Moving on from NAFTA to the FTAA?: the impact of trade agreements on social and health conditions in the Americas

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World trade and foreign investment have grown dramatically over the past 25 years, serving as major drivers for global economic growth (1, 2). This process, often referred to as globalization, involves the integration of various national economies into a single market for goods and services and for capital and investment flows (3).

Proponents of this process argue that trade and investment in developing countries bring economic development that leads to higher standards of public health, environmental protection, and human and labor rights (4, 5). However, others contend that the benefits have been unevenly distributed across and within countries and that free trade has imposed significant costs on development. The gap between rich and poor has grown, both within and between countries, and major determinants of health and environmental conditions have been affected (6–8).

International trade and investment agreements may seem distant threats to public health, but they promise to shape the future health of the world’s population to a greater extent than many other trends (9). Therefore, there is a need to explore the evidence for the health impact of trade and to feed this evidence into the policy-making process (10, 11).

In this paper we will focus on trade in the Americas and discuss some of the main potential public health consequences of the trade agreement currently being negotiated, the Free Trade Agreement of the Americas (FTAA). We will analyze the 10 years of experience that Canada, Mexico, and the United States of America have had with the North American Free Trade Agreement (NAFTA), assess how NAFTA might serve as a blueprint for the FTAA, and discuss the implications of the FTAA.

WHAT IS THE FREE TRADE AGREEMENT OF THE AMERICAS?

The Free Trade Agreement of the Americas is a proposed free trade agreement among 34 countries in the Western Hemisphere—all of the nations of the Americas except Cuba. Given the combined population of over 800 million people and the combined annual gross domestic product of US$ 13.5 trillion that these countries have, the FTAA would be the largest free trade zone in the world. The

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FTAA was born in the cradle of the first Summit of the Americas, which took place in Miami, Florida, 9-11 December 1994. Convened by United States President Bill Clinton, the Summit came at the threshold of free trade deal-making in the 1990s, with the official launch of the North American Free Trade Agreement among Canada, Mexico, and the United States in January 1994 and the setting up of the World Trade Organization (WTO) at the completion of the General Agreement on Tariffs and Trade (GATT) negotiations in January 1995 (12). The Mexican “peso crisis,” which erupted in 1995, delayed the official negotiations on the FTAA until the second Summit of the Americas, held in Santiago, Chile, in April 1998. A ministerial summit in Quito, Ecuador, in November 2002 produced a second draft FTAA treaty, with chapters on such key sectors as agriculture, services, intellectual property, investment, competition, and dispute settlement. The FTAA Trade Ministerial held in Miami, Florida, in November 2003 concluded with the approval of what has been dubbed “FTAA lite,” a version that allows member nations to withdraw from specific aspects of the FTAA. The negotiators hope to have a final text ready for signature by heads of state by December 2004, with each country’s legislature ratifying the accord in 2005 and implementation occurring by December of that year (13).

The business community in the United States and elsewhere throughout the Americas is considered to be the social force driving the FTAA agenda forward. Since 1994, parallel meetings of private business representatives from various countries of the Hemisphere have immediately preceded the trade ministers’ FTAA negotiating sessions, with the proposals generated at the business leaders’ meetings serving as a template for the FTAA negotiators (14).

Since the FTAA is modeled on NAFTA—it has been described as “NAFTA plus”—we will now turn to the impact that NAFTA has had on some important determinants of public health in order to better understand what the proposed FTAA could mean to the countries of the Americas.

LESSONS FROM NAFTA

What is NAFTA?

The North American Free Trade Agreement (NAFTA) is an international agreement that was negotiated among the governments of Canada, Mexico, and the United States and that came into effect on 1 January 1994. NAFTA is a very comprehensive trade accord, with numerous chapters that restrict the ability of governments to regulate cross-border movements of goods, services, and investment. NAFTA covers areas not currently in (or not fully covered by) the WTO agreements, such as common rules on investment, government procurement, and competition policy (15). The three NAFTA countries have a combined population of 416 million and a combined gross domestic product of more than US$ 12.3 trillion. The annual per capita income is US$ 5,500 in Mexico, US$ 21,340 in Canada, and US$ 34,870 in the United States (16).

