How NAFTA Failed Mexico

Immigration is not a development policy.

BY JEFF FAUX

During the 1993 battle over the North American Free Trade Agreement, the proposal's promoters' most politically effective argument was that NAFTA would keep Mexicans out of the United States. As political writer Elizabeth Drew later observed, "Anti-immigration was a sub-theme used, usually sotto voce, by the treaty's supporters."

The voce was not always sotto. "We don't want a huge flow of illegal immigrants into the United States from Mexico," said former President Gerald Ford, speaking at one of then-President Bill Clinton's pro–NAFTA rallies. "If you defeat NAFTA, you have to share the responsibility for increased immigration into the United States, where they want jobs that are presently being held by Americans."

Leaving aside the xenophobia, Ford's argument made economic sense: If NAFTA were to create more jobs in Mexico, fewer Mexican workers would leave. When people can earn a decent living in their own country, they would generally rather stay put.

Thus although workers in the poorer European countries can get jobs anywhere in the common market, few have moved across national borders because jobs in their own countries are expanding. Growth in the European Union periphery was largely stimulated by so-called cohesion funds, provided by richer nations for public investment. The program was so successful that, after centuries of exporting people to the rest of the world, Ireland in 1996 became a net importer of migrants.

NAFTA proponents, on the other hand, claimed that merely opening Mexico to free trade and unregulated foreign investment would produce the job growth and rising incomes needed to create a stay-at-home middle class. It was the capstone on an effort begun in the early 1980s by a group of U.S.–educated economists and businesspeople who took over the ruling Partido Revolucionario Institucional (PRI) in order to build a privatized, deregulated and globalized Mexican economy. Among their chief objectives was tearing up the old corporatist social contract in which the benefits of growth were shared with workers, farmers and small-business people through an elaborate set of institutions connected to the PRI.

NAFTA provided no social contract. It offered neither aid for Mexico nor labor, health or environmental standards. The agreement protected corporate investors; everyone else was on his or her own. Indeed, NAFTA is the nation-building template imposed on developing countries by recent corporate-dominated U.S. administrations and their client international finance agencies. It is the model for the proposed Free Trade Agreement of the Americas, as well as for the Bush administration's development plans for Iraq.

Americans' understanding of NAFTA's impact on the Mexican people is obscured in part by the gap between what Mexican elites tell U.S. elites and what Mexicans tell one another. Last December former Mexican President Carlos Salinas, who negotiated NAFTA, told a Washington conference of applauding corporate lobbyists, government officials and free-market think tankers that NAFTA was a great success. "The level of trade and type of products that cross the borders," he said, "silenced even the most ardent critics."

The next day, in Mexico City, a large group of very ardent Mexican farmers broke down the door of the lower house of the Mexican Congress to denounce NAFTA and demand that it be renegotiated. Similar demonstrations—joined by teachers, utility workers and others—have erupted throughout the country, closing bridges and highways and taking over government offices. Polls show that most Mexicans think NAFTA was bad for Mexico. Largely because of the agreement, Salinas is the most unpopular ex-president in modern Mexican history.

NAFTA's critics did not doubt that it would stimulate more trade; that was, after all, its function. Rather, they predicted that any benefits would go largely to the rich while the middle class and the poor would pay the costs, and that the promised growth would not materialize. They were right. NAFTA is not the cause of all Mexico's economic troubles, but it has clearly made them worse. Since NAFTA's inception in 1994—indeed, for the 20 years of neoliberal "reform"—the Mexican middle class has shrunk and the number of poor has expanded. Economic growth has been below the old corporatist economy's performance and substantially less than what is needed to generate jobs for Mexico's growing labor force. During his 2000 campaign, Mexican President Vicente Fox promised that under his six-year term the country would grow 7 percent per year. Two and a half years after his inauguration, growth has averaged less than 1 percent.

