

Fair Trade: Who *Really* Benefits?

Introduction:

Free trade policies such as the North American Free Trade Agreement (NAFTA) are widening the gap between the rich and poor in a number of ways. This is particularly true in Mexico; a country that has always been concerned with the protection issues associated with major trading countries in the world, tight controls, high tariffs and other restrictive policies. However, these restrictions have been revoked in response to the demands to promote export-oriented production, eliminate obstacles to imports, and loosen corporate controls over national domains and enterprises. The result has been a blatantly inequitable distribution of wealth and power both within Mexico and between Mexico and other countries. The track record of NAFTA has raised concerns that this inequity will only be augmented by any such agreement.

The Free Trade Area of the Americas (FTAA) is an expanded version of the controversial NAFTA and therefore inherits the agreement's inherently false promises and premises. Although the FTAA is still in the negotiation stage, the adverse consequences of NAFTA have many concerned that the new agreement will be equally debilitating to Mexico's economy as well as to the other 34 nations in North, Central and South America and the Caribbean that will be a part of it.

Obviously, concerns as to whether the FTAA will merely perpetuate the problems created by NAFTA are understandable. However, the question remains as to whether the FTAA would eventually overcome these difficulties as countries become more accustomed to globalization over time. In the end, the ultimate challenge for policy makers is to develop an agreement that preserves the advantage of free trade and competition by allowing enough room for human,

community, and environmental resources to ensure that free trade works for people, not just for profits.

Thesis:

NAFTA has clearly shown that when the market goes too far in dominating social and political outcomes, the opportunities and rewards of free trade spread unequally and inequitably, concentrating power and wealth in a select group of people, nations, and corporations, while subsequently marginalizing the others. Thus if free trade liberalization policies such as NAFTA are expanded, then the inequality and insecurity already present in Mexico will most likely expand as well.

Overview of the Problem:

The prognosis of failure for the FTAA has been predicted worldwide with most concerns focusing on the loss of protection offered for national industries. Many claim that, just like with NAFTA, special exceptions will be made in regards to the domestic political community that these industries represent. Many economists additionally fear that increasingly liberalized free trade reinforces the inequalities that already exist among countries and cultures.

Background of the Problem:

Through global trade agreements such as NAFTA, the process of international trade has become more controversial than ever before. The North American Free Trade Agreement (NAFTA) is an agreement to eliminate barriers to trade, and to facilitate the exchange of goods and services. The United States, Canada and Mexico are the three countries involved in this

agreement. Negotiations of NAFTA were completed by the United States, Mexico and Canada in August 1992. On December 17, 1992 all three countries signed the historic trade agreement, which has been in force since January 1, 1994 (Graham 1999).

The increase in globalization based on modern technology was the original catalyst that instigated the agreement. In the past, globalization strategies were forever in an advanced stage of development, requiring extensive capital, personnel, and strategic alliances with domestic affiliates. With the explosion of the World Wide Web, all a business had to do to go global was establish a web presence. Suddenly any business was accessible to anyone in the world with an Internet connection and a browser.

Presently, in addition to the World Wide Web, there are several other factors that are making it easier for business to take on international projects. Tariffs and other trade barriers are falling because of the numerous regional free-trade agreements that are now in effect around the world, including the NAFTA, European Union, Mercosur, and ASEAN. In addition, the amount of global trade is increasing, with the value of goods and services traded globally increasing 130% in real terms since 1980 (Roett 1999). Not only that, but the transaction costs of processing international orders, including communications and shipping, has drastically been cut, making it cost-effective to deliver anywhere in the world (Roett 1999).

In light of the rapid liberalization of the world trading system, hurdles to the free flow of goods and services are being gradually overcome. By broadening global opportunities through the loosening of restrictions on global trade, direct financial advantages seem to be the norm for the United States and most other countries. However, the manner in which the NAFTA incorporates these changes is undeniably less than equitable.

Scope of the Problem:

The inequities generated by NAFTA matter a great deal and should be handled within the contexts of their critical trade-offs. NAFTA is the most controversial free trade agreement that has ever been negotiated between regional trading partners. Its primary objectives are to eliminate barriers to trade within the territories of those who signed the agreement and to facilitate the cross border movements of goods and services between them (Altschuler 1993). Other defined objectives are to promote conditions of fair competition, increase investment opportunities, and to create an expanded and secured market for the goods and services produced in their territories (Baker 2001). NAFTA is also involved in the issues regarding enhancing and enforcing basic employee rights, including creating new employment opportunities and improving working conditions and living standards (Graham, 1999).