Since NAFTA’s inception in 1994, supporters of the accord have pointed to increased foreign investment and export trade as signs of NAFTA’s success. Foreign investment among Canada, Mexico, and the United States grew by 128% by 2000, to over US$ 1 trillion. Total exports among the three NAFTA economies have also increased significantly, reaching US$ 621 billion in 2002. From 1993 to 2001, Canadian merchandise exports to Mexico and the United States grew from US$ 117 billion to US$ 229 billion. Mexico’s exports to its NAFTA partners in 2001 totaled US$ 139 billion, a 225% increase over 1993. United States merchandise exports to Canada and Mexico grew from US$ 142 billion in 1993 to US$ 265 billion in 2001 (17).

However, despite the macroeconomic growth experienced by the three trading partners, the promised benefits in terms of increased employment and income and reduced poverty seem not to have been achieved. There have been undesirable impacts on agriculture, public services, and governments’ sovereignty—all well-known determinants of health.

Employment, income inequality, poverty, and migration

Loss of jobs and job security. NAFTA’s most visible impact in the United States has been the elimination of more than 700,000 jobs between 1994 and 2000 because of the rapid growth in the net United States export deficit with Canada and Mexico. In Canada, increased imports destroyed more jobs than exports created; the net destruction of jobs reached 276,000 by 1997 (18, 19).

In Mexico the share of daily wage employees among all workers decreased from 74% in 1991 to 61% in 1998. However, the number of Mexicans employed in factories that produce goods for export has more than doubled since NAFTA began, growing from approximately half a million in 1994 to 1.2 million in 2001 (18, 19).

Also in Mexico, maquiladora assembly plants have been spreading from the country’s northern border cities to other areas of Mexico. The maquiladora program allows foreign-owned and foreign-
managed companies to import into Mexico, duty-free, manufacturing equipment, tools, machinery, and spare parts required for production. The finished goods can then be exported to any country in the world, with a tax assessed only for the small value added by the work done by the Mexican employees. Though these factories have thrived under NAFTA, they have contributed little to Mexico’s development and internal markets. Wages are kept low, and benefits and workers’ rights are deliberately suppressed in the maquiladoras (20, 21). Environmental health and environmental quality along the United States-Mexico border have been greatly damaged (22, 23).

In addition, a general pattern in the three NAFTA countries has been that employers have used their new freedom to move across borders as a tool in collective bargaining, by threatening to close their plants (24-26).

Increases in income inequality and in poverty. During the NAFTA period, while overall productivity has grown in Canada, wages have not, a trend mirroring the decline that has taken place in the United States. Income inequality expanded in Canada during the 1990s. The top 20% of families saw their share of pre-tax/transfer incomes increase from 41.9% to 45.2% by 1998, while the bottom 20% saw their share drop from 3.8% to 3.1% (18, 19). In the United States an overall index of income inequality shows that inequality increased significantly between 1990 and 2000 (19).

During the 1990s the minimum wage in Mexico lost nearly 50% of its purchasing power. Manufacturing wages fell 21% between 1993 and 1999. The number of people in poverty also increased. In 1998 the proportion of Mexicans categorized as poor was 58.4%, up from 50.9% in 1994. Studies have shown that the richest 10% control half of the country’s real estate assets (27). In 2000, Mexico’s total debt burden was more than US$ 10 billion greater than it had been in the first year of NAFTA, even though the country’s payments just to service the debt had ranged between US$ 22 billion and US$ 58 billion per year during that period (28).

