The New York Times

December 27, 2003
Free Trade Accord at Age 10: The Growing Pains Are Clear
By TIM WEINER

This article was reported by Elizabeth Becker, Clifford Krauss and Tim Weiner and was written by Mr. Weiner.

The North American Free Trade Agreement took hold 10 years ago, after a bruising, arm-twisting debate. Today it is more than ever a politically charged symbol of the promises and perils of free trade.

The accord, known as Nafta, brought under one canopy three hugely different economies: the wealthy United States, middle-class Canada and striving Mexico. The disparities made Nafta the boldest gamble ever on the proposition that free trade could benefit all.

Leaders promised the accord would create millions of good jobs, curb illegal immigration and raise living standards "from the Yukon to the Yucatan." A decade later, the verdict, even among Nafta's strongest supporters, is that for those goals free trade by itself is not enough.

Nafta's effects cannot be isolated from the broader changes in a globalizing economy. But many economists and political analysts say that while the accord stimulated trade and overall growth, it also brought jarring dislocations. For better or worse or both Nafta transformed the continent's economic landscape with startling speed.

Gary Hufbauer, a senior analyst at the Institute for International Economics, a Washington research group that supports free trade, said the gains for the United States lower priced consumer goods and increased corporate earnings are large compared to the losses.

"However, the gains are so thinly spread across the country that people don't thank Nafta when they buy a mango or inexpensive auto parts," he said.

The pain, he said, is concentrated in places like the Midwest, where manufacturing jobs have been lost to Mexico and Canada, and now to China. "Nafta-related job loss and lower income may be small, but the echo is very large because of all the other jobs lost to globalization," he said. "Nafta is the symbol for all of that pain."

The debate over Nafta continues to shape the future of free trade, even as more nations line up for its presumed benefits, like the four Central American countries that reached their own accord with the United States last week.

But even that agreement is likely to face agonizing debate in Congress during an election year as Nafta's wrenching changes provide a rallying point for opponents who say it was too much too fast and paid too little attention to the impact on workers.

With the national consensus on free trade fraying and the loss of jobs looming as a campaign issue, it is doubtful whether any Democratic candidate or President Bush will stand unapologetically behind deeper trade liberalization in the coming year.

But for Nafta's supporters, the accord, which lowered or eliminated tariffs on everything from agricultural goods to auto parts, still left all three nations better off than they would have been without it.

"It has definitely created export-related job growth," said Bill Richardson, the governor of New Mexico. As the Democratic whip, he helped pushed through passage of Nafta in the House.

"On the whole Nafta's been a plus, but still, with a lot of alarmingly bad follow-up on commitments made on the border," he said. Promises to protect workers' rights and the environment have "failed alarmingly." So have pledges to close the economic gap between the United States and Mexico.

"The whole idea that Nafta would create jobs on the Mexican side and thus deter immigration has just been dead wrong," he said. "That was oversold."

Robert B. Zoellick, the United States Trade Representative, says Nafta achieved its objective of increasing trade, especially doubling American agricultural exports to Mexico. Though the United States' trade deficit with Canada and Mexico grew nine-fold to nearly $90 billion, total trade among the three nations grew by 109 percent.

"Nafta has been pulling American goods and grains into Mexico, benefiting consumers and supporting quality U.S. jobs here at home," he said, referring to rising pay for manufacturing jobs. That 14.4 percent boost still lagged behind the overall increase in household incomes.

For retail giants like Wal-Mart, government-subsidized American agricultural businesses and America's biggest makers of automobiles and automobile parts, borderless trade meant bigger profits for themselves and their stockholders.

But the benefits of stable prices and rising 401(k)'s are largely invisible compared with the blight of a shuttered factory. The consumers of the United States or Mexico or Canada are also each nation's workers, farmers and small town residents, and Nafta left many with lower consumer costs at the expense of their old way of life.

In Canada, where Nafta helped shape a more competitive economy, those growing pains were cushioned by a strong social safety net. Not so in Mexico and the United States.

"We're the losers," said Bonnie Long, one of at least half a million American manufacturing workers who lost their jobs due to Nafta, despite the surge in trade. "We lost our health care, our living wages. The winners are the corporate executives who don't even live here and can locate their factories wherever they find the cheapest labor."

Goshen, Ind.

Social Tensions and Vanishing Jobs

Indiana, like the rest of the United States, has enjoyed a growth in exports under Nafta. But Goshen is also like thousands of towns across the nation that have seen jobs and health benefits disappear with the accord.

What is also disappearing is a way of life in Goshen, home to 30,000 people and the seat of Elkhart County in northern Indiana. The town once lived by making things. It was the "widget capital" of the United States, says its mayor, Allan Kauffman.

"Nafta has not had a positive impact," he explained. "Goshen makes widgets. It has always made widgets. And any company that makes widgets that are easy to transport those are gone or are going to go."