These goals are all admirable in theory; however in reality what has emerged from this agreement is an ultimately unequal distribution of power. While it is not fair to say that there is a clear-cut winner or loser of NAFTA since there are examples of those in Mexico who have benefited as well as those who have suffered, it is fair to say that the current system does not provide for a fair distribution of economic, social, and food security development to the people of Mexico.

Literature Review:

What is the FTAA? The Free Trade Area of the Americas (FTAA) is a free trade agreement that would, in effect, extend the North American Free Trade Agreement (NAFTA) throughout Central and South America and the Caribbean (excluding Cuba). It would also expand the scope of trade regulation into new sectors of these countries' economies, such as the

services sector, creating the most comprehensive, binding trade agreement that the world has ever seen.

A proposal to develop the FTAA which is slated to be in full force by the year 2005, was presented at the Summit of the Americas, convened by the United States in Miami in December 1994. At the Summit, a "Plan of Action" was approved that instructed the ministers responsible for trade to take steps to achieve an FTAA, with the assistance of such agencies as the Inter-American Development Bank, the Organization of American States Special Unit on Trade, and the United Nations Economic Council on Latin America and the Caribbean. The Plan also set up a series of Working Groups and ministerial-level meetings intended to further the FTAA process.

The FTAA is structured into three main components: trade ministers, who developed the overall work plan for the FTAA; nine negotiating groups, which are gathering information on the current status of trade in the Hemisphere; and vice ministers of trade, who help coordinate the working groups and make recommendations to the trade ministers. The nine negotiating groups are: market access; investment; services; government procurement; dispute settlement; agriculture; intellectual property rights; subsidies, antidumping and countervailing duties; and competition policy. The nature of these nine groups, and the lack of working groups on human rights, labor rights or the environment, should give some indication of the priorities of the FTAA.

As in other free trade agreements, the FTAA would expand the rights of corporations and limit the rights of member governments to regulate trade and domestic policies. These corporate rights and government restrictions would be based on the rules of NAFTA, the World Trade Organization (WTO), and the defeated Multilateral Agreement on Investments (MAI). There is

obviously great concern that the FTAA will, like these other trade agreements, provide no safeguards for the environment, workers, human rights, health, public safety, or social services.

According to Hansen-Kuhn (1996), several key problems exist in regards to the FTAA:

- The economic crisis in Mexico has dampened enthusiasm in the U.S. for the extension of free-trade agreements throughout the Americas.
- Through their provisions on trade and investment, both agreements lock in the structural adjustment agreements implemented over the past decade.
- The negative effects of this model of economic integration include falling wages and rising unemployment (Hansen-Kuhn 1996).

Of especially great concern is that under the FTAA's investor-state dispute resolution rules, corporations would have the right to directly sue federal, state, or local governments through an FTAA Tribunal for having laws that get in the way of corporate profits, whether these laws are environmental, food safety, labor, or human rights standards. If corporations win such suits, "defendant" governments would have to pay "plaintiff" corporations for lost profits that corporations could have made in the past, present, and/or future without these laws. This would make it harder for governments to make or keep laws to protect the general public, the environment, or those who are vulnerable. Under a similar rule in NAFTA, corporations have brought suits against the governments of Canada, Mexico, and the United States (Walker 2001).

The FTAA's trade in services rules would also give corporations the right to compete for and to control government services in any member country. In other words, services that are now provided or regulated by governments would be privatized, deregulated, and open to being taken over by foreign corporations, including education, health care, libraries, museums, transportation, power, water, prisons, social services, etc. Many of the governments of Latin

America have already privatized such services as part of their Structural Adjustment Programs under pressure from the IMF and World Bank, and this would be locked in by the FTAA (Walker 2001).

Critics are also worried about the FTAA's government procurement rules, which would give corporations from member countries the right to bid competitively on all government contracts, services, and goods. Additionally, the agreement's national treatment rules would give foreign corporations the same rights as domestic companies, and would prohibit governments from giving preferential treatment to local businesses, farmers, or service providers. Furthermore, the FTAA's elimination of performance requirements would prohibit governments from putting conditions on corporations to benefit local communities or workers; for instance, governments could not require corporations to use local labor or purchase goods from local suppliers (Walker 2001).

The Changing Face of Global Free Trade:

Collier (1997) predicts that without global laws that incorporate a common core of values, standards and attitudes, the major nations and corporations will eventually face trade wars and financial destruction. At the moment, new rules and regulations are being negotiated at the World Trade Organization, the International Monetary Fund (IMF), and other powerful global bodies. But according to Graham (1999) these talks tend to narrowly focus on financial stability while somewhat neglecting broader human concerns such as persistent global poverty, growing inequality between and within countries, exclusion of poor people and countries, and persisting human-rights abuses. They are also accused of being too geographically unbalanced, with an unhealthy domination by the U.S. and its allies (Graham 1999).

