

Competing Views: NAFTA Marks Its Tenth Anniversary

NAFTA passed its tenth anniversary on January 1, 2004, with supporters and governments calling it, in the words of the US Trade Representative, "a huge success for the US and its NAFTA partners." Others saw gains as well as losses, while outright opponents deemed it a failure that has caused more pain than gain.

Trade among the three NAFTA countries (the US, Mexico and Canada) more than doubled in the agreement's first 10 years, from \$306 billion to \$621 billion. Mexico exported \$143 billion to the US and Canada in 2001, up 232% over 1993. Mexican farm production grew by 50% from 1993 to 2001 and exports to the US grew by 103%. Export jobs tend to concentrate in more productive economic activities and therefore bring higher wages. As for the US, it has run a deficit with Mexico in every year except the first year that the agreement went into effect. More than 500,000 US jobs were lost, but this number is small compared to the more than 20 million jobs created in the prosperous 1990s.

A recent World Bank study concluded that NAFTA had been a net positive for Mexico but uneven in impact. Direct investment and trade both doubled under NAFTA, but real wages grew much faster in the period just prior to it than they did afterward. Still, factors other than NAFTA may have borne more responsibility for the lag, among them competition from cheap labor countries like China, the failure of the Mexican government to improve the country's regulatory framework, low investment in education, and corruption. The devaluation of the Mexican peso just as NAFTA got started also caused serious economic adjustments. Given all these factors, World Bank Vice President David de Ferranti concluded, "Trade agreements are an opportunity, not a guarantee."

In a report entitled "NAFTA's Promise and Reality," the Carnegie Endowment for International Peace points out that Mexico suffered a demographic bulge in the 1990s at the same time that women were entering the workforce in greater numbers. Almost one million jobs were needed just to absorb this growth. It is no coincidence that the number of illegal Mexican immigrants in the US grew from about 2 million in 1990 to about 4.5 million at the end of the decade. The Mexican economy benefited from free trade, with labor-intensive production favored by the comparative advantage, but it is unclear how much of this success depended on which tariffs were cut and at what pace. Mexico went from a trade deficit to a substantial surplus, thanks largely to exports of manufactured goods. The report concludes that NAFTA was not the most important force causing migration from Mexico and that its positive effects were not strong enough to neutralize those forces. Regarding whether NAFTA or any trade agreement can solve the problem of illegal immigration, the study suggests that it is better to deal with the issue directly but that agreements can help by increasing cooperation among countries.

The third chapter of the Carnegie Endowment study, "The Greenest Trade Agreement Ever?" analyzes whether this assertion by the Clinton administration proved right in the agricultural sector 10 years later. The results show a mixed bag, and the

disagreements continue. Free trade affects the environment in two ways: through scale impacts (increased economic activity), and through the influence of trade rules on environmental policy. Using "green" accounting methods, the report finds that Mexico ran an ecological deficit equivalent to \$9 billion per year over the decade. NAFTA accelerated structural changes under way in the agricultural sector. It has reduced some distortions due to tariffs but does not have mechanisms to reduce agricultural subsidies. Large-scale farming has grown in Mexico, resulting in the greater use of fertilizers and insecticides as well as irrigation water while worsening the plight of small farmers and *ejidos*. This has caused greater deforestation as small farmers use slash and burn techniques to grow more corn. Mexican vegetable and fruit exports have increased by 80% and 90%, but in a water-scarce country this represents the export of large quantities of water. In the US, meanwhile, the production and export of corn and wheat has led to increased use of agrochemicals by large growers, introducing an estimated 77,000 tons of phosphorous, potassium and nitrogen into the environment annually.

The study concluded that NAFTA's much-touted environmental safeguards have not directly improved environmental quality in the farm sector. Subsidy payments have grown in both the US and Mexico. NAFTA also has accelerated the shift to large-scale export farming businesses. Subsidies have sped this shift and contributed to the increased use of agrochemicals and irrigation water. Finally, the large commercial farms have not introduced the environmental benefits that are usually associated with more efficient farming techniques. Mexico's skewed income distribution and poverty have perhaps caused this effect, leading to deforestation and other environmental ills.

Public Citizen, in its "NAFTA at Ten" series, produces papers on the impact of NAFTA on agriculture and the environment, jobs and wages, and sovereignty and democracy. "The data are in," the group says, "and they clearly show the damage that NAFTA has wrought for millions of people in the USA, Canada and Mexico." Public Citizen claims that the US lost 3 million jobs in the 1990s, of which 525,000 were directly related to NAFTA, and that the agreement contributed to keeping the median American wage flat from 1973 to 2000 as manufacturing jobs were lost and replaced with low-paying service sector jobs. The US trade deficit grew to \$436 billion in 2002, of which \$85 billion is attributed to trade with Mexico and Canada. Public Citizen blames NAFTA for decreased unionization in the manufacturing sector and says it contributed to income inequality in all of the member countries.

In spite of promises to the contrary, Public Citizen maintains, the US lost 38,000 small farms under NAFTA and farm income has continued to decline. A drop in corn prices has caused millions of small farmers in Mexico to seek jobs in *maquila* (drawback) industries or to try to immigrate illegally to the US. Policies have shifted in all three countries from consideration for food security to emphasis on exports, according to Public Citizen. Although US agricultural exports have grown substantially, agricultural imports from Canada and Mexico have grown even more. Mexican tomato imports have driven two thirds of Florida tomato growers out of business, and a similar crisis exists for Florida pepper growers. The US agricultural surplus has shrunk by \$1 billion under NAFTA, and food prices have actually increased even as prices paid to farmers

have dropped. Canada has fared no better, seeing its farm debt double from 1988 to 2001 and 11% of family farms lost from 1996 to 2001.

Finally, Public Citizen points out that NAFTA contains many non-trade stipulations to which the member countries are required to conform their laws whether or not Congress or local governments agree. These set limits on safety, health and environmental rules and ban procurement preferences. It also complains that closed trade tribunals enforce NAFTA rights granted to foreign companies. According to Public Citizen, governments in 20 cases are being sued by corporations for a total of \$14 billion in compensation for not conforming to NAFTA rules. Foreign investors are given special rights and protections in the US, the group claims, and NAFTA countries lose control over their natural resources.

Observations

Like many trade agreements, NAFTA was oversold to get it accepted in both the US and Mexico. Free trade tends to stimulate economic growth and raise efficiency, thereby contributing to job creation and reducing the desire to emigrate. However, free trade alone cannot solve unemployment problems and NAFTA is not nor was it meant to be an immigration agreement. As for its success, it is undoubtedly a mixed bag, but many forces that were not foreseen when the agreement was negotiated-- the Mexican devaluation, September 11, the war in Iraq, the surge in Chinese manufacturing exports-- have changed the overall climate in which it operates. It is up to governments to take measures that ease the transition for companies and individuals and, especially, assist the poorest in adapting to new economic realities. In terms of labor rights and the environment, NAFTA has neither been a path to Nirvana nor caused the destruction of the planet. Economic growth will cause greater pollution but governments will and should continue to seek ways to improve the living standards of their citizens. The trick is to design, pass and enforce laws that promote sustainable growth. So far, NAFTA's critics have provided no viable alternatives beyond statist/socialist models that reduce economic liberty and efficiency.

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