

LOOK BEFORE YOU LEAP



**What You Should Know
About a North American
Free Trade Agreement**

PREPARED BY:

**The Development Group
for Alternative Policies**

IN CONSULTATION WITH:

**Mobilization on Development, Trade, Labor and Environment
Citizen Trade Watch Campaign
Equipo PUEBLO
Common Frontiers**

The Development Group for Alternative Policies (The Development GAP) is a not-for-profit international development policy and resource organization. The Development GAP brings grassroots Third World perspectives, information and experience to bear on bilateral and multilateral economic policymaking and program development.

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**LOOK BEFORE YOU LEAP:
What You Should Know About a
North American Free Trade Agreement**

ERRATA

On page 7, the first line of the third paragraph should read, "Women, who constitute 68 percent of maquiladora workers, earn less than a dollar an hour and routinely face sexual harassment."

These wages currently vary from US\$.57 to US\$1.12 per hour, as compared to approximately US\$2.00 per hour in Mexican manufacturing plants outside the maquiladora system. In today's Mexico, such wages buy very little, making family survival precarious, at best. A gallon of milk, for example, costs US\$3.43, equivalent to about 5.4 hours of work in the border town of Ciudad Acuña, while it takes 19.7 hours of work in that city to afford a pair of pants for a child's school uniform.

* * *

Please also note an addition to the Resource People section:

Susan Mika (Workers in the Maquiladoras)
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I N T R O D U C T I O N

In June 1990, President Bush unveiled the Enterprise for the Americas Initiative, a regional program that he projected would expand trade and investment and provide some debt relief for countries in Latin America and the Caribbean. Chief among its objectives is the eventual establishment of a hemispheric "free trade" zone, in which goods, services and capital (but not labor) flow more freely across national borders. The U.S.-Canada Free Trade Agreement, signed in 1988, is serving as the model for subsequent agreements in the hemisphere, beginning with an accord between the United States and Mexico currently being negotiated as part of an expanded North American Free Trade Agreement (NAFTA).

It is important to clarify what a NAFTA is not. First, it is not intended to be a "trade" agreement so much as a vehicle for facilitating investment flows. One of the main reasons that Mexico was selected as the first country to participate in this program is that it had already made profound changes in its economic system that would enable the expanded production in Mexico by U.S. firms of goods for export to the United States and the establishment of a base in Mexico for U.S. companies in the service sector. These reforms, or "structural adjustments", included a dramatic lowering of tariffs, the deregulation of many economic activities, including the easing of restrictions on foreign investment, and the devaluation of the peso to reduce the prices of Mexico's exports.

The effects of structural adjustment in Mexico include reduced inflation and a measure of economic growth. The costs of the reforms, however, have been high and very unevenly distributed. For example, real wages have been effectively halved over the past eight years, while

social services have been reduced and subsidies for many basic foods eliminated. Because of cuts in agricultural subsidies and in the availability of credit and services, many small farmers have been forced to turn away from food production, leading Mexico to import much of its food supply.

In many instances, people who have lost their jobs because of these reforms have either remained unemployed or turned to employment in the maquiladora industrial plants along the U.S. border. Income and wealth in Mexico have become so concentrated that today 37 of its top businessmen control over 23 percent of GDP, while half of the population — over 42 million people — live under the poverty line.

Second, a NAFTA would not, in fact, be a "free" trade agreement, in that it would lead to expanded but regulated trade in a number of areas and because there could be significant costs attendant to this agreement. There would be costs to the citizens of all three countries, for example, if U.S. and Canadian companies are al-

lowed to evade higher labor, environmental, health and consumer-product safety standards in their own countries by transferring their operations to Mexico, where the enforcement of these standards has been weak. Observers in the United States, Canada and Mexico are concerned that if a NAFTA is not designed to raise and ensure enforcement of these standards to the highest prevailing levels in the region it could lock in lower standards in Mexico. And, at the same time, it would likely exert strong downward pressures on wages, environmental protection and consumer-product safety standards in the United States and Canada.

Third, while a NAFTA is being negotiated by the three nations, it is not, despite its potential significance, an exercise in public participation.

NAFTA is not intended to be a "trade" agreement so much as a vehicle for facilitating investment flows that could allow companies to evade higher labor, environmental, health and consumer-product safety standards in their own countries.

To the contrary, little information about the negotiations has been available to the public, raising the specter of diminishing local citizen control over national and continental development. While coalitions of citizens' groups from all three countries have presented their concerns and proposals, they have had little impact to date on the negotiating process.

