International Metalworkers' Federation

Metalworkers and the Free Trade Area of the Americas

TABLE OF CONTENTS

PREFACE

A global trend toward free-trade agreements has been gaining momentum since the 1990s, with over 170 such agreements in force and some 70 others under negotiation. While the WTO continues to be the target of violent criticism because of its lack of transparency and the non-enforcement of core labour and environmental standards, the proliferation of bilateral and regional free-trade agreements should also be a source of concern for workers and trade unions.

Among the agreements currently being negotiated, the Free Trade Area of the Americas (FTAA), which accounts for about 40% of the world GNP and is scheduled for completion in 2005, represents a major challenge for the labour movement in that region and even beyond. The proposed FTAA is part of a larger agenda of deregulation, privatisation of public services, destruction of collective bargaining and dismantling of social safety nets. The experience of a similar deal – the NAFTA - has been a bitter lesson for workers in North America and Mexico, and stands in stark contrast to the promises of prosperity and job creation made by the governments and business community.

Faced with these developments, the IMF decided to set up a Working Group on the FTAA with the task of preparing a policy paper and analysing the potential impact of FTAA on the metal industry in the Western hemisphere. Whilst recognizing that FTAA would affect all workers, it was felt that the IMF could bring a sectoral perspective into the union debate and raise points of specific interest to the metal industry.

Whether or not the FTAA comes into force, the issues addressed in the negotiations are here to stay. These negotiations may lose momentum or, perhaps, the project may be shelved due to the Argentine crisis and/or the lack of American fast-track negotiating legislation. However the supporters of free trade will not give in. They will continue to push the liberal agenda in other fora and in other forms.

The present report is the outcome of the work accomplished by the IMF FTAA Working Group in 2000/2001. It should contribute to raising the visibility of trade issues among the IMF membership. It should also help engage those who have not been involved so far in the FTAA debate, and generate political pressure on governments to defeat a project that just reflects the strategic interests of transnational capital.

PART ONE

THE PROPOSED FREE TRADE AREA OF THE AMERICAS (FTAA)

AN OVERVIEW

The Free Trade Area of the Americas (FTAA)

1. WHAT IS THE FTAA?

1.1. Yet a further model for corporate-driven economic integration

Discussions around a free trade area of the Americas were initiated at the Summit of the Americas, which was held in December 1994 in Miami. In the Summit's final declaration the participating countries pledged to create a historic Free Trade Agreement of the Americas linking all the hemisphere's economies (except Cuba) by the year 2005.

The proposed FTAA

800 million consumers (European Union: 380 million)
Gross national product: US$11 trillion (EU:US$8.8 trillion)
23% of world exports
30% of world imports
Share of US exports to Latin America: 20%
Share of Latin American exports to the US: 52%

The goal set by the Heads of State and government in 1994 was given a major push forward by the adoption of the San Jose Declaration in March 1998. Since then, negotiations have gathered momentum. Several groups, each headed by a different country, have been set up to negotiate the FTAA, with support from special units established at the Inter-American Development Bank (IDB), the Organisation of American States (OAS) and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

Nine Negotiating Groups	Four Special Committees
Market access	*Consultative Group on Smaller Economies*
Investment	*Committee of Government Representatives on Civil Society*
Services	*Joint Government-Private Sector Committee of Experts on Electronic Commerce*
Government procurement	*Technical Committee on Institutional Issues*
Dispute settlement	
Agriculture	
Intellectual property rights	
Subsidies, antidumping & countervailing duties	
Competition policy	

The aim of the proposed FTAA is clear: establish a free trade and investment area stretching from Alaska to Tierra del Fuego – in other words ***give a new boost to the corporate-driven free trade model and extend NAFTA-style rules to the entire hemisphere***. Its main thrust is strengthening corporate power and opening up foreign investment with a down-sized state and an ever more flexible regulatory framework. The negotiations will include areas not presently within the WTO's ambit and not yet subject to commonly agreed rules among a large number of trading nations.

From the beginning, representatives from the big business community and lobby groups have been involved in the process, advising negotiators and assisting in writing the rules. At the same time, however, trade unions and civil society have been marginalized from the talks and, as a result, have been unable to incorporate their concerns and proposals in the discussions.

1.2. A threat to workers' rights and democracy

The labour movement has sought to participate in the process by holding labour forums at annual FTAA trade ministers' meetings and proposed that a working group on labour and social issues be set up with equal status to other working groups. However this demand has been rejected. Instead, a Committee of Government Representatives on Civil Society was established to collect and process the views of civil society in the Trade Negotiations Committee. The reality is that this Committee does not embody any meaningful mechanism for incorporating union concerns into the actual negotiations. It has been subject of sharp criticism and even some government representatives have acknowledged its inadequacy.

IMF affiliates in the Americas have different experiences with regional integration - NAFTA for the US, Canadian and Mexican affiliates, and MERCOSUR and the Andean Community for the Latin American unions. NAFTA and its corporate-driven free trade model has been a bitter lesson for workers in North America and Mexico who are very much concerned that this imbalanced process is not repeated in the FTAA. NAFTA’s labour side agreement is weak and has no effective sanction mechanisms. The union experience with Mercosur is more positive. In 1998, Mercosur approved a Labour and Social Charter whose agenda includes the development of an enforcement mechanism for worker rights. In the Andean region there has been some progress in the area of a social dialogue, including an effort to produce a social charter based on the S. Rodriguez Agreement of 1973.

Beyond these differences and the level of complexity of specific issues, unions in the hemisphere share the same concerns. The creation of an economic space totally open to the free movement of goods, services and capital and the introduction of new leverages intended to protect corporate rights and widen their field of action, represent a major threat to the social, economic and political interests of workers and their trade unions. A look at NAFTA's legacy shows that these kinds of trade agreements only add to the race to the bottom, threatening workers' rights, livelihoods and democracy.

So far, workers in the Americas have not benefited from the liberalisation of the economy that has already taken place. Restructuring has led to more precarious forms of working, more unemployment and more poverty. Inequalities have worsened internationally and within countries. Unions cannot support an integration model that is intended to reduce existing standards to the lowest common denominator. If it occurs at all, integration must take place within the context of a common set of labour and environmental standards and should aim at steadily improving standards of living and working conditions for all. Closer economic ties should be accompanied by enforceable measures to protect workers and the environment and aim at promoting sustainable economic and social development for all.

1.3. An impediment to balanced and sustainable development

Negotiations on the FTAA bring together unequal partners in terms of size, political and economic power and level of development. They include countries with differences in GNP per capita as large as 25 times. The concentration of wealth is significant with over 80% located in the U.S.A and Canada. The region's social indicators follow the same pattern; differences in expected years of schooling, for instance, exceed 7 years within the FTAA countries. Public expenditure on education as a percentage of GNP is twice as much in Canada as in Argentina[1].

There will be no sustained economic growth in societies where there is unequal distribution of wealth and differences in access to opportunities. It is hard to see how countries with such economic, productive, commercial and social inequalities could all benefit from an agreement which puts corporate interests above all other values.

Any trade agreement should address social integration and the issue of indebtedness is part of it. Foreign debt is a major impediment to development and puts smaller and weaker economies in a difficult bargaining position. It has a harmful effect on most of the economies of the FTAA countries because it reduces governments' ability to invest in key areas of development such as housing, health, education and the environment. Governments are compelled to use scarce financial resources to pay off the costs of their debt and the interests incurred by it.

An issue that must be examined in connection with the smaller economies is that of structural funds to help less developed regions to develop. Such funds have been used in Europe to reduce development gaps and promote economic and social cohesion within the European Union [2]. They could help create a more equitable process of economic relations in the Americas.

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[1] World Bank, World Development Report 2000/2001.

[2] The resources from these Funds are targeted at actions which help bridge the gaps between the more and the less developed regions and which promote equal employment opportunities between different social groups. The two first Funds – the European Social Fund and the European Agricultural Guidance and Guarantee Fund – were created in 1958; the third one – the European Regional Development Fund - in 1975 to assist those regions affected by industrial decline. The development of the structural funds is linked to the major stages of European integration.

2. SOME AREAS OF CONCERN FOR METALWORKERS

Several issues dealt with in the various negotiating groups mentioned above are critical to metalworkers. Consequently they should not be the preserve of business alone and should be put on the unions' agenda.

2.1 *Market access*

The mandate of the FTAA Working Group on market access is twofold: (i) eliminate tariffs and non-tariffs barriers as well as other measures with equivalent effects and (ii) facilitate the integration of smaller economies and their full participation in the FTAA negotiations.

Access to foreign markets is a key tool for economic and social development, but increasing exports alone cannot ensure sustainable growth at home. The transformation of developing countries or poorer countries into mere export bases should be opposed to. This not only harms other countries but does not stimulate development in the host country. It generates low-wage, low-quality and precarious jobs. Experience around the world shows that demand-led growth strategies can raise productivity and wages, and lower unemployment. Appropriate measures must be taken to boost internal demand. Market access should also be linked to the respect of human and workers' rights .

