FRACASO: NAFTA’S DISPROPORTIONATE DAMAGE TO U.S. LATINO AND MEXICAN WORKING PEOPLE

Neither Neoliberal Business-As-Usual Trade Policy nor Trump’s Economic Nationalism Is the Way Forward for NAFTA 2.0

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ABOUT PUBLIC CITIZEN

Public Citizen is a national non-profit organization with more than 400,000 members and supporters. We represent consumer interests through lobbying, litigation, administrative advocacy, research and public education on a broad range of issues including consumer rights in the marketplace, product safety, financial regulation, safe and affordable health care, campaign finance reform and government ethics, fair trade, climate change, and corporate and government accountability.

About Global Trade Watch
Global Trade Watch’s mission is to ensure that in this era of globalization, a majority have the opportunity to enjoy economic security, a clean environment, safe food, medicines and products, access to quality affordable services such as health care and the exercise of democratic decision-making in matters that affect them and their communities. Learn more at tradewatch.org.

ABOUT THE LABOR COUNCIL FOR LATIN AMERICAN ADVANCEMENT

The Labor Council for Latin American Advancement (LCLAA) is the leading national organization for Latino(a) workers and their families. LCLAA was born in 1972 out of the need to educate, organize and mobilize Latinos in the labor movement and has expanded its influence to organize Latinos in an effort to impact workers’ rights and their influence in the political process. LCLAA represents the interest of more than 2 million Latino workers in the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), The Change to Win Federation, Independent Unions and all its membership.
Executive Summary

U.S., Mexican and Canadian unions and consumer, faith and environmental groups that fought against the North American Free Trade Agreement’s (NAFTA) enactment have documented decades of NAFTA damage in the three nations. As a candidate, Donald Trump hijacked progressives’ critique of NAFTA’s ongoing job outsourcing to win working class support with promises to renegotiate or end NAFTA.

While NAFTA harmed many U.S. workers, Trump’s xenophobic narrative about NAFTA is entirely wrongheaded. An examination of NAFTA’s history and its outcomes presented in this report make clear that Trump’s notion of NAFTA as a plot by Mexico to hurt U.S. workers is absurd. NAFTA was the brainchild of U.S. presidents, was negotiated with input from hundreds of U.S. corporate trade advisors, and has been devastating to working people in both Mexico and the United States.

Instead of the higher wages promised, in real terms average annual Mexican wages are down 2 percent, and the minimum wage is down 14 percent from pre-NAFTA levels with manufacturing wages now 40 percent lower than in China. Millions of Mexican farmers lost their livelihoods as NAFTA eliminated policies protecting small farmers, but did not discipline U.S. farm subsidies. The economic havoc NAFTA caused became a major push factor in increased Mexican migration to the United States.

Almost one million U.S. jobs have been certified as lost to NAFTA under the Trade Adjustment Assistance (TAA) program that undercounts NAFTA job loss. U.S. median wages are stagnant, and 40 percent of manufacturing workers who lose jobs to trade face major pay cuts if they find new employment. As this report documents, among U.S. workers hurt by NAFTA, Latino workers have suffered disproportionate injury.

In this report, building on decades of the Labor Council for Latin American Advancement’s (LCLAA) advocacy for Latinos and Public Citizen’s research on the impacts of U.S. trade policy, we focus on the impact of NAFTA on U.S. Latinos and Mexican working people:

- NAFTA’s U.S. economic damage has been greatest in regions where the Latino population is concentrated. The 15 states where 85 percent of Latinos reside account for nearly half (46 percent) of the more than 950,000 NAFTA job losses certified under the TAA program.

- Latino workers were disproportionately represented in the light manufacturing industries hit hardest by the outsourcing NAFTA incentivized. Latinos lost 138,000 jobs in the apparel and textile sector and 123,000 jobs in the U.S. electronics industry during the NAFTA era.

- As NAFTA eliminated U.S. manufacturing jobs, the related wage stagnation for workers without college educations across all industries hit Latinos asymmetrically. Rather than the Latino-white pay gap closing, it increased during the NAFTA years. Latinos comprise 23 percent of workers in non-professional sectors such as leisure and hospitality, compared to 17 percent of the overall U.S. workforce. As increasing numbers of trade-displaced workers joined the glut of workers competing for these non-offshorable jobs, real wages have been flat in these growing sectors.

- For Mexican workers, increased investment and trade with the United States failed to translate into per capita income growth or rising wages in Mexico. Annual per capita income grew less than 2 percent in the first seven years of NAFTA and less than 1 percent thereafter.

- Real average annual wages have declined in Mexico under NAFTA, contrary to the promises by NAFTA supporters that the pact would raise Mexicans’ living standards. Overall, in real terms average annual Mexican wages are down 2 percent, and the minimum wage is down 14 percent from pre-NAFTA levels. According to analysis by Bank of America/Merrill Lynch,
manufacturing wages in Mexico are now 40 percent lower than in China. Prior to NAFTA, Mexican auto wages were five times lower than in the United States. Today, even as U.S. wages stagnated, Mexican auto wages are nine times lower.

• Even as NAFTA made it cheaper and less risky to outsource hundreds of thousands of jobs from the United States to Mexico, and U.S. firms continued to build new high tech multi-million-dollar manufacturing plants in Mexico, the number of manufacturing jobs (which pay more) as a share of total Mexican employment dropped from 20 to 15 percent. A United Nations Economic Commission for Latin America and the Caribbean (ECLAC) study found the loss of Mexican manufacturing related to China’s 2001 entry into the World Trade Organization (WTO) includes almost 50 percent of jobs in the yarn-textile-garment chain, furniture and toy production sectors.

• NAFTA devastated Mexico's rural sector. Amid a NAFTA-spurred influx of subsidized U.S. corn, about 2 million Mexicans engaged in farming and related work lost their livelihoods.

• With millions of Mexicans displaced from rural communities competing for the hundreds of thousands of new manufacturing jobs outsourced from the United States, and a lack of independent unions in Mexico to bargain for better wages, employers could keep wages reprehensibly low.