This booklet is intended to contribute to an informed public debate on the issue. It sum-

marizes major areas of concern within particular sectors likely to be affected by an agreement. Readers are encouraged to contact the resource people listed at the end of each section for more detailed information on the possible consequences of, and alternative proposals to, a North American Free Trade Agreement. We wish to express our gratitude to these groups for their contributions. Responsibility for the final product, however, rests with The Development GAP.

Karen Hansen-Kuhn

Steve Hellinger

The Development Group for Alternative Policies

(The Development GAP)

NAFTA AND AGRICULTURE

Proponents of a NAFTA envisage a further liberalization of trade in agricultural commodities. An Agreement could eliminate most remaining protection for family farmers, causing serious dislocations in the three countries:

❖ **Mexico's trade liberalization program has already resulted in an end to that country's food self-sufficiency.** The annual importation of over 10 million tons of basic grains during the 1980s and the resulting fall in grain prices have forced many Mexican small producers to abandon grain production. This phenomenon has been exacerbated by a reduced availability of credit and technical assistance and by cuts in domestic price supports.

❖ **A NAFTA could reinforce the priority given by the Mexican government to the earning of foreign exchange and the strengthening of corporate agriculture over domestic food production and support for family farmers.** During the past decade the bulk of Mexican agricultural production has shifted from staple crops to beef and other cash and export products, while an expansion in corporate agriculture has accelerated the destruction of croplands and rain forests. The major opposition parties on the right and left in Mexico are therefore calling for the exclusion of grains and other staple foods typically produced by small farmers from a NAFTA, which would otherwise eliminate economic protection for these sectors.

❖ **By reinforcing the trade liberalization process and current Mexican government agricultural priorities, a NAFTA could lead to a further 30-percent loss of agricultural jobs in Mexico,** according to a recent study by Antonio Yunez-Yaunde of the Colegio de Mexico. Some small

farmers will be forced to become workers on Mexican plantations, while many others will become migrant laborers in the United States. At the same time, rural workers' wages continue to decline, contributing to the malnutrition which now afflicts over one-half of Mexico's population.

❖ **Family farmers in Canada, Mexico and the United States are concerned that a NAFTA would undermine each country's ability to determine its own policies of domestic-supply management, rural development and environmentally sound agriculture.** The U.S.-Canada FTA requires that tariffs on agricultural commodities be gradually eliminated. Since most quantitative restrictions are forbidden by the General Agreement on Tariffs and Trade (GATT), the U.S. and Canada's ability to manage the supply of many important agricultural commodities is now seriously undermined. In Mexico, President Salinas has announced his intention to eliminate the ejido system of cooperative land ownership, through which the

government has distributed 250 million acres of land to small farmers. This move will facilitate increased foreign investment and large-scale production for exports under a NAFTA.

❖ **Certain sectors of U.S. agriculture could be seriously hurt by a NAFTA if they were to face competition from producers in Mexico who do not have to comply with the same laws and regulations regarding water management, chemical registration, food safety, and environmental and labor standards.** Particularly vulnerable are U.S.-based fruit and vegetable producers. Many of them feel that enforceable standards must be established in Mexico before a "free trade" agreement is signed.

A NAFTA could undermine each country's ability to determine its own policies of domestic-supply management, rural development and environmentally sound agriculture.

For additional information, please contact:
Karen Lehman, Institute for Agriculture and Trade Policy

NAFTA AND CONSUMER PRODUCT SAFETY STANDARDS

There are also serious concerns about how health and safety standards in the three countries would be affected by an Agreement:

❖ **Domestic consumer health and safety standards could be superseded by those standards established under a NAFTA.** An Agreement could make nationally determined consumer standards subject to challenge from foreign competitors as unfair barriers to trade. One policy the Bush Administration has promoted in other recent trade agreements is "harmonization" of the differences in consumer health, safety and environmental standards among trading countries. In the case of the U.S.-Canada Free Trade Agreement, this has generally meant the adoption of the lower of the two sets of standards.

❖ **It is likely that once the higher consumer or environmental standards of a NAFTA signatory is challenged the burden will be on the challenged government to prove that the law is not an unfair barrier to trade.** This rule means that the "default" position is always the elimination of the higher standard. This could severely impede the ability of governments to address threats to consumer health and welfare, particularly where only incomplete or disputed information is available about the threat.

❖ **Under the existing FTA, the Canadian government has joined in a law suit with Canadian asbestos producers, claiming that the U.S. regulations banning the carcinogenic substance constitute an "unnecessary" barrier to trade under the terms of the 1988 Agreement.** The ban is seen as "more restrictive than necessary" and thus harmful to Canada's asbestos industry. Should Canada win the suit, the American people will have effectively lost their ability to control the importation of asbestos into the United States.