In the current draft agreement[3], market access is subject to “national treatment”. This means that imported goods coming from a country within the hemisphere must be treated “no less favourably” than domestic goods. The national treatment principle has been established within Mercosur and the NAFTA but, in the case of the FTAA, the asymmetries between the economies are much wider. The application of this principle in the western hemisphere could run counter to national development concerns and interests, such as preserving nascent industries and jobs from foreign competition or protecting natural resources. The ability of governments to impose temporary restrictions when imports disrupt local production must be assumed – especially during a transition period.

There should be a differentiated approach to tariff reductions to address these asymmetries. Especially in the case of smaller economies, differential treatment should be granted, for example in the form of longer phasing-in times for lowering tariffs or permanent concessions, as well as appropriate technical assistance to help them in the face of broader competition. Such an approach would be more equitable for metal workers concerned with protecting industrial policies and their impact than a single formula for the reduction of all tariffs on the same schedule.

When job displacement occurs, effective programs for adequate unemployment compensation, education and training for workers, necessary public investment directed at the re-employment of workers and research

[3] The draft agreement is available on the FTAA website www.ftaa-alca.org in English, Spanish, Portuguese and French. It was released in response to repeated calls for an open and democratic development of trade policy and thanks to the pressures exerted by trade unions and a number of NGOs.

and development and credit facilities for firms will be necessary to promote domestic demand and economic development. Re-employment for workers in jobs paying family-supporting wages is critical. Investment funds must also be set up to allow for the reconversion of sectors which have been affected by trade liberalisation and for the development of new products. The creation of such mechanisms must be an essential element of any FTAA and a priority for all governments in the region. The adequacy of these instruments and their funding should be included in the Market Access negotiations.

2.2 *Investments*[4]

The mandate of the FTAA negotiation group is to "establish a fair and transparent legal framework to promote investment through the creation of a stable and predictable environment that protects the investor, his investment and related flows, without creating obstacles to investments from outside the hemisphere".

For workers and their trade unions, the inclusion of a binding commitment to ***labour standards*** is an essential prerequisite for investment rules. It is not aimed at protecting markets but at protecting the rights of workers in the region. These labour standards include:

- *Freedom of association and the right to organise (ILO convention n° 87)*
- *Collective bargaining (n° 98);*
- *Elimination of all forms of forced or compulsory labour (n° 29 & 105);*
- *Abolition of child labour (n° 138 & 182) and*
- *Non-discrimination in respect of employment and occupation (n° 100 & 111).*

In addition to meeting these minimum standards, governments must not be allowed to lower their labour, environment and health and safety standards to attract or retain investment. Governments seeking to attract investment by suppressing domestic labour standards or violating internationally recognised core workers' rights should be taken to dispute settlement. This should also encompass environmental standards.

The chapter on Investment, as it now stands in the current draft, builds on the investment chapter of NAFTA, Chapter 11, and includes critical points for workers, such as

- **National treatment**: no country can discriminate on behalf of its domestic sector.

[4] Since 1990 , over 50 bilateral investment treaties have been negotiated in the Americas. In about half of them, performance requirements are banned. Technology transfer requirements are also banned.

As already indicated, this provision can be counter to legitimate domestic political and economic objectives of a number of countries and increase their vulnerability vis-à-vis foreign competition. If governments are not able to regulate foreign investment, this can prevent them from implementing a co-ordinated industrial or development strategy.

- **Most-favoured nation treatment**: governments are requested to give the same favourable treatment to all investors.

This means that federal, state and local governments cannot differentiate between companies from countries which comply with international labour standards and those which do not. Governments must reserve the right to discriminate against investors based in countries that fail to meet specified obligations and commitments, including worker rights, human rights, social rights and environmental protections.

- **Expropriation and compensation for loss**: In NAFTA, companies are allowed to claim compensation for the loss of what they argue would be future potential profits or investment value due to government regulation that is "tantamount to expropriation." Companies can sue a government simply by claiming that their future potential profit is being taken away from them by a government decision.

The use of this provision in NAFTA by companies to undermine government regulations, including public health and safety regulations in the METALCLAD case, demonstrates the public danger created by the ***investor-to-state dispute*** procedure and the importance of preventing its incorporation into any FTAA.

> ***Metalclad versus Mexico case**: In August 2000, the NAFTA Tribunal ruled in favour of Metalclad and ordered the Mexican government to pay US$16.7 million in compensation. The State of San Luis Potosi had refused to re-open a waste disposal facility on the ground that the facility would contaminate the local water supply*

This is a travesty that must not be repeated in any FTAA. There should be no mechanism established for corporations to sue governments under any FTAA and unions are firmly committed to the rejection of such a mechanism in any trade or investment agreement.

The right of governments at all levels, to adopt regulations to protect public health and safety must be beyond the reach of any claim to compensation by affected corporations.

- ***Performance requirements:*** measures imposed on an investor in conjunction with the investment. The most common requirements cover the use of local labour, local content, technology transfer, repatriation of profits and trade balancing.

These are important tools for local economic development and the aim should be to work out strategies for promoting economic and social development rather than favouring company profitability. Their prohibition means that foreign investors have no obligation towards the local economy and community.

Many countries have adopted industrial policies that require foreign investors to contribute to local economic development by meeting a variety of obligations as a condition for approval of their investments. It is a legitimate interest of governments to insist that foreign companies, which may deprive local producers of opportunities, meet social goals for production.

Any discussion on a limit to or ban on performance requirements tied to exports must also take into consideration the need of developing countries to generate export earnings because of balance of payment deficits and large-scale debt repayment obligations. It must be related to the wider political and economic situation of these countries, in particular the heavily indebted ones. Behind this, there is the pressure exerted by international financial institutions on these countries to pursue an export-led strategy and the whole foreign debt issue.

Requirements should be placed on investors to protect and promote employment, respect social and labour rights and provide decent working conditions. Governments should retain the right to impose requirements on foreign investors and maintain protections for small and medium-sized enterprises as well as key sectors in their respective national development plans.

For unions in Latin America, the issue of ***technology transfer*** takes on particular importance. Without appropriate technology, countries in that region will never be able to catch up and compete on regional or international markets. Nor will these countries have the purchasing power necessary to buy goods produced in the North. If these countries are to develop and participate in international trade, trade agreements should provide for a mechanism allowing adequate technology transfers.

A related and sensitive issue is that of offsets[5]. Whilst the demand for technology transfer is fully understandable from a development perspective, the issue of offsets and export performance requirements raises job security concerns in supplying countries. Conditions must be created to ensure that the use of offsets result in a meaningful transfer of skills and technology to developing countries, fostering local development and community investment.

The Buenos Aires Trade Ministerial Declaration (April 2001) reiterates the objective of the FTAA to eliminate all barriers to trade and investment. Investment here has to be understood as including not only foreign direct investment (FDI) but also portfolio investment and other forms of short-term lending..

[5] Offset: condition imposed or considered by an entity prior to allowing a foreign company to sell on its market. A government agrees to buy a given product if, for example, production facilities are installed in the country in return.

As experience has shown, ***short-term capital flows*** create havoc in the economy when they are reversed. The sudden outflow of investment funds from a region or a country can nullify years of growth and destroy jobs. International financial regulation is critical to stable, sustainable economic development, internationally and in the region.

Consequently, governments should, together, work toward effective international rules that tax foreign exchange transactions and curb reckless speculation. Each country must retain the ability to establish policies to promote long-term productive investment, prevent capital flight and control short-term foreign capital flows in the interest of domestic macro-economic and social stability. Regulation of currency markets, stock markets and other forms of portfolio investment must be permitted under any agreement, and strict regulation of these potential sources of economic instability should be encouraged. Negotiators should discuss the possibility of adopting taxes and rules to accomplish these objectives, with the expectation that these can be used as models for comprehensive international agreements.

Unions will firmly oppose attempts to produce an investment chapter based upon the defeated Multilateral Agreement on Investment (MAI) or the existing North American Free Trade Agreement (NAFTA). Investment and finance rules should benefit the people of the Americas, not just a narrow category of investors. A model has to be developed that includes clear corporate accountability rules to balance rights granted to investors.

2.3 *Government procurement and.....*

In many countries there is no transparency in government procurement practices with reference to domestic rules for bidding, announcement of procurement opportunities and provisions for independent review to apply on a non-discriminatory basis. The objective of the FTAA negotiators is to enhance government procurement measures and even go further than the WTO agreement on government procurement[6] .

What is at stake in the FTAA, is the opening up of government contracts, services or goods to competitive bidders, and making service sectors as accessible as good sectors to foreign participation. Whilst supporting the demand for more transparency, trade unions in both North and Latin America are much concerned by the opening up of public procurement markets to industry for all signatories of any FTAA. Broadening the scope of the agreement and bringing more public procurement markets - for instance services - under international rules of competition in the region is a critical issue, in particular at sub-national level. This would significantly limit governments' ability to regulate companies which invest in a given sector.

