GlobalResearch
Center for Research on Globalization

Mexico Awaits the NAFTA Bomb Blast

By Ulises Noyola Rodríguez
Global Research, October 21, 2017

Region: USA
Theme: Global Economy, Police State & Civil Rights, Poverty & Social Inequality

The renegotiation of the North American Free Trade Agreement (NAFTA) has finally come to a decisive stage in which Mexico could receive a hard blow to its national sovereignty, leading to greater economic subordination. The eventuality that NAFTA may explode, however, seems likely in the fourth round of negotiations due to the fact that both Mexico and the US will have to deal with key factors that, among others, include labor standards, rules of origin and the permanence of chapter nineteen.

With respect to labor standards, the US position maintains that the low wages in Mexico attract North American investment, which undermines the creation of jobs in the United States. This affirmation is exact, since the wage breach between Mexico and the United States is enormous, considering that the minimum hourly wages are 0.5 and 7.2 dollars for each country respectively.

Nevertheless, the labor proposals of the United States and Canada, according to the Mexican Minister of the Economy, Ildefonso Guajardo, do not include an increase in the minimum wage in Mexico, but only propose to respect the labor rights which are demanded by the World Trade Organization (WTO)[1]. These rights involve the freedom of collective rights, the elimination of forced and child labor and the abolition of labor discrimination.

It is important to note that the minimum daily wage in Mexico is 80 pesos (about 4 US dollars), a quantity that is hardly sufficient to satisfy the basic needs of Mexicans with respect to food, health and education. This violates the international agreements that the Mexican government has ratified such as the Universal Declaration of Human Rights, the International Agreement of Economic, Social and Cultural Rights and the American Declaration of the Rights and Duties of Man[2].

The US proposal is therefore too weak because it does not oblige the Mexican government to at least fulfil the Constitution that stipulates that the minimum wage should be sufficient to satisfy the basic needs of workers and provide basic education for their children. This is a flagrant violation, even for public institutions such as the Ministry of Labor that has pointed out that an increase in the minimum wage is totally viable without negative consequences for the Mexican economy[3].

The justification of the Mexican government for maintaining the minimum wage so low for several years has been to control inflation[4], but the buying power of the minimum wage is almost completely pulverized, nullifying any effect on inflation. It is worth recalling that the buying power of the minimum wage has been reduced by 70% over the last forty years, so we have the lowest wage in the Organization for Economic Cooperation and Development (OECD).

The real reason for which the minimum wage has been maintained at inhuman levels is that it threatens the profitability of the export sector in Mexico. The export sector, in the context of the world crisis, will not tolerate any wage increase, rather, on the contrary, it seeks measures to intensify the exploitation of workers through long working days, reduce wages and destroy social benefits.

The super-exploitation of Mexican workers has become colossal, given that our wages are lower than those of China, which affects the expansion of the internal market, national investment and labor productivity. Even worse, the generation of employment has been concentrated in low wage sectors under the government of Enrique Peña Nieto[5].

With respect to the rules of origin, the US proposal insists on increasing the participation of the United States in the value of intraregional trade in NAFTA through the increase of regional content to 85% in the automobile sector and the creation of a minimum level of US content, but without creating an acceptable content for the participation of Mexico. The justification of this asymmetric proposal on the part of the US government is based on the argument that the greatest loss of value in intraregional trade corresponds to the participation of the United States, as the result of the incursion of China in the US market[6].

The country which would receive the hardest blow, due to the hardening of rules of origin, would be Mexico, since it will reinforce its commercial relation with the United States and thus consequently will be even more isolated from important regions such as Asia. At the same time, US exports to Mexico could increase, which would partly resolve the former's trade deficit, in contraposition to the worsening of our trade relations with the United States and the consequent increase of our financial obligations with the rest of the world.

In addition to the change of rules of origin, the Mexican government is negotiating the elimination of chapter nineteen of the trade agreement, which relates to the solution of trade conflicts between the member countries of NAFTA. Trade conflicts, up to now, have been resolved by independent tribunals, but the government of Donald Trump desires to resolve these commercial controversies in US tribunals, in order to defend US sovereignty.

The resolution of commercial controversies through US tribunals will only worsen our trade relations with the United States, since US authorities demand elevated standards of quality for Mexican products indiscriminately support their own agriculture and frequently reject Mexican exports for unjust reasons. In consequence, the elimination of chapter nineteen will give Washington more power to reject Mexican products and exacerbate our economic subjection to US tribunals.

The only salvation for the Mexican government may come from the support of Canada, whose representatives expressed their disapproval to the elimination of chapter nineteen and threatened to abandon the renegotiation, if the United States remains firm in their insistence on resolving trade controversies in US tribunals[7]. The US government might give way on maintaining chapter nineteen in the face of pressure from both commercial partners to abandon the renegotiation.

Although the dependency of the Mexican economy on the United States runs the risk of becoming even more chaotic, the Mexican government has not sent a forceful signal of having prepared a Plan B with respect to the diversification of its trade relations. The Mexican authorities only announced that they will diversify the purchase of grains from

Brazil and Argentina, while the Transpacific Agreement, without the United States, and the modernization of the trade agreement with the European Union are agreements that provide no positive prospects for Mexico.

On the other hand, the strategy of utilizing China as a counterweight is unlikely in the short term, since the implementation of a free trade agreement with the Asian giant would lead to a considerable increase in the trade deficit. The Mexican government therefore only contemplates the possibility of creating an Agreement of Economic Association with China, which implies the gradual opening of commercial transactions and the increase of investments between Mexico and China[8].

The Mexican government is therefore facing the disjunctive of abandoning the negotiations or accepting a disastrous agreement that would deepen our subordination to the United States. If we consider that there will be presidential elections next year. Inevitably, the government will end up losing what little legitimacy it still may have, due to neither being prepared for the renegotiation of NAFTA, nor obtaining the support of Mexicans to confront the administration of Donald Trump.

This article was originally published in Spanish by Alainet.

Translated by Jordan Bishop

Notes

[1] *Reuters*. NAFTA labor talks focused on rights, not salaries: Mexico. Publication date: 9/10/2017.

[2] *Frente a la pobreza*. Salario mínimo suficiente. Publication date: 2016.

[3] *El Financiero*. Hay condiciones para subir salarios mínimos: STPS. Publication date: May, 2017.

[4] *CONASAMI*. Razones que explican el rezago del poder adquisitivo del salario mínimo. Publication date: 2017.

[5] *Centro de Estudios Económicos del Sector Privado*. Análisis Económico Ejecutivo. Publication date: February, 2017.

[6] *Departamento de Comercio*. Trade In Value Added: Declining U.S.-Produced Content in U.S. Imports from NAFTA. Publication date: September, 2017.

[7] *The Globe and Mail*. Canada, U.S. aim for NAFTA deal by end of year as Round 2 begins. Publication date: August, 2017.

[8] *Senado de la República*. Viable un Acuerdo de Asociación Económica con China, ante incertidumbre por la renegociación del TLCAN. Publication date: September, 2017.

Become a Member of Global Research

Articles by: Ulises Noyola Rodríguez