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Essay Framework: Trade and Development in NAFTA

The Impact of Trade Dependency and Uneven Development in Mexico and Canada as a Result of NAFTA

Mexico

Theme: Trade dependency is experienced by weaker nations in the world market

- Foreign Direct Investment in maquiladora factories in the free-trade sectors of Mexico are all owned by foreign investors (i.e. The Volkswagen factory) and that is where all the profits go. The only thing that Mexico provides is cheap labour and poor standards to increase company profit, while most of the materials are also handled by foreign companies. The worse part is that there is no “technology transfer” given to the Mexicans. They are never given the knowledge and the “know-how” to someday start their own factories and assembly lines. (Rosenberg, *Free Trade Fix*)
- Without the aforementioned “technology transfer”, AICs will forever be relegated to relying on cheap manufacturing and agriculture as a means of trade. With the low value of commodity goods on the markets these days, that means these poor countries will never have a chance to climb up the ladder (Rosenberg, *Free Trade Fix*)
- The U.S. grant preferences to a few poor countries but since these preferences typically divert trade away from non-preferred countries, they pitch poor nations against one another (Bhagwati, *Trading for Development*)

Theme: Trade dependency and multilateral organizations’ SAPs harmfully affect weaker nation’s ability to control its economic growth, evenly distribute its income and strive for economic/developmental goals

- Multilateral organizations like the IMF (International Monetary Fund) and the WB (World Bank) make loans to impoverished countries like Mexico. These loans often have strings attached in the form of SAPs (structural adjustment programs) that force Mexico to open their markets, privatize their industries, deregulate government programs, etc. (Rosenberg, *Free Trade Fix*)
- Mexico wanted to decree that any factories that were set up there had to buy their parts from Mexican companies (as opposed to foreign companies) but this was ruled illegal by the WTO (Rosenberg, *Free Trade Fix*)
- In the trade meeting in Doha, the WTO (controlled by the AICs) used the strategy of backroom intimidation, bribery and non-transparency to destroy the united front that the poor countries had put up (Bello, *Learning from Doha*)

Theme: Globalization and multilateral organizations work in favour of AICs (advanced industrial countries) and “stacks the deck” against developing countries. There is a double standard as the rich countries are imposing restrictions on poor countries while breaking these restrictions themselves

- In Puebla, Mexico, many Mexican corn farmers are losing their only form of income and being forced to leave their lands because they simply can't compete in the world market. Since the IMF/WB imposed the opening of markets in Mexico, a flood of subsidized corn from the United States has driven these small Mexican farmers out of business. The Mexican government is banned from giving out subsidies of any kind yet the American government is free to give subsidies to its own farmers! (Rosenberg, *Free Trade Fix*) and (Beatty, *Do As We Say, Not as We Do*)
- Developed countries like the States have adopted protectionist policies and put up trade barriers and high tariffs while at the same time telling poor countries not to do so. This allows American goods to go into their markets while their goods face stiff tariffs in these developed countries. (Bhagwati, *Trading for Development*) and (Beatty, *Do As We Say, Not as We Do*)
- While Mexican farmers are suffering due to crashing commodity prices and the flood of subsidized U.S. corn, the States' agribusinesses are making record profits. These campesinos are being forced from their land to make way for large MNC's and their plantations (Kees, *NAFTA bad for Family Farmers*)

Canada

Theme: Trade dependency is experienced by weaker nations in the world market

- Like Mexico, a majority of Canada's trade is dependent of that of U.S. In fact, 80% of our exports go straight to the States! While this may sound encouraging, this is only because all trading nations export the majority of their goods to the States (which has a large demand market). In actuality, Canada's share of U.S. merchandise imports is lower than it was in 1988, before free trade. (Stanford, *NAFTA @ 10*)
- Though Canada was seen to have improved technologically since the implementation of NAFTA, our high-tech industries (which are vital to modern economic success) have struggled. Basic goods (like resources and raw industrial goods) still account for more than half of our exports (if you think about it, our exports are not that much different from that of Mexico's) (Stanford, *NAFTA @ 10*)
- Canada's share of global foreign direct investment has plummeted under free trade, while the U.S. share is growing (Stanford, *NAFTA @ 10*)
- Free trade was supposed to increase productivity by converging with the U.S., but instead our productivity has fallen another 10% behind the States (Stanford, *NAFTA @ 10*)
- In Canada, falling commodity prices meant the decline of farm incomes for Canadian farmers by 19%, even though their exports have doubled! (Kees, *NAFTA bad for Family Farmers*)

