NAFTA Won't Help Mexico's Poor

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Toronto

Proponents of the North American Free Trade Agreement (NAFTA) often repeat a hackneyed slogan from the 1960s, "trade not aid," to defend a deal they claim will be good for Mexico. They seldom differentiate between the likely impact on Mexico's small economic élite and the majority who live in poverty.

Mexican President Carlos Salinas de Gortari says Mexico wants "to export goods, not people," warning that without free trade "instead of seeing hundreds of thousands of Mexicans crossing the border looking for jobs in the north, you will see millions." Salinas invites Canadian and American firms to invest in Mexico to take advantage of low wage labour to compete with Europe and Japan. Canada's former Trade Minister, Michael Wilson, said that a major reason for joining NAFTA was so that Canadian firms would have the same access to cheap Mexican labour as their American competitiors.

Wilson was nonchalant about the resulting job losses in Canada. He claimed that Canada should not even bother with labour intensive production but instead leave them to low-wage countries like Mexico. However, Mexican economists looking at the prospects for NAFTA in light of Mexico's recent experience with trade liberalization warn that "what U.S. and Canadian workers lose, Mexican workers won't gain." Instead NAFTA is more likely to drag everyone down.

Salinas claims that NAFTA will allow Mexican incomes "to recover on a permanent basis." But will it? Is the real aim to improve conditions for Mexican workers? Or will they be doomed to remain a low-wage labour force at the service of a continental corporate elite?

There are three major reasons why NAFTA will not lead to rising living standards for the majority of Mexicans: debt, demographic growth and rural depopulation.

Debt and Structural Adjustment

Since 1982 more than half of Mexico's trade earnings have been handed over to foreign banks to cover interest payments on its foreign debt. Mexico has turned itself inside out in an effort to increase exports. The structural adjustment program (SAP) imposed by its foreign creditors has involved the unilateral lowering of import barriers, severe wage controls, high interest rates, deep cuts to government spending, privatization of state enterprises and changes to foreign investment regulations.

The effects of this program have been devastating for Mexico's poor. Real minimum wages fell by 57% between 1983 and 1992. Thousands of peasant farmers lost their land. The share of national wealth accruing to wage earners fell from 36% of Gross Domestic Product in 1980 to only 26% in 1988.

Wealthy Mexicans invested so much in U.S. banks and real estate that their holdings are now estimated to be worth as much as Mexico's entire external debt. Government spending on health, education and urban development fell by 14% in real terms between 1980 and 1990. Some 77,000 Mexican businesses, employing hundreds of thousands of workers closed after the Mexican government began tearing down trade barriers in 1986.

NAFTA is part of a strategy to make permanent the structural adjustments forced on Mexico by its foreign creditors. The U.S. Ambassador to Mexico, John Negroponte, sent a confidential memo to the State Department in April of 1991 saying:

> [NAFTA] can be seen as an instrument to promote, consolidate and guarantee continued policies of economic reform in Mexico beyond the Salinas administration. I think it's reasonable to suppose that the [NAFTA] negotiations themselves will be a useful lever in prying open the Mexican economy even further. For exemple, I think we can reasonably expect the foreign investment law to change as a result of [NAFTA] talks. I would also foresee liberalization of the financial services régime.[1]

Mr. Negroponte's reference to "economic reforms" in fact refers to all the structural adjustments already imposed by the Mexican government. Since 1983 Mexico has privatized 765 public enterprises leaving only 285 under public control in 1990. The changes already made to its foreign investment law did prompt a capital inflow of US$30.5 billion over the period 1989 through the middle of 1992. But 55% of this amount went into speculative purchase of shares on the Mexican stock exchange rather than investment in new productive facilities. Many Mexicans fear this speculative capital could flow out just as quickly and under NAFTA's terms there would be no way to stop it.

Increased exports — whether of petroleum or tomatoes or the value added by Mexican labour to North American products assembled in the *maquiladoras* — are crucial to keeping a net flow of wealth into the coffers of Northern banks. Little of the income that Mexico might earn through increased North American trade is likely to be available for domestic investment as long as Mexico has to make its onerous debt servicing obligations. The reorganization of external debt Mexico achieved under the Brady Plan, named after U.S. Treasury Secretary Nicholas Brady, only reduced Mexico's debt payments by 4% a year.

The effect of Mexico's SAP has been to transform the country into a haven for foreign investors seeking low wage labour. The cost of employing a young woman to assemble products in a *maquiladora* fell from US$1.53 an hour in 1982 to just sixty cents in 1990. Three quarters of the manufacturing jobs created in Mexico between 1984 and 1990 were in low-wage *maquiladoras* while only one quarter of the jobs were in Mexican industries producing for the domestic market. Workers in those industries earn higher wages and are more likely to belong to trade unions than their sisters toiling in the *maquiladoras*. Since *maquiladoras* buy only 1.7% of their inputs from within Mexico few spin-off jobs are created when they expand.

It is these domestic industries that are most vulnerable to free trade. 900,000 Mexicans work in 135,000 small and medium enterprises with less than 100 workers each. The Banco de Mexico and National Institute of Statistics and Geography estimate that 31,000 Mexican factories employing 340,000 workers will go bankrupt under NAFTA. David Barkin, an economist at the Metropolitan University say Mexican job losses could be as high as 1.9 million under NAFTA. These laid-off workers will be added to a pool of unemployed and underemployed who together make up almost half of the labour force.