• As NAFTA destroyed Mexican livelihoods and displaced millions in rural Mexico, it became a powerful push factor for migration. From 1993, the year before NAFTA began, to 2000, annual immigration from Mexico increased from 370,000 to 770,000. With annual immigration on the rise, the total number of undocumented immigrants from Mexico living in the United States increased from about 2.9 million in 1995 to 4.5 million in 2000 to 6.9 million by 2007 when the financial crisis limited job opportunities and slowed migration rates.

• Tens of thousands of Mexican migrants who survived the perilous border crossing ended up working as seasonal crop workers in the United States. Over half have now been working in such farm jobs for over a decade. Others found work in landscaping, construction, food services and personal services and, even before the Trump administration’s attacks on immigrants, were some of the most vulnerable workers in the U.S. economy.

• Nearly 28,000 small- and medium-sized Mexican businesses were destroyed in NAFTA’s first four years alone, spurring the El Barzon movement of formerly middle-class Mexican entrepreneurs protesting NAFTA. Losses included many retail, food processing and light manufacturing firms that were displaced by NAFTA’s new opening for U.S. big-box retailers that sold goods imported from Asia.

The data on NAFTA’s negative effect on working people in both countries upend Trump’s NAFTA narrative pitting U.S. workers against their Mexican counterparts and underscore why NAFTA must be replaced. After a year of renegotiations, the September 30, 2018 publication of a NAFTA 2.0 text revealed some improvements, some damaging new terms and much important unfinished business. The NAFTA 2.0 text that Mexico, Canada and the United States signed at the end of November will not stop NAFTA’s ongoing job outsourcing or downward pressure on wages in Mexico and the United States. That the Donald Trump, Justin Trudeau and Enrique Peña Nieto administrations did not deliver a transformational replacement of the corporate-rigged trade-pact model that NAFTA hatched in the early 1990s is no surprise. However, if the pact’s labor standards can be made subject to swift and certain enforcement — and other key improvements are made — then the final package expected to head to Congress in 2019 could stop some of NAFTA’s continuing, serious damage to people across North America.
Introduction

The U.S. public was promised NAFTA would create 200,000 new high-wage U.S. jobs per year in its first five years alone.1 Mexicans were promised NAFTA would raise wages and bring Mexicans’ standards of living closer to those in the United States and Canada.2 After 25 years of NAFTA, the reality is the opposite of the promised gains.

Seizing on the anger that nearly 25 years of living with NAFTA’s ongoing job outsourcing and downward pressure on wages has generated among many Americans, then-candidate Donald Trump gained working class support by attacking NAFTA and promising to renegotiate it to bring back U.S. jobs and bring down the trade deficit or to exit the pact. While Trump’s critique of the damage in the United States reflected the data that unions, consumer groups and other fair trade advocates have long spotlighted, what he got wrong was the source of the problem. Trump’s wrongheaded nationalistic narrative focuses on the United States being taken advantage of by Mexico. In Trump’s narrative, Mexico somehow cooked up NAFTA to harm U.S. workers.

In reality, NAFTA was the brainchild of U.S. President Ronald Reagan, who completed its first stage, a U.S.-Canada Free Trade Agreement, in 1988. Mexico was added in negotiations initiated by U.S. President George H.W. Bush, who signed the deal in 1992. Hundreds of official U.S. trade advisors representing corporate interests used their special access in the process to shape a NAFTA text that delivered protections and privileges for them while imposing constraints on government policies that guarantee peoples’ basic rights and safeguards the environment and public health. U.S. President Bill Clinton worked to pass the deal in the face of strong opposition by his own party.

The specific NAFTA terms that have led to the loss of U.S. jobs and put downward pressure on U.S. wages were made in U.S. corporate boardrooms. So were the NAFTA terms that destroyed millions of Mexican small farmers’ livelihoods and crushed the small middle class that owned thousands of small- and medium-sized Mexican retailers and manufacturers that NAFTA bankrupted. While large Canadian firms and the powerful Mexican business elite certainly had a hand in shaping their countries’ positions in the deal, the NAFTA model was created in the United States.

While NAFTA included no enforceable labor or environmental standards, U.S. manufacturing interests were able to obtain terms to reduce the risks and costs of relocating production to low-wage Mexico. These interests also obtained a NAFTA waiver of Buy American rules that allowed them to fulfill lucrative contracts with the U.S. government with goods made in Mexico, not domestically as had been previously required. U.S. telecommunications and financial service firms secured NAFTA rules that created new rights to operate in Mexico, which facilitated the relocation of U.S. call centers and back office operations to lower-wage workers.

Agribusiness giants used NAFTA to eliminate Mexican policies that promoted local food production and limited commodity imports to the demand not fulfilled domestically by Mexican farmers. U.S. pharmaceutical and seed firms obtained terms that extended monopoly protections to ensure higher prices for their products. The entire corporate lobby pushed for the first instance of Investor-State Dispute Settlement (ISDS) in a U.S. trade agreement, a broad set of corporate rights including extra-judicial tribunals to enforce these rights.

What the data on NAFTA’s outcomes from both working people in Mexico and the United States makes clear is that, contrary to Trump’s xenophobic notions about NAFTA that pit U.S. workers against their Mexican counterparts, the original deal was designed against the interests of working people in both countries – even as it was cynically sold as a boon for all.

As Trump has blended racist attacks on immigrants with his ignorant critique of how NAFTA has wrought its damage on U.S. workers, for many it is all too easy to reflexively view a defense of the status quo as the
only option. This report makes clear that neither status-quo neoliberalism nor Trump’s anti-Mexico nationalism is in the interest of working people in the United States or Mexico.

To stop NAFTA’s ongoing damage, NAFTA must be replaced with new terms that are explicitly designed to benefit working people – not terms that are designed to “punish” Mexico. A new North American trade model that works for working people must raise wages, stop race-to-the-bottom outsourcing, cut corporate power and safeguard public health and the environment. This report concludes with a brief overview of how the NAFTA 2.0 text measures up against this standard.

**U.S. LATINO POPULATION**

Latinos are the second-fastest growing racial or ethnic group in the U.S. population, making up nearly one in five people – 59 million - in the United States.

**U.S. LABOR FORCE**

There are 27 million Latinos in the labor force, a 17% share.¹

The median age of U.S. Latinos (29) is almost 10 years younger than the median age of the total U.S. population.²

This means half of U.S. Latinos do not remember a time before NAFTA, and perhaps two-thirds have spent their entire working lives under NAFTA.