Migration. NAFTA does not allow the free movement of people across borders. Studies on NAFTA’s prospective impact had indicated that the bulk of the additional jobs due to the treaty would be created in Mexico. One hoped-for side effect of NAFTA was a reduction in unauthorized migration from Mexico into the United States. This did not happen. Instead, the number of unauthorized Mexicans living in the United States rose from an estimated 2.5 million in 1995 to 4.5 million in 2000, representing an average increase of 400 000 persons per year. The main factors responsible for the increase have been the financial crises in Mexico, the continuing inability of the Mexican economy to create enough jobs, the robust United States economy, and the strong migration networks connecting the two countries. NAFTA has been unable to neutralize these forces driving people to migrate (29).

Agriculture policy

The model of agriculture enshrined in commercial treaties such as NAFTA and the WTO agreements is based on countries specializing in what they do best at producing, exporting these products, and relying on the foreign exchange earnings to purchase other food for local consumption. This model contrasts sharply with a self-sufficiency model, which tries to ensure that domestic food requirements are met first from local production (30).

One of the most significant international agriculture issues are the subsidies that rich countries provide their farmers for export-oriented agriculture. These subsidies lead to food being exported to developing-country markets at prices that greatly undermine local food production (31).

Legislation approved in the United States in 2002 increased agricultural subsidies by 80% over their 1996 levels, granting more than US$ 180 billion to support United States producers over the next 10 years. Nevertheless, these subsidies do not reach small producers in the United States, but rather mostly large landowners. Sixty percent of the direct payments go to only 10% of producers, who control enormous commercial operations. Fifty percent of farmers receive little or no government support. During the first seven years of NAFTA, 33 000 farms in the United States whose owners had an annual income of under US$ 100 000 disappeared (32).

Under NAFTA, basic grain imports into Mexico doubled between 1994 and 2001, reaching 110 million tons, with a value of US$ 18.5 billion. In the case of corn, Mexico now imports an average of 6 million tons annually, compared to 2.5 million tons prior to NAFTA. In Mexico the market price of grains dropped, and the actual prices to producers there have fallen between 35% and 60%. This has resulted in the stagnation of domestic production of basic grains and a shift in consumption patterns away from locally produced food in favor of imported food. This trend has affected the livelihoods of over 2.5 million corn producers, and an estimated one million Mexican farmers who cannot compete against imported grain from the United States have been driven off their land (33).
grown. However, the levels of Canadian farm bankruptcies and delinquent loans are five times what they were before NAFTA. Farmers’ net incomes declined 19% between 1989 and 1999, even though Canadian agricultural exports doubled over that period (32).

At the same time, United States agribusiness giants such as ConAgra and Archer Daniels Midland had significant earnings gains. From 1993 to 2000, ConAgra’s profits grew 189%, from US$ 143 million to US$ 413 million, and Archer Daniels Midland’s profits nearly tripled, from US$ 110 million to US$ 301 million (32, 33).

Public services

Services are covered by NAFTA in a chapter that follows a “top-down” approach. That means that all sectors are covered except the ones that were explicitly excluded by the negotiators. The three NAFTA governments initially agreed that social services were exempted from the treaty. However, the governments, at the insistence of a well-organized services industry, are contemplating mechanisms that would limit the capacity of the three countries to regulate and provide for environmental, labor, and consumer protection, or for any other public purpose (34). Once a government has decided to deregulate and privatize such public services as health care, education, social assistance, or water or electricity supplies, it would be virtually impossible for the government to reverse its decision. That is because the compensation payments under the provisions of NAFTA’s Chapter 11 section would be too costly for the governments. For instance, under NAFTA, Canada has already lost sovereign control over its energy resources, and there are threats to its ability to protect water from being traded commercially (13).

A prime example of the impact of the Chapter 11 provisions is the move by United Parcel Service (UPS), a United States delivery-services corporation, to sue Canada Post, the state-owned mail service. UPS has charged that, with regard to parcel and courier services, Canada Post is violating the NAFTA rules on public monopolies (35). The case is still pending before the NAFTA tribunal. While this case is focused on postal services, the ruling itself is bound to have widespread ramifications for a wide range of public services.

