

# NAFTA's Untold Stories: Mexico's Grassroots Responses to North American Integration

By Timothy A. Wise | June 2003

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When the North American Free Trade Agreement (NAFTA) passed in 1993, Mexico was free trade's poster child—the model for a globalizing world. A decade later, Mexico's smiling face no longer shines from those posters. Instead, the images are of angry farmers protesting U.S. grain exports, the unemployed selling goods on the street, *maquiladora* workers demanding basic labor rights, and indigenous communities marching for respect and a route out of poverty.

Although some policymakers still point to Mexico as a success story, there is a growing consensus that the free trade experiment has not lived up to expectations. This has important implications for a host of new trade agreements now under consideration. Most important are the World Trade Organization's Doha Round and the Free Trade Area of the Americas (FTAA), but agreements are being finalized with Central America, Chile, and other nations. Like the FTAA, which the Bush administration has presented as a "NAFTA for the hemisphere," most reflect the trade and investment rules established by the North American agreement.



Mexico's farmers' movement recently mobilized broad support for renegotiating NAFTA's agricultural provisions.

NAFTA is no model for sustainable development despite its success in transforming one of the world's most protected economies into one of its most open. Since 1985, when Mexico began its rapid liberalization process, exports have doubled and foreign direct investment has nearly tripled. According to the NAFTA model, with inflation significantly in check, Mexico should have reaped the rewards of liberalization. It hasn't.



According to official figures from the World Bank and the Mexican government:

- **Economic growth has been slow.** Since 1985, Mexico has seen per capita real growth of just 1 %, compared to 3.4 % from 1960 to 1980.
- **Job growth has been sluggish.** There has been little job creation, falling far short of the demand in Mexico from new entrants into the labor force. Manufacturing, one of the few sectors to show significant economic growth, has seen a net loss in jobs since NAFTA took effect. This is despite a 45 % increase in productivity.
- **The new jobs are not good jobs.** Some 60 % of the employed do not receive any of the benefits mandated by Mexican law. One-third of the economically active population works in the informal sector.
- **Wages have declined.** The real minimum wage is down 60 % since 1982, 23 % under NAFTA. Contractual wages are down 55 % since 1987. Manufacturing wages are down 12 % under NAFTA.
- **Poverty has increased.** The number of households living in poverty has grown 80 % since 1984, with some 75 % of Mexico's people now below the poverty line. Income distribution has become more lopsided, leaving Mexico with one of the hemisphere's worst records.
- **The rural sector is in crisis,** beset by grain imports from the United States, decreasing commodity prices, and reduced government support. Four-fifths of rural Mexico lives in poverty, over half in extreme poverty.
- **Imports surpass exports,** leaving Mexico with a serious global balance-of-trade deficit.
- **The environment has deteriorated.** The Mexican government estimates that the economic costs of environmental degradation have

amounted to 10 % of annual GDP, or \$36 billion per year. These costs dwarf economic growth, which amounted to only \$9.4 billion annually.

In many ways, Mexico got what NAFTA promised: trade and investment. Unfortunately, these have not translated into benefits for the Mexican population as a whole or into improvements in the country's fragile environment. The Mexican experience reminds us that increased trade and investment should not be the end objectives of economic integration. Instead, they should be considered as possible means to improve social welfare and environmental quality.



## The Crisis in the Countryside

Mexico's national organization of basic grains farmers (ANEC) and the State Coalition of Coffee Producers of Oaxaca (CEPCO) have been living a

free trade nightmare for years. They now are among the leading members of Mexico's resurgent farmers' movement, which recently mobilized broad support for the demand to renegotiate NAFTA's agricultural provisions and won important concessions on agricultural policy from the Fox administration. They represent contrasting experiences, since

grain farmers produce mainly for the domestic market and face direct competition from more developed and highly subsidized U.S. producers, while coffee farmers produce for export and have no U.S. competitors. Today, however, ANEC's 180,000 members and CEPCO's 30,000 indigenous farmer families find themselves similarly impoverished, abandoned by the Mexican government to global markets suffering overproduction, low prices, and domination by a small number of transnational buyers.

