NAFTA crisis threatens U.S. 'free trade' hoax

by Peter Rush

Four years ago, some flim-flam called the "Brady Plan" was put together to create the illusion that Mexico's foreign debt crisis was under control, in order to set the stage for ramming through the U.S. Congress a "free trade" agreement with Mexico that has been the agenda of leading U.S. financial circles for over a decade. One year ago, President George Bush finally produced a draft of the North American Free Trade Agreement (NAFTA) that seemed certain of passage by no later than last spring. Now, a Washington, D.C. judge's ruling has created yet another obstacle to easy passage of a pact that has grown increasingly unpopular in Congress, and among the U.S. electorate, over the past year.

On June 29, Judge Charles Richey, ruling on a suit brought by several environmentalist organizations, ordered that an Environmental Impact Statement (EIS) had to be prepared on the likely effects of passage of NAFTA on the environment. Citing studies showing that the explosion of trade across the U.S.-Mexico border in the last ten years has already turned certain areas into "a cesspool and breeding ground for infectious diseases," Judge Richey said that a treaty mandating even more, and freer, trade clearly would have environmental consequences, and therefore fell under the purview of the laws that require an EIS on any large domestic project that affects the environment. Since even a simple EIS can take months or even years on a project as enormous as NAFTA, the requirement to prepare an EIS could stall it for years, effectively killing it.

Judge Richey's ruling set off a firestorm of reaction from NAFTA's backers, as might well be expected. Even before Richey's ruling late last month, it was becoming clear that a large number of congressmen had reservations about NAFTA, were outright opposed to it, or were at least undecided and might vote against it. Even if Richey's ruling is overturned by the appeals court, as the Clinton administration boldly predicts, great damage will have been done to the cause, because opposition legislators and private groups will nonetheless be able to use his ruling as ammunition against the treaty.

For political reasons, NAFTA's backers are operating within a very short time frame. NAFTA must be introduced into Congress by sometime in August to be voted on this year. If the treaty is held over until next year, it runs up against U.S. congressional election campaigns (and U.S. politicians are less likely to vote for it in an election year), and a Mexican presidential election. Since the President of Mexico cannot succeed himself, the failure to pass NAFTA in the U.S. could well influence who will become the next President of Mexico.

Gambling on gullibility

From the beginning, the decision to ram NAFTA through was a high-risk gamble. Since the 1977 publication of *The Consequences of Monetary Disorder* by Fred Hirsch, for the New York Council on Foreign Relations, the leading ideologues of the "free market" in the Reagan-Bush administrations and within U.S. and European financial circles have staked all on a program of forcing the rest of the world to tear down protective tariff barriers, sell off state-owned industries, and open their countries to the unrestricted activities of foreign companies, banks, and financial institutions. Their gameplan for Ibero-America was simple: Use the debt crisis that blew up in 1982 to force these countries to adopt these programs, and to bring to the forefront of politics those forces prepared to do the International Monetary Fund's bidding. The result today is compliant heads of state fitting this bill in Mexico, Argentina, Colombia, and most of the smaller countries, and, until overthrown for corruption less than a year ago, also in Brazil and Venezuela. In all of these countries, major IMF-style "structural adjustments" and free-market economic reforms have been implemented over the last few years, in order to maintain their debt payments.

NAFTA is the intended centerpiece of this entire strategy, since it would set in cement these IMF-dictated changes, making them part of international treaty obligations that presumably no subsequent government would be able to reverse.

Already, many of Ibero-America's governments are clamoring to be included in NAFTA as soon as possible after it goes into force. Heading the list is Argentina, whose President, Carlos Menem, recently stated that he wanted to join NAFTA immediately.

So, if NAFTA doesn't pass the U.S. Congress, the political careers of over a dozen pro-free trade Ibero-American Presidents are in deep trouble. In almost every country in the hemisphere south of the Rio Grande, people are seething at more than a decade of economic decline and unemployment, brought upon them by the debt crisis and economic "reform" programs. The worst nightmare of the free trade crowd is that this inchoate popular sentiment will find political expression and overthrow a decade and a half of carefully laid plans to return Ibero-America to a U.S. "sphere of influence."