[6] The WTO Agreement entered into force in 1996 and includes a small number of countries. Canada and the US are members; Argentina, Chile, Colombia and Panama have observer status. The Agreement requires non-discriminatory practices and open procedures in government procurement among member states and covers not only central government purchasing of goods but also procurement of services, including public works, and procurement at the sub-central levels of government. Procurement in public utilities is also included. Up to now, the WTO does not enforce national treatment rules on the purchase of direct government goods and services.

Indeed a lot of governments in the Americas are eager to promote local firms and not open up their tendering procedures. This is more the case at state and local level than at national level. State-provided services such as education and health care are a major source of concern, because there are numerous jobs at stake when private companies compete for providing these services.

In Canada, for example, health care and education, along with other social services have limited exemptions from the provision of NAFTA. There is a reservation for existing provincial, sub-national government policies, as well as sectoral reservations. However, these exemptions or reservations do not provide complete protection to these sectors from the Agreement. The reservation for existing provincial government policies only protected those policies that were in force as of January 1, 1994. It does not allow for an expansion of the public provision of services such as health care. Once a reservation is lost, by a province changing its old policy or practice, it cannot be renewed.

Canada also made a sectoral reservation for non-conforming measures for social services. This reservation does not protect social services such as health care from the provisions of national treatment and most favoured nation treatment under NAFTA because it does not exempt governments in Canada from obligations in NAFTA's investment chapter, which includes the expropriation provision mentioned above.

It is the interaction of the different chapters and the drafting of exemptions or reservations that will determine the level of protection provided to public services. There is a huge potential loss of policy flexibility from including public procurement in the FTAA.

Governments should be able to discriminate in their procurement policies to satisfy the economic and social demands of their citizens.

2.4 *Privatisation*

The debate on government procurement raises the whole question of privatisation, e.g. the role of the state in the economy and society, its representativity and competencies. It is the sovereignty of the state and its public regulating function which is called into question – in the economic field as well as in management of the social sphere.

In Latin America, the privatisation process was directed at scrapping the role of the state and stripping it of its resources. Experience has shown that the private sector's main goal was to relieve the state of its social function and, in particular, any responsibility for citizens who suffer from poverty and social marginalisation. One of the most significant arguments given by supporters of privatisation was that it would improve business competitiveness and make services more efficient. In a number of cases, these processes did not take into account strategic issues at national level. In others, enterprises with the backing of governments attempted to discredit the efficiency of public services to turn them into the private sector.

When addressing the issue of privatisation, a distinction has to be made between privatisation of state-owned enterprises, on the one hand, and, on the other, of public functions and services. In the US there are hardly any state-owned enterprises left. The issue is the expansion of privatisation to government functions and services aimed at reducing expenditure or eliminating deficits. Jobs of well-paid public employees were suppressed and the work was subcontracted to non-unionised workers. As a result, services to the broader general public were eliminated, and the government was relieved of the obligation to take care of its citizens. The marketisation of services is an important issue to focus on.

Another argument used by governments, especially in developing countries, for cutting social spending and more privatisation is that they need to accumulate reserves to protect their currency against potential attacks from currency speculators. This is an important aspect to take into account in the discussion on capital controls.

State assets are the product of society's collective effort, and this represents accumulated capital which should be used for the benefit of all citizens**. *The role of the state has to be preserved, and the state should maintain its ability to regulate and provide basic protection and services, e.g. in the field of health and safety, social benefits, education***. These are strategic issues and must not be delegated to free trade. ***Governments must be able to determine which policies would be detrimental to national development and interests and make their decisions regarding public contracts on that basis.***

3. WORKERS AND THE FTAA – THE VIEW FROM UTRAMMICOL[7]

3.1. Globalisation: a process with winners and losers

The world economy has been showing an increase in trade facilitated by the reduction of customs duties and tariffs, and charges for transport and telecommunications. But just when world trade has been increasing, people’s access to basic goods and services has been decreasing, thus increasing poverty and misery. The wealth is being aggressively and rapidly concentrated in a few hands.

Most Latin American countries have had a foreign trade deficit in the context of the chaos of a decade of economic integration and opening up. This has been due to inappropriate economic policies which have kept currencies devalued and interest rates high, which in turn has had a negative effect on exporting enterprises. But in addition, the central economies have maintained high subsidies to their entrepreneurs, access quotas for imported products and a broad range of para-customs controls (sanitary, environmental and human rights) which, while certainly inspired by just motives, have often been used for protectionist purposes.

[7] The whole chapter 3 is a contribution from UTRAMMICOL – Union de Trabajadores de Colombia.

In short, globalisation is accelerating, but it is a process in which some countries are emerging as winners while others have been losing. In addition, the greater part of world trade takes place among the 500 biggest transnational corporations, and they make the decisions on trade and investment, in which national governments are passive actors and have ended up suffering the negative consequences.

3.2. Alternatives: Joining In or Opening Up?

Various strategies have been debated in the Americas on how to join in globalisation: some advocate consolidating the various regional groups (Mercosur, CAN, CARICOM and SICA) and through their merger constituting the Free Trade Area of the Americas (FTAA). This has been called the "building block" strategy. Backed by Brazil, this strategy is aimed a strengthening the negotiating power of the countries of the region and consolidating bases of competition before entering into open competition with the US economy.

But there are others who think that these countries should enter the northern market constituted by NAFTA on an individual basis. This is known as the "hub and spokes" strategy, and it minimises the negotiating power of the would-be member countries, forcing them to accept already existing agreements. This is the position of the United States, and there are other countries, among them Chile, Colombia and Costa Rica, which have expressed interest in adopting this path of negotiation.

The problems experienced by MERCOSUR due to the recession in Argentina and the crisis in the Andean Community have been creating serious difficulties for the building block negotiating process.

3.3. Competition based on insecurity

It is an undeniable fact that the process of globalisation, given to its neo-liberal inspiration, has been spreading insecurity in Latin America.

The spread of outsourcing and temporary hiring has been leaving workers without any direct relationship to the enterprise which actually benefits from their labour. Under these conditions such workers cannot exercise the right to organisation or to collective bargaining as required by the ILO Conventions and the labour code of every country. In addition, they are denied health care and social protection.

If the governments and entrepreneurs who have imposed these forms of hiring akin to semi-slavery believe that they have made a great discovery of how to prevent the growth of the labour movement, they have in fact found a type of unskilled labour which will be of little use in raising productivity in the context of intense global competition.

Growing world trade is being based on convict labour, child labour and forced labour and even the export of organs of persons shot by government order. On our continent, governments have been giving in to the pressure of transnational corporations and granting all kinds of tax breaks, advantages in currency exchange and credit for foreign investors, even offering to eliminate environmental controls and social regulations to enable them to operate in complete freedom. This is what we have called the "race to the bottom" and what has led to the extreme situation where governments have been attracting investors by offering the prohibition of unions in *maquiladora* zones.

For all the foregoing reasons, it is important to strengthen and improve the efforts of states to ensure effective regulation of the financial flows which are creating instability and volatility in the region. And in that effort particular importance attaches to national policies based on cultural specificities to confront globalisation.

To act effectively in this difficult context, unions must be strengthened in their structure, their functioning, and especially in setting their policies. Union organisations must work tirelessly to increase the level of unionization and to ensure the effective incorporation of women and young people in the affairs and management of union organisations. This must go beyond rhetoric and involve opening up areas for access to those sectors which make up the greater part of the labour force and which have hitherto represented a minority in organised labour. This is a democratic imperative, but above all it is a matter of justice for young people and women, as well as ethnic minorities, which, although they have improved their access to education, remain the victims of discrimination in access to employment and receive lower pay.

Moreover, union organisations must use the new technologies to maintain contact in real time with their affiliates and friends around the world and to be able to articulate appropriate responses to the secret activities which the multilateral organisations and governments have been trying to push behind the backs of their citizens. This has made possible the action in Seattle, Davos and Quebec, and it is necessary to show that if the process of globalisation and integration in the form in which it is being conducted does not benefit the majority of the people of the continent, they cannot expect us to sit on our hands and observe the brutal concentration of wealth and the benefits of technical progress in a few hands.

3.4. Trends in the regional process

The Andean Community (CAN) from 1991 to 1998 succeeded in almost doubling its trade, which is no mean achievement, but nevertheless far below the performance of other blocs. The greater part of CAN's trade was with NAFTA, although the best growth rates were recorded with South American countries, while the best performance was shown by trade within CAN, which tripled during the decade. Following are results for the Southern countries:

**Trade between CAN and the Trading Blocs of the Americas
Millions of US$**

	1991	1992	1993	1994	1995	1996	1997	1998
Total	30482	33295	36519	39772	48888	54121	60936	56053
INTRACAN	3333	4297	5519	7053	9575	9717	10428	10373
%	10.93	12.91	15.11	17.73	19.59	17.95	17.11	18.50
NAFTA	23695	25226	27013	27977	33278	38044	43315	38637
%	77.73	75.77	73.96	70.32	6807	70.29	71.08	68.93
MERCOSUR	2642	2894	3094	3501	4204	4465	5181	50.92
%	8.67	8.69	8.47	8.80	8.60	8.25	8.50	9.08
Chile	812	878	900	1255	1831	1895	20.12	1952
%	2.66	2.64	2.46	3.15	3.75	3.50	3.30	3.48

Source: International Monetary Fund, Direction of Trade Statistics, 1999.

