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"NAFTA: A Ten-Year Perspective and Implications for the Future"

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The North American Free Trade Agreement (NAFTA) was sold to the American public and American workers as a market-opening agreement that would create high-paying export-related jobs here in the United States, bring prosperity to Mexico, and spur economic growth and political stability throughout North America. The outcome has been quite different.

While it is true that trade and investment flows between the three North American countries have grown rapidly since NAFTA was implemented in 1994, on measures of much more importance to the average North American citizen, NAFTA has been a dismal failure. Workers in all three NAFTA countries have seen their wages fall or stagnate (failing to keep pace with productivity increases), as job insecurity and inequality have grown. At the same time, NAFTA rules have disadvantaged North American family farmers, consumers, and the environment relative to multinational corporate interests.

Rather than encouraging sustainable and equitable growth, NAFTA has contributed to the loss of jobs and incomes of workers, while enriching the very few. NAFTA's main outcome has been to strengthen the clout and bargaining power of multinational corporations, to limit the scope of governments to regulate in the public interest, and to force workers into more direct competition with each other, while assuring them fewer rights and protections. The increased capital mobility afforded by NAFTA has hurt workers, the environment, and communities in all three NAFTA countries.

Loss of American Jobs

Advocates of NAFTA promised better access to a market of 90 million consumers on our southern border and prosperity for Mexico, yielding a "win-win" outcome. Yet in ten years of NAFTA, our combined trade deficit with Mexico and Canada has ballooned from $9 billion to $95 billion. The Labor Department has certified that more than half a million U.S. workers have lost their jobs due to NAFTA, while the Economic Policy Institute puts the trade-related job losses at almost 900,000.

Even workers who have kept their jobs have seen wages, benefits, and bargaining power eroded under NAFTA. Professor Kate Bronfenbrenner at Cornell University found that since NAFTA was put in place, employers have increasingly used the threat of shifting production to stifle union organizing drives or to block first contracts.

Benefits for Mexico?

One of the main advantages of NAFTA was supposed to be that it would alleviate poverty and low wages in Mexico, helping bring the U.S. and Mexico closer together. However, on this front also, it has fallen short. Real wages in Mexico are actually 7 percent lower today than before NAFTA was put in place, and the number of people in poverty has grown from 62 million to 69 million[1]. The number of people crossing the border illegally is estimated to have doubled, contrary to predictions of NAFTA boosters, including then-President Salinas.

Furthermore, Mexico now faces difficult transitions in its farm sector, as the last round of NAFTA's agricultural tariffs are phased out. And the rapid maquiladora employment growth of the 1990s is fading fast, as multinational corporations shift more production to China and other low-wage locations, where workers' rights are severely repressed. These are the logical consequences of a free trade agreement that relied solely on lowering trade barriers and protecting corporate interests, but failed to build an adequate social dimension.

The NAFTA Model

NAFTA undermines our laws by allowing corporations to sue governments and challenge statutes protecting the environment, public health and consumers. In some cases, corporations have even collected compensation from governments for lost profits or other damages. Legislators and ordinary citizens have no effective voice in the dispute resolution process, even though it is the laws they have voted for that are under attack.

NAFTA restricts the ability of governments to regulate services delivered across borders and by foreign investors. Under NAFTA, we have had to open the border to Mexican trucks even though we cannot ensure that each of these trucks meets our health and safety standards. Public services have been threatened as well – a case against Canada's postal service under NAFTA is still under way, and has disturbing implications for our governments' ability to regulate and support other essential public services.

NAFTA doesn't allow governments in Canada, Mexico and the U.S. to include local preferences or workers' rights criteria in making purchasing decisions. In fact when, the U.S. government decided to stop procuring goods made with the worst forms of child labor in 1999, it had to exclude Canada and Mexico from the order.

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[1] John J. Audley, Demetrios G. Papademetriou, Sandra Polaski, and Scott Vaughan, " NAFTA's Promise and Reality," CEIP, 2004.

