Vigna: NAFTA hurts Mexico, too

By Anne Vigna
Agence Global
June 1, 2008

At midnight Jan. 1, thousands of Mexican farmers formed a human chain at the Ciudad Juárez border crossing into the United States, under an enormous banner with the slogan *Sin maiz no hay pais* ("Without corn there is no country"). It was the 14th anniversary of the North American Free Trade Agreement linking Canada, Mexico and the U.S.

The farmers were protesting the introduction of complete trade liberalization at the beginning of this year, which means that corn, beans, sugar and powdered milk -- the basic foods of Mexico -- are no longer subject to import duty.

In some towns, there have been calls for NAFTA to be renegotiated. Farmers' organizations insist that the consequences of the agreement are beyond dispute.

The U.S. academic Laura Carlson cited statistics: "Every hour, Mexico imports $1.5 million worth of food. In that same one-hour period, 30 farmers emigrate to the U.S." Opening borders could hurt almost 1.5 million small Mexican farmers.

The only result of competition in agricultural products has been to aggravate already dramatic inequalities among the three countries.

Legally, NAFTA's agricultural provisions could be renegotiated, but that isn't on the agenda. In January 2007, Mexico refused to support a Canadian complaint to the World Trade Organization about subsidies to U.S. corn producers.

It is just over a year since the tortilla crisis revived controversy about Mexican dependence on U.S. corn.

The use of corn in the United States to produce ethanol has driven up its price and reduced supplies for food. Since NAFTA came into force, Mexico has become dependent upon subsidized (and therefore cheaper) U.S. corn, and huge imports have ruined Mexican farmers.

Meanwhile, every hike in the price of tortillas threatens millions of Mexicans with hunger. This is why mass protests by women beating saucepans in Mexico City at the beginning of last year forced the government to bring in an extra 600,000 tonnes of white corn from the United States to create an emergency fund and set a price cap.

Mexico has tripled its imports of grain since 1994 and now depends on them for 40 percent of its food needs. "Today Mexico has to rely on imports for basic foodstuffs, whatever the market price," said Armando Nartra, director of the Institute for Rural Development Studies.

An unexpected consequence of the invasion of Mexico by basic and processed U.S. foods is a dramatic increase in obesity. Almost 33 percent of adults are obese; another 40 percent are overweight. The side effects absorb 21 percent of the public health budget.

Mexican President Felipe Calderón tried to deny this in his last New Year's address: "NAFTA has benefited you and me, the consumer, by offering us greater choice and quality at a better price." Even the World Bank recognizes that there is an agricultural crisis.

A criminal failure

Mexico has effectively admitted to having sacrificed its agricultural sector during negotiations -- a criminal failure, given that a third of the population lived from the land in 1994.

Although clauses were included to safeguard vulnerable products for 14 years, these were never invoked. From 1996, Mexico unilaterally decided to allow in vast quantities of U.S. corn, in excess of authorized quotas and duty-free. There was a further failure to observe the agreement in 2001, when President Vicente Fox (former head of Coca-Cola for Latin America) allowed the drinks industry to import fructose manufactured from transgenic U.S. corn, rather than supporting Mexico's struggling sugar-cane industry.

The U.S. imposed embargos on Mexican products in violation of the agreement and its own laws. Tomato growers from the Pacific state of Sinaloa had to fight for four years to obtain authorization to export their produce to the U.S., which claimed that it was protecting its own farmers in Florida. Now avocado growers in another Pacific state, Michoacán, are struggling against quarantine regulations introduced solely to limit competition.

The Mexican government has terminated most of its rural assistance schemes. According to the Organization for Economic Cooperation and Development, support for producers fell from 28 percent of gross farm receipts in 1991-93 to 14 percent in 2004-06, and mainly benefited the biggest landholders. At the same time, the U.S. was increasing its support -- particularly export subsidies.

Some winners

According to a paper by researchers at Tufts University's Global Development and Environment Institute, "In environmental terms Mexico's loss is not the United States' gain. The rise in U.S. corn production has provided a stimulus to some of the most environmentally destructive agricultural practices in the United States. Corn is very chemical-intensive, both in terms of fertilizers and pesticides. Recent expansions of corn production have taken place in some of the drier states, necessitating irrigation at unsustainable levels."

The Mexican government responded to criticism by pointing out that between 1994 and 2007, corn production rose from 18.2 million tonnes to 23.7 million.

There are some winners from NAFTA: the huge farms in the north of Mexico, often owned by U.S. companies, where agricultural laborers work in dreadful conditions. Between 1995 and 2005, the gross domestic product of Mexico's farming sector grew by 1.9 percent per annum, well below that of most South American countries and of its Central American neighbors.

Mexico's economic ministry has tried to put this in perspective, claiming that agricultural statistics do not give a complete picture of trade relations with the U.S.

"We have more to gain by pursuing integration with North America," said James Salazar Salinas, deputy director of the ministry's trade negotiations service. "Non-agricultural sectors have become more important to our economy. Overall, the results of NAFTA have been very positive." NAFTA's defenders insist that it has achieved its purpose of significantly increasing trade between the partners.

Bilateral trade between Mexico and the U.S. has increased by an annual average of more than 10 percent. Mexico is now the U.S.'s third-largest trading partner and the second-largest market for its goods. Trade with Canada has more than doubled, although its overall volume remains modest.

The agreement also led to a significant increase in foreign direct investment. Between 1994 and 2006, U.S. business invested $120 billion in Mexico, more than 60 percent of all investment in the country.