An Agreement could make nationally determined consumer health and safety standards subject to challenge from foreign competitors as unfair barriers to trade.

❖ **Another result of the U.S.-Canada FTA has been the sharp reduction of meat inspection along the U.S.-Canadian border.** Comprehensive border inspection was deemed to be a barrier to trade. In Canada, inspection of meat imports has since been lowered from 100-percent to five-percent coverage, and many Canadian organizations are convinced that standards have declined as a result of this downward harmonization. Under the new system in the United States only one truck in fifteen is inspected and the truck driver or the driver's supervisor, rather than the inspector, chooses the sample to be inspected. An inspector is not allowed to reject an entire truckload of meat if s/he finds a sample that does not meet U.S. standards. According to William Lehman, a USDA meat inspector for 23 years, alarming amounts of meat contaminated with feces, infected abscesses, blood clots, glass and metal shavings are now crossing the border to be sold in the United States.

❖ **The Bush Administration's promotion within NAFTA of the U.S. patent-protection system threatens to increase the cost of pharmaceutical and other products to consumers in the region.** The U.S. position on "intellectual property" allows patent holders a monopoly right to sell a product. This contrasts with the Canadian system, in which the government requires patent holders to grant licenses to other firms, which pay royalties and then are allowed to produce the patented product. This law has allowed Canadian firms to manufacture generic versions of many pharmaceuticals, creating competition and driving down prices. Although this system saves Canadian consumers nearly \$250 million per year, it has been opposed by the Bush Administration in NAFTA negotiations.

For additional information, please contact:
Eric Christensen, Community Nutrition Institute
Lori Wallach, Public Citizen

NAFTA AND THE ENVIRONMENT

Environmental issues have been at the center of the controversy surrounding the negotiation of an Agreement. There are a number of factors to consider before moving forward in this area:

❖ **A NAFTA could well result in a reduction of environmental regulations to the lowest prevailing standards in the "free trade" area,** according to environmental and consumer groups in Canada, Mexico and the United States. Several recent trade agreements, including the U.S.-Canada FTA, have called for the "harmonization" of standards, thereby lowering more restrictive national standards to existing internationally recognized levels. Consumer and environmental advocates maintain that in a NAFTA, which will also include Mexico, environmental regulations must meet the highest existing standards at federal or state levels in the expanded trade area.

❖ **Even where Mexican environmental laws are comparable to those in the United States, enforcement has usually been a problem.** The 1990 budget of the Ministry of Urban Development and Ecology (SEDUE) for pollution control and enforcement was just \$3.1 million, compared to Texas' budget for control of water pollution and hazardous wastes of over \$50 million. SEDUE's budget was recently increased to nearly \$40 million, which might improve its capacity, but this is still an inadequate budget level for appropriate monitoring and enforcement throughout a country the size of Mexico.

❖ **The nearly 2,000, mainly U.S.-owned, maquiladora plants across the border in Mexico are notorious for disregarding environmental regulations.** In November 1990, SEDUE estimated that only 30 percent of them complied with Mexican laws requiring them to report on their waste-handling activities, and just 19 percent of plants using toxic substances could demonstrate that they had properly disposed of at least some of these materials. A 1983 U.S.-Mexico treaty requires that all companies that import chemicals to Mexico ship the resulting hazardous wastes back to the United States for disposal. EPA re-

ords show that in 1988 only 20 out of over 1,600 maquiladoras in fact returned their toxic wastes.

❖ **The rapid expansion of the maquiladora industry has not been matched by an equivalent increase in sewage treatment plants and other necessary infrastructure.** The maquiladoras and Mexican industry, in general, are believed to be a major source of chemical wastes. The New River, for example, is contaminated with over 100 toxic wastes, including PCBs, vinyl chloride, acetone and nitro-benzene, many of which are poisonous to humans or are known carcinogens. As people flood the border region in search of work, other health problems have also grown dramatically. According

to the American Medical Association, every day 46 million liters of raw sewage are dumped into the Tijuana River, and 76 million liters flow into the New River, resulting in high rates of hepatitis, gastro-intestinal diseases and other infections in towns on both sides of the border.

❖ **Lax compliance with environmental laws in Mexico has caused pollution problems in the United States.** The Nogales Wash, which flows between Sonora, Mexico and Nogales, Arizona, is contaminated with industrial and residential sewage, including toxic industrial chemicals, many of which are known or suspected carcinogens. These chemicals have flowed north in an underground aquifer, with contamination levels exceeding some SEDUE standards in Sonora and EPA standards in at least one well in Arizona. In fact, a number of wells on the U.S. side of the border have been shut down by local health officials due to contamination from the Nogales Wash.