This substantial growth had the effect of reducing the proportion of trade with NAFTA, although the latter continued to be the most important for the Andean Community. But these figures do not mean that there is going to be a change in the structure and orientation of CAN trade. It is simply a consequence of the dynamism of trade which has historically been very limited but which, through trade agreements and the opening up of markets has acquired greater relative importance.

**Growth of trade between CAN and the Trading Blocs of the Americas
1991 – 1998**

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	(1)	(2)
NAFTA	6.46	7.08	3.57	18.95	14.32	13.86	-10.80	53.44	7.63
MERCOSUR	9.54	6.91	13.15	20.08	6.21	16.04	-1.72	70.20	10.03
INTRACAN	28.92	28.44	27.79	35.76	1.48	7.32	-0.53	129.71	18.53
CHILE	8.13	2.51	39.44	45.90	3.50	6.17	-2.97	102.67	14.67

(1) Summary of behaviour year by year
(2) Average annual increase
Source: International Monetary Fund, Direction of Trade Statistics, 1999.

The trade balance within CAN has been negative throughout the period 1991 – 1998, which is not the situation with NAFTA. This behaviour will have to be reviewed in the future, as it could have an effect on negotiations with the South American bloc and the FTAA, and even for the very survival of CAN, although this figure obviously must be seen in the context of other indicators: terms of trade, intra-industrial relations, etc. For the time being, the data indicate that there are countries which have had a consistently negative balance with their neighbours, but not with other countries of the continent.

The more developed and more complementary the economies of a given agreement, the higher the levels of intra-regional trade: this has been the case with NAFTA, which has had an average growth rate from 1991 to 1998 of 11.28%.

Growth of Trade between NAFTA and the Trading Blocs of the Americas 1991 – 1998

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	(1)	(2)
INTRA-NAFTA	9.78	10.47	17.17	11.16	11.15	13.51	5.71	78.95	11.28
CAN	9.94	-1.04	8.06	16.75	11.60	15.19	-11.46	49.04	7.01
MERCOSUR	8.86	5.03	23.94	12.97	7.38	20.52	1.16	79.85	11.41
CHILE	15.66	7.34	14.66	28.30	13.89	5.04	-3.00	81.90	11.70

(3) Summary of behaviour year by year
(4) Average annual increase
Source: International Monetary Fund, Direction of Trade Statistics, 1999.

3. 5. Alternative Position on integration in the Americas

General Principles: trade and investment must not be an end in themselves, but rather tools for just and sustainable development. The central goals of these alternative policies are to encourage national projects for sustainable development, for social welfare and to reduce inequalities at every level.

Human Rights: this agenda promotes the broadest possible definition of human rights, including civil, political, economic, social, cultural, gender and environmental rights, as well as the rights of peoples and of indigenous communities.

Environment: hemisphere agreements must enable governments to channel investment toward environmentally sustainable economic activities.

Labour: the hemisphere agreements must include provisions guaranteeing the rights of workers and promoting the improvement of working conditions and living standards of workers and their families.

Migration: the economic and financial treaties must include treaties on migration in recognition of the great diversity in the migration situations among the countries of the continent. At the same time, governments should ensure that their labour laws protect all workers in an equitable manner, regardless of their migratory status.

Role of the State: hemisphere agreements must not hinder the ability of the nation state to meet the economic and social needs of its citizens. The agreements must allow states to maintain public enterprises and acquisition policies in support of national development objectives, while at the same time combating corruption within the governments themselves.

Foreign investment: the agreements must enable governments to regulate or reject those investments which do not contribute to development, particularly flows of speculative capital.

International finance: the agreements must establish a tax on foreign exchange transactions to generate funds for development. They must also enable governments to establish taxes on profits from speculation, regulations on the minimum time that investments must remain in a country, and incentives for direct and productive investment.

Intellectual property rights: the agreements must protect the rights and livelihood of agricultural workers and their communities which serve as guardians of biodiversity. Corporate interests must not be allowed to infringe upon such rights.

Sustainable energy development: an international agreement must allow its signatories to submit claims against countries which try to obtain economic advantages at the expense of sustainability.

Agriculture: hemispheric measures must support the increase of subsidies for agriculture (as percentages of GDP), protection for agricultural workers and the traditional rights of the indigenous peoples to live on their lands.

Access to markets and rules of origin: access to markets for investments and foreign products must be determined and evaluated within the framework of national development policies. Non-tariff measures must include measures to ensure that they reflect legitimate social interests and not protection for specific enterprises.

Compliance and Dispute Settlement: for the rules and norms proposed to be implemented, they must be accompanied by solid mechanisms ensuring the resolution of problems.

3.6. Conclusion

Any FTAA must include a clause on technology transfer, an environmental clause ensuring the protection of natural resources and a socio-labor clause ensuring respect for universally enshrined rights.

The continent has suffered a severe energy crisis and is also experiencing a serious decline in harbour, rail and road infrastructure. Our road and rail links are not competitive and government policies are not correcting this shortcoming.

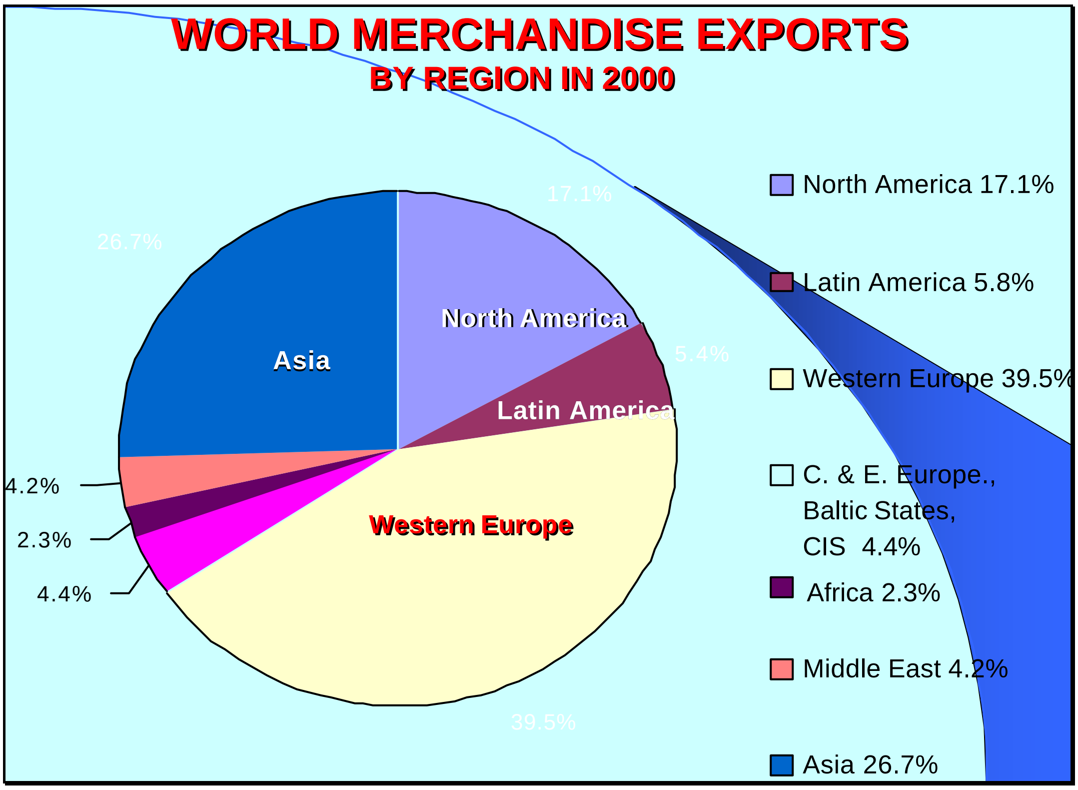
The FTAA negotiating process lacks transparency and the few opportunities conceded to representatives of civil society to engage in a dialog have been pure formalities, to such an extent that the suggestions of unions and NGOs seem to have been dropped into a mailbox, while government delegates have held all the reins in their own hands and played the decisive role in the negotiations, while constantly consulting the business community.