Many losers

Increasing trade has not bolstered employment: On average, only 80,000 jobs are created every year for the 730,000 Mexicans who enter the labor market. These are mainly in *maquiladoras* -- factories that assemble components imported from the United States into products for export back to the United States.

"The traditional liberal theory that opening up trade creates employment opportunities in countries with a large workforce is completely wrong," said Sandra Polaski of the Carnegie Endowment for International Peace.

The duty-free import of components has quickly and significantly reduced the indirect effects that this sector might have been expected to have upon the economy and upon employment in particular.

"The *maquiladoras* currently import 97 percent of their materials," Polaski said. "This trend is being copied in the traditional industrial sector, where production mainly depends upon importing components that, until 1994, were supplied by Mexican manufacturers."

The *maquiladora* system has weakened Mexico's economy, forcing it to reduce social spending and try to increase its oil revenues in an attempt to balance its budget.

"Imports of high-value-added products have created a deficit in our trade balance with the U.S.," said Enrique Peter Dussell of the University of Mexico. "This is despite a spectacular increase in the volume of exports."

Since 2001, expansion of the *maquiladoras* has slowed, which NAFTA's defenders attribute to the effects of 9-11. The World Bank calculates that Mexico has exhausted any benefits it secured from NAFTA and expects the decline in employment in the *maquiladora* sector to accelerate.

Other emerging countries are elbowing their way to the top of the list of most profitable production centers. As the World Bank points out, wages in Mexico are four times higher than in China. The benefits that Mexico derived from being the first low-wage country to sign a free-trade agreement with the United States are being eroded as other countries make similar arrangements and join the WTO.

Mexico held out against Chinese membership of the WTO in 2001. China's accession created fierce competition in the key car, textiles and electronics sectors of its export economy. Since 2003, China has overtaken Mexico to become the second-largest exporter to the United States.

How do Mexicans survive?

Increased productivity has not raised wages which, despite promises, have shown no convergence with those north of the border. Income disparities in member countries have continued to grow since NAFTA came into effect, most strongly in Mexico. Compared with the numbers for the preceding decade (1984-94), just 10 percent of Mexican households saw their income increase; 90 percent experienced decline or stagnation.

How do ordinary Mexicans survive? Half the working population top up their wages with jobs in the black economy. A third depend upon *remesas* -- remittances from family members abroad, which rose from $3.6 billion in 1995 to $23 billion in 2006.

NAFTA's supporters say it should restrict emigration. Former U.S. Attorney General Janet Reno claimed that migration would be reduced only when decent jobs were available in Mexico, and that NAFTA would create those jobs. The reality was different. Emigration rose by 95 percent between 1980 and 1994, but by 452 percent between 1994 and 2006.

NAFTA-plus

As a product of the agrarian revolution of the early 20th century, the Mexican Constitution limited or prohibited foreign investment, especially in land. Since NAFTA, foreign companies can hold as much as 100 percent of the capital in Mexican infrastructure, such as airports, roads and railways. The agreement radically changed the landscape, and NAFTA+, as it is called, could prove even more radical.

Its official name is the Security and Prosperity Partnership of North America, and it is an initiative launched at a March 2005 summit in Waco by Presidents George W. Bush and Vicente Fox and Canadian Prime Minister Paul Martin.

They were following the recommendations of the Independent Task Force on the Future of North America, which brings together the Canadian Council of Chief Executives, the U.S. Council on Foreign Relations and its Mexican equivalent, the Consejo Mexicano de Asuntos Internacionales. All three bodies are entirely composed of business interests.

The report, "Building a North American Community," published two months later, made 39 recommendations to establish a single, secure economic space.

A second summit, at Cancún, Mexico, in March 2006, established the North American Competitiveness Council of 10 business leaders from each of the countries. It is supported by another council of 200 businesses whose purpose is to establish NAFTA+ priorities and bring about "deep integration." Elected representatives and independent organizations were not invited to participate.

"The business leaders who make up the NACC have privileged access to every level of the SPP [Security and Prosperity Partnership] hierarchy," said David Chapdelaine, professor of international relations at the University of Montreal. "The power to make decisions is being delegated to subordinate organizations whose exact composition, along with the place and date of their meetings, has not been made public. This is creating a significant deficit in democratic legitimacy."

The NACC's last report, in February 2007, hailed the SPP as a strategic, realistic attempt to improve the economies, security and quality of life of all three countries. It claimed that businesses could improve quality of life by creating secure, transparent borders within North America, alongside secure access to profitable energy.

Only goods and natural resources (aqueducts, oil and gas pipelines, transport) will enjoy freedom of movement. The NACC is calling for the oil and gas markets to be opened up and has suggested that Mexico partially privatize Pemex, the state-owned petroleum company, and break it up by giving off its natural gas activities.

This year, the Mexican congress will discuss a constitutional reform bill allowing the partial privatization of Pemex. Mexican farmers might have some thoughts about how that will enhance the quality of life in North America.

Impact on immigration

95% Increase in emigration from Mexico to the United States between 1980 and 1994

452% Increase between 1994 and 2006.

The trade pact's cost

8,000,000 Mexican farm workers forced to emigrate to the United States

2,000,000 agricultural jobs lost in Mexico

4,940,000 acres left uncultivated.

Source: Victor Suárez, president of the National Association of Rural Producers

Anne Vigna is a journalist in Mexico. This essay was translated by Donald Hounam.