NAFTA Inequality and Immigration

By Laura Carlsen | October 31, 2007

In June I took a television crew out to Cabeza de Juárez, a sprawling public housing project on the outskirts of Mexico City. Here families live on the edge of survival—the precariousness of their lives makes them a sensitive barometer of changes in the Mexican economy.

We went out to talk to people about the affects of the "tortilla crisis." In early 2007, the price of tortillas throughout Mexico shot up over 50%—from five pesos to around eight-and-a-half per kilo.

In the narrow passageways between vendors' booths, one by one housewives told the same story. Just months before, they bought two kilograms of tortillas a day to feed their families; now they had been forced to cut their consumption by half. Even with two or three family members working, they couldn't afford to buy the tortillas they needed.

Corn is not just any food in Mexico. This is partly because the grain is so deeply rooted in the culture; since the Mayan creation stories, Mexicans have been the "people of corn." Maize permeates their diet, religion, rituals and cultures.

But it's also because corn has always been the cheapest, most available food around for the both the rural poor who grow it and the urban poor who buy it at the local tortilla shops. At every meal, tortillas are wrapped around eggs or meat, dipped in the soup, used as edible spoons to scoop the beans, or salted and nibbled with a green chile if there's nothing else.

One señora put it succinctly: "If we can't eat corn, we can't eat."

As we walked out of the market and back onto a crowded street, one of the woman stopped me and asked if we were from the United States. She begged us to intervene with the U.S. Embassy so she could visit her son who had migrated to the United States as a teenager. It had been over a decade since she'd seen her boy.

What went wrong?

It wasn't supposed to be like this.

In the early nineties, when the North American Free Trade Agreement (NAFTA) was still but a gleam in the eye of presidents Carlos Salinas de Gortari and George Bush Sr., the atmosphere in Mexican political and business circles was positively euphoric. It was a time of major structural reforms in Mexico, and NAFTA was to be the crowning glory of Mexico's modernization, its ticket into the First World. Proponents predicted that the agreement would be a win-win deal—consumers would get cheaper food, producers would become more efficient, and immigration would decrease as the developing economy of Mexico converged with the world's economic superpower to the North.

Fourteen years later, we see nearly the opposite. As trade between the two countries has grown, so have the huge gaps in how people live. Following NAFTA the Mexican economy went into the tailspin now known as the "tequila crisis" when its currency devalued as a result of capital flight. Years later, growth has still been much lower than expected, averaging around 2% and only 1% per capita.

Even according to NAFTA apologist the World Bank, this growth "has been insufficiently high for per capita income levels in the Mexican economy to converge with those of its NAFTA partners … From this relative perspective, there has been no real progress over the last 15 years."[1]

Growth isn't the only problem behind NAFTA's failure to raise standards of living in Mexico. Job creation turned out to be another big disappointment. With over a million young people entering the job market a year, Mexico has produced less than half that number of jobs per year since NAFTA. In net terms, the situation is worse since small and medium-sized businesses that produced for the national market have gone out of business in droves. The rapid cycle of mergers and acquisitions set in motion by NAFTA's investor clauses—in many cases, transnational corporations absorbing Mexican companies—has created some jobs but more often has driven national companies out of business and led to employee cutbacks, especially in services.

Massive agricultural imports have displaced an estimated two million farmers, as subsidized grains from the United States take over their local and regional markets. With few new jobs in manufacturing or other sectors, many of these former farmers now work in fields in California, Carolina or Iowa.

Since NAFTA, the Mexican economy rests on four pillars: the informal economy, non-renewable resources (oil and gas), remittances from migrants in the U.S., and drug trafficking. To call that a shaky foundation would be an understatement.

The Tortilla Crisis—Who Won, Who Lost

How the tortilla crisis came about reveals how vulnerable Mexican society has become under the NAFTA economy. In a recent study, Ana de Ita of the Mexican Center for Rural Change cites three reasons for the crisis: 1) The rise in corn prices on the international market due to the increased demand for corn for U.S.-produced ethanol; 2) Speculation by transnational monopolies that dominate the corn and tortilla market in Mexico; 3) NAFTA's commitment to completely open up the sector in 2008 and its incremental liberalization of the corn market since 1994. This has led to Mexican dependency on imports from the United States.

