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How NAFTA Has Changed Mexico

KATHLEEN STAUDT

The North American Free Trade Agreement (NAFTA) took effect nearly a quarter-century ago, on January 1, 1994. While it is difficult to say to what extent NAFTA was a direct cause of the dramatic transformation that Mexico has undergone in recent decades, there is no doubt that it has changed the country in many ways, both positive and negative. Yet one clear consequence of the trade agreement is that it has also perpetuated historical patterns, particularly Mexico's dependence on the United States. This asymmetrical relationship has not benefited most workers in either country.

As with any major policy change, NAFTA has produced winners and losers in its three member nations: Canada, Mexico, and the United States. In Mexico, the effects have varied widely among the lower, middle, and upper classes; among residents of different regions; and among economic sectors, ranging from agriculture to the automotive, aerospace, and electronics industries. Many Mexicans continue to rely on the informal economy, whether as their main earning strategy or as a fallback during economic downturns. Due to the increased outsourcing of work to Mexico by US companies and the proliferation of joint production processes, NAFTA has exacerbated the impact of US recessions on Mexico.

Other developments in the years since NAFTA took effect have also changed Mexico. The country faced difficult economic and political circumstances in the mid-1990s. While still recovering from a 1980s debt crisis, it endured a drastic devaluation of the peso in US dollar terms in 1994–95 and the shocking assassination of presidential candidate Luis Donaldo Colosio-Murrieta in March 1994. Although he was affiliated with the dominant establishment party, the Institutional Revolutionary Party (PRI), Colosio was a popular politician and a leading contender to win the presidential election that August.

A political opening after decades of one-party rule by the PRI has since led to opposition-party victories at the presidential, state, and municipal levels in Mexico. However, the activities of transnational crime organizations involved in the production and sale of drugs, human trafficking, kidnapping, and extortion, often with the complicity of government officials and the police, have led to pervasive insecurity. Over 235,000 murders occurred from 2007 to 2017, according to Mexico's National System of Public Security.

A larger volume of freer trade, combined with official efforts to ease border congestion, enhances opportunities for drug smuggling in the increased truck and car traffic across the border. The size of these illicit flows is so large that businesses have emerged to track trucks from point of origin to destination. (Security still trumps trade at the US-Mexico border.)

Much attention has been focused on NAFTA since Donald Trump's 2016 US presidential campaign and in the first year of his presidency, given his frequent criticism of Mexico and Mexicans, his description of NAFTA as the worst-ever trade deal for the United States, and his threats to pull out unless Mexico and Canada meet his demands for revising the pact. His administration initiated a renegotiation of the treaty that has been extended into 2018. US Trade Representative Robert Lighthizer and his team have made demands for rule

KATHLEEN STAUDT *recently retired as a professor of political science at the University of Texas at El Paso. Her latest book is* Border Politics in a Global Era: Comparative Perspectives *(Rowman & Littlefield, 2017).*

changes that would reduce the US trade deficit with Mexico in goods, even though they are often produced through border-spanning supply chains. (The United States enjoys a cross-border trade surplus in services.)

The Trump administration's demands are potential deal-breakers for Mexico and Canada. In any case, what often gets lost in the controversy over NAFTA's effects on American workers is how the trade deal has worked out for their Mexican counterparts.

WIDENING GAP

While NAFTA did not totally open the borders for people, goods, or services, it did change the rules on trade in ways that gave US and Canadian companies incentives to outsource production to Mexico. They sought to take advantage of low-cost labor as well as the geographic advantages of shipping their products from a neighboring country under the new regime of low-to-no tariffs on the majority of goods produced in the region.

In the years since NAFTA took effect, trading volume has increased among all three countries, and all three have seen economic growth and higher gross domestic product per capita (a flawed but commonly used aggregate measure that does not take into account class inequalities or differences among geographic regions). But there is still a tenfold disparity between the United States and Mexico in the minimum wage, and an approximately fivefold difference in GDP per capita.

These gaps put the pair seventeenth from the bottom on a list of 200 countries with shared borders (based on 2004 data) compiled by the Spanish researcher Iñigo Moré in his 2011 book *The Borders of Inequality*. In an assessment using 2014 data for my book *Border Politics in a Global Era*, I found that the United States and Mexico rank among the most unequal 40 country pairs out of 300 that share a land border. My longitudinal study showed that the gaps between the two countries have widened since NAFTA took effect.