So the northward migration continues. Between the U.S. censuses of 1990 and 2000, the number of Mexican-born residents in the United States increased by more than 80 percent. Border-crossings diminished temporarily after September 11, but they are now as great as ever. Some half-million Mexicans come to the United States every year; roughly 60 percent of them are undocumented. The massive investments in both border guards and detection equipment have not diminished the migrant flow; they have just made it more dangerous. In the past five years, more than 1,600 Mexican migrants have died on the journey to the north, including 19 people who were found asphyxiated in a truck near Houston in May. Still, as a neighbor of one of the 19 who left told *The Washington Post*, "If you're going to improve your life, you have to go to the United States."

The failure of NAFTA to deliver on its promise of a better life for Mexicans represents more than just a misplaced faith in free trade. Behind the laissez-faire rhetoric, Mexico's neoliberals were pursuing a large-scale program of government social engineering aimed at forcing Mexico's rural population off the land and into the cities, where it could provide cheap labor for the foreign investment that the new open economy would attract.

Salinas and the PRI reformers did not, of course, announce that they intended to depopulate rural Mexico. The Mexican government promised that as tariffs on U.S. agriculture products fell, generous financial and technical assistance would enable small farms to increase their productivity in order to meet the new competition. But, after the treaty was signed, the reformers pulled the rug out from under the rural peasantry. Funding for farm programs dropped from $2 billion in 1994 to $500 million by 2000.

Meanwhile, the U.S. Congress massively increased subsidies for corn, wheat, livestock, dairy products and other farm products exported to Mexico. American farmers now receive 7.5 to 12 times more in government help than Mexican farmers do. This "comparative advantage" enabled U.S. agribusiness to blow thousands of Mexican farmers out of their own markets.

But when the displaced *campesinos* arrived in nearby cities, few jobs were waiting. NAFTA concentrated growth along Mexico's northern border, where factories—called maquiladoras—processed and assembled goods for the then-booming U.S. consumer market. Between 1994 and 2000, maquiladora employment doubled while employment in the rest of the country stagnated.

Neoliberalism was supposed to reduce the income gap between Mexico's relatively rich border states and the poorer ones in the country's middle and south. Supporters claimed that privatizing banks and opening them to foreign ownership would make more capital available for domestic firms in domestic markets. But—in the depressingly familiar pattern of privatization the world over—the PRI reformers sold off the banks to friends, then bailed out the new owners when the peso collapsed a year after NAFTA was passed. Made whole with more than $60 billion of the taxpayers' money, these crony capitalists resold their banks at a handsome markup to foreign investors. For example, an investment group headed by the well-connected Roberto Hernandez bought Mexico's second-largest commercial bank for $3.2 billion and sold it to CitiGroup for $12.5 billion. Yet, as 85 percent of the country's banking system was being turned over to foreigners, lending to Mexican business actually *dropped* from 10 percent of the country's gross domestic product in 1994 to 0.3 percent in 2000. The global bankers were more interested in taking deposits and making high-interest-rate consumer loans than in developing Mexico's internal economy.

Meanwhile, booming investment in the exporting sweatshops of the north has created a social and ecological nightmare. Rural migrants have overwhelmed the already inadequate housing, health and public-safety infrastructures, spreading shantytowns, pollution and crime. Maquiladora managers often hire large numbers of women, whom they believe are more docile and more dexterous than men at assembly work. Earnings are typically about $55 a week for 45 hours—poverty wages in an area where acute shortages of basic services have raised the cost of living. Families break up as men cross the border in search of jobs, leaving women vulnerable to the social chaos.

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An Amnesty International report on the border town of Ciudad Juárez, where hundreds of young women have been killed, quotes the director of the city's only rape crisis center (annual budget: $4,500): "This city has become a place to murder and dump women. [Authorities] are not interested in solving these cases because these women are young and poor and dispensable."

As the U.S. economy slowed down after 2000, the number of jobs in the maquiladoras stopped growing. Moreover, the privileged access that Mexicans thought NAFTA had given them began to erode. The same global corporate coalition that forced NAFTA through Congress later successfully lobbied for the United States to sponsor China's full entry into the World Trade Organization (WTO), paving the way for a huge increase in Chinese exports to the United States. In the last two years, an estimated 200,000 maquiladora jobs have left Mexico for China, where workers can be had for one-eighth the Mexican wage. In a deregulated world, there is always someone who will work for less.