Other authors have identified the creeping privatization of public services as the most serious threat that NAFTA presents to health care. Privatization might lead to inequalities in access to universal public programs and a decline in support for them by higher-income persons favoring user-paid private insurance and private health care systems (36). If a government allows any currently exempt sector, such as public services, to become even partially privatized, that sector no longer qualifies for trade exemption status. For-profit companies in other NAFTA countries must then be allowed to enter the sector as competitors. Some provinces in Canada permit for-profit corporations to compete against public hospitals for public funding to provide health care services. While in theory a government could retreat from contracting out health services to private companies, that government would face the full force of foreign-investor compensation claims for both present and future loses (37). In Mexico numerous hospitals that are financed partly or wholly by United States firms have opened their doors in cities that have over 500 000 inhabitants (38, 39). In addition, recent research has found that NAFTA has not facilitated United States-Mexico border binational cooperative programs, making it difficult to improve the health status of border-area residents (40).

Undermining governments’ power to form public policy

NAFTA’s Chapter 11 deals explicitly with investment (rather than trade). Most importantly, Chapter 11 includes a mechanism for dealing with “investor-state” disputes, which are disputes between corporations and governments. This mechanism makes NAFTA unique among trade agreements. The mechanism allows foreign investors to sue any of the three NAFTA governments directly to demand compensation over any governmental act, including public interest laws that diminish the value of an investment. This unprecedented power granted to corporations restricts the ability of the governments to protect the environment and public welfare and to ensure that foreign investment supports social, economic, and environmental goals (34, 41).

The case of Ethyl Corporation versus Canada is perhaps the best example of how NAFTA has restricted the three governments from regulating or controlling corporations, in detriment to the health of the public. Ethyl Corporation is based in the state of Virginia, in the United States. Canada banned the importation of Ethyl’s principal product, a gasoline additive called MMT. Canada had strong evidence, though not decisive evidence, that MMT was both a health hazard and an environmental hazard. The additive was suspected of being a neurotoxin, and Canadian automakers had long complained that it damaged the catalytic converters intended to reduce polluting emissions from car exhaust. Cana-
dian officials went into the case with considerable confidence, stating that they had no doubt they would win. But despite the fact that NAFTA is supposed to allow governments to pass environmental legislation, it was clear to Canada from the subsequent deliberations of the NAFTA tribunal that the country was going to lose the case. Rather than face a penalty of US$ 250 million based on future lost profits claimed by Ethyl, Canada decided to settle. The settlement had three elements: a payment of US$ 13 million to Ethyl, the removal of the ban on MMT in Canadian gasoline, and a public apology to Ethyl for implying that its product was hazardous (42).

The damage to public-policy-making from this particular tribunal ruling was another incremental blow to the “precautionary principle.” Governments worldwide have been using this science-based principle for several decades to safeguard public health. The principle establishes that government authorities do not have to have absolute proof that a substance is hazardous, and the principle takes into account that such proof can often take decades to reveal itself. Trade agreements, including NAFTA, have been working against this principle, putting the burden of proof on governments, rather than on corporations (41, 42). So far under NAFTA, corporations have launched 28 lawsuits—claiming damages of more than US$ 30 billion—that strike at the heart of the government policy-making and national sovereignty, taking aim particularly at laws protecting the environment and the health of the public. Over half of the cases have involved either health or environmental measures. These are areas of public policy that are critical to sustainable development, and they are also two areas of policy that are of greatest concern to the public. Information on these cases remains incomplete because under NAFTA rules the cases are conducted in secrecy, in stark contrast to normal proceedings in domestic courts of law, which are open to the public (43).

