CAFTA and Free Trade: What Every American Should Know

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The Disinformation Company

Chapter 4: Introducing our Latin American Trading Partners

You can pick your trading partners, but you can't pick your neighbors. There's no polite way to put it; the United States is a rich country living in a poor neighborhood. A visit to the US/Mexico border at El Paso, Texas can really drive this point home.

While filming *American Jobs,* I made a brief trip to Juarez, Mexico to explore conditions in the city most affected by NAFTA. Over the last ten years, thousands of manufacturing plants called Maquiladoras were built in Juarez and other border cities to take advantage of Mexico's $1/hr workforce. The population of Juarez exploded to meet the demand for workers, and I wanted to learn more about social conditions in the city where some of America's biggest-name products are assembled.

Discussions of the workers' living conditions often led to the Anapra section of town, a large barrio on the west side of the city. Three times a day, a fleet of beat-up old school buses bumps along the unpaved roads of Anapra, picking up and dropping off the young, mostly female factory workers. Waiting for the bus can be dangerous in Anapra, as there are few streetlights and a minimal police presence. Some outside observers refer to Anapra as a "no go" area for the Mexican cops.

Without experience shooting video in third-world countries, I was reluctant to naively enter Anapra waving a camera around. So I asked my driver if there was a safe vantage point to film the barrio from afar. I was surprised to hear that the best place to see into Anapra was immediately across the US/Mexico border.

On the way to the El Paso airport, I found a place to pull over on US Route 85, which runs alongside the border. Setting up the camera at the side of the road, I could shoot right through two rows of chain-link fence and into Anapra. Just thirty yards inside Mexico, you could see cardboard shacks, crumbling cinderblocks and open sewers. As I looked across the border at the people who make Levi's for us, I realized that the skyscrapers of El Paso were almost

immediately behind me. First-world and third-world, separated only by a chain-link fence.

You can't pick your neighbors, and our neighbor to the south is a large and poor country, with a huge supply of low-wage workers. Back in 1993, Mexico was presented to Americans as an important new market for American goods. Yet Mexico's wealth is still concentrated within a small circle of powerful businessmen, politicians and landowners. Although NAFTA created 900,000 new manufacturing jobs in Mexico between 1993 and 2000, these jobs simply do not pay well enough to stimulate Mexican consumption of American-made products.

The first five years of NAFTA gave Mexico a head start on other countries who wanted a piece of America's manufacturing business. But the creation of the World Trade Organization in the mid-nineties offered low-tariff access to the US market to over a hundred countries. With an unlimited supply of low-wage labor, China loomed as a major competitor to Mexico's Maquiladoras, but it took until 2001 for China to become a full member of the WTO.

In the last four years, the movement of American manufacturing jobs to China has exploded, taking advantage of China's new membership in the low-tariff WTO. As new factories sprung up in China, many factories in Mexico have been closing down. Over the last four years, employment in Mexican Maquiladoras has shrunk by approximately 250,000 people, as companies seek greater cost-savings by hiring Chinese workers who are paid substantially less than workers in Mexico.

Mexico's manufacturing employment faces an additional threat from its southern neighbors, who are even poorer. Imagine hiring a pilot to fly you in a small plane on a southward trip across Central America. Along the way you could observe tens of millions of urban and rural poor. As you pass over the southern border of Mexico, you would be entering the airspace of Guatemala, a mountainous country of fourteen million people where 75% of the population lives below the government-defined poverty line.

Keep flying, and you would cross over El Salvador, Honduras, and Nicaragua, each country poorer than the last. With over five million people, Nicaragua has a Gross Domestic Product of just $4.1 billion dollars. That's a GDP per capita of only $765, making Nicaragua one of the very poorest countries outside of Africa. Poor people in Central America are willing to work for a fraction of the wages paid to Maquiladora workers in Mexico.

The final country you would fly over is Costa Rica, the smallest and comparatively richest country in the region. Having abolished its standing army, Costa Rica has avoided the cycle of military dictatorship and civil war that ravaged many Latin American countries including El Salvador, Guatemala and Nicaragua in recent decades.

In 1993, the US Congress ratified the North American Free Trade Agreement, which linked Canada, the US and Mexico into a Free Trade Zone. Eleven years later, President George W. Bush signed the Central American Free Trade Agreement, which would extend this free trade zone to Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and possibly the Dominican Republic. Next up is the Free Trade Agreement of the Americas, which aims to further extend economic integration to all the countries in South America.

Inspired by the wildly successful economic integration of Europe, American regional trade agreements attempt to replicate to the European model in our own hemisphere. The European Union links the economies of wealthy first-world countries with a limited range of pay differences: the highest-wage country, Germany, pays manufacturing workers approximately twice the hourly wages paid in Spain and Greece.[i] However, regional trade in our hemisphere involves blending the economies of rich and poor countries, which is a very different proposition. Hourly wages in Mexico vary between $1 and $2 per hour, and hourly wages in Honduras and other CAFTA countries are often below 50 cents per hour.

According to Economist Robert Scott,[ii] NAFTA has resulted in a net loss of over 879,000 American jobs. Economic integration with Mexico did create almost 800,000 new American jobs in export industries, but NAFTA eliminated over 1.6 million American jobs as domestic manufacturing plants moved to Mexico. Was this job loss an inadvertent consequence of our experiment with linking a rich country to a poor country? Or is Labor Arbitrage precisely what NAFTA's creators had in mind?

You can't choose your neighbors, and our southern neighbors are poor. The combined population of our five CAFTA partners is thirty-seven million people, of which more than half live below the poverty line. The combined GDP of Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica is $67 billion. The GDP of the state of Kansas is $87 billion. With less than three million people, the State of Kansas produces more economic activity than thirty-seven million Central Americans.

When the US Congress debates CAFTA in early 2005, the treaty will be described as an opportunity to open up new markets for American products, creating and sustaining good jobs for American workers. Yet building a viable consumer class in an impoverished country is very hard work that can take decades. There are no guarantees that it can even be done.

Can CAFTA really be explained as an exciting opportunity to sell American products to a region where 21 million people live below the poverty line? Or is CAFTA a tool to make a quick buck by opening up a labor market where factory workers in Honduras make less than $30 per week?

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About 300 Maquiladoras have left Mexico to go to China where labor is found even cheaper. So they came in here, took up the human resource, used that, manufactured their goods, took their profits, and left.
-- US Representative Hilda Solis
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[i] "Hourly Compensation Costs for Production Workers in Manufacturing: 30 Countries or Areas," Bureau of Labor Statistics, September 26, 2002.
[ii] Scott, Robert. "The High Price of Free Trade," Briefing Paper, Economic Policy Institute, November 2003.

The Dominican Republicâ€“ Central America Free Trade Agreement (CAFTA-DR) is a free trade agreement (legally a treaty under international law). Originally, the agreement encompassed the United States and the Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, and was called CAFTA. In 2004, the Dominican Republic joined the negotiations, and the agreement was renamed CAFTA-DR.