Finally, the NAFTA labor side agreement has utterly failed to protect workers' rights. None of the 28 cases filed under the side agreement has progressed beyond the initial stage of cooperative consultations, and no labor rights violators have had to face any penalties under the accord. A recent UCLA study of the labor side agreement found that its inherent weaknesses, and a lack of political will among the parties to implement it aggressively, may doom the accord to "oblivion."[2]

NAFTA in the Context of Broader U.S. Trade Policy

One often-cited argument for NAFTA was that it would improve U.S. competitiveness with the rest of the world. However, since NAFTA was put in place, our overall trade deficit has also ballooned, from $75 billion in 1993 to $489 billion in 2003. The current account deficit hit a dangerously high 5 percent of GDP, slowing any possibility of strong economic recovery and undermining future job growth. The high import propensity of the U.S. economy means that even as economic recovery gets under way, a large proportion of every dollar spent by consumers goes to purchase imports, undermining the economy's ability to generate good jobs at home.

These figures are very real to working Americans who are losing family-supporting jobs and benefits as manufacturing and even service jobs are lost overseas.

U.S. goods exports actually fell in 2001 and in 2002, exposing the falsehood that current U.S. trade policies are enhancing our competitiveness in overseas markets. In 2002, total U.S. goods exports were only $694 billion, down almost $90 billion from the 2000 level. In 2003, exports recovered weakly, to $714 billion, still well below the 2000 level.

This year's trade figures also reveal other startling weaknesses in the U.S. economy, even in those areas which have traditionally been considered U.S. strongholds, like services and advanced technology products. The trade surplus in services has fallen from $92 billion in 1997 to $60 billion in 2003. In advanced technology products, similarly, the U.S. surplus of $4.5 billion in 2001 turned into a whopping deficit of $17.5 billion in 2002, rising to $27 billion last year. These trends call into question the conventional wisdom that the United States enjoys a permanent and growing comparative advantage in the export of services and high-technology goods.

In general, the experience of our unions and our members with past trade agreements has led us to question critically the extravagant claims often made on their behalf. While these agreements are inevitably touted as market-opening agreements that will significantly expand U.S. export opportunities (and therefore create export-related U.S. jobs), the impact has more often been to facilitate the shift of U.S. investment offshore. In fact, the agreements' far-reaching protections for foreign investors directly facilitate the shift of investment, and such shifts can fairly be considered an integral goal of these so-called "trade" agreements. Much, although not all, of this investment has gone into

[2] Linda Delp, Marisol Arriaga, Guadalupe Palma, Haydee Urita, and Abel Valenzuela, "NAFTA's Labor Side Agreement: Fading into Oblivion?" University of California at Los Angeles, March 2004.

production for export back to the United States, boosting U.S. imports and displacing rather than creating U.S. jobs.

The net impact has been a negative swing in our trade balance with every single country with which we have negotiated a free trade agreement to date. While we understand that many other factors influence bilateral trade balances (including most notably growth trends and exchange rate movements), it is nonetheless striking that *none* of the FTAs we have signed to date has yielded an improved bilateral trade balance (including Israel, Canada, Mexico, and Jordan).

If the goal of these so-called "free trade" agreements is truly to open foreign markets to American exports (and not to reward and encourage companies that shift more jobs overseas), it is pretty clear the strategy is not working. Before Congress approves new bilateral free trade agreements based on the outdated NAFTA model, it is imperative that we take some time to figure out how and why the current policy has failed.

Free Trade or Fair Trade?

The AFL-CIO believes that increased international trade and investment can yield broad and substantial benefits, both to American working families, and to our brothers and sisters around the world – if done right. Trade agreements must include enforceable protections for core workers' rights and must preserve our ability to use our domestic trade laws effectively. They must protect our government's ability to regulate in the public interest, to use procurement dollars to promote economic development and other legitimate social goals, and to provide high quality public services. Finally, it is essential that workers, their unions, and other civil society organizations be able to participate meaningfully in our government's trade policy process, on an equal footing with corporate interests.

NAFTA is a model that has utterly failed to deliver the promised benefits to ordinary citizens in any of the three North American countries. Yet our government is in the process of negotiating new trade agreements with dozens of countries, using NAFTA as a template.

The success or failure of any future trade and investment agreements will hinge on governments' willingness and ability to negotiate agreements that appropriately address all of the social, economic, and political dimensions of trade and investment, not just those of concern to corporations. Unfortunately, NAFTA is precisely the wrong starting point.