA

NAFTA in Mexico: Lessons for a Central American Free Trade Agreement

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Signed in 1994, the North American Free Trade Agreement (NAFTA) was lauded by its supporters as a "win-win-win" accord that would bring increased economic integration, development, and growth to Canada, Mexico and the United States. NAFTA has undoubtedly accelerated regional economic integration, and select sectors have benefited from the agreement. But the tradeoffs of such integration are by no means negligible. Lessons learned from the experience of farmers and workers in Mexico under NAFTA can help illuminate the risks of sweeping reforms now being proposed for Central America.

NAFTA, Agriculture, and the Environment in Mexico

- <u>Asymmetrical levels of development in Mexico and the United States have acted as a barrier to real competition between the two countries, and have dealt a blow to Mexico's small and medium producers.</u> A 2001 report by the Economic Policy Institute found that at the time Mexico entered into NAFTA negotiations, it suffered from "noncompetitive production costs… due to higher prices for inputs such as diesel and electricity, higher financial costs, and higher marketing costs (due to deficient infrastructure in highways and warehouse storage…among other factors)."[1] Greater access to farm technology and targeted subsidies in the United States[2] have allowed large-scale agribusinesses to flourish, while the vast majority of Mexican farmers cultivate small plots with far fewer technological inputs.[3] Combined with an elimination of some subsidies and price supports for Mexican farmers, the disparity has resulted in a flood of low-cost US goods to Mexico with which most Mexican farmers are unable to compete.

- In an attempt to stay afloat amidst an influx of cheap US goods, some Mexican farmers—particularly those who farm corn—have changed their farming and land-use practices. Many of these shifts have taken a toll on the environment in areas under agricultural production. <u>Large corn producers in Mexico have increased their use of pesticides, herbicides, and fertilizers in an attempt to raise yields</u>. According to a study commissioned by the World Wildlife Fund, these inputs, along with intensified tillage and increased use of water resources, have had a negative environmental impact and have contributed to rapid soil degradation and erosion. Some small farmers have diversified their incomes through the addition of grazing animals; the overgrazing of land previously fallow or under cultivation, or the clearing of forests for pasture, both have negative environmental impacts.[4]

NAFTA and Labor in Mexico

- <u>Blows to the rural agricultural sector under liberalization have not necessarily been offset by increased employment in urban areas.</u> Under NAFTA, Mexico has seen a dramatic expansion of *maquiladoras*, with these plants contributing to 35% of all new manufacturing employment between 1995 and 1999. However, jobs were lost during the same period, as factories that had previously supplied inputs to exporters were replaced by foreign suppliers. On balance, employment in the manufacturing sector fell 9.4% between 1993 and 2000, as the loss in supply-chain jobs overtook growth in the *maquiladora* industry.[5]

- Even in sectors that experienced job growth under NAFTA, wages and purchasing power fell. According to a report issued by the office of Mexican President Ernesto Zedillo in 2000, incomes of salaried workers in Mexico fell by 25% between 1993 and 1998. While some of this decline can be attributed to the peso crisis Mexico experienced in 1995, even wages in *maquiladoras*—a rapidly expanding sector of the economy—fell by 21% during this period. Moreover, the purchasing power of the minimum wage fell by 17.9% through 1999.[6]

- Workers' rights and working conditions in Mexico have not improved noticeably under NAFTA, despite the inclusion of labor provisions in the agreement. The North American Agreement on Labor Cooperation (NAALC), a side agreement of NAFTA, called on signatories to enforce their existing labor laws and created a mechanism by which an outside panel could be appointed if countries exhibited a pattern non-compliance. While the agreement held potential to strengthen labor standards and practices, the decision to use NAALC in this way—including calling for an arbitrating panel in cases of non-compliance—was placed in the hands of signatory countries rather than an independent oversight body. Moreover, only certain violations could trigger panel review or sanctions. Violations of the freedom of association, the right to bargain collectively, and the right to strike are among the labor rights not eligible for review or sanctions. As documented by Human Rights Watch, the end result of NAALC has been that signatories' "interpretation of [the agreement's] obligations has been minimal… [and] petitioners' concerns have been ignored."[7]

Lessons for Central America

The Mexican experience under NAFTA holds important lessons for the governments and citizens of Central America. Negotiators have hinted that the labor clause included in CAFTA will be similar to that of NAFTA; the agreement will likely mandate only that signatory countries enforce their own labor laws—which in Central America's case are notoriously weak—and will provide an inadequate penalty for non-compliance. Central American governments should also think carefully before entering into an agreement that eliminates their ability to implement mechanisms to protect the rural sector, particularly small and medium producers. Asymmetrical levels of development between Central America and the United States will deal a harsh blow to small and medium producers in the region, and economic shifts could result in elevated levels of hunger and unemployment in rural agricultural areas, or increased migration. The environmental impact of shifts in production techniques could also be negative.

NAFTA has also had a negative effect for some workers and small family farms in the United States. For more, see "NAFTA's Impact on US Farmers and Workers" in this packet.

[1] Economic Policy Institute: *NAFTA at Seven: Its Impact on Workers in All Three Nations*. April 2001. Report available at http://www.epinet.org/content.cfm/briefingpapers_nafta01_index.

[2] According to the Economic Policy Institute, since NAFTA, 33 percent of the value of agricultural production in the United States has been subsidized. In Mexico, only 16 percent receives such support. (Economic Policy Institute, op cit).

[3] According to the UN FAO Statistical Database, US farmers farm an average of 29 hectares of land, while Mexican farmers farm only 1.8 hectares of land. The World Wildlife Fund found that in 2000, yields per hectare of land in the United States and Mexico averaged approximately 7.0 and 1.7 percent respectively. (Nadal, Alejandro: *The Environmental and Social Impacts of Economic Liberalization on Corn Production in Mexico*. October 2000. Report available at http://www.cec.org/files/PDF/ECONOMY/engmaize_EN.pdf).

[4] Nadal, Alejandro, op cit.

[5] As cited in Salas, Carlos: *The Impact of NAFTA on Wages and Incomes in Mexico*. April 2001. Salas is a researcher at La Red de Investigadores y Sindicalistas Para Estudios Laborales (RISEL) in Mexico; report can be viewed at http://www.epinet.org/content.cfm/briefingpapers_nafta01_mx

[6] Salas, Carlos, op cit.

[7] Human Rights Watch: *Trading Away Rights: The Unfulfilled Promise of NAFTA's Labor Side Agreement*. April 2001. Report available at http://www.hrw.org/reports/2001/nafta/index.htm.