NAFTA created many new low-income jobs in Mexico, as well as some better-paying jobs in both the foreign-owned factories and in Mexican-owned businesses that serve them. After 1994, Mexico's GDP per capita rose and dipped before settling into a pattern of modest growth. The national economy's growth rate also fluctuated at first but has recorded modest annual increases in recent years, despite setbacks during the US downturn of 2001 and the recession of 2007–8. However, this NAFTA-era expansion has never achieved the spectacular rates of growth recorded from the mid-1940s through the 1970s, a period known as the "Mexican miracle," when Mexico's trade strategies centered on import-substitution industrialization. Those protectionist strategies were discarded in the era of economic globalization that has prevailed since the 1980s.

Well before NAFTA, Mexico was opening up to international trade, with its entry into the General Agreement on Tariffs and Trade (GATT) in 1986 and membership in the World Trade Organization in 1995. But even earlier, Mexico had begun experimenting with new ways to spur trade with its wealthy northern neighbor, most notably by establishing the Border Industrialization Program (BIP). Implemented in 1965 in conjunction with a cut in US tariffs on value-added imports from Mexico, the program aimed to foster formal employment in assembly-line jobs producing goods for export in manufacturing plants known as *maquiladoras* or *maquilas*. The model of economic growth initiated by the BIP and extended by NAFTA has perpetuated Mexico's economic dependence on the United States, its most important trading partner.

The BIP was intended to serve several purposes: to decentralize industrial employment by encouraging economic development away from already-overpopulated Mexico City; to attract more foreign direct investment (FDI) from various countries; and to provide jobs for men returning from the United States after stints as guest workers under the 1942–64 Bracero Program. However, the *maquiladora* plants along Mexico's northern border initially recruited mostly female workers, who were favored for their supposedly nimble fingers and compliant attitudes. As the plants proliferated, numbering in the hundreds in the major border cities including Tijuana and Ciudad Juárez, the percentage of women in the workforce decreased from 80 percent to 55–60 percent by the late 1980s and continued toward a rough gender balance thereafter.

WINNERS AND LOSERS

Under BIP in the 1960s and now under NAFTA, the legal minimum wage in Mexico for assembly-line workers, who constitute at least three-fourths of the workforce in *maquiladoras*, has been based on a calculation of net daily pay, and is currently set at the equivalent of $4.50 a day. Most studies have found that real wages have been stagnant since the 1970s due to inflation, currency fluctuations, and the stubborn reluctance of the Mexican political elite to increase the legal minimum wage for fear of discouraging foreign investors who are drawn to Mexico by its comparative advantage: cheap labor.

That approach has produced some winners, including an expanded middle class with new professional jobs, investors, and new businesses that serve the export sector. There has been job creation in the formal sector of the economy (albeit these are largely low-wage jobs). After a decade of NAFTA, the World Bank estimated that FDI in Mexico would have been 40 percent lower without the treaty. But there have also been losers. In an article in the newsmagazine *Proceso* in August 2017, analysts estimated that the legal minimum wage adjusted for inflation was 22 percent less than it was in 1994.

Net pay is what matters to working people living at the margin of survival. But the private sector generally calculates wages differently—as a total compensation package including employer contributions averaging the equivalent of $2.10 per hour to health plans, the social security system, subsidized lunches, and transportation (the latter may be deducted from workers' net pay). In areas with a labor shortage, including the northern border region in recent years, some employers have offered bonuses or increased workers' take-home, or net, pay to twice the minimum wage, approximately $8 to $9 a day. But other companies have responded by sending recruiters to Mexico's central and southern states, aiming to increase the labor pool and keep wages low.

The small-scale agricultural sector suffered the most under NAFTA.

Most commentators agree that given the cost of food and housing, a "dignified" or living wage would amount to at least three times the minimum wage, or the equivalent of $13 to $14 a day. A living wage does not automatically guarantee middle-class status, which the Mexican census defines by criteria including education level, income (beginning at the equivalent of $850 per month), and household possessions. Mexico's middle class has grown to 39 percent of the population, based on the most recent figures from the National Institute of Statistics and Geography.