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**NAFTA Has Increased the Economic Insecurity of Many Latino Families**

U.S. Latinos have been among the most negatively affected by NAFTA. Latinos directly lost jobs from NAFTA because they were overrepresented in industries and regions that were hit hardest. They have also been impacted by the prevailing economic trends plaguing many U.S. workers during the NAFTA period, only more intensely.

**U.S. Latino Manufacturing Job Loss Due to NAFTA**

The economic fallout from NAFTA has been greatest in many regions where the U.S. Latino population is concentrated. Just fifteen states that are home to 85 percent of the total Latino population¹ account for nearly half (46 percent) of the NAFTA job loss certified by the U.S. government under just the TAA program – 440,000 of the more than 950,000 U.S. jobs – between the pact’s start and the latest available data in June 2018.⁶

California and Texas, the U.S. states with the biggest Latino populations, have lost the greatest number of jobs in the decades after NAFTA was passed.⁷ More than 190,000 Texas jobs and 200,000 California jobs have been certified under the TAA program as lost to NAFTA offshoring or imports between 1994 when the pact began and June 2018.⁸ Like other heavily Latino border cities, El Paso, once called the “Blue Jeans Capitol of the USA,” suffered serious job losses under NAFTA with more than 30,000 certified jobs lost in the El Paso congressional district alone as the garment sector relocated production to Mexico (see Box on Page 5).⁹

As well as being concentrated in the states that suffered the greatest number of NAFTA job losses, Latino workers were disproportionately represented in the light manufacturing industries that have been hit hardest by the outsourcing NAFTA incentivized. This includes the furniture, chemicals, electronics, food products, textiles and apparel sectors. The U.S. trade deficits with Mexico in electronics, furniture and apparel all exploded after NAFTA started,
alongside the more heavily unionized auto sector in which Latinos were less represented. According to the U.S. Bureau of Labor Statistics, Latinos lost 138,000 jobs in the apparel and textiles industry from 1995 the second year after NAFTA went into effect and the earliest year employment data are available, to 2017. The California garment sector centered in Los Angeles, with an estimated 80 percent Latino workforce, was one of these casualties. Latinos were also disproportionately represented in electronics manufacturing. While many Mexicans on the other side of the border found jobs in maquiladoras producing electronics for the U.S. market in the NAFTA period, U.S. Latinos lost 123,000 jobs in the decline in the U.S. electronics industry.

U.S. Bureau of Labor Statistics data show that U.S. workers of color who lose their jobs to trade are even less likely than their white counterparts to find a replacement job. This contributes to chronic jobless rates in Latino communities, where official unemployment rates are several percentage points higher than for whites, alongside damaging “underemployment.”

Defenders of NAFTA often note that, with Mexican manufacturing workers being paid a fraction of what U.S. workers are, some U.S. firms had begun to relocate to Mexico before NAFTA. That was true for sectors not requiring major investments to open factories. But NAFTA’s investor protections made it cheaper and less risky for U.S. firms to outsource high-end manufacturing jobs to low-wage Mexico. NAFTA’s investor protections eliminate many of the uncertainties that make firms think twice about moving production to another country and also provide the equivalent of no-cost risk insurance by empowering foreign investors to obtain compensation from the Mexican government when they claim their investor protections have been

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**Personal Stories on NAFTA’s Impact:**

**Margarita Jimenez**

*El Paso, Texas*

Margarita Jimenez, a member of La Mujer Obrera, an El Paso organization dedicated to creating communities defined by women. For 30 years Margarita worked in factories throughout El Paso, including a factory that made Levi’s jeans. Margarita’s job and that of more than 30,000 other El Paso workers were outsourced since NAFTA.

“When people began to speak of free trade, they would ask something like, “What is free trade?” And everybody said it was something that was going to be beneficial for us. The problem came when we saw that because of free trade, companies began to leave. And then we didn’t like it. Still today, and I don’t understand why, people say that free trade has been beneficial for those inside the United States, and that the only people who have been hurt are those of us in the borderlands. But we in the borderlands also make up part of the United States....

“My future is very unclear. Although I understand it’s hard to find work at my age, at the same time I can’t stop thinking that I eat just like everybody else, and pay bills. ... I also can’t retire because I’m too young for that. But nobody gives me work because I’m very old. So all doors are completely shut to me. I’ve said before and I’ll say it again, for me personally, working in the factory had a tremendously good impact on me because I did a lot. Personally, I believe I achieved my American Dream: buying a house, buying a new car, traveling and becoming a citizen. If everything is bad right now, which it is, it’s because of the system, free trade and all of that. But if all of that hadn’t come into play, we people in the borderlands probably wouldn’t be going through this. I’d be happy there [at the factory], waiting for my moment to retire with a good pension and benefits.”
impaired. These new investor protections – combined with the reality that, because Mexico does not have independent unions, U.S. corporations could rely on wages staying low – facilitated a flood of job outsourcing.

After NAFTA, U.S. auto and auto parts, heavy equipment, aerospace, electronics, appliance and other manufacturers built high-tech, multi-million-dollar plants in Mexico. Mexican workers making less per day than their U.S. counterparts had made per hour toiled to make products that were then sent back to the United States for sale. Mexican workers are not paid enough to buy the cars, televisions and other goods they produced. And, as discussed below, many of the U.S. workers who used to make these goods – many in union factories – could only find new jobs that paid much less. Companies' profits exploded, while U.S. workers, including tens of thousands of Latino workers, lost jobs and faced declining wages and, as Mexican wages declined, income inequality grew in both countries.

Latinos Are Overrepresented Among Workers Whose Wages Have Stagnated Since NAFTA

As well as being concentrated in the states and manufacturing sectors that suffered directly through the greatest number of NAFTA job losses, Latinos have been disproportionately affected by the broader economic trends impacting U.S. workers during the NAFTA period, including the stagnation of wages.

