NAFTA: Assessing the Decade of Hopes and Failures

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The North American Free Trade Agreement (NAFTA) is a tri-national economic agreement, established to encourage the flow of goods and capital between Mexico, the United States, and Canada. The NAFTA eliminates tariffs between the member countries and allows free investment capital for over fifteen years. This agreement was apart of a larger picture paralleling the strategy of the European Union and it begun to become lucid with the General Agreement on Tariffs and Trade (GATT). The intentions of the NAFTA were focused on boosting the ailed Mexican economy while also benefiting the upper American continent. Intense scrutiny and opposition from both public unions and official representatives considered the agreement to be a neo-liberal conquest of the underdeveloped Americas while others believed it matched the globalization trends of the century.

On December 1, 1976, Jose Lopez Portillo assumed presidency in Mexico and he wound the country into a continuous downward spiral of debt. Amidst granting favoring policies to the country’s elites, Portillo discovered new oil and gas deposits on the Eastern borders. After initial success in transitioning the focus of exports to oil and gas, the country plummeted in 1981 as the peso’s value dropped by nearly 60 percent. Mexico’s proposed earnings for 1982 from oil and gas exports (constituting 75 percent of their foreign exchange) decreased from $27 billion to hardly $14 billion. With the nation neck deep in a debt crisis, Portillo nationalized all the private banks and sought help from foreign neighbors.

Concerning Mexico had a lot of debt to be collected, the IMF and U.S. officials temporarily fixed the problem by a seven month freeze on all principals owed to banks and an IMF loan of $3.9 billion. These terms, of course, came at conditions whereupon
Mexico had to reduce subsidies and halt wage increases. Thus, Mexico was adding new debts to old ones and the impoverished state wasn’t able to recover. The Reagan administration, however, was devoted to the free market capabilities of Mexico and continued the negotiation.

A new economic order was rising as Miguel De la Madrid ascended to presidency in Mexico and favored (accompanied by the political pressures of the dominant Mexican elite) the neo-liberal trade proposals from the U.S. Faced with the crises of continuing the longstanding tradition of import-substitution, private subsidies of commercial corporations, and land reform as modeled by Lazaro Cardenas, De la Madrid was surrounded by seemingly endless debt and political foreign pressure to open the floodgate of Mexican industry to foreign investment and lower the tariffs on goods.

In 1986 the conditions mentioned before manifested into Mexico’s signing of the General Agreement on Tariffs and Trade. It was designed to lower and abolish the tariffs that restricted trade between the two countries. When, in 1988, Carlos Salinas de Gortari assumed presidency, he privatized the Mexican industry and began selling off state owned estates and enterprises to foreign control. Many small domestic businesses began infiltrating the Mexican borders and the denationalization of the Mexican industry begun. One of the more notable outcomes of GATT was the maquiladora factories in Northern Mexico. Battling against high unemployment, the Mexican government supported the program that enabled these American owned factories to produce parts and assemble them in Mexico while U.S. customs allowed the finished product to be imported back into the states without having to pay any duties. Through cheap labor and horrid working condition laws, the maquila factories poisoned the Mexican economy. It is also true that
all of these economic, political, and social problems in Mexico allowed the globalizing trends of the U.S. to extend their control of underdeveloped countries through the proposal of the NAFTA.¹

In 1989 George Bush Sr. began crucial economic meetings with Carlos Salinas about a new regionally based trade agreement that would solidify the economic relationship between the two countries. Canada was quickly introduced into the summit meetings and negotiations altered upon the needs of all member countries. When negotiations concluded in August 12, 1992 there was a mixed reaction from the American public. Another issue was that President Bush Sr. announced he would enact his “fast-track” authority granted to him by the Federal Omnibus Trade and Competitiveness Act of 1988. This allowed the president to mandate the Congressional debate to only the concerns of the NAFTA. They had nine months to vote yes or no on the Agreement according to the National Review in a 1992 issue.² After Clinton took office in the 1992 election, he paved the way for ratification of the Agreement and in late 1993 a heated debate left the vote in the House of Representatives at 234-200 approving the NAFTA, which took effect on January 1, 1994.

The theory of the NAFTA is to primarily achieve economic success through international trade and investment in the three signatory countries. The signatory countries agreed to the fair treatment of all foreign exports and to not discriminate between them thus jeopardizing the relationships of the countries. Countries, in theory, are also supposed to give legislative right to tribunals organized by the NAFTA and composed of all three member countries. The practice of comparative advantage is the

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¹ Keen, 308
² Buckley
basic theory for accomplishing these goals, which is achieving the most economic success when economic actors produce only the goods and services they are best capable of producing.

Having been ratified for barely ten years, it is clear that the NAFTA has caused great problems concerning labor and industry control, while achieving relatively small success. Mexico's economy was supposed to be jumpstarted from the trade agreement when in reality only large and small private corporations are profiting off the cheap labor. Mexican farmers along the northern border have also felt the blows of poverty when their corn crops won't sell because of American subsidies. This paper will examine these issues and analyze the unexpected disappointments from two of the three signatory nations: the United States and Mexico.

One of the initial problems with a grandiose trade agreement is that it is usually a rules-based accord which can provide intended or unintended loopholes. This can be seen in a 1995 USA Today issue written by Mark Potok who described the initial problem with trafficking goods by trucks. Mexican trucking companies had to apply to the Interstate Commerce Commission (ICC) and meet U.S. standards if they wanted to bring their goods across the border. To apply to the ICC requires a $300 application fee, driver's license, liability insurance, and up to 45 days to process. U.S. truck drivers were already entering Mexico at this time and all Canadian drivers had access to U.S. roads. In one instance, inspectors from Laredo turned back 530 of 744 Mexican trucks for their safety violations.