When NAFTA was negotiated, Mexico's leaders promised the agreement would help modernize the

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## Small Farmers in a Global Economy

Efforts by Oaxaca's coffee producers demonstrate both the possibilities for and limitations of peasant-led trade initiatives. Prior to NAFTA, the producers were affected by Mexican government policies to integrate into the world economy. Deregulated production soared and coffee prices plummeted when the negotiated supply-management system provided by the International Coffee Agreement was abandoned in 1989, under fire for distorting markets. The coffee glut was fed by World Bank concessionary loans to encourage struggling farmers to produce export coffee in places such as Vietnam, which consequently became one of the world's largest producers.

The State Coordinator of Coffee Producers of Oaxaca (CEPCO), a grassroots organization of nearly 30,000 small-scale producers from nine indigenous groups in one of Mexico's poorest states, responded to the crisis with an impressive array of independent initiatives designed to "appropriate the production process for the producers." The members capitalized their own credit union, mobilized women farmers, and promoted international, direct sales from a collective to marketers and consumers in the fair trade movement. CEPCO campaigns have resulted in farmers converting to grow coffee organically and achieve its certification, bringing substantially higher prices for some 8,000 member families.

CEPCO's efforts have not been enough to overcome the overwhelming negative impacts of unregulated globalization and the Mexican government's abandonment of small-scale farmers. That is why coffee growers have joined other farmer groups in demanding policies and trade agreements that recognize and value the social, economic, and environmental contributions of small producers.

countryside, converting low-yield peasant plots into highly productive commercial farms growing fruits, vegetables, and other export crops for the U.S. market. Farmers who could not modernize or export would be absorbed as workers into the rising export industrial sector. Sensitive to the important role of corn in Mexico's culture and economy, NAFTA included 10-to-15-year tariff phase-out periods for corn and other basic grains, along with strict import quotas, with the goal of ensuring a gradual transition to international competition with more developed and highly subsidized U.S. producers.

Farmers were confronted with a far different reality. The Mexican government, citing supply shortages for basic grains, unilaterally approved imports from the United States over NAFTA's quotas and then declined to collect tariffs. The result was free trade shock treatment for grain farmers: Instead of a difficult long-term adjustment to competition with U.S. farmers they faced the near-impossible challenge of fully liberalized trade just three years into NAFTA. Imports surged and prices fell nearly 50%. At the same time, the Mexican government ended its price-support system. Facing fiscal pressures after the peso crisis and bailout of the banking sector, the government also reduced other rural support and modernization programs.

ANEC responded with an aggressive effort to keep small farmers on the land. It bought abandoned

state storage facilities, developed its own marketing infrastructure, promoted regional trade between surplus and deficit states, distributed risk among its members in the absence of crop insurance programs, promoted sustainable agriculture practices, and earned 10% to 12% higher prices for its members. But producers still face low prices, high imports, and inadequate government support.

Small coffee farmers suffered a similar fate, despite producing for export. (See box above.) In their case, the culprit was the free trade bias against worldwide supply management of commodities, which is proscribed by international agreements. Faced with falling prices and abandonment by the government, CEPCO and other farmer organizations, like ANEC, showed precisely the kind of self-reliant collective entrepreneurship development specialists dream of. They adapted to the harsh new market conditions, evolved larger and more powerful forms of organization, achieved greater economies of scale, took advantage of new opportunities afforded by the liberalization process, capitalized their operations through well-considered acquisitions of state production facilities, and created new markets under changing conditions.

By all accounts, these efforts are exemplary. They also are clearly inadequate, absent a stronger state role in promoting the sectors' development. The new farmers' movement demanded but failed to

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win the renegotiation of NAFTA's chapter on agriculture, although it garnered some increases in government commitments to rural development. The movement also asserted Mexico's right to food security and sovereignty: the ability to ensure adequate access to safe foods produced domestically.



## Labor and Free Trade: Exploitation and Expulsion

The free trade model in Mexico is designed to take advantage of Mexico's comparative advantage in low wages, with the country's decades-old *maquiladora* export assembly sector as the engine for industrial development. For Mexican workers, this has meant two things: exploitation and expulsion.