The sudden rise in tortilla prices graphically illustrates the big lie of "free trade." To understand what happened, you have to throw economics textbooks with their explanations of comparative advantages, prices, and supply-and-demand out the window, and follow the money. What follows is a bare-bones explanation of the sequence of events.

Over the past year, the U.S. government, the European Union, Brazil and the Group of Eight industrialized nations all announced major plans for agrofuel adoption. Although agrofuels can be made from many ingredients, in the United States corn ethanol is the most common. With U.S. production leading the global pack, the increase in demand for corn as fuel pushed up the international price.

Many groups have criticized the diversion of land and corn from food to fuel production. Corn is a basic foodstuff not only in Mexico but throughout Mesoamerica and many other developing countries. As transnational companies like Cargill and ADM enter into the corn and ethanol business by leasing land and building facilities in other countries, these countries lose their ability to produce corn to feed their people and their agricultural resources—pure water, soil, fertilizers—go to run cars and strengthen the hand of the large traders.

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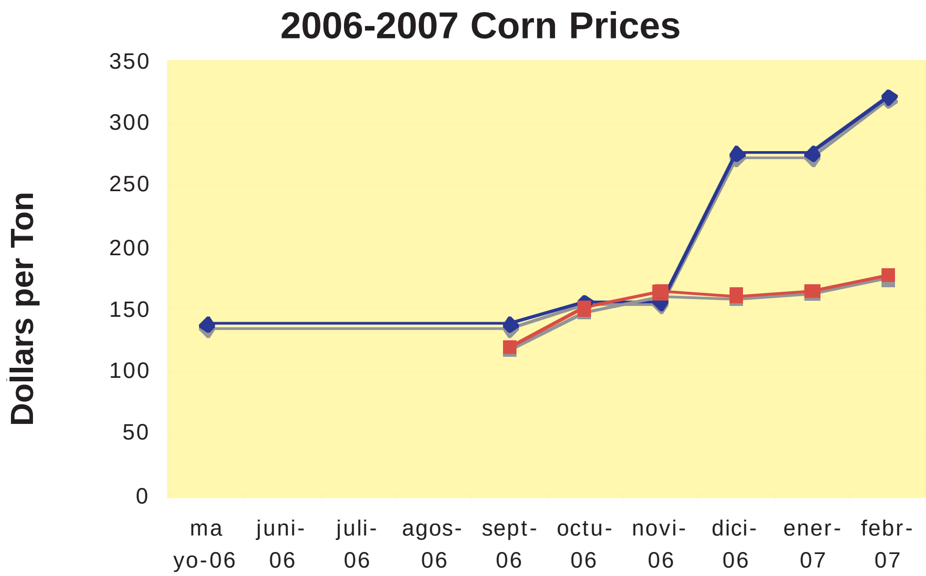
As the housewives in the Iztapalapa market prove, the rise in consumer prices raises the spectre of hunger among the poor. In Mexico, inflation is moving up the food chain, since under NAFTA subsidized corn imports from the U.S. replaced other types of forage for livestock production. Now dependent on U.S. imports, meat prices are going up too.

Agrofuel production remains a long-term concern for food sovereignty and consumer access to basic foods. But it doesn't explain the tortilla crisis. As the international price of corn edged up, the price of corn on the Mexican market skyrocketed.

When international prices began to climb, the handful of corn importers/large producers in Mexico saw an opportunity to further tighten their control of the market. Investigations show that Cargill, ADM-Maseca and other corn flour producers held back reserves to create an artificial scarcity as a justification for driving up prices.