❖ **Given budget constraints, there is often insufficient funding for Mexican government agencies to deal properly with pollution problems.** Several U.S.-based groups, including the Community Nutrition Institute and the Mobilization on Development, Trade, Labor and Environment (MODTLE), have proposed a small tax on cross-border investments or on shipments of goods, among other solutions. This tax could be used to finance sewage treatment plants, hazardous waste facilities or the operations of national

National environmental regulations could be challenged as unfair trade practices under a NAFTA.

environmental agencies such as SEDUE. MOD-TLE believes that these funds should be made available to communities affected by the growth in investment and trade under a NAFTA, as well as directly to SEDUE to improve its monitoring and enforcement capacities.

❖ **Should a NAFTA further increase the mobility of investment in the region, lower environmental standards in Mexico would serve as an ever more powerful incentive to U.S. and Canadian firms to relocate there to avoid more stringent laws in their own countries.** Twenty-six percent of the Mexicali maquiladora operators recently surveyed cited Mexico's lax environmental enforcement as a primary reason for their relocation to Mexico. In another recent study, the U.S. General Accounting Office found that the Southern California furniture-making industry is relocating wholesale to Tijuana to avoid stringent state air-pollution standards.

❖ **Under a NAFTA, a government would be vulnerable to legal challenge if programs intended to promote ecological measures also subsidize domestic producers.** Recently, Canadian government incentives to lead, zinc and copper smelters for the installation of pollution-control devices designed to reduce sulfur-dioxide emissions causing acid rain were challenged by the U.S. Non-Ferrous Metals Producers Committee. The Committee argues that, under the U.S.-Canada Free Trade Agreement, these incentives constitute unfair subsidies, since U.S. firms have to cover these factory conversion costs themselves.

❖ **National environmental regulations could be challenged as unfair trade practices under a NAFTA.** Canadian paper and pulp manufacturers have already asked their government to challenge U.S. laws that require that newsprint sold in the United States contain recycled fibers. Canadian manufacturers do not have a sufficient supply of recycled paper fiber to comply with this requirement. They charge that these laws are the result of an effort by U.S. paper producers to effectively deny them access to the U.S. market.

❖ **The U.S.-Canada FTA contains provisions which override both nations' domestic energy policy prerogatives.** Article 904 of the agreement prevents either government from restricting or taxing exports of energy resources regardless of the environmental grounds for such policies. Article 906 of the same agreement allows government subsidies and other incentives for oil and gas exploration and development, yet prohibits subsidies designed to promote the development of sustainable, environmentally sound energy sources. The Canadian Environmental Law Association has expressed its concern that these measures undermine efforts to improve energy efficiency and conserve natural resources in both countries.

❖ **At public hearings, elected officials from eight U.S. border cities rejected the Bush Administration's plan to protect the environment under a NAFTA as too weak.** The Environmental Protection Agency's August 1991 draft of its *Integrated Environmental Plan for the U.S.-Mexico Border* was a response by the Administration to Congressional concerns about a NAFTA and the environment. In reference to the implementation of the Plan, California Secretary for Environmental Protection, James Strock, stated, "Without the necessary public funding, no guarantee exists that the environmental and public health standards of either country will be achieved in the border region."

❖ **The Bush Administration has failed to prepare an adequate environmental impact statement on a NAFTA.** The National Environmental Policy Act and regulations issued by the President's Council on Environmental Quality require such assessments of major federal actions that could significantly affect the environment. As a consequence, Friends of the Earth, the Sierra Club and Public Citizen recently filed suit against the Office of the U.S. Trade Representative. Environmental groups have also urged that a NAFTA establish a process for the resolution of problems that could arise as a result of increased trade and investment.

For additional information, please contact:

Eric Christensen, Community Nutrition Institute

Dick Kamp, Border Ecology Project

Ed Feigen, AFL-CIO

Michael Gregory, Arizona Toxics Information

Alexander Hittle, Friends of the Earth

Mary Kelly, Texas Center for Policy Studies

Lori Wallach, Public Citizen

NAFTA AND WORKERS IN THE MAQUILADORAS

The maquiladora industry provides an example of the consequences for workers of essentially unregulated foreign investment. If a NAFTA does not include measures to improve working conditions, this kind of exploitation could become widespread:

❖ **Low-wage maquiladora plants are an example of the type of U.S. investment that is already growing in Mexico before a NAFTA.** Maquiladoras are mainly U.S.-owned factories that import materials from the United States for processing or assembling and re-export. No Mexican duties are charged on the inputs, while U.S. duties are assessed only on the value added in Mexico. The 2,000 maquiladora plants along the border with the United States employ about 500,000 people in Mexico. These industrial areas are characterized by poor working and living conditions, and there are usually strong restrictions against organizing independent unions.