Because the NAFTA model provides large multinational corporations with new rights and privileges but fails to protect even the most basic labor rights, it has empowered companies to undermine working conditions, job security and wages. NAFTA’s special investor protections and guaranteed duty-free access for Mexican goods to the U.S. market has had this damaging effect even in the context of workers with union representation. Namely, after NAFTA, U.S. companies became more likely to threaten relocation as a means of defeating union organizing drives or otherwise restrain or cut wages or benefits for U.S. workers in union contract negotiations. A study of more than 400 union certification campaigns found that threats to close plants were made in 68 percent of union organizing campaigns in “mobile” industries (such as manufacturing, communications and wholesale/distribution) versus 36 percent in “immobile” industries (such as construction, healthcare and other services). Where threats to close were made, 18 percent of the employers directly threatened to move to another country – typically Mexico – if the union succeeded. The research found an increase in the number of such threats of relocation in mobile industries after NAFTA came into effect. Overall, unions had a lower success rate in campaigns where threats to close were used (38 percent) than in campaigns where no such threats were made (51 percent).

Widespread stagnation of wages has accompanied the loss of bargaining power for workers, a trend felt acutely by communities of color. According to analysis of 2015 Census data by the National Employment Law Project, 60 percent of full-time Latino workers earn less than $15 an hour, compared...
with 42 percent of full-time U.S. workers overall. Latino wages lag well behind other groups: Median weekly earnings for Latinos are $674 compared to $876 for all workers. The Latino-white wage gap has remained wide over the years: In 2017, Latino men earned 64 cents for every dollar earned by non-Hispanic white men, and Latina women earned 53 cents. Rather than this Latino-white pay gap closing over the past few decades, it increased slightly during the NAFTA years. Latinos are also more likely to toil in unsafe workplaces: The workplace fatality rate for Latinos is persistently higher than the national average. 

Sadly, these wage figures are not surprising. The impact on wages from the loss of U.S. manufacturing jobs has been particularly severe for minority workers, including Latino workers. According to the U.S. Bureau of Labor Statistics, a total of nearly 4.5 million U.S. manufacturing jobs have been lost overall since NAFTA took effect. Clearly, not all of these manufacturing jobs – one out of every four U.S. manufacturing jobs – were lost to NAFTA. The United States entered the WTO in 1995, China joined the WTO in 2001, and the U.S. trade deficit with China soared thereafter, contributing significantly to U.S. manufacturing job losses.

However, elimination of so many manufacturing jobs has had an overall depressive effect on wages for all workers of similar educational levels, namely those without college degrees. This occurs as displaced manufacturing workers find reemployment in non-offshorable service sectors that pay less. According to the U.S. Bureau of Labor Statistics, about two out of every five manufacturing workers displaced and rehired experienced a wage reduction. About one out of every four took a pay cut of greater than 20 percent. For the average Latino worker earning the median manufacturing wage of $39,500 per year, this meant an annual loss of at least $7,900.

This trade-related downward pressure on wages is a prediction of mainstream macroeconomic theory. When manufacturing workers are displaced and seek new jobs, they add to the supply of U.S. workers available for non-offshorable, non-professional jobs, for instance in hospitality, retail and health care. While all U.S. workers with similar education levels have suffered growing economic insecurity from the downward pressure on wages caused by elimination of higher-wage manufacturing jobs, the non-college-educated share of U.S. Latino workers is 75 percent relative to 56 percent of the overall U.S. population.

While the manufacturing sector lost about 4.5 million jobs between 1993 and 2017, the leisure and hospitality sector – with an average wage of $13 an hour, half that of manufacturing – gained 5.4 million jobs during the same period. Latinos make up 23 percent of workers in these sectors, compared to 17 percent of the overall U.S. workforce. As increasing numbers of trade-displaced workers have joined the glut of workers competing for these non-offshorable jobs, real wages have been relatively flat in these growing sectors.

The loss of manufacturing jobs also has well-documented spillover effects. Each manufacturing job lost means less income to be spent supporting other sectors with high Latino employment rates, such as wholesale trade and retail. According to
the Manufacturers Alliance for Productivity and Innovation (MAPI) Foundation, in 2016 each manufacturing job producing value for “final demand” supports more than three other jobs in the supply chain – from generating raw materials to delivery to the customer. Each manufacturing job loss jeopardizes these other jobs, as well as jobs at restaurants and other businesses that workers losing well-paid manufacturing jobs can no longer afford to patronize, and jobs in construction and other government services supported by the taxes of manufacturing firms and well-paid workers.

Similarly in Mexico, the massive concentration of income and wealth in the hands of the top earners alongside repression of wages for workers has led to a crisis of inequality. Today, the richest 20 percent of Mexico’s population collect over half of the nation’s income while the poorest 20 percent take home 5 percent. The net worth of Mexico’s richest billionaire, Carlos Slim Helú, reportedly increased by $66 billion from 1994, when NAFTA was signed, to 2014 (from $7 billion to $73 billion). At one point his wealth was equivalent to 6 percent of the GDP of his country. Slim’s Grupo Carso purchased government-owned telecom provider Telmex in 1990 after NAFTA talks beginning in 1989 gave international legitimacy to privatization and other neoliberal reforms introduced after the 1980s Mexican peso crisis. Slim eventually took over the company and gained upwards of 70 percent of the growing mobile phone market.

Increasing Inequality, Concentration of Wealth On Both Sides of the Border During the NAFTA Era

The share of U.S. income accruing to the top 10 percent skyrocketed in the era of the in the era of NAFTA, the WTO and various NAFTA-expansion free trade agreements. The incomes of the richest 10 percent of Americans increased 2 percent each year from 1981 to 1994, but in the first six years of NAFTA and the WTO (from 1994 through 2000), incomes of the top 10 percent grew 8.5 percent each year. The top 10 percent now take home half of all national income.

Wealth is now concentrated at the very top: the share of wealth owned by the top 0.1 percent of U.S. families is roughly equivalent to the wealth of the bottom 90 percent.

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Donald Trump frames the story of NAFTA’s outcomes as U.S. workers being harmed by “Mexico.” Implicit in this narrative is the notion that Mexican workers “won” at the expense of U.S. workers. The reality is that NAFTA has been damaging to working people on both sides of the border.

Devastation to Mexico’s Rural Sector Drove Migrants Northward

At the time NAFTA was signed, Mexico was still an agrarian economy. More than 27 percent were working in agriculture, compared to 3 percent in the United States and 4 percent in Canada. Before
NAFTA, Mexico only imported corn and other basic food commodities if local production did not meet domestic needs.