'If we can't do Mexico, who can we do?'

Thus remarked Michael Aho of the Council on Foreign Relations, commenting July 1 on Judge Richey's decision. Who, indeed? The *Washington Post,* ardently pro-free trade, warned that "the consequences for Mexico may be severe," because the ruling may harm investor confidence and halt the inflow of money to Mexico, "a country whose courageous and vigorous government there is transforming the country with a sweeping series of reforms."

The *Wall Street Journal* was even more strident, calling the ruling a virtual "death sentence" for NAFTA, and saying that the impact on Mexico could be "profound." A delay in NAFTA "could strengthen the hand of Mexican lefitsts, who have opposed the pact with Mexico's historic nemesis." If the inflow of capital to Mexico stops, the *Journal* warned, "the stability of the peso would be placed in jeopardy. A peso devaluation would wreck the President's economic reform package and greatly diminish his popularity." The *Christian Science Monitor* moaned that "a loss by NAFTA later this year, which is now a strong possibility, would humiliate the White House and send shockwaves through the international community."

The day before the Richey ruling, discussing the prospects if NAFTA fails, top Massachusetts Institute of Technology economist and specialist on Ibero-America Rudiger Dornbusch, addressing a forum at the Georgetown Center for Strategic and International Studies (CSIS), used even stronger language: "If NAFTA is defeated, the reforms and Mexican financial stability will collapse. . . . Without NAFTA, the Mexican economy will collapse and the country will return to the nationalism of the past." Addressing the same forum, Bill Richardson (D-N.M.) gave Clinton a deadline of Aug. 31 to present NAFTA to Congress or else face an indefinite delay. CSIS director of Mexican affairs M. Delal Baer told the audience that they should recall the bloody Mexican Revolution of 1912, implying that if NAFTA fails Mexico could fall into anarchy again.

The *Baltimore Sun* drew out the estimated consequences for U.S. policy globally. In a July 2 editorial, the *Sun* asserted: "The mischievous Richey edict gives organized labor and environmental groups much greater leverage to carry the load for open and closet protectionists on Capitol Hill. In foreign policy terms, it is hard to exaggerate the damage to good relationships throughout Latin America that would be caused by the death of NAFTA. . . . On a global scale, U.S. plans to include agriculture, service industries and intellectual property under GATT rules—developments of immense importance for the U.S. economy—are now at risk. What a mess!"

Indeed, the General Agreement on Tariffs and Trade (GATT), the international trade organization that strives to smash down trade barriers, is in trouble. The United States is still at loggerheads with Europe and Japan on many issues now under negotiation that have bogged down for the past several years, with each country trying to retain certain protectionist clauses for its own industries, while battering down all barriers within other countries. A defeat for NAFTA would, as the *Sun* notes, hurt prospects for reaching a GATT accord this year.

Cheap U.S. imports flood Mexico

The basic reason why NAFTA is in trouble in the U.S. Congress is that the U.S. economy remains moribund, and NAFTA is correctly seen as threatening to steal hundreds of thousands of U.S. jobs as more companies flock southward to take advantage of cheap labor.

In Mexico, even without NAFTA, tariff barriers have been drastically lowered, which has resulted in a lopsided flood of exports from the United States into Mexico, decimating tens of thousands of Mexican manufacturers who have been unable to compete with the cheap imports. As a result, decent-paying jobs in the manufacturing sector have dried up and millions of Mexicans have been thrown into the "informal sector" of street vendors, taxi drivers, and drug pushers.

This has required a huge inflow of speculative dollars seeking high returns, both to keep paying Mexico's giant foreign debt as well as to pay for the flood of imports. The fear of the free trade proponents is that if their confidence game in Mexico collapses, and this hot money leaves, Mexico will unravel much as Dornbusch and others specify. Suddenly, Mexico will, among other things, be unable to make its foreign debt service payments, and even the debt crisis swept under the rug with the 1989 Brady Plan will reemerge with a vengeance, and all bets will be off on which political forces will rise to power in Ibero-America.