

Global Affairs Commentary

NAFTA: A Cautionary Tale

Timothy A. Wise and Kevin P. Gallagher

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At the end of this month, trade ministers from throughout the Western Hemisphere will gather in Quito, Ecuador, for negotiations on the proposed Free Trade Area of the Americas (FTAA). Many FTAA proponents, including the Bush administration, herald the FTAA as a NAFTA for the Americas. Indeed, early drafts suggest that the proposed treaty is modeled closely on NAFTA, which took effect in 1994. Less clear is why the Bush administration believes that NAFTA's spotty track record will help sell the FTAA to wary Latin American governments.

The NAFTA debates of the early 1990s featured many rounds of dueling studies on the agreement's anticipated impacts. Far less time, energy, or attention has been spent assessing those early promises and warnings, and especially regarding whether Mexico has benefited from the agreement.

Three years ago, we set out to study the social and environmental impacts of NAFTA and the broader economic integration process of which it is a part. We looked at data not just from the NAFTA period but from the mid-1980s, when Mexico first began to open its economy. One of our goals was to inform future trade policies and treaties, such as the FTAA, so that developing countries could better assess the promise and the perils of entering into agreements modeled on NAFTA.

Consistent with the public record, our research suggests that Latin American and Caribbean governments should think twice about signing on to the FTAA in its proposed form.

Trade Without Development

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.

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. Mexico's exports have grown at a rapid annual rate of 10.6% in real terms since 1985, and foreign direct investment (FDI) has nearly tripled, posting a real 21% annual growth rate. Inflation has been significantly tamed.

Unfortunately, these figures have not translated into benefits for 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% from 1960-80.
- The increase in exports has been far outstripped by rising imports, leaving Mexico with a serious 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. Even 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 mini-



mum wage is down 60% since 1982, 23% under NAFTA.

Contractual wages are down 55% since 1987. Manufacturing wages are down 12% 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 by 80% since 1984, with some 75% of Mexico's people now living below the poverty line.
- Inequality has worsened, with Mexico's Gini coefficient—the standard international measure of inequality—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. Four-fifths of rural Mexico lives in poverty, and over half are in extreme poverty.

These figures make clear that economic integration in Mexico has come at the expense of development. Our own empirical research on the social and environmental impacts of integration contributes to this gloomy report card.

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 in Mexico grew by 89%, municipal solid waste

by 108%, and air pollution by 97%. 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 2.6% on an annual basis.

The surge in foreign direct investment (FDI) has largely 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, however, real spending on the environment has declined 45%, and plant-level environmental inspections have shown a similar drop.

Corn and NAFTA: The U.S. as "Pollution Haven"

Our research has also demonstrated that 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 out-migration, but 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 environmental terms, 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 United States. 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 a rise in the cultivation of 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.

NAFTA: No Blueprint for the Americas

We have also carried out case study research regarding the manner in which Mexican civil society organizations in Mexico's most vulnerable communities are responding to the challenges of economic integration. This research highlights how many Mexicans are being left behind by the economic integration process—maquiladora workers seeking health and safety protection, coffee farmers fighting falling international prices, 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.

The conventional wisdom on economic integration is changing. In response to the hard facts, a wide range of Latin American governments, prominent economists, and civil society organizations are ques-

tioning the U.S. approach to economic integration. A vibrant debate among these actors will be occurring both inside and parallel to the official meetings in Quito. These critics do not deny that trade and investment are essential tools for development—the question is what kind of trade and investment, by what rules, and to what end. NAFTA's track record in

Mexico certainly does not bode well for Latin American and Caribbean nations desperate for change after over a decade of slow growth and worsening poverty.

Kevin Gallagher and Timothy Wise are researchers at the Global Development and Environment Institute at Tufts University and

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