❖ **Women, who constitute 68 percent of maquiladora workers, earn less than a dollar a day and routinely face sexual harassment.** Most are young, and many employers persist in their belief that they are working for "supplemental" wages and do not plan on staying in the work force. At the same time, they are liable to be dismissed upon becoming pregnant and, in some cases, are even forced to show proof that they are menstruating. In reality, the majority of maquiladora women workers supply vital incomes to their families and many are heads of their households.

❖ **The incidence of low birth weight among babies of maquiladora workers is almost three times higher than among babies whose mothers have worked in other sectors,** according to a study of female maquiladora workers in Nogales, Sonora. Furthermore, 52 percent of the maquiladora workers' low-birth-weight babies were born prematurely. In Matamoros, 42 families recently brought suit against the Mallory

maquiladora plant. Many children of mothers who worked at this electronics plant were born with similar physical deformities and serious learning deficiencies. Their mothers all worked with highly toxic PCB compounds for long hours, often reaching into deep vats of the chemicals wearing only rubber gloves for protection.

❖ **An increase in skin diseases, gastrointestinal problems, nervous disorders, eyesight deterioration, cancers and miscarriages have all been linked to factory work in the maquiladoras.** Stressful production quotas, along with inadequate protective gear, lack of information and excessive exposure to dangerous chemicals, severely threaten the health and safety of the maquiladora workers. According to some estimates, when plants move to Mexico production speed is increased 25 percent. The average productive work life of a maquiladora worker is ten years. Despite the lack of alternatives, turnover in the maquiladora industry is high — nearly 180 percent annually.

Few workers can endure the mental and physical strains caused by the work.

❖ **The maquiladora industry has managed to violate Mexican worker-rights laws with impunity.** Frequent violations of labor laws include making illegal deductions from pay envelopes, requiring workers to work double shifts, giving nighttime industrial jobs to persons under 18 years of age, and not allowing workers to go to clinics when ill or injured on the job.

❖ **The maquiladora program does not require that foreign industries relocating to Mexico invest in community infrastructure or development.** In fact, there are investment incentives that exempt these businesses from taxes that might fund programs of housing, water, education or other necessary community services. Due to the lack of sanitation facilities, as much as 80 percent of the population of some border towns are infected with hepatitis A.

A NAFTA could well lock Mexico into maquiladora-style development based on low wages, poor working conditions and environmental degradation.

❖ A NAFTA could well lock Mexico into maquiladora-style development based on low wages, poor working conditions and environmental degradation. Many Mexicans, including political opposition leader Cuauhtemoc Car-

denas, have expressed concern that this phenomenon would divert Mexican development strategies away from improving productivity and living standards and from an increased integration of the local economy.

For additional information, please contact:

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Phoebe McKinney, Maquiladora Project, American Friends Service Committee

Susan Mika, Coalition for Justice in the Maquiladoras

NAFTA AND IMMIGRATION

Labor mobility is an important issue in the process of economic integration, but it has been largely ignored in official discussions surrounding a NAFTA:

❖ **Migration from Mexico to the United States has increased significantly since Mexico began its economic liberalization program in the early 1980s.** Research shows that higher wages are the single most important motivating factor for migrants. Rather than rising, real wages in Mexico have dropped sharply since these reforms began.

❖ **Undocumented immigrants face dangers of exploitation and physical abuse as they cross the border and work in the United States.** Current immigration laws have served more to increase the hardships endured by immigrants than to decrease immigration flows to the United States. The employers' sanction provision of the Immigration Reform and Control Act of 1986 effectively denies undocumented Mexican workers their right to work as guaranteed by Article 23 of the Universal Declaration of Human Rights, approved by the United Nations in 1948. A 1989 General Accounting Office report on the impact of this provision on documented workers indicated that it has resulted in higher incidents of discriminatory hir-

ing practices, particularly among Hispanic and Asian workers.

❖ **Although the U.S. and Mexican governments have claimed that immigration to the United States would decrease as a result of the jobs created in Mexico under a NAFTA,** many observers are convinced that the opposite would occur. Many grain farmers, small-business people and other Mexicans who could lose their jobs because of increased imports would likely be drawn northward in search of jobs in the maquiladoras and then across the border in search of better wages and living conditions.