Theme: Trade dependency and multilateral organizations' SAPs harmfully affect weaker nation's ability to control its economic growth, evenly distribute its income and strive for economic/developmental goals

- Though Canada is a developed country, we are also a “post-modern state” that is following the trend of a borderless world created by globalization. The powers of the state are eroding and with it is its ability to implement the Keynesian policy of the provision of social welfare programs. Little by little, Canada’s social programs are facing cost cutbacks and many government services are being privatized. (Clarkson, *Multi-Level State*)
- With this, the Canadian government no longer had the capacity to sustain the Fordist labour market compromise that had stabilized union-management relations for many years (Clarkson, *Multi-Level State*)
- With the erosion of the social safety net and the adoption of neoliberal policies, there is no more support system that Canada’s poor families can rely on. The key pillars of social infrastructure are crumbling and it is Canada’s poor, especially the growing number of poor children, that suffer as a result (Yourk, *Canadian Children Go Hungry*)
- Income inequality has risen in Canada so now the gap between the rich and the poor is getting wider and wider (Yourk, *Canadian Children Go Hungry*)

Theme: Globalization and multilateral organizations work in favour of AICs (advanced industrial countries) and “stacks the deck” against developing countries. There is a double standard as the rich countries are imposing restrictions on poor countries while breaking these restrictions themselves

- Even though Canada is an advanced industrial country, we are still prone to a double standard in being in such close proximity to the world hegemon. One dispute that has yet to be properly resolved is the softwood lumber dispute, in which the U.S. wanted the Canadian government to stop giving subsidies to our highly important logging industry, yet they give subsidies to their own industries! Now, the U.S. has put trade barriers and tariffs on Canadian softwood lumber, which is strictly forbidden in the concept of free trade. The U.S. is earning billions of dollars in countervail (tariffs applied to subsidized goods) and the NAFTA dispute council is powerless to stop it (Stanford, *NAFTA @ 10*)
- The NAFTA agreement also gave unprecedented power to MNC’s in the form of Chapter 11, whereby corporations could sue governments over hypothetical lost profits and get paid in damages! The Canadian government has been charged with up to \$5 billion in lawsuit damages, yet this controversial clause is still intact in NAFTA (Stanford, *NAFTA @ 10*)
- Despite all the problems that NAFTA has caused in Canada, the Canadian government is still viewing it as a “resounding success”. In fact, they encourage the expansion of NAFTA into all of Latin America through the creation of the FTAA (Free Trade Agreement of the Americas). Thus, the Canadian government is also in support of the “Fast Track” authority being debated in the States, in which the President could negotiate free trade agreements without discussion from the legislature. This debate on “Fast Track” could be seen as a debate on globalization itself (Oxley and Schneitz, *Globalization Derailed*)

Journal Article Points- (Journal of Labour Studies, Cormier and Targ, *Globalization and the North American Worker*)