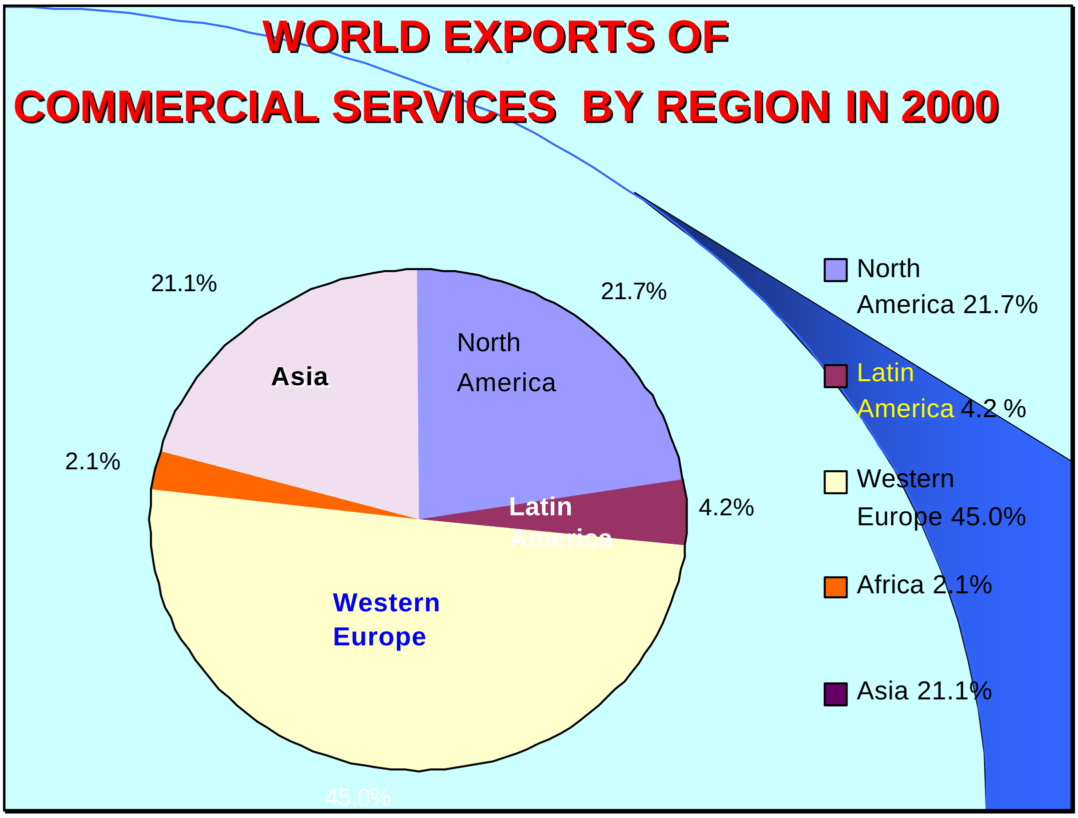
It should be remembered that during the process of negotiations to create the Group of Three (Colombia, Venezuela and Mexico), employer organisations representing industry and exporters together with the Colombian labour confederations rejected a hastily prepared agreement which did not take national needs into account. But the Colombian government at that time signed the agreement, to confirm the commitments and prevent the new government, which was about to take office, from overturning those measures. Soon after that, the Mexican peso was devalued, and since no exchange safeguards had been instituted against that risk, the other countries suffered the impact. Since then, the trade balance has been favourable to Mexico.

On whose behalf does a government negotiate which does not listen to the voices of its citizens, entrepreneurs and workers, who represent the sectors involved in production? In view of all the foregoing, it must be demanded that any FTAA have a more transparent negotiating process, and the views of civil society must be given effective expression in the negotiations.

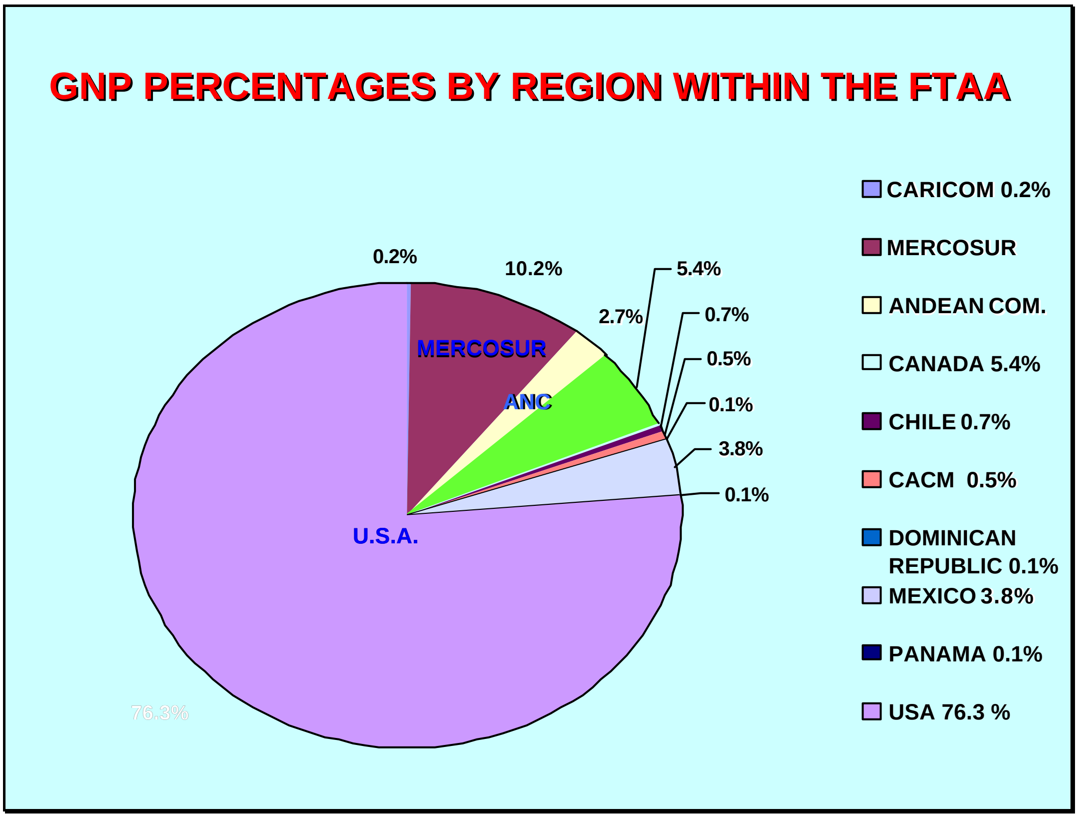
As for the agenda of the negotiations, the FTAA process, like that of NAFTA, is limited to trade matters and protection of investments, totally ignoring the social, environmental and labour impact of the process. This is the case precisely because competitivity is being based on degradation of the environment, impoverishment of the population and insecurity of employment.

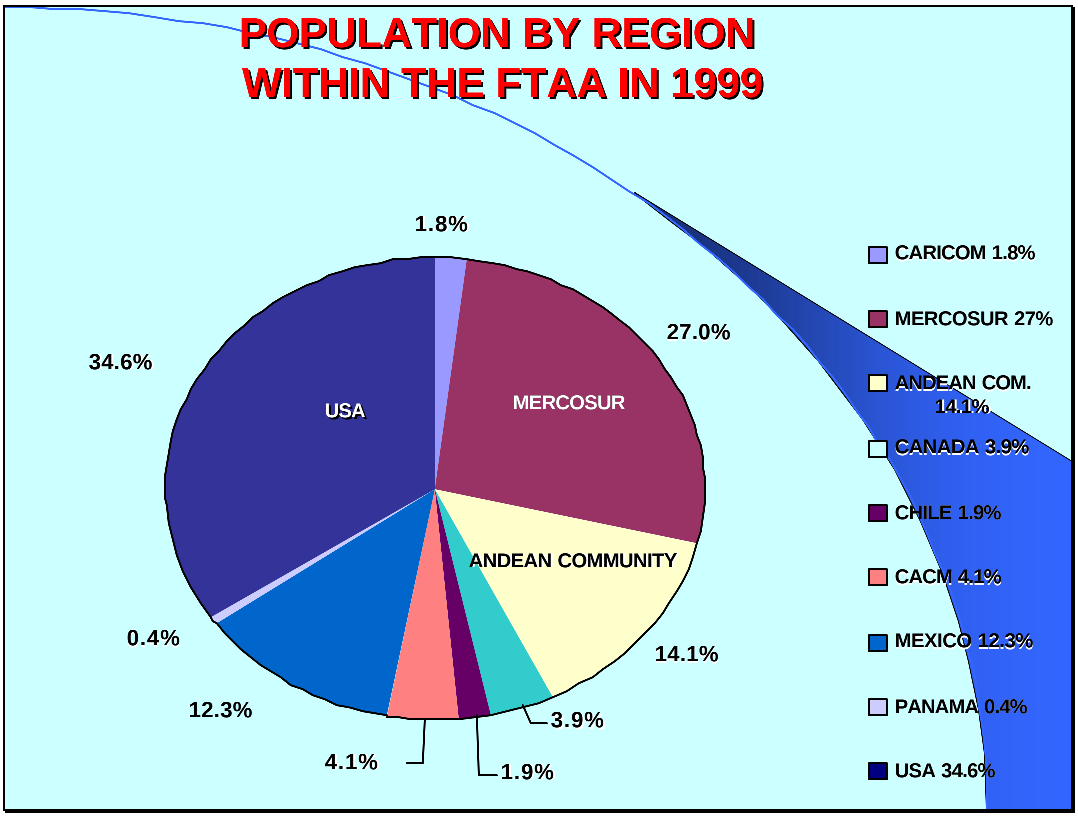
Competition based on the exhaustion of non-renewable resources is not sustainable. It is essential to improve the education and health care systems so that they can ensure universal coverage and the quality and efficiency of their services. Without those conditions, our countries will be condemned to backwardness and poverty.