NAFTA eliminated Mexican tariffs on corn and other commodities. NAFTA terms also required revocation of programs supporting small farmers. However, NAFTA did not discipline U.S. subsidies on agriculture. The result was disastrous for millions of people in the Mexican countryside whose livelihoods relied on agriculture. Amid a NAFTA-spurred influx of cheap U.S. corn, the price paid to Mexican farmers for the corn that they grew fell by 66 percent, forcing many to abandon farming. And, Mexico’s participation in NAFTA was conditioned on changing its revolutionary-era constitution’s land reforms, undoing provisions that guaranteed small plots (“ejidos”) to millions of Mexicans living in rural villages. So, as corn prices plummeted, indebted farmers lost their land, which could be newly acquired by foreign firms that consolidated prime acres into large plantations. About 2 million Mexicans engaged in farming and related work lost their livelihoods.

Though the price paid for corn to Mexican farmers plummeted after NAFTA, the newly NAFTA-deregulated retail price of tortillas – Mexico’s staple food – shot up 279 percent in the pact’s first 10 years. This contradicts free trade theory, which predicts that gains from free trade come on the import side as all consumers enjoy lower prices, while injury only occurs to those in sectors directly displaced by imports. But, NAFTA included service sector and investment rules that facilitated consolidation of grain trading, milling, baking and retail. As a result, the relatively few remaining large firms dominating these activities were able to raise the prices paid by Mexican consumers and reap extra profits as corn costs simultaneously declined (see Box on page 8).

This trend is ongoing. U.S. exports of corn, wheat, soybeans and rice are all sold below production costs, harming Mexico’s agricultural sector. Research from the Institute for Agriculture and Trade Policy shows that U.S. corn has been exported in the last three years at prices 12 percent below what it costs to produce it. Wheat has been exported 32 percent below the cost of production, and rice at 2 percent less.

As Mexicans displaced from agriculture sought work elsewhere, they added to the glut of Mexican workers

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**Personal Stories on NAFTA’s Impact:**

**José Bernardo “Nino” Magdaleno Velasco**

Chiapas, Mexico

José Bernardo “Nino” Magdaleno Velasco is a member of the Asociación Nacional de Empresas Comercializadoras de Productores del Campo (ANEC), a group of small farmers in the southern Mexican state of Chiapas.

“I can say that NAFTA impacted me because there is no support for family farm work, and also economically because now I spend more money on agrochemicals that will supposedly increase output. It has been quite the opposite. When I sell my harvest, the prices are very low and there are many requirements that we do not meet, because they are purely bureaucratic. Another important point is that all the agricultural tools we use have become more expensive, and instead of making more money, every day I make less. NAFTA has not only affected me, but also my family because now there is less income and more costs. Using the new agricultural methods brought by NAFTA, like using excessive agrochemicals, has made me sick. NAFTA has not benefited me in the least, maybe because I am a small producer and NAFTA only benefits large producers and monopolies.”
seeking factory jobs. Employment in *maquiladoras* surged in NAFTA’s first six years. – Under a special arrangement with the United States Mexican factories that can import raw materials without paying tariffs and export assembled goods back to the United States with any applicable tariffs charged only on the value-added, not the good’s total value. But wages in these plants were almost 40 percent lower than in heavy manufacturing outside of *maquiladoras*.57

In NAFTA’s seventh year, the United States and China concluded trade negotiations on an agreement to facilitate China’s entry into the WTO. Manufacturers that relocated production to Mexico began to shift from Mexico to China in search of even lower wages. Between 2000 and 2012, the number of Mexican manufacturing jobs as a share of total Mexican employment dropped from 20 percent to 15 percent. A study by the United Nations Economic Commission for Latin America and the Caribbean found the loss of Mexican manufacturing jobs since 2000 includes almost 50 percent of jobs in the yarn-textile-garment chain, furniture and toys.59 The authors write in a commentary on the study:

> From 1994 to 2001, Mexico had a honeymoon with the United States. No other country enjoyed the same proximity and trade preferences. Although trade increased significantly between the two countries, it failed to translate into per capita income growth and rising employment and wages in Mexico. The honeymoon ended in 2001 when China entered the World Trade Organization and began to enjoy similar access to the U.S. market. We find that by 2009, 84 percent of Mexico’s manufacturing exports to the United States were under threat from China.60

The Mexican government’s response was not to advocate for global rules, for instance at the WTO, to counter this race to the bottom in wages. Rather, it chose the low road of competing with China on wages. Thus, even as employment in the auto sector – a sector for which proximity to suppliers and to markets is especially important given high transportation costs61 and is therefore less footloose than other sectors – did not decline, Mexican real wages did.

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![Graph showing CEO compensation, U.S. wages, and Mexican wages over time]

Source: Economic Policy Institute (CEO compensation, options realized) using a five year rolling average to reduce volatility and Organisation of Economic Co-operation and Development (wages). Note: 1993 as the pre-NAFTA benchmark.
Goodyear Workers’ Struggle to Organize in Mexico

In 2017, U.S. multinational tire manufacturer Goodyear opted to build a state-of-the-art tire factory in the emerging Mexican industrial hub of San Luis Potosí, Mexico, rather than expanding production in the United States. At the new Mexican plant, 800 workers earn less than $2 an hour in a facility that is a clone of a U.S. plant paying workers more than $26 an hour to make the identical product. In April 2018, 600 of Goodyear’s Mexican workers went on strike to protest low wages and dangerous working conditions. Subsequently, many were fired for violating the “contract” that the workers had never voted on but to which a fake “protection” union had agreed. These workers are now fighting to get their jobs back and implement a genuine collective bargaining agreement.

The struggle of Goodyear workers in Mexico is emblematic of the broader fight against Mexico’s protection unions and protection contracts. “Protection” relates to the practice of companies in Mexico protecting against having real unions that represent workers by signing contracts with “labor” organizations that are affiliated with Mexico’s business-friendly political parties and registering those fake contracts to fulfill the requirement in Mexico’s constitution for many workplaces to have unions. This creates a dynamic under which workers who try to organize real unions can be penalized for violating the fake contract.