Half of Elkhart County depends on manufacturing. Once dozens of locally owned factories across the state churned out parts for all sorts of products, electronics, pharmaceuticals, furniture, pianos and especially for the automotive industry.

Even before Nafta those jobs were facing growing pressure from emerging low-wage competitors abroad. Since Nafta took hold, hundreds more jobs have gone south to Mexico, transplanted by big corporations that bought out local firms. Chinese competition is intensifying the losses.

"We've traded high-skill jobs for low-skill jobs, and the trend has worsened over the last four years," said Bill Johnson. He sold his family's business, Goshen Rubber Company to a multinational corporation, Parker Hannifin, in 2000.

James Cartwright, a Parker Hannifin spokesman, said the company, like many others, moved jobs to Mexico because "we do what is best to serve our customers and our stockholders."

As a consumer or investor, Ms. Long, 46, like other Americans, might feel those benefits. But they mean little to her without the job she lost, after 21 years, when Parker Hannifin made its move.

"If it wasn't for my dad," who has helped her get by, "I would be one unemployment check away from being homeless," she said.

That pain and frustration is widely shared.

Chester F. Dobis, speaker pro tem of the Indiana House of Representatives, held four meetings this year around the state to gauge feelings toward free trade. Mr. Dobis, a Democrat from Merrillville, said he had thought the only problems would be in his own district, a steel-producing region.

"Boy, was I wrong," he said. "These trade pacts have had a devastating effect on every part of the state. The companies deserted Indiana for Mexico a couple of years ago and now they're heading for China."

Few manufacturers have been able to resist the seemingly tidal pull of globalization that includes Nafta. One is Gerald A. Trolz, a local hero because he would not sell or relocate Goshen Stamping, his small hardware manufacturing firm, even after his main customer moved to Mexico and half his sales went with it.

He said the only reason he has been able to keep his firm in Goshen is that he owns it: he does not answer to stockholders. "The experts don't see what's happening here, on the shop floor, so it's easy for them to say that Nafta was good or bad," Mr. Trolz said. "Until this levels out, it is just plain havoc."

The increasing competition from cheap labor abroad has deepened a decades-old trend toward depressed wages, as has another unexpected impact of Nafta the arrival here of hundreds of Mexican migrants looking for work.

Mayor Kauffman says the federal government "could have done something to stop this influx of migrants that has pushed down our wages," especially as it embraced the banner of free trade.

The town's Hispanic population has grown at least four-fold under Nafta. Social tensions grew, too. The large Mennonite and Amish communities here have tried hard to ease the strains, especially after the local chapter of the Ku Klux Klan rallied against the Mexicans, many of whom work illegally.

The Mexicans are also willing to work for less sometimes as little as $2 an hour under the table at restaurants. Such wages are still a step up for many Mexicans displaced in the continental churn of workers that Nafta has set in motion.

"Our area back home was very poor," said Trina Cervantes, who arrived two years ago from Guadalajara with her two sons, following her husband, now a legal resident after seven years on a Goshen assembly line. "It took my husband three months to earn what he earns here in one week."

For residents like Ms. Long, there is little elation that Nafta has made Goshen a better place to work for Mexicans, while their own jobs have eroded. "The way the Goshen economy is now," she said, "we all feel it's Nafta coming around to bite us in the behind."

Ciudad Acuña, Mexico

A Fleeting Boom and Disillusionment

One of the promises of Nafta was that it would close the great gaps in wages and living standards between the United States and Mexico and keep Mexicans working on their side of the border.

Nowadays in Mexico, "When you argue that free trade benefits poor people," said Luis de la

Calle, a chief Nafta negotiator for Mexico, "no one believes you." A strong supporter of the accord, Mr. de la Calle, an economist, nonetheless believes Nafta's benefits for Mexico are dwindling as manufacturing moves to countries where wages are even lower, particularly China.

Some Mexican companies successfully exploited the new American market, especially those allied with American corporations, like big tomato growers that sell to companies like Del Monte, or food processors that turn American pigs into bacon.

But by every measurable standard, the gap between rich and poor in Mexico widened. Unemployment is up and real wages, eroded by a collapse of the peso in 1995, are flat or down for many millions of workers.

Nafta created jobs, but not fast enough to keep pace with rising competition from China, or with a labor force that swelled with Mexican farmers displaced by subsidized American imports.

Millions of Mexican workers crossed into the United States. A million more moved north to the border looking for work, in a movement comparable to the migration of Americans from the rural South to Northern cities like Chicago and Detroit in the first half of the 20th century. For Mexico, the change happened in a decade.

Many ended up in the trade-driven assembly lines known as maquiladoras, most of which stand in hard-bitten border towns like Ciudad Juárez and Ciudad Acuña. The maquiladoras produced $78 billion in exports during 2002, nearly two-thirds of that sum from American parts assembled in Mexico and re-exported to the United States.

"The promises made about how life would be were not real," said Etelvina Vázquez, 43, an assembly-line worker in an Alcoa auto-supplies plant. She is one of 27,000 people who moved to Ciudad Acuña from the southern state of Veracruz alone, according to the city's maquiladora owners' association.