Furthermore, according to Gilpin (2000):

Concerns have been expressed that the smaller and least developed countries are being further marginalized in the new global economic scenario. In a recent SELA seminar in which the issue of globalization was discussed, it was pointed out that parallel to the multilateral process which is taking place; trade seems to be organized according to geographical blocks. More notably, most of the world's trade is being managed by a small number of actors. A mere 350 corporations control some 60% of world trade. In the area of investment, 15 countries receive most of the world's foreign direct investment. In both areas, the trend is likely to continue into the new millennium (Gilpin 2000).

According to Robert Reich (1991), "We are living through a transformation that will rearrange the politics and economics of the coming century" (Reich 1991). As we move into the borderless economy, the notion of national products, national technologies, and national corporations will become increasingly meaningless. The only thing that will remain rooted within national borders are the people who make up a nation. This shift has enormous political implications, Reich contends. It means that the traditional idea of national solidarity and purpose can no longer be defined in purely economic terms. It also leads to fragmentation, Reich argues, as "those citizens best positioned to thrive in the world market are tempted to slip the bonds of national allegiance, and by so doing disengage themselves from their less favored fellows" (Reich 1991).

What we are witnessing today is the end of what Reich calls economic nationalism; the notion that the members of a nation succeed or fail together and that they share a responsibility for the economic well-being of their country. The author demonstrates how the contemporary global organizations tend to either transcend or escape governmental sovereignty and scrutiny.

A multinational corporation with its branches all over the world has its own dynamics, which are far more flexible than national governments. These are contained within their

territory, traditions, and political agenda, so much so that their decisions must take into account parameters such as preserving jobs, a community's economic and social order, and the ecosystem. Unfortunately, this is not always the case.

In Mexico, NAFTA did away with many traditional subsidies and generous price supports. Some contend it is doing away with small farmers. About 90 percent of Mexico's corn farmers work fields of five acres or less, and their survival instincts are driving them farther and farther up Mexico's mountainsides as they strive to grow enough to get by (Weiner 2002).

The political challenge presented by this new economic picture is the prospect of deepening social divisions in accordance with any agreement that follows the NAFTA model.

Effects on Mexico:

NAFTA proponents spoke of expected prosperity for Mexican workers. Unfortunately, these gains did not materialize. Between 1993 and 1995 the number of unemployed workers had doubled to 1.7 million. In 1995, the U.S. embassy in Mexico City reported that 35% of Mexicans in the labor market were either unemployed or underemployed. Upward wage pressures that were expected to push wages up simply cannot exist with this kind of massive unemployment (Mutti 2000).

Furthermore, between 1994 and 1996 real hourly Mexican wages had fallen by 27%, and stood at 37% less than 1980 levels. Of the 1996 working population, 19% worked for less than minimum wage, and 66 % lacked any benefits. During the first three years of NAFTA, the citizens classified as "extremely poor" had risen from 32% to 51%. In 1995 the country experienced the well known Peso Crisis (Mutti 2000). Strict measures imposed by the U.S.

Treasury, the IMF, and the World Bank also continue to strangle the Mexican economy, driving down working conditions, wages, and environmental conditions.

Other disturbing statistics include the fact that Mexico's overall external debt has grown from \$142.2 to \$165 billion since the implementation of NAFTA and that Mexico's National Autonomous University reports the percentage of Mexicans considered to be "extremely poor" has increased from 31% the year before NAFTA to 50% in 1996. Additionally, social and political instability have increased since NAFTA, with growth in the drug trade, major increases in other crime in Mexico, increased militarization of Mexican life, and two armed uprisings (Mutti 2000).

Promises were also made but not realized in regards to environmental health. Instead of being improved, conditions have deteriorated as the 48% increase in the maquiladora workforce has occurred without significant improvement in environmental and public health on either side of the border. The rate of pollution-related diseases, such as hepatitis, chronic diarrhea, and respiratory problems has increased for Mexican and American residents of the border area (Mutti, 2000).

Great concern also exists that NAFTA has created unfair distribution of goods. This can specifically be seen in the corn market, as Mexican farmers have adamantly protested international trade and the imports it brings (particularly imports from the United States) because they are now in danger of losing their farms (Baker 2001). In fact, corn farmers in Chihuahua and Chiapas staged a demonstration against U.S. corn shipments, and many are convinced they will go out of business when the corn market opens up completely in 2008 (Weiner 2002).

According to Weiner (2002), currently approximately 25% the corn in Mexico is imported from the United States.