Mexico trades on its low-wage economy, and it has failed to guarantee basic labor rights in the process, despite NAFTA's labor side agreement.

Consider the determined campaign for worker rights in the Autotrim *maquiladora* in Matamoros, Tamaulipas. Just across the border from Brownsville, Texas, Matamoros has seen significant growth with NAFTA and the expansion of the export

assembly sector. Autotrim is one of the many auto parts plants that subcontract work for U.S. automakers, employing 1,400 workers in the production of leather coverings for steering wheels and gear shifts. Since 1992 workers have mobilized without success for independent union representation and improved health and safety practices at the plant.

Worker demands initially focused on health and safety problems, which included repetitive motion injuries, exposures to toxic solvents and glues, and a pattern of birth defects among workers' babies. Such conditions are not unusual in the sector. One survey found that 60% of Matamoros' 60,000

*maquiladora* workers reported injuries or other health problems related to their work. The responses of company representatives and leaders of the government-affiliated union at the plant were also typical: They denied the claims and refused to address the conditions.

The resulting struggle for independent union representation saw mass firings by the company and intimidation by the government-affiliated union. When workers linked up with their counterparts at other Mexican plants and at a Canadian plant owned by the same company in an impressive show of cross-border organizing, the result was the closure of the Canadian plant. Finally, the Mexican workers took their complaints to the National Administrative Office, the body created by NAFTA's side agreement to guarantee labor rights. The eventual finding in the workers' favor—after long and damaging delays—was welcome but revealed the

weakness of the accord. It acknowledged the justice of the workers' demands, but there have been no significant changes in labor representation or health and safety at Autotrim as a direct result of the decision.

Meanwhile, widespread layoffs in the *maquiladoras* and many other sectors of the economy have caused a rising stream of migrants searching for work in Mexico

or in the United States, where North America's better job opportunities lie. As international migration has grown, so has the importance of migrant wage remittances. Increasingly, migrants and their hometown communities are attempting to harness such remittances for productive investment.

One out of five Mexican households depends to some extent on wage remittances sent by family members working in the United States. As economic integration and dislocation have increased, so have remittances. In 2002 they rose to nearly \$10 billion, more than the flow of U.S. investment into Mexico and nearly as much as the country's large oil revenues.

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## An Issue of Sovereignty

In 1993 the U.S. multinational Metalclad Corp. purchased a toxic-waste company with the intention of building a large waste depository in the central state of San Luis Potosí. At the time, Metalclad's investment was touted as a shining example of NAFTA's promise to modernize dangerous toxic-waste management practices in Mexico. It quickly became the first investor-state lawsuit against the Mexican government under NAFTA's controversial Chapter 11 on investment, which gave broad rights to foreign investors.

From the beginning, the project faced widespread community opposition. The site had been used as an illegal hazardous waste dump by the previous owner, and geological and hydrological studies had shown the site to be unsafe. Two years before Metalclad's purchase, machete-wielding community members had forced the closure of the dump after preventing 20 trucks from unloading their hazardous cargo. Amid charges of bribery and corruption, Metalclad won permission to have the site reopened, despite findings by a Citizens' Technical Committee that the company had violated federal environmental laws regarding site selection. Metalclad persisted even though it did not obtain a local building permit.

Metalclad filed suit under NAFTA's Chapter 11, claiming that government actions were "tantamount to expropriation" and discriminated against it as a foreign firm. Though it was local opposition from citizens and elected officials that killed the project, the company's claim cited the state's action declaring the region a Natural Protected Area. After two arbitration panels, widely criticized for their lack of transparency, ruled in favor of Metalclad, the Mexican government agreed to pay the company the panel-mandated fine of some \$15 million. The case has become one of the leading examples of the way Chapter 11 undermines local rights, national sovereignty, and governments' ability to regulate the activities of private companies to protect health and the environment.