Hope that NAFTA would enable Mexico to export its way to prosperity has largely vanished. In order to relieve the pressures of unemployment, Fox has been badgering George W. Bush to liberalize migration, create guest-worker programs, and provide Mexican migrants with civil rights and social benefits. The Mexican president regularly refers to migrants in the United States as "heroes," and their remittances have become one of the country's most important sources of foreign earnings.

The White House has been unresponsive. After Fox—facing a July election with 80 percent of Mexicans opposed to the invasion of Iraq—declined to join Bush's war coalition, Washington is even less interested.

In time White House pique will fade. But, in any event, Mexico cannot develop by sending its most ambitious and industrious workers to the United States. It is not the poorest and least educated that migrate; it is the working-class risk takers—those who save up the $2,000 to pay a smuggler to take them across the river and who, once in the United States, sacrifice to send home their exploitation wages. Mexico needs these people. It paid for the cost of their upbringing and education, in effect subsidizing U.S. consumers of low-wage work.

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The Mexican government, aided by some U.S. foundations and nongovernmental organizations, is attempting to channel migrant remittances into quasi-governmental credit unions that would provide capital to businesses and local governments. This may be useful. But migrants send money home for immediate consumption to maintain the living standards of parents, grandparents and children in a depressed domestic economy. It is an odd notion of economic development that rests on the meager savings of low-wage Mexican workers in America while wealthy Mexicans regularly ship *their* capital to New York, London and Zurich.

In fact, for Mexico's oligarchs, the public focus on the condition of Mexican workers in the United States has the great virtue of diverting political attention from the condition of Mexican workers in Mexico. Fox has been eloquent on the maltreatment of undocumented migrants at U.S. farms and factories. Rightly so. But he has been silent about the harsh and brutal conditions suffered by Mexico's own domestic migrants, including those as young as 11 years old who were found—after Fox's election—to be working in his own vegetable packing plant.

As in many developing countries, the largest part of Mexico's economic problem lies not in restricted export markets but in the stifling maldistribution of wealth and power that restricts internal growth. The gap between Mexico's rich and poor is among the worst in the Western Hemisphere. The rich hardly pay any taxes. Despite the image of Mexico as a country with a strong state, the public revenue is 19 percent of GDP, compared with the 30 percent that the presumably more conservative American public sector takes. Mexico—even more than did the poorest nations of Western Europe—needs substantial investment in education, health and infrastructure to create sufficient jobs for its people. A contribution to that investment by the United States and Canada equivalent to the EU's cohesion funds would approach $100 billion. The only imaginable scenario for anything near that level would require, among other things, a dramatic democratic reform of Mexico's corrupt and inefficient public sector.

Ironically, hopes for such a future lie in the political fallout from NAFTA's lack of success. By 2000, Mexican voters were so disgusted with the failed promises of PRI neoliberals that they ousted the party after 71 years of continuous rule. Whatever else Fox may accomplish, his breaking of the PRI's political stranglehold has reverberated throughout Mexico's political economy. Not only are elections contested at all levels, the major institutions of the old corporatist system—the client labor unions, rural organizations and small-business groups—are being slowly democratized by a younger generation of leaders demanding accountability.

It is too early to tell if or when these forces will produce a more effective and broadly shared growth agenda for Mexico. But one lesson is already clear: Of all the world's developing countries, Mexico was by far in the best position to exploit the neoliberal model. Its proximity to the U.S. market and a domestic U.S. constituency of millions of Mexican American voters gave Mexico advantages under NAFTA that no other Third World nation had. The testimony of hundreds of thousands of Mexican workers each year making the hard and dangerous trip north is evidence that, after two decades, the model is not working in Mexico. If it is not working there, it is unlikely to work anywhere. ■

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