The facts are stark. Since NAFTA took effect eight years ago, imports of corn to Mexico from the United States have increased nearly eighteen fold, according to the United States Department of Agriculture. The imports will probably keep growing for the next six years as the final phases of NAFTA take effect (Weiner 2002).

Weiner also reports that in a recent speech to Americans, renowned economist Carlos Heredia Zubieta stated, "Corn growing has basically collapsed in Mexico....The flood of imports of basic grains has ravaged the countryside, so the corn growers are here instead of working in the fields" (Weiner 2002).

A country cannot protect freedom and democracy if it cannot grow a substantial percentage of the basic staples to feed its population. In Mexico, unequal trade relations are undermining Mexico's food security by undercutting its ability to grow corn and other staples for its people. There is no denying that Mexico has suffered greatly at the hands of NAFTA and that the promises made have been broken time and time again. It is understandable therefore that great concern exists that an expanded free trade policy such as the FTAA will spread this damage throughout the Western hemisphere.

An equitable free trade policy should address the concerns of humanity before profit. Unfortunately, NAFTA simply does not uphold these high standards. Under NAFTA, Mexico suffered its most severe economic crisis in 60 years. Since its implementation, Mexican unemployment has mushroomed and nearly 30,000 Mexican businesses have failed. Real wages in Mexico have also been cut by a third since NAFTA, while astronomical interest rates have deprived Mexicans of their homes, farms, and businesses. While employment in the notoriously low wage border maquiladora assembly plants has increased by 39% since NAFTA began, total Mexican employment levels have been decreasing (Mutti 2000). Statistics such as these

demonstrate that the inequities caused by NAFTA have become an undisciplined and uncontrollable force that needs to be reckoned with without delay.

Effects on the United States:

There are also some specific inequities within the NAFTA agreement that essentially work against the U.S. For example, as former presidential candidate Ross Perot (1993) points out; while the United States dropped most of its tariffs immediately, Mexico was allowed to faze them out over a period of 15 years (Perot 1993). American companies are also barred from establishing purely U.S. owned financial institutions on Mexican soil, while Mexicans are allowed 100% ownership of similar interests in the United States. Additionally, Mexican truck drivers are allowed access to the entire continental U.S. while U.S. teamsters are not extended the same privilege in Mexico (Perot 1993).

Thus the balance of trade remains a primary concern for both the U.S. and Mexico. According to the San Francisco Chronicle: "The year NAFTA went into effect, U.S. exports to Mexico were \$41.6 billion and imports \$39.9 billion. Last year, exports reached \$56.8 billion, imports \$73 billion" (Collier 1997). It would appear, by these figures, that we went from a \$1.7 billion trade surplus to a \$16.3 billion trade deficit under NAFTA, but according to Perot, those numbers do not necessarily reflect the true nature of America's trade balance with Mexico.

Perot reports: "Altogether, more than half of the U.S. 'exports' to Mexico never entered Mexico's domestic market. More than 30 percent of the U.S. exports to Mexico were tools and machines used to build more Mexican factories" (Perot 1993). Furthermore, less than 19% of our exports actually enter the consumer market, while the remaining percentile consists of unfinished manufactured goods which are assembled in Mexico and re-exported to America. "In

short”, Perot surmises, “NAFTA has provided us with a lopsided trade deal; one in which our country spends exponentially more than it earns” (Perot 1993).

Some critics are quick to dismiss these implications. However, although their claims that the trade imbalance is not a problem in and of itself may contain some validity, the fact is that manufacturers are fleeing the U.S. in droves, and that is undoubtedly a problem.

This has created yet another area of concern: the loss of American jobs. Since the 1970's, there had been a steady influx of American manufacturing jobs to the south of the border. American companies found that moving their factories to Mexico, where the minimum wage is \$.58 per hour and environmental laws are rarely enforced, lowered their production costs even though the U.S. had tariffs on the import of those items. Mexico began to actively seek out U.S. manufacturers in 1972 when they passed the Maquiladoras Act: a law designed to exempt international companies from certain environmental and labor laws. Once NAFTA became enacted, investment opportunities mushroomed. By 1993, there were 2,200 maquiladoras factories operating along the northern border of Mexico, a figure which was increasing at a rate of 125 per year (Perot 1993).

The total impact that NAFTA has had on the unemployment rate in the United States may never be known. Former President Clinton claimed that NAFTA has actually created 311,000 new jobs in America, while critics have stated that as many as 420,000 jobs have been lost (Collier 1997). A study by UCLA found a "near zero impact" on the actual number of jobs available in America, (Collier 1997) while the firm of Challenger, Gray & Christmas reported that NAFTA is partially to blame for 475,000 layoffs in 1996 (Crudele 1997).