**THE FTAA AND THE THREAT TO THE HEALTH OF THE PEOPLES OF THE AMERICAS**

Canada, Mexico, and the United States are all strong and independent countries. Nevertheless, the experience from NAFTA shows that the citizens of the three nations have been severely affected since the implementation of the trade agreement. Most of the nations of Latin America are in a more vulnerable position than the NAFTA countries are. Poverty remains unacceptably high in Latin America (43% of the population in 2001), with the number of people living in poverty growing from 200 million in 1990 to 214 million in 2001 (44). In turn, Latin American countries are not strangers to trade liberalization. Structural adjustment policies promoted by the World Bank and the International Monetary Fund have not delivered even on their own terms (more economic growth) nor by any more meaningful measures of standard of living (45). The World Bank recently insisted that Bolivia privatize the water services in Cochabamba, Bolivia’s third largest city, as a condition for receiving a loan to expand the available water supply services. The contract went to a private consortium led by Bechtel, a transnational corporation based in the United States city of San Francisco. Local cooperative water distribution systems were banned. Water became unaffordable, with prices increasing by as much as 200%. Eventually, citizen protests forced the President of Bolivia to rescind the contract (46).

The FTAA is expected to be the most comprehensive trade and investment regime in the world. It is designed to be an aggressive expansion of NAFTA. Several objectives run throughout the official FTAA text: universal coverage under the agreement of all productive and service sectors, the application of the FTAA rules at all levels of government, and the elimination of laws and regulations that restrict the ability of the private sector, particularly foreign investors, to operate in and move among countries in the Americas (13).

The WTO accords allow countries to enter into regional trade agreements that encourage liberalization of trade rules. However, the dual obligations of the FTAA and WTO agreements would mean that even if terms in a particular area under the WTO agreements were reformed to become more worker-, consumer-, or environment-friendly, countries would still be locked into the more onerous terms of the FTAA. The overlapping obligations will make it much more difficult to reform international trade rules. For instance, the WTO recently ruled that developing countries can import cheap generic drugs for HIV/AIDS, tuberculosis, and malaria. However, if the United States is able to achieve much stronger intellectual property protection through the FTAA, then this would become the new benchmark for drug-related intellectual property negotiations in the Americas (34).

Having a Chapter 11-style section in the FTAA would greatly reduce the ability of governments to protect the environment, agriculture, and public services; to set environmental standards and public health regulations; and to safeguard local jobs from the activities of foreign corporations. Most countries in the Americas would not have the enormous resources needed to deal with the challenges that corporations might launch against governmental authority.
Popular opposition to the FTAA is growing throughout the Western Hemisphere. In recent years populist governments that are at least formally opposed to unregulated trade have been elected in countries that include Argentina, Brazil, and Venezuela, and other nations have experienced social unrest. The Hemispheric Social Alliance, a coalition of national networks that has been working since 1992 on alternatives to free trade, has produced a collaborative document entitled “Alternatives for the Americas.” This document outlines an alternative to corporate globalization, in which working people would enjoy more legal protection than corporations or capital do. The document calls for: (1) direct involvement of civil society in negotiating international treaties, (2) strengthening environmental standards and labor rights, (3) shifting finance from speculation to productive activities, (4) closing the gap between rich and poor nations, and (5) ensuring food security and the right of nations to decide the process and character of their development (47).

NAFTA has had an enormous impact on such determinants of health as employment, income generation, food accessibility for millions of citizens, and how easy it might be to restrict governments’ capacity to adopt policies that serve the interests of the public in general. The FTAA represents a more severe threat because of the vulnerability of most of the countries of the Americas and because the FTAA proposes to incorporate tough new rules that extend its reach into additional sectors.

Governments in the Americas must act responsibly in negotiating the FTAA. There is still time to shift away from purely economic objectives that benefit corporations, and towards health and social development goals that benefit everyone, especially the poor. The political will to generate public health benefits and to promote equitable and sustainable development can be mobilized by broad coalitions of international and national public health organizations, together with grassroots health, consumer, farmer, and environmental organizations. The future health of the peoples of the Americas will depend on this effort.

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