

GLOBALIZATION AND SUSTAINABLE DEVELOPMENT PROGRAM

NAFTA: A Cautionary Tale
Written Testimony on the Free Trade Area of the Americas

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**Written Testimony of
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**to the
Trade Policy Staff Committee
United States Trade Representative**

**on the
Free Trade Area of the Americas Negotiations**

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We are researchers at the Global Development and Environment Institute, an economic research institute at the Fletcher School of Law and Diplomacy and Tufts University in Massachusetts. In collaboration with academic and civil society partners in Mexico, we have been carrying out research on the social and environmental impacts of economic integration between the United States and Mexico, examining not only the North American Free Trade Agreement (NAFTA) period but the longer period since the mid-1980s when Mexico dramatically opened its economy. One of the aims of the research is to draw lessons from Mexico's experience for the Free Trade Area of the Americas (FTAA).

It is widely accepted that the goal of economic integration should be to raise living standards. According to our review of the public record, NAFTA has yet to fulfill that promise. Our own research confirms many of these shortcomings. Official figures from both the World Bank and the Mexican government, show that trade liberalization has succeeded in stimulating both trade and investment, and it has brought inflation under control. However, these benefits are yet to accrue to the Mexican population as a whole. The same official sources show that:

- Economic growth has been slow in Mexico – less than one percent per capita per year from 1985-99 – compared with 3.4 percent from 1960-80.
- Exports have increased significantly, but they have been far outstripped by imports, leaving Mexico with a balance of payments deficit.
- There has been little job creation, falling far short of the demand in Mexico from new entrants into the labor force. The manufacturing sector, one of the few sectors to show significant economic growth, has seen a net loss in jobs since NAFTA took effect.
- Wages have declined nationally, with real wages down significantly. The real minimum wage is down 60 percent since 1982, 23 percent under NAFTA. Contractual wages are down 55 percent since 1987. Manufacturing wages are down 12 percent under NAFTA.
- Sixty percent of the employed do not receive any of the benefits mandated by Mexican law. One-third of the economically active population is in the informal sector.
- The number of households living in poverty has grown 80 percent since 1984, with some 75 percent of Mexico's people now below the poverty line.
- Inequality has worsened, with Mexico's Gini coefficient rising from .43 to .48 since 1984, putting Mexico among the most unequal nations in the hemisphere.
- The rural sector is in crisis, beset by grain imports from the U.S., falling commodity prices, and reduced government support.

These figures make clear that economic integration in Mexico has failed thus far to further human development; it may well have worsened it. Our own empirical research on the social and environmental impacts of integration confirms many of these findings.

Environment: Accelerated Degradation

Our research runs contrary to the pre-NAFTA predictions that economic integration with Mexico would eventually lead to an upward harmonization of environmental standards and performance. Between 1985 and 1999, rural soil erosion grew by 89 percent, municipal solid waste by 108 percent, and air pollution by 97 percent. The Mexican government estimates that the economic costs of environmental degradation have amounted to 10 percent of annual GDP, or \$36 billion per year. These costs dwarf economic growth, which amounted to only 2.6 percent on an annual basis.

The surge in foreign direct investment (FDI) has failed to bring cleaner technologies to Mexican industry. Although the Mexican cement and steel sectors are now cleaner as a result of FDI, they are the exception not the rule. Industrial pollution as a whole has nearly doubled since 1988. Unless economic integration is coupled with strong environmental regulations and enforcement, pollution will only continue to worsen. Since NAFTA took effect, real spending and plant-level environmental inspections have declined by 45 percent.

Corn and NAFTA: The U.S. as “Pollution Haven”

Our research has also demonstrated the some of the most significant trade shifts under NAFTA have net impacts that are very destructive for the environment. In conjunction with Mexican researchers, we have studied the environmental impacts of the growth in U.S. corn exports to Mexico following the rapid elimination of tariffs. The surge in U.S. exports has put added pressure on poor corn farmers in Mexico. This has caused not only increased poverty and outmigration, but it also threatens the rich stock of plant biodiversity cultivated by Mexico’s traditional farmers and relied on as a public good by the world’s crop breeders.

In the environmental area, Mexico’s loss is not the United States’ gain. The rise in U.S. corn production has provided a stimulus to some of the most environmentally destructive agricultural practices in the U.S. Corn is very chemical-intensive, both in terms of fertilizers and pesticides. Recent expansions of corn production have taken place in some of the drier states, necessitating irrigation at unsustainable levels. It has also encouraged the recent rise in genetically modified corn, as the product is particularly designed to resist pests that are more prevalent in dry conditions. In effect, the U.S. is serving as a “pollution haven” for corn, with more environmentally destructive U.S. practices supplanting more sustainable practices in Mexico.

Civil Society: Struggling to Survive

We have also engaged in qualitative research with Mexican civil society researchers into the ways in which Mexico’s most vulnerable communities are responding to the challenges of economic integration. Those case studies showed the range of issues raised by economic integration for many Mexicans. We examined *maquiladora* workers seeking health and safety protection, coffee farmers seeking a place in the global market, basic grains farmers struggling

against the flood of imports, community-based forestry cooperatives facing both economic and human rights issues, and poor communities trying to protect health and environmental standards challenged under NAFTA's Chapter 11 investment provisions. These studies highlight how many Mexicans are being left behind by the economic integration process under the current model for managing it.

Conclusions and Recommendations

The liberalization of trade and investment regimes should be considered as a tool toward development, not ends in themselves. If the proposed FTAA is modeled on NAFTA, our research suggests that an expansion of trade and investment will fail to deliver improvements in human development across the hemisphere. From our perspective, economic integration in the hemisphere should be guided by the following:

1. ***A thorough assessment of the development impacts of recent economic integration in the hemisphere.*** In order to learn from past mistakes, conduct a thorough assessment of the social and environmental impacts of recent agreements like NAFTA, and other arrangements that FTAA is being modeled on.
2. ***A commitment by governments in the hemisphere to bring social, labor and environmental issues into the FTAA negotiating process.*** At this writing the FTAA proposals exclude these concerns. There is no venue to address these issues in tandem with the official negotiations.
3. ***The recognition of a nation's right to develop and protect its own national institutions and standards to meet its development needs.*** Early drafts of the FTAA modeled on AFTA's controversial investment provisions, for example, suggest that such a balance is currently not under consideration.
4. ***The active involvement of and consultation with all stakeholders in the FTAA process to ensure that the diversity of needs is taken into account.*** The current Committee of Governmental Representatives for Civil Society has not gained credibility from a wide range of civil society organizations.
5. ***The determination to address asymmetries among trading partners by funding significant investment in less-developed regions.*** Unlike the European integration process, NAFTA contained few provisions or funding to address wide disparities in development among trading partners. The proposed FTAA contains no such provisions, which are essential to promoting human development through trade and to encouraging competition on a more level playing field.

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