TRADE: North American Deal Dismal After a Decade

Analysis - By Emad Mekay

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WASHINGTON, Dec 26 (IPS) - After 10 years a deal that all sides say transformed trade and investment rules in North America has still produced far fewer positive results than originally promised, according to its critics.

"Had they (original promises) come true, NAFTA would have been an enormous boom and we would all be cracking champagne," said Lori Wallach, director of the global trade watch programme at Washington-based Public Citizen, a consumer rights group.

"But instead we have got the 10-year record and it's pretty damn grim."

When NAFTA (the North American Free Trade Agreement) was being sold to the U.S. Congress and the public in Canada, Mexico and the United States in the early 1990s, its promoters promised the deal would create hundreds of thousands of high-wage U.S. jobs, raise living standards in all three countries and improve environmental conditions and transform Mexico from a poor developing country into a booming economy.

But NAFTA's real-life damage to jobs, wages and the environment after 10 years has made many people in North America furious about the trade policies the deal was built upon (policies that provide the foundation for subsequent agreements such as the forthcoming Free Trade Area of the Americas, FTAA).

"NAFTA's 10-year record demonstrates that under the NAFTA model most people in the three countries were losers, while only a few of the largest corporations who helped write NAFTA were the major winners," Wallach said.

Thanks to the deal, which celebrates its anniversary Jan. 1, major companies -- like auto makers General Motors, Ford and Chrysler -- can set up shop in Mexico, employ cheap labour in that country and then export the finished products to Canada and the United States.

NAFTA rules also limit each country's domestic policies to deal with issues ranging from environmental health and food safety to banking and truck safety regulation.

Under the unprecedented investor rights sewn into the deal, investors are allowed to demand compensation for "indirect expropriation", which has been interpreted to mean any government act -- including those directed at public health and the environment -- that diminishes the value of a foreign investment.

Following one such suit, the Mexican government was ordered in August 2000 to pay nearly 17 million dollars to a California firm that was denied a permit from a Mexican municipality to operate a hazardous waste treatment facility in an environmentally sensitive location.

U.S. workers were promised 170,000 additional jobs in each of NAFTA's first 10 years, based on the deal increasing the trade surplus with Mexico and lowering the pre-NAFTA trade deficit with Canada.

But instead of the surplus, the United States now runs an average 37-billion-dollar annual deficit with Mexico, and has lost close to three million manufacturing jobs.

Under one government programme for displaced workers, the NAFTA Trade Adjustment System -- for which only a relatively small number of the deal's potential victims could qualify -- 525,000 U.S. workers were certified as NAFTA casualties because their jobs were transferred to Mexico.

According to Public Citizen, despite the economic growth of the 1990s, U.S. real wages are still below 1972 levels, while income inequality has skyrocketed because of the shift from manufacturing jobs to employment in services, where wages are far less.

According to the Institute of Policy Studies, NAFTA has also had a detrimental impact on the ability of U.S. workers to fight for better wages and working conditions. U.S. employers now often threaten to move to Mexico and other low-wage countries in order to fight unions and restrain wages.

The use of such threats in union organising drives increased from about 50 percent in the early 1990s to 62 percent in 1998 and 68 percent in 1999, says the Washington-based institute.

The U.S. government points to different figures to buttress its pro free-trade arguments. According to data from the U.S. Trade Representative office, total trade among the NAFTA countries more than doubled between 1993 and 2002.

It says foreign direct investment by NAFTA partners in the three countries jumped from 136.9 billion dollars in 1993 to 299.2 billion dollars in 2000.

Last week, the World Bank also said NAFTA was, overall, a positive deal, especially for Mexico. For example, it triggered productivity growth, as the country needed only about one-half the time to adopt foreign technology during the span of the deal than it did before.

But according to a recent report by the Global Resource Action Centre for the Environment (GRACE), NAFTA has displaced 1.75 million Mexican farmers from their land, forcing them to migrate to the cities or the United States.

According to Lauren Carlsen, director of the Americas programme of the Inter-hemispheric Resource Centre, an advocacy group based in Mexico City, farm prices -- especially for maize -- have plummeted during the deal's lifetime in the face of heftily subsidised imports from the United States.

Incomes in Mexico have also nose-dived. According to the Centre for Economic and Policy Research (CEPR) in Washington, in 10 years income per person has grown by only nine percent in Mexico, about one-fifth of the growth in the 1960s and 1970s.

"No economist can honestly call that a success," said Mark Weisbrot co-director of the CEPR.

NAFTA was also promoted as a route to good jobs and improved living conditions, especially via maquiladoras, companies that are permitted to operate duty-free in nations that provide them with cheap labour -- in the NAFTA case, U.S. firms setting up in Mexico.

"Instead, we got low wages, sexual harassment, environmental destruction and birth defects," said Marth Ojeda, director of the Coalition for Justice in the Maquiladoras, herself a maquiladora worker.

"Most maquiladora workers are very young, between 16 and 25, because their eyes, backs and hands haven't given out yet -- their hours are so long that their youth passes without seeing the sun," added Ojeda.

Workers and government services in Canada, the third NAFTA partner, did not fare any better.

Canada's former prime minister Brian Mulroney called the deal a "cold shower" at its inception, something the country needed to go from a so-called welfare state to one primed to compete in the international sphere.

But 10 years later, many critics say the business community has actually exploited the deal to push for cuts in social programmes, arguing they were necessary to compete with the lower costs faced by U.S. businesses, operating in a nation with generally lower levels of worker protection.

The clearest example of that, critics say, is the impact is the scaling back of Canada's unemployment insurance.

According to the Canadian Centre for Policy Alternatives, the percentage of unemployed workers who qualified for this scheme (now known as "employment insurance") dropped from 87 percent in 1989 to only 39 percent in 2001.

"We have lowered social spending so much that we have moved from being first in the world in the United Nations human development index to number eight last year," said Maude Barlow, chairperson of the Council of Canadians, the country's largest public advocacy organisation.

"And three target groups have been hit the worst: the unemployed, low-income earners and the elderly," she added. "It's pretty well time we stopped thinking that we are a kinder and gentler nation."

If there is one major lesson of NAFTA that many analysts from all three countries agree on, says the Institute of Policy Studies, it is that "there is no guaranteed link between trade and investment liberalisation and improvements for workers or the environment".

- NAFTA: 10 Years Later - Special IPS Coverage