Corn production in Mexico last year was very high—not a scarcity scenario at all. These companies bought Mexican



	mayo-06	sept-06	octu-06	novi-06	dici-06	ener-07	febr-07
Nacionales	138.1	138.1	156.1	156.1	275.23	275.23	321.1
Internacionales		120.08	150.39	164.17	160.63	164.96	177.16

Source: Ana de Ita, data from producer organizations SNIM and USDA

corn at low prices in early 2006, stored it, used the international price rise as a pretext for raising domestic prices and sold in December at prices more than double what they paid.

Another goal of this strategy was to use control of supplies and prices to drive out traditional corn mills that make up about half the tortilla market. In this way, the large industrialized corm companies sought to convert tortilla factories to using the corn flour they produce in making tortillas instead of purchasing dough from local mills. Through their participation in all aspects of the corn chain (imports, production, purchase from national producers, industrialization and wholesale markets) they sold corn flour cheaper than the traditional nixtamal and offered industrialized tortillas at half the going rate in retail chains in order to undercut the market for traditional producers.

None of this could have happened this way without NAFTA. Prior to the agreement, the Mexican government continued to play an active role in buying and distributing corn throughout the country, subsidizing urban consumption and guaranteeing a price floor to producers. Although it rarely applied the import controls permitted under NAFTA, the Mexican government did have some tools left to manage the market.

When all controls on corn imports are removed under NAFTA in January of 2008, the Mexican market—consumers and producers—will be at the mercy of some of the planet's largest and most voracious corporations.

Does the U.S. Have a Responsibility?

After NAFTA's tenth year anniversary, the World Bank issued a defensive statement noting that "NAFTA was not a development model." Following a decade of strict adherence to the spirit and the letter of the trade and investment pact, Mexico's statistics attested to the truth of the statement—no matter how you spun it, the distance between the expectations and the reality was an abyss.

Today, the United States has to share some responsibility for the poverty, unemployment and out-migration in Mexico. Consider the following:

When NAFTA was applied, the U.S. offered no compensation or sector transition funds despite the huge gap between the two economies.

The U.S. government has given Mexico an average of only $40 million dollars in aid annually over recent years, while U.S. companies have reaped record profits, partly from their new Mexico operations and cheap illegal Mexican migrant labor in the United States.

Mechanisms to assure that U.S. companies pay living wages and provide decent working conditions are practically non-existent, and NAFTA prohibits performance requirements that would assure more links between foreign companies operations and the Mexican economy.

The concentration of power and wealth has led to Mexico's status as one of the most unequal nations on earth. NAFTA is not working for Mexicans—not as a development model, or even an economic model that can be sustained into the near future.

To enter into an agreement that failed to take into account the needs of vulnerable sectors of the Mexican economy and then wash our hands of the consequences is not only unfair, it entails consequences for the United

States as well. Uncontrollable immigration is one of them. Although immigration is an integral component of globalization, it violates human rights when people no longer have the option of staying home and are deemed criminals in the receiving country.

Reducing Inequality

NAFTA promised convergence between Mexico and the United States. It didn't happen. The key to understanding why not is inequality. The agreement granted tremendous advantages to the most powerful and insurmountable disadvantages to the economically weaker sectors.

This is true not only looking at Mexico's problems in competing with the United States, but also looking at tendencies in both countries. The way the trade agreement stacked the deck meant small companies became prey for larger, especially transnational companies, workers lost leverage to employers; consumer power decreased as monopoly marketers grew. Women now make up 65% of Mexico's poor, as they fill the ranks of the informal economy or remain in dying villages to support families off remittances that may or may not always arrive.

To address these problems requires a shift from the emphasis on free trade to an emphasis on eliminating inequalities. This is not just Mexico's challenge. The very nature of the relationship with the United States exacerbated inequalities and so implies a shared responsibility. Moreover, within the United States inequality is growing and the offensive against immigrants is just one reflection of that.

Much of the U.S. debate on immigration has reflected a stinging backlash against Mexicans that deepens animosity and conflict. But common problems and shared responsibilities require working together and seeing the whole picture—not as an us-against-them scenario but as a complex and highly integrated region of persons with equal rights and similar aspirations.

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