In his 2015 book *Mexico's Uneven Development*, historian Oscar Martínez cites figures for the size of the nation's middle class that range from 25 to 40 percent of the population—or up to 60 percent according to the most optimistic estimates. A growing middle class bodes well for businesses that can grow to satisfy demands for domestic and imported goods from people with increasing disposable income. However, it should be noted that the middle class has also been growing in the rest of Latin America without any help from NAFTA.

Although a majority of Mexicans still live in poverty, according to the government's standards, the share of the population under the poverty line has decreased since the unusually crisis-ridden mid-1990s, from a peak of 70 percent to 59 percent, according to the 2014 census. Despite those gains, the absolute number of people living under the poverty line has increased by 14 million since NAFTA took effect, due to Mexico's population growth. No doubt that number would be even higher if migrants, both documented and undocumented, had not headed north. Moreover, the poverty rate in many other countries in Latin America has not only decreased but has fallen more substantially than in Mexico, again without any help from NAFTA.

Meanwhile, Mexico's upper class represents just over one percent of the population. The country is home to the sixth-richest man in the world, Carlos Slim Helú, a telecommunications tycoon worth more than $54 billion, according to *Forbes* magazine's 2017 list of the world's wealthiest people (he topped the list from 2010 to 2013). Slim is one of 15 billionaires in Mexico who have a combined net worth of $100 billion. Despite these outliers at the top, Mexico's Gini coefficient (a measure of internal inequality) has moved slightly in the direction of more equality, from 0.54 to 0.47 (on a scale where 0 represents perfect equality and 1 would mean a lone individual holds all the country's wealth). But after a quarter-century of NAFTA, Mexico is still stuck among the most unequal countries in the world.

More people have risen above extreme poverty, but a majority remains stuck in the ranks of the working poor, with migration offering the only way out. The middle class has increased in size, boosted by the growth of professional and paraprofessional jobs and managerial positions in export-oriented manufacturing plants and in other Mexican businesses that have grown alongside those enterprises. Yet Mexico continues to be dependent on its North American neighbors. It lacks the greater independence that would come with a more diversified array of trade partners.

RURAL REPERCUSSIONS

Manufacturing jobs have spread outside of major urban areas like Mexico City and Monterrey to northern border cities such as Tijuana, Nogales, Ciudad Juárez, Reynosa, and Matamoros. This has created a huge workforce in the northern border urban areas, with over a million poorly paid *maquiladora* workers living next to the United States. More recently, plants have spread to states that compete with one another to attract foreign investment. One relative success story is the central state of Querétaro.

However, southern states, which have larger proportions of indigenous people, have experienced negative NAFTA-influenced change, primarily due to the destruction of the small-scale agricultural sector. This has made family farmers the biggest losers among all economic sectors. Regions that are dependent on small-scale agriculture have been devastated by declines in state subsidies, land privatization, outmigration, and competition with large farms and cheap US corn exports.

There is still a tenfold disparity between the United States and Mexico in the minimum wage.

Small-scale farmers were already imperiled as a result of the debt crisis of the 1980s and neoliberal policies that were imposed on Mexico as a condition for entering global trade agreements such as the GATT, including reductions in the size of government and other reforms that gave greater latitude to market forces. The government removed price supports and subsidies for staple foods like corn. On top of that, a 1992 Mexican agrarian reform law allowed for the sale, and thus the privatization, of communal land holdings known as *ejidos*. It is estimated that these reforms resulted in the displacement of over four million farm families, some of whom turned to seasonal labor in large-scale, corporate-style farms. Others resorted to migration, either toward urban areas in Mexico or to the United States and Canada.

While small-scale agriculture suffered under policies that preceded NAFTA as well as under the trade agreement, large-scale factory farming has boomed thanks to the growth in exports of fruits and vegetables to the United States and Canada. However, even large-scale farms in Mexico have not been able to compete in the production of corn, which can be grown more cheaply and efficiently in the United States thanks to government subsidies. Once self-sufficient in corn, Mexico under NAFTA has become the largest importer of US corn and is now dependent on its northern neighbor for one of its most important staple foods. However, the hostile rhetoric from Trump led Mexico in mid-2017 to negotiate with Brazil and Argentina for corn imports at lower prices—and to consider a revival of its own corn industry.