## Threats to Environment

NAFTA's proponents have argued that economic integration will eventually lead to improving environmental standards and performance in Mexico. The evidence thus far suggests it will not. According to the Mexican government, between 1985 and 1999, rural soil erosion grew by 89%, municipal solid waste by 108%, and air pollution by 97%. Meanwhile government spending on the environment fell 45%, and environmental inspections fell by a similar percentage. By government accounts, the economic costs of environmental degradation have far outstripped the economic benefits of traded growth.

The free trade model poses a variety of threats to the environment. Perhaps most dramatic among them is NAFTA's controversial Chapter 11 on investment, which allows private investors to sue foreign governments for actions deemed to be "tantamount to expropriation." The Metalclad case, involving government refusal to allow a U.S. company to open a toxic waste dump, is now one of a growing number in which this controversial provision has been used to limit government health and environmental protections. (See box above.)

Many migrants maintain close ties to their hometowns, creating transnational communities, in which efforts are growing to channel the financial power of remittances into local development. In the rural community of El Remolino, in the central state of Zacatecas, migrants have pooled resources to build a dam and reservoir for agricultural development. Their migrant club is one of an estimated 250 Zacatecan groups in the United States that are investing in their hometowns, many with the support of state and federal government matching programs. For Mexican locales starved for public investment, these clubs have emerged as an important source of capital for community development.

But the very fact that main-street Mexico must turn to expelled migrant workers for financial investment puts the lie to the NAFTA model. The export assembly industry has proven a weak engine for driving the Mexican economy, stimulating little related economic activity, and increasing the exploitation of Mexican workers. At the same time, the *maquiladora* and industrial sectors have lost step with rising demand for employment, challenging Mexican workers to continue seeking options in the United States, where immigration restrictions limit access.

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While attempts at community-based resource management, as in the case of forests, can take advantage of the globalization process, shameless commercial exploitation has been more the rule than the exception in Mexico's free trade era.

El Balcón *ejido* (collective land trust), located in the southeastern state of Guerrero, has established an economically sustainable forest management project in a productive relationship with a U.S. wood products buyer. Community members have acted cohesively to develop professional skills, allowing them to maintain control over their woodlands, and demonstrating the potential for succeeding in the global market.

However, neighbors in the same state suffered a different fate in their efforts to protect forests from threats of the globalization process. The Organization of Peasant Ecologists of the Sierra de Petatlán and Coyuca de Catalán established itself to respond to the intensive exploitation of area forests by local loggers, politicians, and one of the largest timber companies in the world, Boise-Cascade. The organization's actions were met with fierce repression, assassinations, and the jailing of two of its leaders, Rodolfo Montiel and Teodoro Cabrera. An impressive international campaign eventually won the release of the jailed leaders, demonstrating the rising power of cross-border cooperation among human rights groups. But the overriding lesson from the peasant ecologists' story is the need to guarantee basic human rights if civil society groups are to work effectively for environmental protection.

One of the more controversial issues in the globalization process is the patenting and commercial exploitation of genetic and biological resources. In northern Mexico, agricultural producers from the state of Sinaloa have seen their markets for the export of yellow beans to the United States closed due to the filing of a patent giving exclusive rights of commercialization to a U.S. bean dealer who claims he invented the Sinaloan *mayocoba* bean.

The story highlights the ways in which the U.S. intellectual property regime favors U.S. interests, even to the point of restricting trade.

In other parts of Mexico, indigenous communities have campaigned for a moratorium on so-called bio-

prospecting contracts. These are increasingly common agreements between foreign companies, universities, Mexican government agencies, and local communities to collect and analyze biological samples from unique ecosystems and cultures that could be of commercial value. Such contracts have proven controversial, favoring multinational firms, poorly com-

pensating local communities, and privatizing genetic resources through patenting. The campaign highlights the need for a clearer set of laws and institutions to protect communities' claims to genetic resources.

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## Learning NAFTA's Lessons

The Mexican government wholeheartedly chose the free trade path for development. It is now clear where that path has led: declining living standards, a degraded environment, and a government that does not address the basic needs of its citizens.