Fake “protection contracts” are endemic in Mexico. Workers arrive at a new high-tech, multi-million-dollar plant to find that a fake union for which they never voted has already signed a contract with the company that the workers never approved that locks in low wages. Workers who go on strike are arrested for violating their “contract.” The impact of these conditions is real: Nearby the Goodyear plant, workers at a Continental Tire plant who have a rare independent democratic union contract, earn $6 an hour, several times more than Goodyear workers earn for making similar products.

Eliminating the thousands of existing protection agreements in Mexico and eliminating this corrupt system going forward is critical to raising wages and conditions for Mexican workers. And such gains for Mexican workers are essential to stop race-to-the-bottom job outsourcing and raising wages for U.S. workers whose jobs and wages are jeopardized unless NAFTA 2.0 enforcement of labor standards raises wages in Mexico.

Mexican Wages Were Held Down to Attract Investment

The Mexican constitution requires unionization for most formal workplaces, but only 1 percent of Mexican workers are represented by an independent union that they have elected to represent their interests. Corrupt Mexican “union” federations have created a business in helping employers meet the constitutional obligation for a fee. With such “protection unions” endemic, workers arrive at a new manufacturing plant to find that a fake union for which they never voted has already signed a “contract” with the company that locks in low wages.

One result was that overall, inflation-adjusted wages for virtually every category of Mexican worker decreased over NAFTA’s first six years, even as hundreds of thousands of manufacturing jobs were being shifted from the United States to Mexico. With millions of Mexicans displaced from rural communities competing for the hundreds of thousands of manufacturing jobs, and a lack of independent unions in Mexico to bargain for better wages, employers could keep wages reprehensibly low.

After China’s entry into the WTO, when many corporations abandoned Mexico and its then-$3
average manufacturing labor cost per hour to take advantage of China’s then-60 cents per hour average manufacturing labor cost, the Mexican government pursued a strategy to keep wages low to compete in a race to the bottom with the likes of China and other Asian countries. According to government statistics compiled by the Organization for Economic Co-operation and Development (OECD), real average annual wages have declined in Mexico under NAFTA, contrary to the promises by NAFTA supporters that the pact would raise Mexicans’ living standards (see graph on page 10). The legal minimum wage has declined 14 percent in real terms since 1993. Out of about 30 advanced and middle-income OECD countries, Mexico now has the second lowest legal minimum wage relative to the median wage of full-time workers, at 40 percent of the median, higher only than its NAFTA partner also running a race to the bottom, the United States.

Workers in new, high-tech manufacturing facilities, including many outsourced from the United States, are paid less than $2 per hour. Today, Mexican auto workers make 9.1 times less than their U.S. counterparts relative to a 5.4 differential when NAFTA began. Without the wage stagnation experienced in the United States, also driven in part by NAFTA, the differential would be even worse. One example of how the wage differential continues to influence corporate decisions to outsource production from the United States: Workers represented by the United Steelworkers union in Goodyear’s U.S. plant earn more than $26 hourly. But when Goodyear decided to open a new plant in North America, it chose Mexico, where it pays workers $1.78 per hour. Mexican workers have fought to improve the wages and working conditions in this plant (see Box on page 11).

Mexican wages are repressed to such a degree that they are now lower than those paid to workers in China. According to analysis by Bank of America/Merrill Lynch, the manufacturing wage in Mexico has stagnated since 2003 and is now 40 percent lower than in China. For all of the legitimate concerns about China attracting investment and unfairly gaining trade advantages based on misalignment of its currency, China would have to depreciate the yuan 67 percent beyond its arguably already undervalued level to compete with Mexico on wage levels.
Living standards at the bottom of the economic ladder in Mexico are even worse than for those who found low-wage jobs in factories. Economic growth is essential for pulling people out of poverty in developing countries, but with Mexican annual growth rates at less than one percent since NAFTA started in 1994, over half of the Mexican population and over 60 percent of the rural population still live in poverty. Mexico ranks 18th of 20 Latin American countries in growth of real GDP per person from 1994 to 2017, ahead of only Belize and Venezuela. Had Mexico grown at the higher rate it did prior to 1980, before the advent of neoliberal policies that were deepened and locked in by NAFTA, it is estimated that Mexico would today be a high-income country with income per person comparable to Western European countries.

The NAFTA Migrants

Despite predictions that NAFTA would decrease unauthorized immigration from Mexico, it became a significant push factor for forced migration. The Mexican president in office at the time NAFTA was passed, Carlos Salinas, declared in 1992, “[We want NAFTA because] we want to export goods, not people.” The next year, when the U.S. Congress was debating NAFTA, then-U.S. Attorney General Janet Reno said: “If NAFTA passes, my job guarding the border will be easier. If NAFTA fails, my job stopping the flow of illegal immigrants (sic) will become even more difficult.”

Yet during NAFTA’s first six years, the number of annual immigrants from Mexico more than doubled. The immigration surge coincided with a NAFTA-enabled flood of subsidized U.S. corn into Mexico (see graph). U.S. corn exports to Mexico rose from pre-NAFTA levels particularly after the elimination of Mexican corn tariffs by 1996. From 1993 to 2000, annual immigration from Mexico increased from 370,000 to 770,000.

With annual immigration on the rise, the total number of undocumented immigrants from Mexico living in the United States increased from about 2.9 million in 1995 to 4.5 million in 2000. Between

**NAFTA’s Damage to Mexican Small- and Medium-Sized Businesses**

An estimated 28,000 small- and medium-sized Mexican businesses were destroyed in NAFTA’s first four years alone, spurring the El Barzón movement of formerly middle-class Mexican entrepreneurs protesting NAFTA. Losses included many retail, food processing and light manufacturing firms that were displaced by NAFTA’s new opening for U.S. big-box retailers that sold goods imported from Asia.