Many grain farmers, small-business people and other Mexicans who could lose their jobs because of increased imports would likely be drawn northward across the border in search of better wages and living conditions.

❖ **Although it seems probable that a NAFTA would have an impact on immigration flows, this issue has been excluded from the negotiations agenda.** The Salinas Administration had initially requested that a labor component including the "orderly flow of Mexican workers" be added to that agenda, but the Bush Administration would not agree to include it in the negotia-

tions. Many prominent Mexicans believe that it is crucial that the three countries achieve a workable balance within a NAFTA between an open-border policy and restricted immigration, a compromise that would also protect workers' rights.

For additional information, please contact:

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American Friends Service Committee

NAFTA AND LABOR RIGHTS AND STANDARDS

Without mechanisms for improving and enforcing Mexican labor rights and standards, a NAFTA would provide incentives to U.S. and Canadian businesses to shift operations and jobs to Mexico without improving the well-being of workers in that country:

❖ **While Mexico does have labor laws protecting workers' rights, they are very often not enforced, thus constituting another incentive for U.S. firms to relocate to Mexico.** Particularly under a NAFTA, this could place increased downward pressure on U.S. labor standards. U.S. trade unions, already hurt by permanent striker replacement rules, would find their collective bargaining positions further weakened.

❖ **Most Mexican unions and labor federations have historically been subservient to the ruling party and lack independence from the government and its policies.** Unions must be registered with the government, members of the largest unions are required to join the ruling Institutional Revolutionary Party (PRI), and the government can declare unions and strikes "nonexistent" (i.e., illegal). Government refusal to register particular unions has hampered union reform and union independence from the PRI.

❖ **Mexican workers face many legal and political obstacles in organizing unions to represent their interests.** Efforts by workers to affiliate with more independent unions have been thwarted by government, management, and official union collusion. In some cases firms have registered their own unions in an effort to rid themselves of trou-

blesome independent unions already registered. In a recent union election, the Ford workers in Cuautitlan voted on whether to certify the Confederation of Revolutionary Workers (COR) instead of the larger Confederation of Mexican Workers (CTM). The election was marked by fraud and worker harassment. The CTM leadership, since claiming victory, has threatened those who voted for the COR with firing.

❖ **The use of child labor, which is rampant in Mexico and on the rise in the United States, could be exacerbated by a NAFTA as employers attempt to lower production costs in order to remain competitive.** Although in Mexico children cannot legally work even on a part-time basis until the age of 14, the Mexico City Assembly recently acknowledged that five-to-ten million children are employed illegally, often in unsafe jobs. Child labor is found in all sectors of Mexico's economy — agriculture, small-scale industries, services and

small businesses, domestic service, and street trade. Approximately 50 percent of Mexican children currently drop out of primary school, forced to work to supplement family income.

❖ **A NAFTA could serve to weaken the already lax enforcement of workplace health and safety standards on both sides of the U.S.-Mexico border.** Mexican industrial workers are often exposed to hazardous levels of lead, mercury, arsenic and other dangerous chemicals and often work in crowded, unsanitary conditions. Similar problems exist in the United States, as evidenced by the recent tragic fire at an uninspected poultry plant in North Carolina.

Efforts by Mexican workers to affiliate with more independent unions have been thwarted by government, management, and official union collusion.

For additional information, please contact:

David Brooks, Mexico-U.S. Dialogos
Pharis Harvey, International Labor Rights Education and Research Fund
Darlene Moore, National Consumers League
Matt Witt, American Labor Education Center

NAFTA AND ITS IMPACT ON JOBS AND WAGES

While proponents of an Agreement argue that a NAFTA will generate jobs throughout the region, critics question this assertion. They also charge that an Agreement would have the effect of driving wages downward:

❖ **A NAFTA would generate substantial job losses and downward pressure on wages in the United States due to sizable shifts of business investment to Mexico, according to studies conducted by the Economic Policy Institute (EPI) and the National Planning Association. The EPI estimates that over the next ten years a "free trade" agreement would rob the United States of approximately 550,000 high-wage jobs that would have been created in the absence of an agreement. Other studies based on the experience of the European Community predict that between 260,000 and 439,000 jobs would be relocated from the United States to Mexico as a result of a shift in investment. These findings contrast with those of the U.S. International Trade Commission, the U.S. Department of Labor and the University of Texas at El Paso, which assume minimal change in investment flows and predict that U.S. employment would rise modestly as resources are shifted out of certain sectors, such as textiles, and into activities stimulated by increased exports.**

❖ **Even if productivity in Mexican industry were to increase under a NAFTA, it is doubtful that Mexican wages would approach U.S. levels. The EPI has found that over the last ten years labor productivity in Mexican automobile factories has increased dramatically to the point where it is now estimated to have reached approximately 80 percent of U.S. levels. Real wages in that industry, however, have fallen by 30 percent during the same period.**

Studies predict that between 260,000 and 439,000 jobs would be relocated from the United States to Mexico as a result of a shift in investment.