LOW-WAGE MANUFACTURING

In the automotive sector, Mexico and once-dominant auto producers in the US Midwest have developed integrated production processes that involve a stream of multiple exports and imports, each adding value to the final product. These transactions are not effectively counted in traditional calculations of trade deficits that assume one-time exports and imports. US NAFTA negotiators appear to ignore the reality of cross-border supply chains.

Workers in Mexican auto assembly plants earn somewhat higher wages than those employed by subcontractors that make auto parts and harnesses, the complex electronic systems inside constantly reengineered automobile bodies. Yet these workers still earn just a tenth of what autoworkers make in the United States and Canada, leaving them unable to afford to buy the cars they build.

The aerospace industry has developed in central Mexico thanks to Canadian-owned Bombardier Inc., which has produced airplanes and trains in Querétaro since 2005 and, more recently, watercraft and all-terrain vehicles. The state has positioned itself as a hub for higher-skilled manufacturing and is now home to more than 30 such plants, having invested in scores of post-secondary educational institutions that specialize in aerospace. Bombardier has formed a unique partnership with the state-supported National Aeronautics University of Querétaro. The demand for engineers, technicians, and other professionals with advanced degrees has raised hopes for the continued growth of the middle class in Querétaro and in the country as a whole.

However, pay levels are still well below those in Canada. An engineer who earns $35 an hour in Quebec might be paid $60 a day in Mexico, according to a 2014 article in *Canadian Business* magazine about Bombardier's operations in Querétaro. While the cost of living is perhaps 2 to 3 times lower in Mexico than in Canada (with more precise comparative figures specific to city locations), a fivefold wage difference is significant. The article notes that while two-thirds of Bombardier's Mexican workforce is unionized, multinational companies that have invested in the state have a "gentleman's agreement" to avoid wage competition for local workers. Instead, they seek to attract labor with subsidized meals and transportation.

More typical manufacturing industries can be found in cities along Mexico's northern border that have long been magnets for migrants. Many studies over the past 30 years have documented the grim conditions for workers in these cities. In a 2017 article for the Americas Program, a Mexico City–based think tank, journalist Kent Paterson summarized conditions for the 275,000 workers in Ciudad Juárez who travel daily from their modest or "ramshackle" homes in underdeveloped neighborhoods at the periphery to jobs in more than 300 manufacturing plants now operating in the city. Their pay averages under $5 per day at electronics manufacturer Foxconn or $8 a day at auto battery maker Johnson Controls.

Maquiladora companies have kept wages low by adopting "speed-up practices," which include giving one worker responsibility for tasks previously performed by several workers. This creates stressful working conditions but reduces costs and raises productivity. Employers pay specialized technicians assembly-line wages, rather than compensate them for the value added by their work. Child-care centers are rare to nonexistent, so many children are left on their own while parents toil in *maquiladoras*.

Labor shortages have forced some plants to compete for workers with hiring bonuses. But few independent unions exist to represent workers' interests. Many plants started out with "paper unions" that had no clout but enabled the companies to comply with a NAFTA side agreement that requires each country to enforce its own labor laws.

Several work stoppages in 2015–16 at six plants in Ciudad Juárez called public attention to workers' demands for higher wages, better treatment, and independent unions. However, the strikes did not result in any systemic changes. The workers' lawyers negotiated agreements at each plant that reinstated some workers who had been living precariously without income for months. The 2016 Juárez Strategic Plan compared salaries in *maquiladoras* nationwide and found that the city was near the bottom in average wage, ranking 31st out of the 33 cities studied.

For decades, Juárez, a city of 1.5 million, was known for disposable people and disposable labor. The city became infamous in the 1990s and 2000s for *feminicidio* (killings of women), often in sexualized ways including rape. There were 370 of these murders from 1993 to 2003, according to multiple sources, including Amnesty International. The situation only worsened after competition among transnational criminal organizations and the deployment of the Mexican military and the federal police force turned the city into what journalists called the world's murder capital. *Feminicidio* represented just under 20 percent of the 11,000 murders during the peak violence in 2008–12. Victims were often dismissed as "collateral damage" in a country with police impunity and few prosecutions or convictions. Yet the growing *maquiladora* industry seemed unscathed by the fearful atmosphere.