### NAFTA: Flood of Corn, Wave of Immigration

![Graph showing annual immigration from Mexico and Mexican corn imports](source: U.S. Department of Agriculture and Pew Hispanic Center)
2000 and 2007, the number of undocumented immigrants from Mexico in the United States increased to 6.9 million. When the number of available jobs plummeted during the Great Recession and deportations reached historic levels, the number of undocumented immigrants in the United States sharply declined. As the U.S. economy has recovered, the number of undocumented immigrants in the United States from Mexico recently leveled off at 5.8 million. These immigrants now make up a settled population, as most of them have now lived in the United States for more than 15 years.\textsuperscript{87}

Mexican Americans, who number 36 million, are the largest U.S. Latino group by origin. Prior to NAFTA in 1993, the Latino population was around 25 million.\textsuperscript{88} Today, one-third of U.S. Latinos are foreign-born, down from a peak of 40 percent in 2000. The percentage of foreign-born Latinos reflects the portion of the overall U.S. Latino community that has arrived in the country recently. The number of Mexican immigrants – some of them undocumented – is not happenstance. It is a byproduct of public policy, including NAFTA.

As NAFTA created new rights for corporations, allowing capital to flow freely across the U.S. border, people did not obtain the same rights even as NAFTA displaced millions in rural Mexico. As the 2005 Central America Free Trade Agreement (CAFTA) spread the trade-induced displacement through Central America, migration increased. One result has been a militarized U.S.-Mexico border. The number of U.S. Border Patrol agents steadily increased from 5,000 to over 20,000 in the NAFTA period, with a plan to increase the size by 5,000 more.\textsuperscript{89} Over 7,000 people have died crossing the U.S.-Mexican border since 1998.\textsuperscript{90}

Instead of pushing for a system to integrate the more than 8 million Latino undocumented workers\textsuperscript{91} upon which entire sectors of the U.S. economy like agriculture, construction, hospitality and other services rely, the current administration scapegoats immigrants and blames Mexico for their arrival. Tens of thousands are met with outright deportation.\textsuperscript{92} The separation of Central American children from their parents in an effort to deter future migrants deeply traumatized hundreds of families\textsuperscript{93} and may serve to normalize the infringement of Latino human rights. The administration keeps hundreds of thousands of mainly Mexican-American “Dreamers”\textsuperscript{94} and Central American Temporary Protected Status holders in limbo to bargain for funding for a border wall.\textsuperscript{95} Both documented and undocumented families have begun forgoing federal benefits, like the Women, Infants, and Children (WIC) federal nutrition support program, for fear of losing legal status.\textsuperscript{96}

**New Immigrants From Mexico Support the U.S. Economy Often Without Full Rights**

Tens of thousands of Mexican migrants who survive the perilous border crossing end up as seasonal crop workers in the United States. The U.S. Department of Labor estimated that two in three (68 percent) of all hired crop farmworkers in 2013-2014 were Mexican-born and many had immigrated within the previous two years. At the same time, 59 percent had been working in farm jobs for over ten years.\textsuperscript{97} The ongoing fight for fair wages and working conditions for migrant farmworkers is at odds with industry arguments about the upward mobility of these workers.\textsuperscript{98}

Meanwhile, the vast majority of workers recruited through the abuse-riddled H-2A and H-2B visa programs are Mexican. These temporary labor programs force workers to work long hours for low pay, and deny them the right to be with their families, settle in the United States or even change jobs.\textsuperscript{99} The industries utilizing exploitative guest worker programs overlap directly with low-paying service sectors where Latino workers are already concentrated. Industries such as landscaping, construction, food services and personal services employ some of the most vulnerable workers in the economy. Workers in many of these low-wage sectors are subject to the highest rates of wage theft,\textsuperscript{100} misclassification and other labor violations.
Can a NAFTA 2.0 Stop NAFTA’s Ongoing Damage?

NAFTA created a trade agreement model that did not live up to the rosy promises of more jobs and higher wages made by its proponents. NAFTA proved to be so damaging to working people that its fallout ended decades of U.S. bipartisan congressional consensus in favor of trade agreements.

Instead of creating U.S. jobs, NAFTA eliminated them, and did so in manufacturing sectors that had provided middle-class wages to the 56 percent of American workers without college degrees. The devastation in once-thriving communities nationwide has had severe social and political consequences.

Instead of increasing Mexican wages, decades after NAFTA Mexican workers’ wages are down. Mexico’s weak economic growth rate, among the lowest in the hemisphere, means millions remain in abject poverty. Instead of reducing unauthorized immigration from Mexico, NAFTA increased it by destroying the livelihoods of millions of rural Mexicans and providing no alternate economic opportunities in Mexico that provide a decent standard of living.

As this report documents, NAFTA’s damaging impact both on U.S. Latinos and Mexican workers makes clear that NAFTA must be replaced. The way forward is neither NAFTA’s failed neoliberalism nor Trump’s hateful nationalism, but a new trade agreement model that increases wages and democracy and reduces outsourcing and corporate power.

A NAFTA replacement that benefits working people must reject the premise underlying NAFTA that trade and investment rules should protect property more than people. The NAFTA 2.0 text that Mexico, Canada and the United States signed at the end of November contains some improvements, some new damaging terms we oppose, and a lot of critical unfinished business. It is not the transformational replacement of the corporate-rigged U.S. trade agreement model that NAFTA itself launched in the 1990s.

Public Citizen and the AFL-CIO have published analyses of the NAFTA 2.0 text that summarizes the good, the bad and the ongoing work that is still required to improve a final NAFTA deal so that it stops NAFTA’s ongoing job outsourcing, downward pressure on wages and environmental damage.

The NAFTA 2.0 text includes some terms to counter NAFTA’s reverse alchemy that helps transnational corporations turn good jobs into sweatshop jobs by outsourcing production to Mexico to pay workers less per day than workers doing the same jobs in the United States make per hour. This includes modest but meaningful improvements of basic labor standards. In addition, the NAFTA 2.0 Labor Chapter has clear, specific rules to eradicate wage-suppressing “protection contracts” in Mexico which, if enforced, could make a real difference over time to raise Mexican wages and create sustainable livelihoods.

But, leading the category of work that remains to be achieved, to date the text does not include monitoring or enforcement provisions necessary to ensure the improved rules actually make a difference in the lives of North American workers.

The terms that destroyed the agriculture-related livelihoods of millions of Mexicans are not changed, nor are the service-sector rules that helped American big-box stores flatten small Mexican retailers.