- The negative effects of globalization have appeared, albeit in different degrees, in both developing (Mexico) and developed (Canada, U.S.) countries
- Neoliberalism requires a greater role of markets, an eroding role of the state, deregulation of economies, the cutting of public spending and the privatization of public institutions
- When Mexico joined NAFTA they internally downsized government, sold about 1000 state-owned enterprises to private investors, privatized community-owned farmland and opened its doors to manufacturers and multilateral organizations from developed countries
- Most of the U.S. imports that go towards Mexico consist of intra-corporate transfers and not open market consumption items (in other words, work formerly done in U.S. plants for U.S. MNCs is now being done in Mexico)
- There has been the relocation of thousands of manufacturing facilities from the U.S. to Mexico, especially in the maquiladora zone along the border. The primary motivation for this relocation is the low costs of labour (low wages and limited benefits) in Mexico
- The ratio of real average hourly compensation in Mexico is about one-tenth what it is in the U.S. and Canada (average compensation for production workers is \$17.70 in the U.S., \$16.66 in Canada and \$1.54 in Mexico!)
- Poverty in Mexico is widespread. Under neoliberal reforms, real average incomes of Mexican workers declined by 76%. An estimated 40 million people (40% of the population) live in poverty, while 25% live in extreme poverty.
- Inequality has increased in Mexico as every decile of Mexican society lost shares in their national income, while the top decile was the only one to increase their shares

- There have been many effects of NAFTA felt in Canada and the States as well. In both cases, the relocation of manufacturing facilities to Mexico has led to deindustrialization. A major consequence of deindustrialization is the loss of high-quality jobs (high wages, good benefits, unionized) in favour of more low-quality jobs (low wages, part-time, no benefits, no unions). This has happened very much in the States and Canada as well, as part-time jobs contribute little to the economy
- With less unionization in Canada (as well as U.S. and Mexico), workers have little bargaining power with their employers. In fact, conditions have worsened as companies simply threaten to shut down operations and move to Mexico if their demands aren't met by the employees
- Free trade has reduced worker's incomes and aggravated growth in poverty and income inequality to reduce the standard of living of workers in all 3 countries. This also puts the political power in the hands of a rich, elite few
- Inequality also exists in Canada, but the loss in share of national income fell mostly to the middle class (2nd, 3rd and 4th decile) while the poorest gained very little and the richest decile once again gained the most

Essay Outline

Thesis

When NAFTA was first established between the United States, Canada and Mexico, there were very optimistic views about the benefits of free trade to all three countries. Now, a decade after it was first created, the results of NAFTA are in and they are not encouraging. While NAFTA has stimulated much more trade within North America, its costs far outweigh its benefits. The effects of NAFTA on trade, social development and double standards have created a host of problems not only in Mexico, but Canada as well. The dependency on trade, the erosion of social programs and the hypocrisy of developed countries (like the U.S.) have made things worse for Mexico and Canada than they were before NAFTA was implemented. Now, with the U.S. proposing to expand NAFTA to all of Latin America, the citizens of all three countries must learn from the mistakes of NAFTA before it spreads to the rest of the world.

Paragraph 1: Under NAFTA, both Canada and Mexico have become dependent on trade with the United States. As a result of this, the U.S. has been able to come up with terms of trade that benefits them at the expense of Canadian, and especially, Mexican workers.

- Mexico will always just be a place where countries like the U.S. can relocate their cheap manufacturing (intra-corporate transfers) due to the low cost of labour (low wages, no benefits). This is especially evident in the maquiladora sectors
- While lots of manufacturing is done in Mexico, most of the parts are distributed by foreign companies and Mexicans only provide the labour. Thus, the money does not stay in Mexico but goes back to foreign countries. What's even worse, Mexicans don't have the proper technological know-how (called technology transfer) to one day start their own factories
- Without "technology transfer", Mexico will always be a cheap manufacturing area and a primarily agricultural country, never able to climb the technological ladder needed to advance an economy
- Like Mexico, a majority of Canada's trade is dependent on U.S., with over 80% of our exports going there. This is primarily because Canada, a bit like Mexico, is a resource economy with over half of our exports being natural resources. Canada's high-tech sector is struggling, and that is why it is not a major player out of all the other developed countries.
- The majority of Canada's imports from the States consist of finished manufactured goods. This is how the chain works. Canada exports the natural resources and imports the finished product, usually at a higher price
- Ever since NAFTA was implemented, Canada's productivity and share of FDI (foreign direct investment) have fallen in relation to the U.S.
- For both Canada and Mexico, falling commodity prices have made it that much harder for Canadian farmers and especially Mexican campesinos to make a profit

Paragraph 2: This trade dependency coupled with multilateral organization's SAPs in Mexico and neoliberal policies in Canada, have hampered social development.