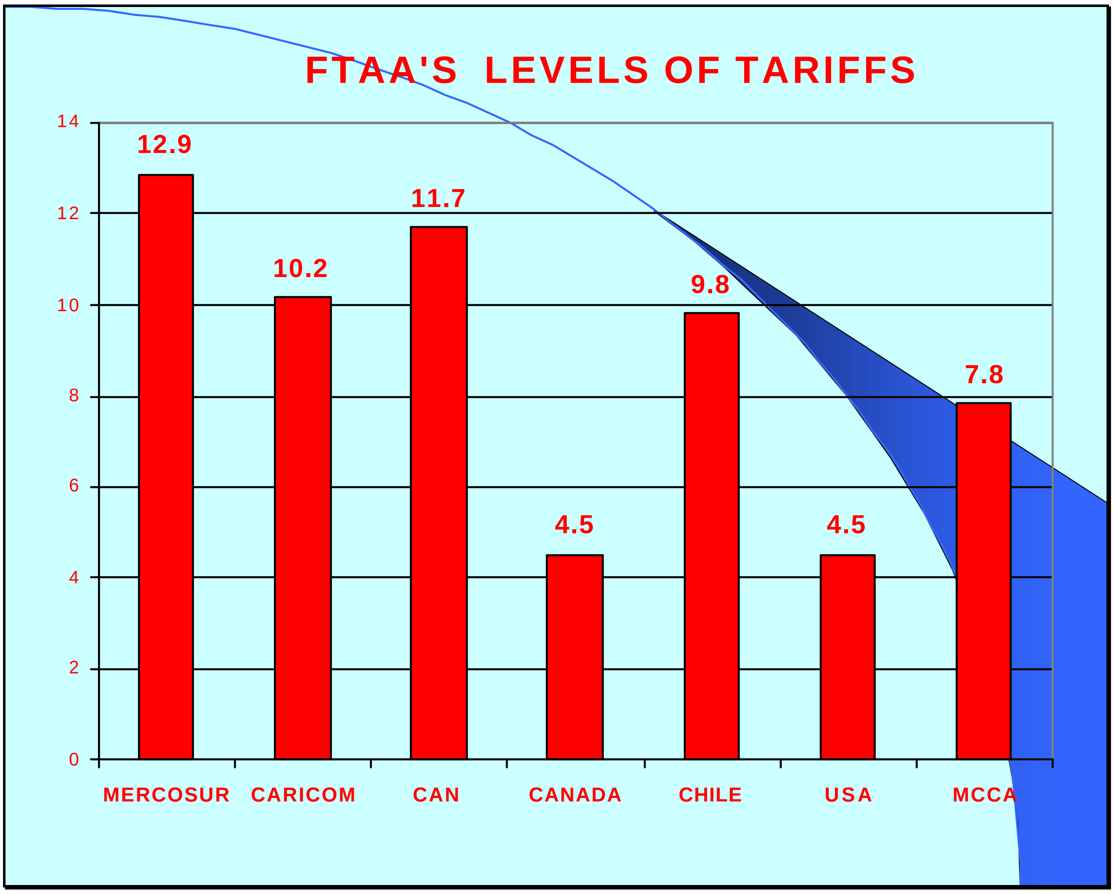

WORLD MERCHANDISE EXPORTS
BY REGION IN 2000
North America
Latin America
Western Europe
Asia
17.1%
26.7%
5.4%
39.5%
4.2%
2.3%
4.4%
North America 17.1%
Latin America 5.8%
Western Europe 39.5%
C. & E. Europe., Baltic States, CIS 4.4%
Africa 2.3%
Middle East 4.2%
Asia 26.7%

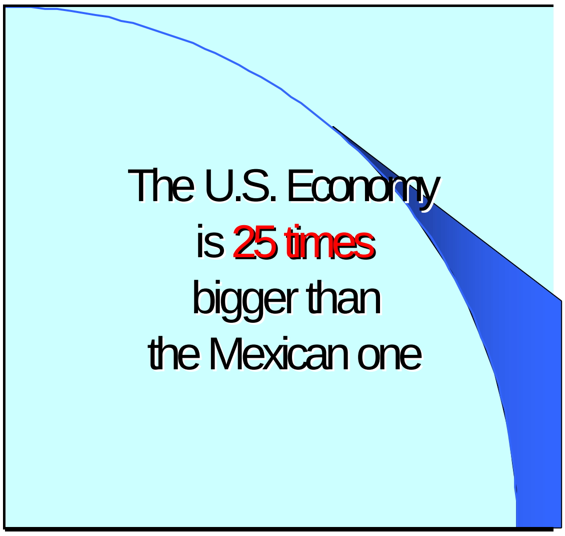

WORLD EXPORTS OF
COMMERCIAL SERVICES BY REGION IN 2000
21.1%
21.7%
2.1%
4.2%
45.0%
Asia
North America
Latin America
Western Europe
North America 21.7%
Latin America 4.2 %
Western Europe 45.0%
Africa 2.1%
Asia 21.1%

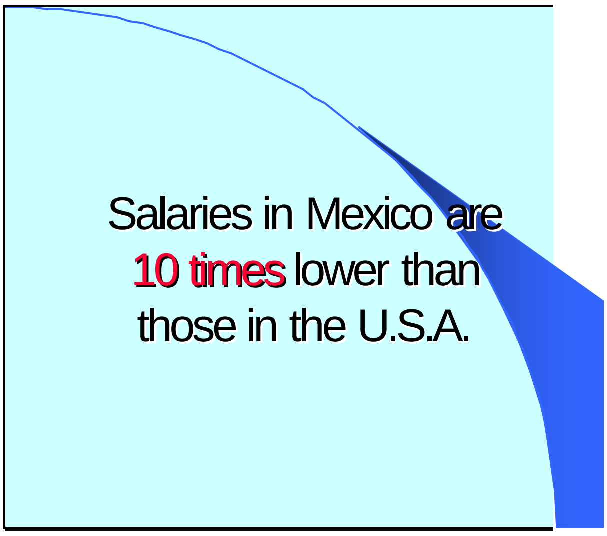
Source: WTO


GNP PERCENTAGES BY REGION WITHIN THE FTAA
0.2%
10.2%
5.4%
2.7%
0.7%
0.5%
0.1%
3.8%
0.1%
MERCOSUR
ANC
U.S.A.
76.3%
CARICOM 0.2%
MERCOSUR
ANDEAN COM.
CANADA 5.4%
CHILE 0.7%
CACM 0.5%
DOMINICAN REPUBLIC 0.1%
MEXICO 3.8%
PANAMA 0.1%
USA 76.3 %


POPULATION BY REGION WITHIN THE FTAA IN 1999
1.8%
27.0%
34.6%
USA
MERCOSUR
ANDEAN COMMUNITY
0.4%
14.1%
12.3%
3.9%
4.1%
1.9%
CARICOM 1.8%
MERCOSUR 27%
ANDEAN COM. 14.1%
CANADA 3.9%
CHILE 1.9%
CACM 4.1%
MEXICO 12.3%
PANAMA 0.4%
USA 34.6%


FTAA'S LEVELS OF TARIFFS
14
12
10
8
6
4
2
0
12.9
10.2
11.7
4.5
9.8
4.5
7.8
MERCOSUR
CARICOM
CAN
CANADA
CHILE
USA
MCCA


The U.S. Economy
is 25 times
bigger than
the Mexican one


Salaries in Mexico are
10 times lower than
those in the U.S.A.

Just for being operational in Mexico and not in the USA, a maquiladora makes between USD 28.000 and 32.000 yearly savings per worker

Multiplying this figure by the 500.000 *maquiladora* workers results in 16.000 million USD yearly savings for the us companies

The minimum Mexican salary has fallen 28,84% since the implementation of NAFTA in 1993

PART TWO

THE POTENTIAL IMPACT OF AN FTAA ON THE METAL INDUSTRY IN THE HEMISPHERE

1. The Automotive Industry

Some Preliminary Thoughts on the Impact of an FTAA on Regional Automotive Industry Trade –

Steve Beckman, UAW, USA

The UAW begins its assessment of regional integration in the auto industry by looking at the NAFTA integration process. This analysis assumes that rules similar to those in NAFTA would provide the framework. In the absence of any agreement, some auto industry integration will take place; if different rules are adopted, a very different kind of integration could occur.

In 1993, before NAFTA went into effect, US-Canada auto trade was nearly fully integrated, but US-Mexican auto trade was limited. Multinational auto companies had begun to respond to the Mexican debt crisis of 1981 and government business-friendly reforms in 1986 by using Mexico as an export platform to supply the US and Canadian markets. US exports to Mexico were $7.5 billion in 1993, almost all of it in auto parts. US imports from Mexico were $11.1 billion, two thirds in auto parts and one third in vehicles. Trade in auto parts was in balance; overall, the U.S. had a $3.6 billion deficit in automotive trade with Mexico. Trade with Canada was much larger – US exports were $27.5 billion, two thirds in parts and one third in vehicles; US imports were $37.0 billion, with 70 percent in vehicles and 30 percent in parts. The US typically ran a surplus in auto parts trade and a deficit in vehicle trade. The overall balance in 1993 was a $9.6 billion Canadian surplus.