❖ **Since the U.S.-Canada FTA was signed in 1988, Canada has lost 226,000 jobs and it is anticipated that the lower wages and labor standards in Mexico will lead to further unemployment, according to a number of leading Canadian institutions. Much of this job loss in Canada has been the result of the consolidation of manufacturing activities and of businesses transferring activities from higher-wage, unionized factories in Canada to lower-wage, non-unionized areas in the United States.**

❖ **The Mexican government's policy of suppressing wages in order to attract U.S. investment would likely ensure the continuation of current low-wage levels should a NAFTA be implemented. Mexican workers are concerned not only about unemployment but also about the downward trend in wage rates. Real wages in Mexico have fallen, on average, approximately 50 percent in the last eight years, to about one-ninth of U.S.**

levels. Many people must now hold two or three jobs just to make ends meet. Opposition party leader Cuauhtemoc Cardenas has declared that it is absolutely unacceptable "... that an international division of labor between the three countries assigns Mexico the role of a permanent supplier of cheap labor."

❖ **As Mexican wages have decreased, income distribution has also worsened, leaving a smaller market for consumer goods. Since wages are so low, a decreasing number of Mexicans can afford the goods that they produce. If, as expected, Mexican wage levels do not recover under a NAFTA, the demand for U.S. consumer goods would also fall far short of that projected by proponents of an agreement.**

**For additional information, please contact:
Thea Lee, Economic Policy Institute**

NAFTA AND SMALL BUSINESS

Although a North American Agreement is promoted as a means for expanding business opportunities in the region, small businesses could be at serious risk in each of the three countries:

❖ **NAFTA, by further stimulating the movement to Mexico of large, U.S.-based corporations in search of lower labor and environmental-protection costs, would eliminate a critical market for the small companies which supply them with inputs.** According to recent testimony by several U.S. small-business owners before the House Committee on Small Business, this is one of the reasons why many in this sector have serious reservations about an Agreement, while large corporations tend to favor a NAFTA. In addition, many small businesses are either unwilling or unable to move their operations to Mexico because of the cost involved and their commitment to workers at home.

❖ **The increase in low-wage imports from Mexico that would likely result from a NAFTA would threaten many small, labor-intensive businesses in the United States.** Many U.S. companies would be unable to compete with cheaper Mexican imports, the production of

which is not held to the same safety and environmental standards. At the Small Business Committee hearing, Alan Lewis, a small-business owner in Illinois, stated, "My company and others must meet all OSHA and EPA requirements. We have invested literally millions of dollars in the past five years to clean up our water and air, and we gladly do this because it is our country and we want to keep it clean."

Many U.S. companies would be unable to compete with cheaper Mexican imports, the production of which is not held to the same safety and environmental standards.

❖ **Many Mexican small and medium-sized businesses would be unable to compete with larger, better-capitalized U.S. firms utilizing the latest technology.** If the approximately 90,000 small and medium-sized industries in Mexico are unable to compete with new U.S. products entering the domestic market, and if that market is limited by the low wages paid to Mexican workers in order to attract U.S. investors, many thousands of small-business workers could lose their jobs.

❖ **A NAFTA would probably accelerate the redirection of credit resources away from Mexican small businesses.** It is expected that an Agreement would further stimulate export production, which would consume the lion's share of available credit and other critical resources.

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NAFTA AND DEMOCRACY AND HUMAN RIGHTS

Most agree that a NAFTA should be built on democratic principles, yet the negotiations appear to be reinforcing the lack of democracy in Mexico and they could yield an Agreement that would undermine democratic decision-making in the United States and Canada:

❖ Nearly 50 percent of Canadians polled by their government in August 1991 said they thought the U.S.-Canada FTA should be scrapped and 60 percent were opposed to a NAFTA, yet Canada has joined the United States and Mexico in negotiating an Agreement. Citizens' concerns include the fear that their country's national health-insurance program will soon be challenged under the U.S.-Canada FTA as an unfair subsidy to business. There have been no public hearings on a NAFTA.

