

Mexicans are the Nafta winners? It's news to them

By Azam Ahmed and Elisabeth Malkin

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In 30 years at Whirlpool, working at the company's manufacturing plant in this industrial Mexican town, José Luis Rico has witnessed some pretty major changes.

The work force has grown, churning out refrigerators that look more like robots than the simple models of his early career. Fueling the changes was a free-trade agreement among Mexico, Canada and the United States that promised to lift Mexico into the future.

What did not seem to go up, however, was Mr. Rico's salary. After a handful of raises, he still earns well under \$10,000 a year — a sum, he argues, that hardly makes Mexico the big winner of the North American Free Trade Agreement that President-elect Donald J. Trump says it is.

In fact, to Mr. Rico and many other Mexican workers, politicians and economists, Nafta does not feel much like a win at all.

"It's more like survival," Mr. Rico said. "I thought it would make my life better, that this agreement would create opportunities for everyone."

"Maybe it has," he added, nodding toward the Whirlpool logo on the entrance to the complex. "Just not for us."

Mr. Trump made questioning the virtues of Nafta a centerpiece of his campaign, at one point calling it "the worst trade deal maybe ever signed anywhere," and he has not slowed down since his election. On Tuesday alone, he criticized General Motors for shipping cars made in Mexico to the United States, claimed credit for a decision by Ford to cancel plans for a new factory in Mexico, and named a well-known advocate of protectionist policies, Robert Lighthizer, his chief trade negotiator.

His argument has driven the narrative that where the American worker lost, the Mexican economy gained.

But here in Mexico, there is an increasing belief that Nafta, despite drawing an enormous amount of investment to the country, has been a big disappointment.

"At the end of the day, as a development strategy, it should have led to higher sustained growth, generated well-paid salaries and reduced the gap between Mexico and the United States," said Gerardo Esquivel, an economist at the Colegio de México. "It has remained well below what was hoped for."

Mexico's economy has grown an average of just 2.5 percent a year under Nafta, a fraction of what was needed to provide the jobs and prosperity its supporters promised. More than half of Mexicans still live below the poverty line, a proportion that remains unchanged from 1993, before the deal went into effect.

Wages in Mexico have stagnated for more than a decade, and the stubborn gap between the nation's rich and poor persists. A majority of workers in Mexico toil in the obscurity of under-the-table jobs at workshops, markets and farms for their survival.

New technologies, meanwhile, have cut many jobs while increasing productivity, which is good news for businesses but a blow to the work force.

"Mexico is seeing exactly the same phenomenon as in the United States," said Timothy A. Wise, a research fellow at Tufts University. "Workers have declining bargaining power on both sides of the border."

In part, Nafta's failure to achieve its potential falls on the Mexican government's shoulders, experts say. Rather than use the agreement as a

launching point to grow and invest in many sectors of the Mexican economy, successive governments viewed the trade deal as a silver bullet for the country's economic woes.

All of this is not lost on Mexicans, despite their government's defense of Nafta. A recent poll by Parametría, a respected Mexican pollster, found that more than two-thirds of respondents believed that Nafta had benefited American consumers and businesses, while just 20 percent believed it had been good for them. The poll, consisting of 800 interviews in people's homes, had a margin of sampling error of plus or minus 3.5 percentage points.

"There is a grand narrative in the United States that Mexico was the great winner of Nafta," said Fernando Turner Dávila, the secretary of the economy and labor in the industrial state of Nuevo León. "Meanwhile, here in Mexico, they only see the benefits, which are glorified. They never see the downsides, much less talk about them."

Mr. Turner cited the loss of nearly two million jobs in the agricultural industry because of the treaty, which benefited highly subsidized industries in the United States like corn to the detriment of Mexican farmers. And while the federal government lauds the increase in manufacturing exports, Mexico still relies on a tremendous number of imports from the United States.

"The Mexican government has not established policies to protect Mexican businesses," said Mr. Turner, himself a businessman, with factories in a half-dozen countries.

That said, even critics like Mr. Turner do not want to see Nafta gutted. It is an imperfect deal, one that has failed to deliver on its promise, he said. But to terminate the treaty would be a disaster, he said, hurting both Mexico and the United States and creating even more job losses.