ENVIRONMENTAL BENEFITS

When NAFTA was originally negotiated in the early 1990s, critics of the deal in the United States won compromises that resulted in two side agreements. One focused on retraining US workers, those certified as NAFTA-displaced, with programs for less-skilled workers who could not effectively compete in the changing manufacturing industry. The other addressed environmental conditions in the borderlands, defined as a zone extending 100 kilometers north and south of the border.

Most analysts view the labor side agreement as weak and ineffective, but the environmental side agreement produced three lasting institutions: the North American Development Bank (NADBank), based in San Antonio; the Border Environment Cooperation Commission (BECC), based in Juárez, focused on the US-Mexico borderlands; and the trinational Center for Environmental Cooperation (CEC), based in Montreal. The CEC is funded with equitable contributions from the three member nations and has a rotating leadership composed of appointees with three-year terms, as well as a clearinghouse for citizens' complaints.

In 2017, the NADBank and BECC boards consolidated into one institution, based in San Antonio. NADBank is perhaps the biggest success story for the Mexican borderlands. It has financed many large-scale projects in the area with loans and grants, addressing issues such as sanitary landfills, water treatment, sustainable wind power, and paper recycling.

DEPENDENCY TRAP

NAFTA has changed Mexico for better and for worse. The agreement has boosted foreign direct investment, trade volume, GDP, and GDP per capita, and also appears to have enlarged the middle class. Infrastructure projects financed by NADBank have improved environmental quality and health in the northern borderlands.

The positive consequences, however, have been outweighed by the negative effects. Mexico's political elites share the blame for that. They have mismanaged the nation's supposedly democratic institutions and have failed to reduce poverty among the working poor, permit the emergence of independent unions, or increase security by building more professional and honest police forces.

The devastation of the small-scale agricultural sector left impoverished farmers with little recourse but to migrate or to work seasonally in even more precarious conditions for large corporate-style farms that export fruit and vegetables to the United States. Overall, about half of the population remains stuck under the national poverty line, a proportion largely unchanged since the early days of NAFTA, not counting the temporary crisis marked by the 1994 peso devaluation, when poverty peaked at 70 percent.

NAFTA's effects on Mexican labor diverge in urban and rural areas; in the northern, central, and southern regions; and by various economic sectors. While the aerospace industry model seems promising, with its associated technical education and skills, the wages for professional workers still fall well short of those in Canada. The small-scale agricultural sector suffered the most under NAFTA (and previous policies linked to free trade).

The reality for the majority of workers, particularly at the northern border, is widespread impoverishment without effective unions or supply-and-demand forces to raise wages. Mexico's NAFTA negotiators have expressed reluctance to consider minimum wage increases, on the grounds that wages are a sovereign internal matter. Mexico's Business Council and its Employers' Confederation announced in 2017 a goal to achieve a modest increase in the minimum wage to 92 pesos a day, the equivalent of just about 50 cents more.

Mexico's political class hardly represents the interests of the working poor. NAFTA allowed that class to consolidate its power in the interest of generating more foreign direct investment. However, after nearly a quarter of a century, one might expect the extensive investments and growth to have generated a steady stream of trickle-down benefits for working people. Instead, only a few crumbs have fallen from the elite table.

NAFTA has kept Mexico on its long track of dependence on the United States. Donald Trump's hateful rhetoric about Mexico and Mexicans should change that. Trump has emboldened Mexican advocates of nationalist populism, and some decision makers are now more willing to consider alternatives to NAFTA, including trade agreements with other partners. Time will tell whether Mexico's elections in 2018 will produce a president and congressional majority capable of speaking more strongly for the working poor and leveraging the gains in foreign investment and the growth of a higher-skilled labor force in order to forge new economic partnerships.

For now, foreign investors seem all too willing to take advantage of Mexico's low-cost labor. If Trump and the US Congress dump NAFTA, which would be much to the dismay of many US businesses and Midwestern farmers, no doubt trade with Mexico will continue, but it will adjust to a new reality of diversification in Mexico's economy and trading partners. After all, Mexico is the 15th-largest economy in the world and it belongs to the World Trade Organization. Until that adjustment occurs, however, short-term job losses will put even more pressure on Mexico's poor majority to migrate northward, even as the border hardens. ■