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NOT THIS NAFTA FOR MEXICO EITHER

by David Emanuel

Proponents of the North American Free Trade Agreement argue that the current proposed trade pact is a win-win situation for both the U.S. and Mexico. For Mexico, access to the huge North American market will open up many business opportunities and boost Mexican exports.

What free-traders often fail to mention, however, is that NAFTA could produce widespread worker displacment and business dislocation in Mexico as a result of increased U.S. investment and imports. To be sure, jobs will be created in Mexico as a result of the NAFTA, but there lies the danger that a flood of U.S. imports and takeovers of Mexican businesses will displace thousands of workers in a number of sectors. These dislocations may offset the gains in employment that will result from increased investment in Mexico. The net effect on employment in Mexico appears to be marginal.

In this article I will focus on two key sectors—small scale agriculture and small and medium-sized businesses—that could be negatively affected by the NAFTA. Although the pact will surely increase employment in Mexico in other sectors, the extent of job losses in these two areas and others has been played down by NAFTA supporters. We ignore these at our own risk, however, for they will have dire consequences for U.S. labor.

NAFTA's Impact on Small-Scale Agriculture in Mexico

NAFTA could have a major impact on Mexico's agricultural sector, especially small-scale corn and grain producers. A flood of imports from the U.S. could displace hundreds of thousands of Mexican *campesinos*, leading to a large migration to urban areas and the U.S. and downward pressure on Mexican wages. First, however, a little background on Mexico's land tenure and food production system.

There are some three million subsistence corn farmers in Mexico, who hold an average of about five acres of land on which to grow corn and beans; another three million landless workers perform day labor or sharecrop the land of private landowners and community-lands, known as *ejidos*. Counting the family members of these class of agricultural workers, they make up nearly one-quarter of Mexico's population of 80 million. Corn and bean production make up the bulk of the crops grown on these farmers' lands. Often these plots contain poor soil, lack irrigation or modern technology to efficiently cultivate them.

Over the last 50 years the Mexican government has developed a complex system of subsidies for these farmers; corn is bought by the government for a price that is about twice the world market price. As a result of these subsidies and the disappearance of other subsidies, many farmers who once grew other crops now grow corn. Despite this, Mexico often must import corn from the U.S. to satisfy demand.

The NAFTA will unleash two forces that will significantly affect these agricultural workers. The removal of trade barriers means that the country will be flooded with cheaper U.S. and Western European corn. Secondly, the Mexican government will dismantle the corn subsidies. Under current negotiations, these farmers will have a 15 year shelter from foreign corn

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which is longer than any other product covered by the trade pact.

Mexico's corn producers will face great uncertainty as a result of this agreement. Large farmers with capital, access to government irrigation and technical support, and good land can switch from corn to other crops. Peasants who grow only the corn they eat can continue as they always have. But the small farmers in the middle will be squeezed out by new competition and the loss of subsidies. The World Bank estimates that in the five years after a trade agreement is signed, between 145,000 and 300,000 farmers could abandon their land and head for the cities.

A number of other studies have found the number of affected farmers will be much higher. One recent report estimates that if trade barriers are eliminated entirely and abruptly, job loss in the corn and bean sector could be as high as 30 percent of Mexico's total agricultural labor force. Other reports have found that a full, non-phased liberalization would lead to between 700,000 and 800,000 workers/small farmers leaving the rural sector. An estimated 600,000 of these would migrate to the U.S. A gradual liberalization would also increase rural emigration but at a slower pace.

Other analysts argue that these figures overestimate the number of workers that will be affected by the NAFTA. They point out that many rural dwellers in Mexico already have diversified their sources of income (often through immigration), making them less dependent on income earned from producing agricultural commodities like corn that will most likely be most affected by NAFTA. Furthermore, a free trade zone might induce more U.S. agricultural producers to expand in Mexico during the 1990s creating more jobs there. One study, for example, notes that gradual liberalization of Mexican corn market along with opening of the U.S. market to Mexican fruit and vegetable exports would reduce cumulative migration by about 200,000 workers.

While the opening of the U.S. market to Mexican agricultural exports will surely create jobs in Mexico, it is doubtful whether these industries will be able to absorb all of the workers that will be displaced by more open trade. First, because of Mexico's under-developed infrastructure and its natural limitations on agricultural production (i.e. arid land, little water), an immediate large scale shift of U.S. agricultural producton to Mexico is not likely. It would take at least five to ten years for U.S. and Mexican investors to improve the infrastructure and create additional fruit and vegetable jobs in Mexico. Furthermore, new and less-labor intensive production techniques will probably be introduced in the fruit and vegetable growing sectors in Mexico; changes in technology and cropping patterns introduced by modern, transnational processing plants may not yield a net rise in employment. Finally, the regions of Mexico with the most potential for the cultivation of fruits and vegetables (the northwest) do not correspond with the regions likely to suffer the largest job losses (the central and southern parts of the country).