In 2000, the picture was very different. US exports to Mexico more than doubled to $16.4 billion, but imports more than tripled to $39.7 billion, creating a US deficit of $23.3 billion. The deficit in vehicles accounted for nearly three quarters of the total. The increase in trade with Canada was smaller – US exports increased by 60 percent and imports by 70 percent, pushing the US deficit up to $18.5 billion. The US surplus in parts increased from $8 billion in 1993 to $12 billion, but the increase in the vehicle deficit, from $17 billion to more than $30 billion more than compensated.

Because of the already substantial US-Canada integration, stemming from the 1965 US-Canada Auto Pact, the integration process under the FTAA/ALCA will look more like the pattern of US-Mexico trade. However, the large US-Mexico border has made the integration much more intense than it will be between the US and non-NAFTA trading partners that would be included in an FTAA/ALCA.

The largest auto producer in the Americas, outside the NAFTA countries, is Brazil. US auto trade with Brazil in 2000 was considerably smaller than with Mexico in 1993. Total auto trade with Brazil was less than $2 billion last year; in 1993, that trade with Mexico was $18 billion. Adding Argentina, Venezuela, Colombia and other producing countries would not make a significant change in this reality. The current level of integration is very low; production by US-based multinationals in Latin America is more like the US-Mexico relationship in the 1970s and early 1980s.

Industrial policies in Brazil and Argentina continue to draw in new investments in vehicles and parts, largely to avoid high tariffs on imports. These policies will almost certainly be abandoned soon, but their impact will remain in place, just as Mexico's Auto Decrees laid the groundwork for its export-oriented production.

Most current trade between the U.S. and South America is in auto parts. US exports of auto parts to South America are about $1.5 billion per year, with Venezuela receiving the most, followed by Brazil; these two account for most of the total. US imports of parts run a bit higher, around $1.75 billion; about three quarters of the total comes from Brazil. As a result, the US runs a deficit in auto parts trade with Brazil, of as much as close to $1 billion, and a surplus with Venezuela.

We would expect intra-regional auto trade to grow as a result of an agreement that is consistent with current WTO rules and NAFTA provisions. Though such an agreement would eliminate important performance requirements, the impact of past and existing requirements will be the foundation for the process. This has been our experience with Canada and Mexico under NAFTA. The US auto trade deficits with both have soared, in part because of the impact of industrial policies that forced investment in those countries.

An informal count of assembly plants finds 28 in Brazil, 15 in Argentina, 9 in Venezuela, 6 in Ecuador, 5 in Colombia, 2 in Peru, 2 in Uruguay and 1 in Paraguay. If there is regional integration in the Americas, the main impact is likely to be felt within Latin America. There will be increased specialization in each plant and older, less efficient, less fully utilized plants may close. Relatively isolated plants are more likely to close. Most production will be concentrated in the countries that already account for the largest share of production. The restructuring process underway in Brazil (new plants in non-auto regions paying lower wages to fewer workers, production and employment cutbacks in traditional auto-producing areas) follows the pattern in the U.S. and Mexico and will most likely be followed in other countries.

Imports of vehicles from North America (especially from the U.S. and Canada) into South America are likely to remain modest under integration. Many multinational auto companies have plants in Latin America and can supply nearly the full range of local demand from those plants. Vehicles with relatively small demand (such as sport-utility vehicles, full-size cars, etc.) could be supplied from North America rather than from outside, in order to benefit from the regional preference. That puts imports from Europe and Asia at a disadvantage, though free trade agreements between the EU and individual countries limit the effectiveness of any FTAA/ALCA tariff preference.

The impact on US vehicle and parts production should be modest in comparison with the impact of NAFTA. More vehicles (cars, light trucks, medium/heavy trucks) are likely to be shipped from the major South American producing countries (Brazil, Argentina) to the U.S., but they are not likely to be high volume products that directly replace current models. Companies that do not have North American assembly facilities (Fiat, Hyundai, Kia, VW-Audi, Iveco, Peugeot) could use their existing South American plants to ship to the U.S.

It is certain that additional parts investment in South America will continue, with a sizable volume of exports to assembly plants and replacement parts outlets in the US, Canada and Mexico. .A far smaller increase in exports from the US to the rest of the region is likely to occur. This will allow proponents of the agreement to point to increased exports, but the net effect of the liberalized trade and investment regime will be a negative for our members and US production. We had expected a large increase in imports from Mexico and a continuation of increased imports from Canada as part of the result of NAFTA, and our assessment was accurate.

The main objective of NAFTA was to assure the safety of investments in Mexico from changes in government policy. The size of recent auto investments in Brazil and Argentina demonstrate that companies are not very worried about that problem. Still, some companies would be reassured by the protections for investors that an FTAA/ALCA following the NAFTA model would provide. More investments would be made. By the same token, the assurance of declining tariffs and restrictions on the use of non-tariff barriers would allow companies to ship more vehicles and parts into South America. It has been our experience, though, that the additional U.S. exports are outweighed by increased imports.

The Impact of an FTAA on the Mexican Automotive Industry

IMF Mexico Project Office

Background

The current model of free trade that has been steering economic integration in the American continent continues to evolve. Today's globalisation is the result of a century-long period of development. Nevertheless, globalisation has certainly brought some benefits, breaking stale economic structures, making popular much of the technological progress, solving intercorporate confrontation with the process of "merger," and diluting the danger of another nuclear-scale world war. But, in contrast, the negative aspects are infinitely larger. It is someone else's model and is essentially antithesisl to social development; it widens the gap between the rich and poor, rather than reducing it. It worsens the deteriorating exploitation of human, physical and technological resources and is distinguished by patterns of blatant looting.

The Automotive Industry in Mexico within the process of a free market

In the last decade, the Mexican automotive industry has been notable for its dynamism and the transformation undergone in terms of work organization, in order to adapt itself to the global economic conditions.

External factors have been marked by signatures of trade agreements and NAFTA. At the sectoral level, the arrival of new automotive producers such as Honda, Peugeot, BMW, Mercedes Benz, Scania, Navistar, resulted in structural changes, while Mexico has become the sole producer of some models.

Production figures place Mexico third on the continent. In 1992 only one million units were produced. In 1999 output increased to 1.5 million units, and by 2000 it exceeded 1.8 million units. During the current year more than one million units have been exported (see table 1).

It is clear that these production levels could not have been achieved through the local market alone. Exports are the driving force behind this high performance, whereas domestic demand is stagnating.

Importing vehicles was authorized in 1990 and, by 1994, with the implementation of NAFTA, the number grew rapidly. Between 1997 and 1999, 590.900 vehicles were imported, which represents a cumulative increase of 71.8% for the decade as a whole.

The impact of Nafta on the auto industry quickly became apparent. This is the reason why imported vehicles achieved a 36.2% share of the market in 1999 (see table 2)

NAFTA and the Automotive Industry in Mexico

Protected for decades, the automotive industry, with low levels of production and the absence of technological development, faced a challenge that few believed could be met. Since the devaluation of the Peso and the implementation of NAFTA in 1994, exports have increased. By 1995, they were higher than domestic sales. NAFTA's main objective is to eliminate tariffs on product sales between Mexico, the USA and Canada. The two main provisions that the government had for regulating the activity of the automotive and autoparts industry are, on the one hand, the rules concerning national content with which companies have to comply, and on the other, the total amount of foreign currency that automobile producers and autoparts companies are constrained to have in their trade balance.

Before 1994 Mexico applied a 20% tariff on all vehicle imports, Canada and the USA 9.2% and 2.5% respectively. With NAFTA in force, it was stipulated that the USA would eliminate all taxes, from the date of its implementation. Canada and Mexico reduced them to 4.6% and 10% respectively. As from 2004 this provision is to be abolished.

From 1st January 2004, Mexico will experience a new transition stage as a number of provisions will come into effect. In the automotive sector, the commitment required by the three countries will enter into its most critical phase, i.e. the total elimination of import tariffs. This means that from that date there will not be any restrictions on Mexicans importing cars from the USA and Canada (see table 3).

Because NAFTA entered into a process of decreasing yields based on the penetration levels in the other two countries' markets, the growing share of Mexican goods in the North American market and vice versa is now reaching a level, where it is increasingly difficult to boost it any further. This is because all the bilateral trade tariffs have been practically eliminated. From 2003 onwards the 0% tariff will be applied to 90% of trade.

Today Mexico's share in American imports is 11.2%. As a matter of fact, there are sectors where Mexican products have up to 40% of the market. In the automotive industry specifically, Mexico's market share was 10.9% in 2000 (see table 4).