Relative to the original NAFTA, NAFTA 2.0 has more
expansive monopoly protections for pharmaceutical firms that protect them from generic competition so they can keep medicine prices high. A new requirement that each country provide drug firms special 10-year exclusive marketing rights for biologic medicines, which include many cutting-edge cancer drugs, would hit Mexico especially hard. Mexico does not now have any special limits on access to these medicines, which often cost a hundred thousand dollars per year per patient under the U.S. regime that includes extended exclusive marketing rights.

On the upside, the NAFTA 2.0 text dramatically reigns in the existing ISDS regime under which corporations have grabbed hundreds of millions from taxpayers after attacking environmental and health laws. NAFTA 2.0 terminates U.S.-Canada ISDS and with Mexico replaces ISDS by a new approach that eliminates extreme investor rights and remedies key procedural concerns. The notorious ruling against Mexico and payment of $16 million by Mexican taxpayers to U.S. firm Metalclad over denial of a permit to expand a leaking toxic waste facility would not have been possible under the rules replacing NAFTA's old ISDS regime. But these changes only go into effect three years after a revised deal is implemented, meaning more years of NAFTA investor protections making it easier for corporations to outsource jobs to Mexico and attack domestic environmental and health safeguards on which workers and their communities rely. Additionally, unless a loophole preserving ISDS rights for U.S. oil and gas firms with contracts with Mexico's Hydrocarbon's Authority is closed, such firms could continue attacks on Mexican environmental and health policies indefinitely.

NAFTA renegotiation remains a work in progress, with improvements needed if a final deal is to ameliorate NAFTA's continuing, serious damage to people across North America.

NAFTA 2.0 also strengthens the rules of origin that determine whether products qualify for NAFTA benefits. Goods with significant Chinese and other non-North American value now get NAFTA benefits. NAFTA 2.0 raises the rule of origin for autos from 62.5 percent to 75 percent made-in-North-America. NAFTA 2.0 has other rule of origin improvements that should increase production and employment in North America. It also sets an important precedent by conditioning trade benefits on wage standards. The Labor Value Content (LVC) rule requires 40 percent of the value of autos be made by workers paid $16 per hour or more for a vehicle to get NAFTA benefits. However, whether or how these terms will effect production location decisions or wage levels for North American workers remains unclear given the data needed to calculate the LVC's actual impact has not been made publicly available.

Nafta 2.0 Is a Work in Progress

Unless strong labor standards are subject to swift and certain enforcement, U.S. firms will continue to turn good jobs into sweatshop jobs by outsourcing U.S. jobs to pay Mexican workers poverty wages, dump toxins and bring products back to the United States for sale because Mexican workers will not earn enough to purchase the products they make.

Unless the reining in of NAFTA's ISDS tribunals starts when a new pact goes into effect, NAFTA will help corporations pay workers less by outsourcing more jobs to Mexico, and communities on both sides of the border will face more attacks on the health and environmental safeguards on which they rely and have millions more in their tax dollars snatched by foreign investors.

Unless new monopoly rights that keep medicine prices high are excised from a final deal, workers on both sides of the border will be denied access to lifesaving medicines.

Unless the NAFTA 2.0 environmental terms are strengthened and made subject to swift and certain enforcement, firms will continue to outsource pollution and jobs to Mexico.

After 25 years of NAFTA's damage, working people on both sides of the border deserve the better deal that is possible if these necessary improvements are achieved.
Endnotes


8. This includes all jobs certified during the NAFTA period, not only jobs certified as lost specifically to NAFTA.


11. The U.S. trade deficit with NAFTA countries in apparel (HTS 61-62) increased from $793 million to $7.6 billion in the year before NAFTA was signed to 2000, adjusted for inflation. The U.S. trade deficit with NAFTA countries in furniture (HTS 94) increased from $454 million in the year before NAFTA was signed to $5.3 billion in 2000, adjusted for inflation. U.S. International Trade Commission, “Interactive Tariff and Trade DataWeb,” accessed Sept. 12, 2018. Available at: http://dataweb.usitc.gov/.


23. U.S. Census Bureau, Current Population Survey, “Historical Income Tables, Table P-38: Full-Time, Year-Round Workers by Me-


38. Research shows that a broader manufacturing base contributes to a wider local tax base and offering of social services. Henri Capron and Olivier Debande, “The Role of the Manufacturing Base in the Development of Private and Public Services,” Regional Studies, 31(7), October 1997, at 681. Available at: https://www.tandfonline.com/doi/abs/10.1080/00343409750140768. With the loss of manufacturing, tax revenue that could have expanded social services or funded local infrastructure projects is eliminated, which has resulted in the virtual collapse of some local governments in areas hardest hit. Robert Forrant, “Greater Springfield Deindustrialization: Staggering Job Loss, A Shrinking Revenue Base, and Grinding Decline,” Speaker Presentation, April 2005.


42. In 2012 (the latest estimate available), the top 0.1 percent of families (roughly 160,000 families) held 22 percent of total wealth (including capital gains) compared to 23 percent for the bottom 90 percent. This is compared to 12 percent and 33 percent when NAFTA was enacted in 1994. Gabriel Zucman and Emmanuel Saez, “Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data,” Quarterly Journal of Economics, 131(2), 2016. See DataFig1-6-7b in “Main Data” file. Available at: http://gabriel-zucman.eu/uswealth/.


46. See Kevin Hanson, “Telecommunications Privatization in Mexico,” Sigma: Journal of Political and International Studies 152, at 7.
Hanson writes: “The crowning accomplishment of this recovery was the 1989 admission of Mexico into NAFTA negotiations with the U.S. and Canada, a step widely seen as both confirming and consolidating the enacted measures.”


54. Ibid.


56. Collected by La Asociación Nacional de Empresas Comercializadoras de Productores del Campo (ANECA). Available at: http://www.aneca.org.mx/.


67. Mark Stevenson, “In Mexico, $2-Per-Hour Workers Make $4,000 SUVs,” Associated Press, Sept. 25, 2017. Available at: https://www.apnews.com/a096640914788290b730766a1c8e87.


98. A vegetable growers association representative described the situation in the Florida tomato fields at Senate testimony in 2008 as one in which workers were upwardly mobile. See Katrina vanden Heuvel, “Ending Slavery for Pennies,” The Nation, April 16, 2008. Available at: https://www.thenation.com/article/ending-slavery-pennies/.