❖ In Mexico, the Salinas Administration denied the Chamber of Deputies before the August elections its constitutional right to review a NAFTA by defining the proposed agreement as a treaty, which falls within the purview of the more pro-government Mexican Senate. The Senate's deliberations have so far been limited to three days of hearings, where public participation and press coverage were severely restricted. In June 1991 on the Chamber floor, members of the conservative National Action Party (PAN) raised strenuous objections to this shift in legislative authority.

❖ The Bush Administration has also played its part in the stifling of public debate on a NAFTA. In addition to pushing through fast-track legislation, which limits U.S. Congressional consideration of an Agreement, it has, in conjunction with the Salinas Administration, blocked recent attempts to organize a Congressional forum in Mexico. At this forum, members of the U.S. House of Representatives and the Mexican Chamber of Deputies would have heard views from a broad range of Mexican government, business, labor, environmental and social-sector representatives on a NAFTA.

❖ There are continuing doubts about the representativeness of the Mexican government as it negotiates a NAFTA. The National Accord for Democracy (ACUDE), a politically diverse grouping of Mexican citizens established to promote an effective electoral system in Mexico, monitored Congressional and state elections held in August. It reported that constitutional voting

rights were effectively denied to a significant portion of the citizenry. This and substantial irregularities in the vote count were reported by independent U.S. observers, as well. Independent policy analysts and opposition parties consider biased electoral authorities, the ruling PRI's monopoly on television time, and problems surrounding party finances and the verification of voter registries to be important factors in the flawed electoral process.

❖ The results of the fraud-ridden 18 August elections will enable the Salinas Administration to pass new legislation related to a NAFTA, as well as constitutional amendments that would

profoundly expand the reach of an agreement, without consulting opposition parties or the Mexican public. The PRI, along with several smaller parties loyal to it, now control a constitutional majority in both houses of the Mexican Congress, which could allow it, for example, to change articles of the constitution that prohibit foreign investment in the petroleum industry. It is now unclear, therefore, whether oil is really "off the table" in the NAFTA negotiations. In addition, the Salinas Administration is currently utilizing this increased control to change the small-farm ejido system that has been protected by the Constitution since the Mexican Revolution. It, too, will be open to foreign investors.

❖ Rulings made by unelected technical "experts" under a NAFTA would supersede many existing laws passed by the legislatures of the three countries. The dangers of turning power over to unelected officials was demonstrated recently when a GATT panel, meeting in

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secret, ruled that the U.S. Marine Mammal Protection Act constituted an illegal barrier to trade by prescribing how other nations produce exports; the decision effectively denies the United States the right to prohibit the importation of tuna caught by methods that kill more dolphins than allowable in the U.S. tuna industry. Furthermore, because the ruling was so broad, it could severely limit the ability of governments in the future to effect environmental, human-rights, labor-rights, consumer and agricultural standards, laws and treaties. The possibility that a similar panel resolving disputes under the U.S.-Canada Free Trade Agreement could decide that U.S. asbestos laws and the Canadian national health-insurance program constitute an unnecessary barrier to trade and an unfair trade advantage for Canadian companies, respectively, underscores the threat to national sovereignty and democratic process under a NAFTA.

❖ According to independent Mexican human rights organizations, as well as Amnesty International and Americas Watch, torture of prisoners in Mexico is rampant. The official Mexican Human Rights Commission has reported that between December 1990 and May 1991 it received 1,913 human rights complaints,

including 266 that referred to torture. Non-governmental organizations working on human rights issues estimate that the actual incidence of human rights violations are much higher. In addition to the widespread reports of torture, Mexican opposition parties assert that there have been

over 100 deaths and disappearances at the hands of government-linked forces. At the same time, individuals and organizations that have been trying to open up the political process in the country, as well as a public dialogue on a NAFTA, have been subjected to threats and other efforts at intimidation.

❖ Many people in Canada, Mexico and the United States believe that, just as democracy was a precondition for Spain's and Greece's entry into the European Community, true democracy and respect for human rights should be conditions for Mexico's involvement in a NAFTA. While many Mexicans welcomed the establishment of the official Mexican Human Rights Commission in June 1990, as well as certain reforms in electoral laws, they point out that these are mainly cosmetic changes with little enforceability.

They believe that international pressure will be required to help establish a truly democratic political system in Mexico.

Under the U.S.-
Canada FTA, un-
elected officials could
decide that U.S.
asbestos laws and the
Canadian national
health-insurance pro-
gram constitute an un-
necessary barrier to
trade and an unfair
trade advantage,
respectively.

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