After five years, Ms. Vázquez takes home $45 for a 48-hour week, after deductions for the costs of her government-built house. Though her income is higher than it was back home, what she has left after paying the bills is about the same. "Life is different," she said, "but just as hard."

Many of these maquiladora jobs are now disappearing, as the one relative advantage Mexico once had cheap labor erodes in an expanding global marketplace. Of the 700,000 new maquiladora jobs generated in Nafta's first seven years, 300,000 have been eliminated since 2000.

Inside and outside the maquiladoras, "all the jobs gained in manufacturing thanks to Nafta have vanished," said Edgar Amador, an economist in Mexico City. "Ten years after, there is no conclusive evidence that real wages have increased because of Nafta."

To Angelica Morales, a maquiladora worker transplanted to Ciudad Acuña from Monclova, four hours south, the reason is clear enough. "There are no independent unions," she said. "Workers have no say over what happens to them."

Such arguments do not persuade Cuauhtemoc Hernández, 31, who represents the city's Maquiladora Association 34 assembly-line plants, all but two owned by American companies, employing 32,000 Mexican workers. The benefits for American business cheap labor, high productivity, generous tax breaks flow throughout the city, he says.

"The growth of Acuña was fast, fast, fast," he said so fast that the city has a severe lack of housing, hospitals and schools.

"Everybody says the local situation unpaved streets, no workers' health institutions, no housing that workers deserve is the maquiladoras' fault," Mr. Hernández said. "Even some government authorities say, `No more maquiladoras.' What is our answer? Our answer is: `You cannot stop progress.' "

Durham, Ont.

Industries Forced to Adapt or Die

Canada was far better situated than Mexico to benefit from free trade. It has a well-educated middle class. Ninety percent of Canadians live within 100 miles of the border. They enjoy liberal unemployment benefits and universal health insurance.

"Of course, you've got some pain that has to be endured," said Jean Chrétien, who stepped down this month as Canada's prime minister.

Progress proved wrenching for Canada, as well. It had a separate 1988 free-trade accord with the United States, five years before Nafta. Those years were a cold shower for Canada: from 1989 to 1991, 450,000 manufacturing jobs, roughly one in five, were lost.

Some survivors came out stronger. Nafta's proponents point to a future where the promises of free trade may yet be fulfilled.

In the small Ontario manufacturing town of Durham, the managers of the Durham Furniture factory got a phone call from Toronto on Feb. 10, 1992. Their parent company, Strathearn House Group, had gone bankrupt. All 150 employees were summoned to the cafeteria to hear the news: their 93-year-old plant would soon close.

"The entire town was like a wake," recalled Lloyd Love, now vice president for manufacturing.

Then the managers found financing to reopen the plant as a stand-alone company called Durham Furniture. Under the direction of an American marketing specialist named John Scarsella, now president and chief executive, Durham remade itself, investing more than $15 million in new technology and aiming for American customers.

Durham's sales rose eight-fold since 1994 to over $75 million this year. Eighty percent of that goes to the United States. From 100 employees in 1993, the company now has 800 workers, a sales office in Canfield, Ohio, and a showroom in High Point, N.C.

"The border is seamless for us," Mr. Scarsella said. "We went from a Canadian company with a 30 million population market to a 300 million market. We do not treat the border as a border."

David Hanna, executive vice president of the Ontario Furniture Manufacturing Association, said perhaps half a dozen company members were driven out of business by Nafta, which let American giants like Ethan Allen flood the Canadian market. Ontario's premier furniture manufacturers have lost about half of the roughly 7,200 workers they had a decade ago, he said.

"Once barriers went down Canadian industry was very exposed," said Perrin Beatty, president of the Manufacturers and Exporters Association and a cabinet minister in the government that negotiated the agreement. "It meant a psychological shift of gears. You either adapted or you died."

Today Canada's businesses are far more export-oriented than a generation ago. They created 500,000 jobs last year, even as they, too, feel growing Chinese competition. Exports to the United States more than doubled and now represent more than a third of Canada's economy. Several sectors communications equipment, chemicals, oil and gas services, aircraft manufacturing and electronics are growing fast.

But in Canada, as in Europe, the social safety net eased that transformation. The European Union handled free trade differently. It has allowed the free movement of workers, not just capital. It protected wage standards. It closed the gap between a richer country like Germany and a poorer one like Greece with money and technology. European governments, not employers, provide health care and pensions.

"It is easier when people don't have to worry about the social safety networks and can accept a connection between improving competition and economic growth," said Pascal Lamy, Europe's top trade minister and a staunch free trader. When Americans are thrown out of work because of a fundamental shift caused by new global trade rules, he said, they risk losing everything.

Elizabeth Becker reported for this article from Goshen, Ind., Clifford Krauss from Durham, Ont., and Tim Weiner from Ciudad Acuña, Mexico.