- Multilateral organizations like the IMF and WB make loans to impoverished countries like Mexico. In exchange for these loans (which have to be paid back with a lot of interest), Mexico had to implement SAPs (structural adjustment programs) that included things like devaluing their peso, privatizing their public services, deregulating their economy, opening up their markets to foreign investment and reducing the role of the state (while increasing the role of the markets)
- As a result of this dismantling of the social safety net, poverty is widespread in Mexico, and inequality has risen sharply
- The ratio of average hourly compensation in Mexico is one-tenth what it is in Canada and the U.S.
- In the maquiladora factories in Mexico, Mexicans wanted to decree that any factories set up in Mexico had to buy Mexican parts. Of course, NAFTA and the multilateral organizations viewed this as illegal and wouldn't allow it
- Unlike Mexico, Canada is a developed country that doesn't need loans from multilateral organizations. Due to NAFTA, however, we are also being convinced to support neoliberal policies by dismantling the welfare state. Like Mexico, Canada now has policies that reduce the role of the state, deregulation of the economy, the cutting of social spending (in an effort to balance the budget) and privatizing many of Canada's public services
- With the erosion of the social safety net, many of Canada's poor (especially children) no longer have the social assistance they rely on
- Unionization in both Canada and Mexico has decreased dramatically so that less and less workers are part of union. Without a union, workers have little bargaining power with their employers, especially when they threaten to shut the company down and move to Mexico
- Inequality and poverty have also risen in Canada, similar to Mexico. Standard of living in both countries is down as well.

Paragraph 3: The forces of globalization and multilateral organizations work in favour for the United States and "stack the deck" against developing countries. The double standards set by the United States are apparent in both Mexico and the United States

- In Mexico, Mexican corn farmers are losing their incomes and being forced to move off their land because of the introduction of subsidized American corn on the market. Ever since Mexico has opened up its markets, a flood of subsidized agriculture has driven the price for corn down, so much so that these campesinos can no longer make a living off of it. The Mexican government is banned from providing subsidies to their own farmers, yet the U.S. government gives 20% subsidies to their farmers!
- Not only in agriculture but in normal trade as well, the U.S. is hypocritical. The U.S. has adopted protectionist policies by putting up tariffs and trade barriers, yet the multilateral organizations (which are controlled by only the most developed countries) don't allow poor countries like Mexico to do so. What this does is allow American goods to come to Mexico, but Mexican goods face strict tariffs in the United States! How is that free trade?

- All developed countries (a most recent example is East Asia) became wealthy by protecting their own industries, yet Mexico and other LDCs aren't allowed to do this. How will they ever become developed?
- With the crashing of commodity prices, Mexican farmers are being kicked out of their land in order to make way for agricultural MNC's, which are making record profits!
- Even though Canada is an advanced industrial country, we are getting "stiffed" by the United States and multilateral organizations like Mexico. A controversial issue is that of softwood lumber between the U.S. and Canada. The U.S. has put trade barriers on Canadian softwood lumber, claiming that it is unfairly subsidized! It has adopted protectionist policies to protect its own lumber industries yet it puts tariffs against Canadians for trying to do the same thing. The U.S. is earning billions in countervail due to these tariffs
- Also, the Chapter 11 clause in NAFTA allows corporations to sue governments for hypothetical lost profits! The Canadian government has already been sued for over \$5 billion in damages from U.S. corporations yet Chapter 11 is still part of NAFTA
- Even though NAFTA has created many problems for Canada (in regards to trade and social development), the Canadian and Mexican governments claim NAFTA as a resounding success. Along with the U.S., both countries are supporting the passing of the Fast Track authority that would eventually lead to the creation of the FTAA (Free Trade Agreement of the Americas)