The loss of hundreds of thousands of jobs in the corn production sector will have a number of ripple effects on the Mexican and U.S. economy. Increased foreign competion and the elimination of subsidies could leave many peasant farmers with few choices but to abandon their land and head eithe Mexico's already crippled cities or to the U.S. This migra to Mexican cities will worsen the job and wage prospects for urban workers. With one million workers entering the labor force every year, Mexico has a huge pool of labor. An increased in-migration of rural workers will create a downward pressure on wages.

This does not bode well for American workers. As long as the U.S.-Mexico wage differential remains high, U.S. corporations will continue to look to Mexico as a site to exploit cheap labor. The displacement of hundeds of thousands of rural corn producers will help to perpetuate this wage disparity, leading to further shifts of manufacturing jobs to Mexico by U.S. corporations.

NAFTA'S Impact on Mexican Business

Small-scale agriculture is not the only sector that could be negatively effected by the NAFTA. Many of Mexico's small and medium-sized businesses are at risk of being driven out of business by a surge of U.S. corporations entering the Mexican marketplace. Mexico has a relatively weak private sector, one that has experienced little international competition in the past. While some businesses will see the NAFTA as an opportunity to form joint ventures with U.S. firms, a number of Mexican concerns will be forced to close down, throwing thousands of people out of work. This potential large scale displacemen workers must be considered when economic analysts de mine the net effects of the NAFTA accord.

Since the 1940s, Mexico has tried to develop its manufacturing capacity through the import of capital goods and raw materials. To achieve this goal, the government established tariffs and other trade barriers and regulated foreign investment to protect growing indigenous industries. Industrialization grew rapidly in the 1950s, leading to growth rates of over six percent from 1940 -1970.

Despite this growth, however, the government relied almost entirely on production for the domestic market. Little attention was given to building industries that could compete internationally. As a result, a relatively weak private sector emerged, one that became accustomed to quick profits and low taxes instead of long term investment. By the end of the 1970s and early 1980s Mexico's economy had little to export. Few businessmen displayed the necessary drive to pursue new markets abroad; moreover government regulations and bureaucratic measures discouraged this.

Mexico's debt crisis in the early 1980s further weakened the country's private sector and business climate. Government spending increased massively in the late 1970s after the discovery of huge oil reserves. Despite record growth rates in 198 and 1982, the world oil bust drove the heavily indebted Me into bankruptcy in August 1982. During the preceding yea huge amounts of capital were transfered out of the country as the country's business climate declined dramatically. As part of a bailout agreement signed by Mexico, the U.S. and the international lending institutions, Mexico agreed to pay nearly six percent of its GDP for interest payments on the debt. This had a crushing effect on public expenditures and private sector borrowing.

In the wake of the debt crisis, the Mexcian government attempted to stabilize the Mexican economy. A domestic austerity program was initiated in 1983; government spending declined sharply and a number of state enterprises were sold off. The government also adopted a more open policy regarding foreign ownership of Mexican companies and began to encourage private foreign investment. While international lenders applauded these moves, they came with a price; tens of thousands of workers were thrown out of work and real wages declined by 50 percent in the 1982- 1988 period.

These reforms were accelerated when Carlos Salinas de Gortari was elected president in a controversial election in 1988. Since then Salinas has continued to privatize state-owned industries and liberalize investment rules. Consequently, private foreign investment in Mexico has risen and real wages have risen to 68 percent of their 1980 levels. Salinas hopes to culminate his presidency by signing the NAFTA, thereby institutionalizing the free trade reforms he has initiated over the last five years. The Mexican president beleives that the pact is the only chance the country has to attract significant levels of investment and gain access to the U.S. market.

NAFTA—One Big Hostile Takeover by U.S. Corporations?

The NAFTA will expose the Mexican economy to increased international competition, forcing many Mexican firms to increase their productivity. While many economists beleive this will strengthen the Mexican economy, they often ignore the fact that there will be a great deal of dislocation from these efforts in the near future. Greater intra-industry trade and specialization will require modernization, rationalization, downsizing and plant closures. This will mean tough times for many firms and workers in the traditional industrial centers of the country such as Guadalajara, Monterrey, and Mexico City. The historical weakness of the Mexican private sector and the predominant position of U.S. transnationals in the manufacturing sector opens the door for increased U.S. domination of substantial portions of the Mexican economy.

The trade pact will negatively impact a number of sectors. Economists contend that industries like toys, textiles, paper, furniture, petrochemicals and automotive parts will suffer especially from greater foreign competition because of the cost of becoming efficient. In addition, Mexico's recently-privatized commercial banks will face competition from U.S. and Canadian commercial banks. Moreover, U.S. retailers may form joint ventures with large Mexican corporations that may have devastating consequences for some smaller retailers.

These trends are already underway. When import barriers and investment rules were liberalized in 1986, a shakedown in Mexican industry ensued. Large enterprises with U.S. trained managers and better access to capital and technology had advantages over smaller, often family-run businesses. In 1990-1992, in a period regarded as one of economic recovery, about 10 percent of Mexico's 90,000 small and medium sized businesses failed, costing some 100,000 jobs. Some 40 percent of such businesses could shut down in the next several years. In the toy industry alone, some 80 out of 265 members of the trade association disappeared in the last year as a result of increased foreign competition.