Admittedly, there are probably as many proponents of the NAFTA agreement as there are critics. The process has, after all, opened the doors of communication between countries all

across the world, allowing people as well as products to flow freely between borders and across oceans. Supporters of trade expansion insist that free trade policies decrease unemployment and improve the overall economic state of the U.S. economy (Sweeney, et. al. 1997).

Free trade does not throw Americans out of work; it creates a greater worldwide demand for American goods and services, which in turn generates additional (and better paying) jobs for American workers. The truth is that U.S. exports have grown by more than 160 percent over the past decade, and this increase in exports has helped to create millions of new American jobs (Sweeney, et. al. 1997).

Admittedly, one cannot presume to claim that all growing national trends are solely the effect of NAFTA, but it is impossible to deny the dynamic impact on the international economy that the agreement has had.

Effects on Other Countries:

There is statistical evidence that liberalized trading of cultural products has substantially improved the quality of life in many foreign countries. For example, between 1975 and 1997, life expectancy in Third World countries rose to 62 years from 53, adult literacy rates climbed to 76 percent from 48 percent, child mortality rates to 85 per 1,000 live births from 149, and some countries --Costa Rica, Fiji, Jordan, Uruguay and others--"have overcome severe levels of human poverty" (Haynes 1998). These successes are of great interest and consequence to everyone from humanitarians to business tycoons.

Of course, the degree to which a country or an organization can benefit from free trade depends largely on its ability to funnel these changes into globally competitive, high-value products for trade. In rich and poor countries alike, as technology expands, insecurity rises. The idea of traditional community structures being wiped out by modern technology incites fears

regarding the stability of jobs, wages, and support for the elderly, (Camp 1999) all of which are factors that need to be taken into consideration regarding free trade policies.

Recommendations:

NAFTA has failed to live up to its promises of bringing economic benefits to the majority of people in Canada, the United States, and Mexico. In the U.S., it has led to the loss of tens of thousands of manufacturing jobs. In Mexico, there has been a reduction of social services, lower wages, higher unemployment, greater inequity, greater poverty, the loss of many small farms and Indigenous communal lands, increasing environmental destruction, and inhumane working conditions in Maquiladoras, increasing child labor, and greater social unrest. The conditions of life for millions of people have deteriorated since NAFTA was adopted.

Therefore, in order to regain economic fairness, the adoption of a strategic trade policy that is beneficial in terms of all nations' distribution of wealth, state goals, and values is paramount. With its dynamic level of power, The United States must be particularly aware of the need to keep all of these things in mind on a global scale since many of its actions will affect more than just its own people and economy. It is therefore the duty of policy makers to ensure that economic models serve the needs of the majority of people and not that people are forced to serve an economic model that benefits only corporations.

Specifically, there are three areas that need to be addressed in regards to reform of free trade policies. 1) That national food security is made a primary consideration in the planning of agricultural development and tariff and trade agreements. 2) That the World Bank, IMF and similar bodies are restricted from enacting policies that cause detriment to the social welfare of a country's citizens. Specifically, there should be strict prohibition against any programs that

requires nations to drastically reduce spending in the areas of education, worker and citizen protection, or social welfare programs. 3) That any trade agreements in which the U.S. participates should discourage any development or commercial projects that could reasonably be considered to result in large-scale migration or displacement of indigenous people. In particular, commercial and development projects should be required to obtain the official approval of the indigenous communities that will be affected by the natural resource use and infrastructure projects that accompany them.

Conclusion:

NAFTA, though it has achieved some positive steps, has overall been proven to be a failure for the majority of citizens in Mexico, Canada, and the United States. The fundamental concern that arises with the notion of expanding NAFTA throughout the Western hemisphere is that if NAFTA serves as the model for agreements like the FTAA, the results are likely to be equally as debilitating.

The benefits pledged to the citizens of Mexico, Canada, and the U.S. of greater economic stability, more jobs, higher wages, and a better environment have not occurred and instead, have created significant and widespread problems. Therefore, it is evident that NAFTA is not a viable blueprint upon which to model an expanded free trade agreement. Instead, an agreement needs to be created that promotes the generation of good jobs and fosters labor rights; that facilitates higher wages and safe working conditions; that helps root investment in local communities and promotes stability in national currencies and financial markets; that protects the environment and human health as a priority; and that guarantees democratic accountability of decision makers, due process, and human rights.

Thus the overall conclusion of this research is that in order to improve free trade agreements and ensure that they include adequate protection for worker's rights, food security and environmental regulation, the FTAA must be based on a new model, rather than on the failed model of NAFTA.

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