Mexico has a very young population. Forty per cent of its 85 million people are under 15 years of age. Over one million young people enter the labour force every year. As many as ten million children work illegally. Employers skirt around the law by accepting easily falsified photocopies of birth certificates when they hire fourteen and fifteen year-olds. A reporter for the *Wall St. Journal* oberved 12-year old shoemakers dipping their fingers into cans of glue marked "toxic substances . . . prolonged or repeated inhalation causes grave health damage; do not leave in the reach of minors." Other children sell gum, wash car windows or shine shoes to survive.

Productivity and Wages

Defenders of NAFTA argue that new investment will raise the productivity of Mexican labour resulting in higher wages and living standards over time. But there is no automatic mechanism that translates productivity gains into higher wages. Consider how productivity growth in electronics and automotive firms located in Mexico in recent years has coincided with actual declines in wage costs. Over the years 1975 to 1984 output per worker in electronics firms located in Mexico grew from 63% to 83% of U.S. producivity levels. Over the same period wages paid to Mexican electronics workers fell from 24% to 15% of U.S. levels for that industry. In transportation equipment Mexican workers' productivity rose from 53% to 57% over the same years while their wages fell from 31% of U.S. levels in 1975 to 13% in 1984.[2]

In Mexico a corrupt trade union movement, officially attached to the governing Institutional Revolutionary Party (PRI), has repressed workers legitimate demands for wage gains. As Mexican economist Gabriel Mendoza Pichardo observes, for the corporations waiting to take advantage of NAFTA "high productivity with cheap manpower is the perfect combination."[3]

For the economic growth model promoted by Salinas to continue wages must remain low. If salaries were to rise investors would simply look elsewhere for cheaper labour.

Rural Depopulation

Over the last 30 years some nine million *campesinos* [peasant farmers] have been forced off their land. This rural exodus occurred, in part, because large landowners turned to cattle grazing or agribusiness production of fruits and vegetables for export. In recent years the migration from rural areas has grown as crop prices have fallen by 50% in real terms. Government programs of technical and financial assistance to farmers have been dismantled as part of the structural adjustment program. Government spending on rural development fell by 66% between 1980 and 1990. High interest rates and the withdrawal of government credits have been devastating for Mexican farmers. The exodus from the countryside will accelerate as a result of recent changes to the Mexican Constitution allowing the sale of communal lands, known as *ejidos*.

Mexican *campesinos* are already suffering from their government's unilateral trade liberalization measures. After Salinas became Planning Minister in 1985 he lowered tariffs and removed most items from import licensing requirements. As a result Mexico now imports ten million tons of agricultural products annually, equivalent to one third of its food consumption. The import bill would be higher were it not for the fact that per capita consumption of basic foods has fallen by 30% over the last eight years due to the 57% decline in real wages and high urban unemployment.

Under NAFTA as many as 15 million *campesinos* including women and children will come under pressure to abandon subsistence agriculture as they will be unable to compete with cheap imports from mechanized farms in the U.S. and Canada. Large landholders will gobble up more small farms. More of the best lands will be handed over to agribusiness *maquiladoras* using foreign capital and inputs to grow fruits and vegetables for export.

Conclusion

NAFTA will tend to make permanent the export-oriented model imposed on Mexico by its structural adjustment program. Mexico's creditors, including Canada's chartered banks, would continue to collect interest on loans that probably will never be repaid.

The kind of investment that would take place in Mexico would chiefly come from transnational corporations seeking to use cheap labour to produce for export since the depressed wages of Mexican workers would make the domestic market unattractive.

Some new job creation would no doubt occur. But even the most optimistic economic growth projections based on an inflow of new foreign investment that might be attracted by NAFTA would not begin to create enough jobs to absorb those currently unemployed, let alone the new entrants to the labour force and the huge numbers of peasant farmers and their families displaced from their ancestral lands by free trade in agriculture. Even if NAFTA does attract all the new foreign investment the Mexican government expects, only about 12% of the workforce will find employment in export industries. Mexican economists call this "an unequal exchange of today's jobs for tomorrow's exports."

As Professor Adolfo Aguilar Zinser of Mexico's national university told a Canadian parliamentary committee "a very clear, conscious technocratic decision" has been made by Salinas and his advisors to include only half of Mexico's population in a dynamic process of economic growth. The economic model they have chosen means that by the year 2000, fifty million Mexicans would be left to languish as a reserve of cheap labour assuring that wages remain low for years to come.

Fortunately there are alternatives. Opposition groups in Mexico propose development alternatives that begin by addressing Mexico's real problems.

A real alternative must include the cancellation of most of Mexico's external debt and an end to the onerous structural adjustment conditions imposed by external creditors. Revitalizing small and medium Mexican industries producing for the domestic market is the key to job creation.

Authentic development for Mexico would reject free trade in agriculture and instead provide peasant farmers with adequate credits, crop insurance, marketing facilities and prices to make Mexico once again capable of feeding themselves.

Canadians wishing to stand in solidarity with poor Mexicans will join them in rejecting NAFTA. Our best solidarity with Mexico would be to cancel the foreign debt and remove the structural adjustment conditions.

NOTES

1. A partial text of the Negroponte memo was reproduced in the Mexican newsmagazine *Proceso* 758 (May 13, 1991), p. 7.
2. Robert A. Blecker and William E. Briggs, "On Beyond NAFTA: Emplotment, Growth and Income Distribution Effects of a Western Hemisphere Free Trade Ares." Economic Policy Institute, Washington, D.C., Sept. 1992, p. 37.
3. Gabriel Mendoza Pichardo "La política salarial en México." *Alternativas* 2 (June 1991), p. 10.