Not all Mexican industries will suffer, of course. In sectors such as sugar refining, apparel manufacturing, electronics assembly, ornamental plants, and glassware, Mexican industries are expected to grow and find access to the large U.S. market. In addition, companies negatively affected by international competition are tied to large Mexican corporations that stand to benefit from the pact. Other firms hope to be acquired by U.S. transnationals. Many owners of family-controlled businesses would welcome an opportunity to have their business bought up by a large U.S. or Mexican firm (the converse is also true. Some Mexican firms have already bought out some U.S. firms.) In fact, many business analysts believe that NAFTA will lead to many mergers and acquisitions by U.S. firms in Mexico. However, these deals often lead to downsizing and a decrease in overall employment.

The consolidation of the Mexican business could have an indirect and negative impact on U.S. workers. As with small-scale agrculture, the displacement of workers from Mexican enterprises will exert a downward pressure on wage gains that might stem from increased investment into Mexico. Although the Mexican business sector may become more productive in the long term, this increase may come at the price of thousands of jobs. As restructuring in the steel, manufacturing and numerous other industrial sectors has demonstrated in the last twenty years, increased efficiency and productivity often require investments in capital-intensive technology and result in large scale scaling down of the work force.

The NAFTA-induced wave of takeovers of Mexican business may benefit a set of U.S. and Mexican businesses and corporations, but its net advantage for U.S. workers is marginal. With a relatively small gain in employment, the potential for increasing Mexicos real wages is limited.

NAFTA—Do We Just Say No?

Given the probability that NAFTA will contribute to the shift of manufacturing jobs to Mexico and will hurt significant portions of Mexico's small-scale agricultural and small and medium business sectors, is it best for Mexican and U.S. workers to flat-out oppose the treaty or call for major revisions in it? The AFL-CIO has captured the complexity of the issue in developing a campaign centered around the motto, "Not this NAFTA." Increased access to U.S. markets, increased investment and greater industrialization may help Mexico develop and close the huge wage gap it has with the U.S. This will, over time, make Mexico less attractive for setting up low-wage operations. However, a number of crucial issues need to be addressed and included in the NAFTA for it to be a truly win-win situation for U.S. and Mexican workers. These include the following:

- **Assistance for workers on both sides of the border that will be negatively affected by the pact.** In integrating the European econonomy, the EC established Structural Adjustment Funds to strenghthen the infrastructure, train workers and introducing appropriate technology in depressed areas. Such funds could also be created under a broader NAFTA, one that targets benefits to communities in the U.S., Mexico and Canada facing large scale displacement due to the pact. In particular, rural development funds in Mexico should be targeted to those states that will suffer large-scale displacement of small-scale corn producers.
- **Generating development/ structural adjustment/ environmental clean up funds.** Mexican economist Jorge Casteneda argues that a number of alternative funding mechanisms exist to fund the kinds of adjustment programs mentioned above, including cross-border transactions; taxes on windfall profits from companies moving to Mexico; creating a North American Development Bank that could finance development projects in poor areas of all three countries.
- **Debt relief for Mexico.** Although the Salinas administration signed a debt renegotiation pact in 1990 that reduces Mexicos decbt burden, it did not provide significant debt relief to Mexico. The country pays $10 billion annually to U.S. and Canadian banks, funds that could be used for infrastructure and economic development projects.
- **Harmonizing labor standards.** It would be virtually impossible to legislate equal pay in Mexico, the U.S. and Canada. However, under a more comprehensive NAFTA labor standards for such things as collective bargaining, labor tribunals, right to strike and widening union freedom could be harmonized.
- **Enhancing worker mobility**. The NAFTA says little about free movement of unskilled labor. We should remember that U.S. firms will continue to locate in Mexico as long as low wages are a permanent feature of North American economic relationships. Expanded legalized cross-border migration is the only long-term econonic check on exploitive wage scale within Mexico. While it is hard to imagine such an expansion given the current anti-immigrant sentiments in the U.S., labor unions might resist efforts to limit immigration.

It is advantageous for U.S. labor to look at the NAFTA not just in terms of how many U.S. jobs will be lost but what kind of impact the trade pact—in its current form—will have in Mexico. The dislocation of tens or even hundreds of thousands of Mexican workers could neutralize the wage gains expected from increased U.S. investment. This could lock in Mexico's low wage structure, creating more incentives for U.S. companies to locate in Mexico. Moreover, the potential increased dominance of U.S. corporations in Mexico and increase in exports to Mexico does not necessarily mean that more jobs will be generated in the U.S.

Increased economic integration with Mexico is inevitabl Moreover, if conducted within a framework of harmonizi labor, wage and environmental standards, it can benefit both U.S. and Mexican workers. The U.S. labor movement, Ross Perot, nor any other force is capable of reversing historical and international economic trends. In the end, however, a broader, more comprehensive NAFTA must emerge, one that will mitigate and minimize the dislocation caused by freer trader for workers on both sides of the border.

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