This is one of NAFTA's many lessons. The Mexican government not only opened its economy to U.S. goods, services, and capital, it also followed the accompanying prescription to reduce the government's involvement in the economy. It thus abdicated its developmental responsibilities to the whims of the market. As these stories show, the market will not guarantee that economic activity benefits the citizenry, promotes sustainable practices, or addresses national priorities. Only a strong government can set development priorities, regulate private activity for the public good, enact and enforce environmental and labor standards, and protect those areas of social and economic activity deemed to be of strategic importance.

Nor can governments allow the search for export markets to preclude the strengthening of the internal market. Mexico needs both foreign investment and foreign markets, but the current model undermines the country's economic foundations. Some of the country's largest sources of employment, such as small farms and small- and medium-sized enterprises, have been weakened by economic integration. As recent farmers' movement demands have emphasized, government investment is needed in important areas to which foreign investors are not attracted. And governments need to retain the power to impose some performance requirements on investors to ensure investment serves national development goals. Such measures are largely proscribed by NAFTA and other trade agreements, to the detriment of sustained national economic development in the global South.

As Latin American and Caribbean countries contemplate entering their own regional or bilateral trade agreements with the United States, they would do well to consider three additional lessons from Mexico's experience with NAFTA:

1. **Trade agreements must recognize and address asymmetries between trading partners, providing significant assistance to allow developing countries to compete.** Unlike the European Union contract, which featured well-funded assistance to lesser developed nations to allow them to compete effectively, NAFTA offered only minor funding for small border projects. It shows. While a few sectors have proven competitive with their U.S. counterparts, many have not. They have been overwhelmed or bought out by their more developed northern competitors. The result is poor economic performance, weak job creation, and declining living standards.
2. **As a regional trade and investment agreement, NAFTA gives too many rights to investors and too few responsibilities, at the cost of national sovereignty.** NAFTA's Chapter 11 on investment gives too much power to foreign firms, including the right to sue governments directly for profit-impinging actions. It has had the effects of weakening governments' ability to regulate in the

public interest and of lowering environmental standards.

3. **NAFTA's side agreements should not serve as models for the treatment of labor and environmental issues.** NAFTA's side agreements have proven inadequate for protecting labor rights and the environment. Labor and environment need to be considered within the provisions of trade agreements, not as add-ons.

Broad international alliances have come together to articulate their vision for an alternative approach to global trade. Contrary to the image of these alliances as being protectionist or globalphobic, they envision an economic integration process that respects diversity, recognizes asymmetries among trading partners, and seeks a more inclusive form of integration. Mexico no longer serves as the poster child for free trade, but its vibrant civil-society organizations have a lot to teach us about the perils of free trade and the possibilities of designing an alternative path to sustainable development.

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## RESOURCES:

**Global Development and Environment Institute (GDAE)**  
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<http://www.ase.tufts.edu/gdae/>



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**Mexican Free Trade Action Network (RMALC)**  
Coalition of civil-society organizations dedicated to studying the impacts of free trade and advocating for inclusive and equitable trade and development policies.  
<http://www.rmalc.org.mx/>



**Institute for Agriculture and Trade Policy (IATP)**  
Promotes resilient family farms, rural communities, and ecosystems around the world through research and education, science and technology, and advocacy.  
<http://www.iatp.org/>

**Center of Studies for Rural Change in Mexico (CECCAM)**  
Promotes networking, research, coordination, and experience exchange among peasant organizations in Mexico and other countries as they face the challenges posed by modernization.  
<http://www.laneta.apc.org/ceccam/indice.htm>

## RELATED ANALYSIS FROM THE IRC

Laura Carlsen, "The Americas This Week: NAFTA Minus," May 9, 2003  
<http://www.americaspolicy.org/columns/amprog/2003/0305nafta.html>

Laura Carlsen, "The Mexican Farmers' Movement: Exposing the Myths of Free Trade," March 2003  
<http://www.americaspolicy.org/reports/2003/0302farm.html>

Kevin P. Gallagher & Hernán Blanco, "Sustainability Assessments: Tools for Effective Trade Policy in the Hemisphere," April 2003  
<http://www.americaspolicy.org/briefs/2003/0304sa.html>

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