It would also not happen easily, critics contend.

After two decades, the two economies are tightly braided together. Goods manufactured by companies operating in both countries — whether speakers, cars or airplanes — cross the border multiple times during production, a shared manufacturing process that, if destroyed, would mean shared job losses.

"A lot of people are taking solace in the reality that it's very difficult for the U.S. to impose tariffs on Mexico without damaging the U.S. economy as well," said Christopher Wilson, a scholar at the Woodrow Wilson Institute. "You need something to replace Nafta. Otherwise you're going to leave a lot of American workers out in the cold."

The agreement has certainly brought positive changes to Mexico, economists note. Since it went into effect at the beginning of 1994, billions of dollars in investment has been pouring into Mexico every year.

Sleepy provincial towns have become manufacturing hubs. Workers assemble Ford Fusion Hybrid cars in the city of Hermosillo and Whirlpool refrigerators outside Monterrey. Tijuana sends flat-screen televisions across the border and the state of Querétaro hammers out parts for helicopters and corporate jets.

For two decades, those exports have been the main driver of growth in Mexico, which is why Mexico's government is so eager to defend the country's trade relationship with the United States.

Without the agreement, the foreign investment that creates new jobs will slow, or even vanish, some fear. Mexicans got a forewarning of the possible effect this week. After poor sales and criticism from Mr. Trump, Ford announced that it would cancel a planned car plant in San Luis Potosí, a state that Nafta has transformed into a hub for auto manufacturing.

"Mexico has done a lot right," said Gordon H. Hanson, a trade expert at the University of California, San Diego. "It has a lot to be proud of. It has developed a middle class that lives in

cities, that educates their children. It's not the Mexico of 1993."

The image of these bustling factories feeds the idea that Mexico is responsible for the hollowing out of America's industrial heartland. But the reality has turned out to be much more complicated.

While American companies moved jobs to lower-wage Mexico to remain competitive, some new jobs emerged in the United States, in design or engineering, or in plants to make parts for the Mexican factories. In the end, "Nafta did not cause the huge job losses feared by the critics or the large economic gains predicted by supporters," the Congressional Research Service concluded in 2015.

In Mexico, the hope was to mimic the success of East Asia's so-called tigers, using free trade as the catalyst to modernize and overhaul the economy through exports. Instead, Mexico produced the exports, but not the growth. It even fell behind most other countries in Latin America during the 2000s.

But Nafta was not necessarily the problem. Much of the misstep, experts say, was the Mexican government's belief that the agreement would be enough to transform the economy all by itself. Thinking of the trade deal as a panacea, the government failed to come up with a broader policy or make the investments needed to use the trade agreement as a lever to transform the whole economy.

Investments in research and development, for instance, have failed to materialize in both the public and private sectors. Government spending on infrastructure has dropped to its lowest level in seven decades, experts say, leaving an unreliable network of ports, highways and even internet connections across

the country. Burdensome regulation and corruption stifled investment, while the nation's banks lent far less than their Latin American peers, leaving small companies to scramble for credit.

Even where Nafta is succeeding, it is not pushing wages up, or creating enough needed jobs.

Rodolfo de la Torre, an economist with the Espinosa Yglesias Center for Studies in Mexico City, said officials initially hoped Nafta would bring jobs to the mass of poorly educated workers in Mexico. But by the early 2000s, much of that low-skilled work had left for China, where labor was cheaper.

Jobs for better-educated workers in Mexico remained, in part because of the technological advances in the industrial plants.

Now, in many of the manufacturing hubs of Mexico, wages, and hopes, have been frozen.

For 10 years, Jorge Augustín Martínez has driven a forklift for Prolec, a joint venture with General Electric that makes transformers. A father of two, he earns about \$100 for a six-day workweek.

Though he has received modest cost-of-living increases, his last raise was five years ago, when gas, food and household items were far cheaper, he said. It was also before his second son was born. Between housing, insurance, savings and other requisites, he is left with about \$40 a week to buy food and other necessities for his family, he said.

Some of the engineers in the plant make more, he said, but no one is thriving.

"We're all the same, fighting to make ends meet," he said. "I don't know anyone who is very comfortable."