Other problems consisted of drug trafficking concerns when opening up the borders to Mexican truck drivers. Many opponents of the NAFTA feared that
unrestricted travel of Mexican truck drivers would cause an increase of importing narcotics and illegal immigrants. Leon Flores Gonzales, the vice president of Mexico’s Chamber of Transport called the allegations “insulting lies to the country.” He and others like Sabino Cruz Munoz, a then Mexican truck driver of forty years, feared the free trade agreement because of the U.S. competition and fear of job loss.³

Labor, a major emphasis in this essay, has been a problem in the maquiladora factories before the NAFTA was introduced. As one article discusses in The Nation by David Bacon, labor unions are trounced by large corporations and their legislative power under the GATT. Veronica Vasquez was one of many women who were fired at a maquila contractor called Exportadora de Mano de Obra. When she was working with the other 180 that were employed it was for no more than $20-$40 a week. In 1994 women at the factory were forced to have a bikini contest for the enjoyment of the company president (John Shahid). Fearing their jobs they complied. Later when workers protested for improvements in wages and conditions, Vazquez remembers that Shahid said he would exchange it for their love. The women filed for sexual harassment and the plant was closed down two days later.⁴

The Border Workers Regional Support Committee (CAFOR) recognized the economic troubles with free trade and approached a road of education. They held meetings for workers and citizens to teach them how to recognize health hazards. This is an issue because in Chilpancingo, below Otay Mesa, there are many maquiladora factories. A battery recycling plant sits on the edge of the city where lead and metal deposits have been recorded at concentrations 40,000 times stronger than acceptable

³ Potok
⁴ Bacon
levels. Thus, in 1993, six babies were born into the world without brain tissue, a state known as anencephaly. The next year thirteen more children were born with the same sickness. Chilpancingo is one of many border towns to have recorded these anencephalic births. One can see the intense need for health safety and the apparent loophole when private investors are allowed into one's nation without direct legislative control.\(^5\)

There has been a significant amount of job loss in the U.S. as well. A common argument in defense of the neo-liberal Agreement would argue that the work that leaves the states is replaced by other corporations. The reality of this is the workforce that gets rehired by another corporation has to start over at minimum wage and probably without the same benefits. Evidence of this is seen in the summer of 1998 when Swingline Inc. shut down both of their Long Island plants and relocated them to Nogales, which is in the Mexican state of Sonora. They laid off 450 people all for the benefits of cheap Mexican labor. Such news came as a shock to employers like Chris Silvera who had just received a three year contract and 40 cent raise at the beginning of January 1997. When Silvera heard the announcement during his lunch break in the cafeteria he commented later thinking “it’s not that tough for the company to make the decision to move. You can imagine: people there will work for five dollars a day. NAFTA is here to stay; there’s nothing you can do.”\(^6\)

The replacement of the staple factory came in March of 1999 when the Board of Education announced that it would open a school for students with disciplinary problems. Having no educational practices the former employees had to look elsewhere. Two companies already established in New York City were Lason Inc. and Kruysman, both

\(^5\) Bacon
\(^6\) MacArthur, 50.
manufacturing companies. Neither company had a union and the best of the two was paying starting wages of $8 an hour, which was well below the Swingline average. Swingline was one of many U.S. corporations to make the jump to Mexico with a relatively short notice to employees.

Concerning U.S. job losses and gains as pertaining to the NAFTA industry, there has been numerous cases in relation to the Swingline Inc. From its ratification in January of 1994 to September of 1999, approximately 259,618 U.S. workers have lost their jobs at the expense of cheap labor. North Carolina suffered the worst amount of losses at 27,725. In spite of this a FAFTA-Transitional Adjustment Assistance Program was established to grant income replacement benefits and job training, but many of these laborers would return to work for wages considerably less than what their fleeting corporation paid them. Also, not only did 20-30% of those who applied for the service receive it, but many primary job losers lost their work in close relation to the NAFTA.7

There is a hidden side as well to the FAFTA-TAA. It relates to the theory of comparative advantage when people like Jose Castillo, who worked for Bluestone, (a grape growing corporation out of southern California) lost his job and couldn’t receive benefits. Grapes were more of a comparative advantage for Mexico and Chile as 7 million boxes of grapes came north from Mexico after the first season of the Agreement. Southern California’s harvested nearly 10 million but the domination of their market came to a halt. Soon, Bluestone gave a layoff notice for January 7, and since it was a few days before the seasonal workers started full-time they became ineligible to receive

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7 Bates
benefits from the NAFTA-TAA. Thus Jose Castillo, and another 2,543 Californians, became victims during the first year of the Agreement to not receive financial benefits.\(^8\)

It’s evident that the Agreement set before the three signatory nations had good intentions to provide mutual economic benefits. Many jobs were also created over time in the United States and they have helped those who have lost their own. Thus far, the Agreement has failed to accomplish probably its most anticipated goal of boosting the Mexican economy. While the unemployment rate is declining, low wage earnings and fleeting corporate income back into the states, disallows Mexico to achieve economic progress. Foreign investors have no patriot ties to Mexico and with the fast-tracking of the FTAA, many investing corporations may keep moving south, making the labor issue of job loss a reciprocal process. The NAFTA has impacted the signatory countries tremendously, but the gap of the privileged few and the unfortunate many will continue to expand under this Agreement as seen by the examples given.

\(^8\) Bacon, the Children of NAFTA, 26
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