NAFTA'S LABOUR SITUATION

Employment in the automotive industry

Employment in the automotive industry is closely related to the level of economic activity in the USA and, as far as investments are concerned, there is a great variety of productive units (see table 5). The automotive industry is very heterogenuous regarding the size of its production units, which highlights the dynamism of medium and larger units concentrated on *maquila* export activity. This is the case of the autoparts sector, which provided 68% of the jobs created between 1980 and 1999.

As far as unions are concerned, many asymmetries exist. In the world of labour where labour standards and institutions as well as a number of labour cultures are included, the struggle in Mexico has been concentrated on employment and wages, reflecting the difficult economic situation that the country has gone through.

The Free Trade Agreement was the trigger leading to an expansion of relations and alliances between unions and social organizations in the region. The different experiences encountered by the unions emphasized the need to face common problems, including the most varied forms and mechanisms of joint action, which go from organization and negotiations within a single company to pacts of unity and solidarity, based on a wide range of different demands.

Today the challenge rests on the construction of a broad social alliance, which forms an international trade union movement without any borders and is capable of participating in different international fora, trying to limit the flow of capital, while demanding commitments and social responsibilities.

Unions must fight together for the homogeneity of labour conditions aimed at higher standards, the consolidation of the democratic union organizations to jointly face the power of transnationals, and the application of ILO conventions in all countries.

Trade with Latin America

In 2000, Mexico's exports to Latin America accounted for 2.83% and imports from Latin America represented 2.55% of total trade. Regarding trade with Canada for the same period, exports represented 2.02% and imports some 2.30% of the total. These figures show that trade with Latin America is slightly greater than with Canada.

To date, Mexico has signed different agreements with Latin American countries such as Colombia, Venezuela, Costa Rica, Bolivia, Chile, Nicaragua, Uruguay and Trinidad and Tobago, in addition to being a member of the ALADI (Latin American Association of Integration). However, these treaties have not had any significant impact on the trade flows between Mexico and the countries concerned.

Production of vehicles in the American Continent

With a view to providing an historic perpective of the continental production of vehicles, production data of the 10 different countries responsible for auto assembly have been compiled. Table 6 shows the development in each of them. As shown by the data, a number of countries have undergone an important transformation brought about by higher production volumes, some others have suffered permanent stagnation, others still have regressed.

Among the points that should be emphasized is the fact that, since 1999, Mexico has become the third largest automobile producer, after Canada and the USA.

During 2000, the largest volume of production was registered on the American Continent, with a growth of the 2.3% (see tables 6 and 7).

By region, North America produces 89.0 %, South America 10.2 % and the rest only a 0.8 %. These figures are based on data for the year 2000. During the same year, total production on the continent amounted to 19,842 million units i.e. 6,181 million more than in 1990, and 8,523 million vehicles more than those produced in 1980 (see tables 8 and 9).

FTAA and its Impact on the Automotive Industry

The FTAA integration process proposes equal treatment for unequal partners. Under this principle, Latin American countries are given to understand that the FTAA provides an opportunity for them to enter with their products and merchandise into the North American market.

The main USA corporate giants (including General Motors, Ford and Daimler Chrysler), asked the White House that **NAFTA** should allow **100% of foreign capital in all investments, to enjoy fair and non-discriminatory treatment** and **to be exempted from any performance requirements**. Furthermore, they have asked for **protection against direct or indirect expropriations, including safeguard against regulations that may erode the value of their assets, as well as guarantees for disputes to be resolved by any arbitration panels**.

In this context, North American companies have asked their governments that investment should be made following the same model as that provided under Chapter #11 of NAFTA.

The NAFTA ruling on Metalclad vs. the State of San Potosi, Mexico is a good case in point where local legislation blocked the construction of a toxic waste processing plant. The Metalclad company is the first company to win a claim under the controversial Chapter 11. Chapter 11 results in the loss of national sovereignty under the agreement of free trade.

Daniel M. Pryce, executive of the US Council for International Business which deals with 300 international companies, wrote on a testimony to the US Committee on Commerce of the House of Representatives that the FTAA investment chapter is the key to these enterprises: “An FTAA that opens the borders to trade and provides strong protections to investment creates huge commercial opportunities to the American industry and would untie synergies in distribution and production operations".

National Employers and FTAA

Further to a survey between twenty chambers and associations, the national private sector, which is represented by the Industrial Chamber Confederation (CONCAMIN) and the Coordinator of Foreign Trade for Enterprise Bodies (COECE), have decided to continue FTAA negotiations. Industrialists actively participate in advising the government. In their opinion, the issues of environment and labour should not interfere in the negotiations. They agree that these issues could be mentioned in the FTAA text, but they should not affect any commercial aspects. The proposal is that a parallel agreement should be negotiated.

The Government and the FTAA

The government continues to prefer the **maquiladora-type exporting pattern**. **Productive chains as well as small and medium size companies have been banished**, as opposed to the official intentions and especially to those mentioned by the present government. The new tariff scheme and the one for temporary imports originating from the implementation of **Article 303** favours exporting companies, thereby preventing the development of export-related productive chains and small and medium size companies.

All modifications that have been made by this administration are designed to ensure that the exporting-maquiladora industry loses the advantages on temporary imports granted by the former system, as a result of the application of **Article 303**, rather than strengthening national integration of the exporting sector, and supporting the small and medium companies.

The government is interested in continuing to participate in FTAA negotiations, although it fears social instability if the deceleration of the North American economy persists, with consequences for unemployment, the closing of plants and investment losses.

Workers' Position

Unions' activities in Mexico have concentrated on protecting the labour scheme and fighting for wage increases. As a result, unions have paid little attention to the progress made in the FTAA negotiation.

At present, the various unions are aware that they should join forces because the Federal government and industrialists are working together to overhaul the Federal Labour Law, which would be the ideal framework for work flexibility - more than has so far been achieved in practice -, the flexibility of working time and the weakening the labour organizations.

As far as the automotive industry is concerned, there is a pattern of industrial relations, which was shaped through the reconstruction process in the 1980´s and is now considered one of most "modern", where the collective agreements do not represent any burden for the companies. The automotive industry is very sensitive to development on the North American economy and, as a result, production adjustments have an impact on the employment level in the industry .

Conclusions

- The FTAA would turn Latin America into an extensive free-trade zone for transnational capital; simultaneously it would reduce wages, resulting in even more millions of workers becoming unemployed.
- To efficiently oppose the FTAA, unity of Latin American, US and Canadian workers is essential.
- It is important to enter into the FTAA debate, so as to timely alert public opinion in the respective countries of its anti-sovereign, unconditional and anti-popular character. To be successful, it is necessary to effectively lobby governments, with large-scale mobilization of union members.
- Dispute Resolutions of Chapter 11 must be transparent and with the active involvement of civil society.
- Trade between the Latin American countries must be carried out more intensively, but it must be between equals.
- Disputes over investment capital do not only take place at the international level. There are also disputes between state governments competing with each other to bring investments to their regions, granting concessions to investors who frequently deduct taxes and get property for free, and state governments agreeing to non-unionization.

Annexes

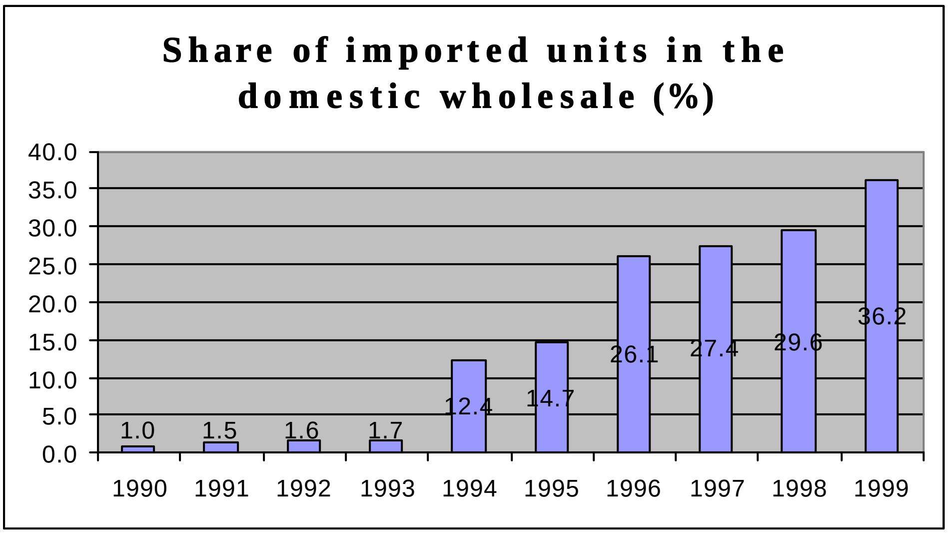
Table 1

Mexican Vehicle Production
(units)

Year	Domestic Market	Export Market	Total
1970	189,136	0	**189,136**
1980	490,006	18,245	**508,251**
1990	542,008	276,909	**818,917**
1991	624,112	350,666	**974,778**
1992	689,814	388,739	**1,078,553**
1993	587,179	471,870	**1,059,049**
1994	547,898	567,628	**1,115,526**
1995	156,374	782,676	**939,050**
1996	248,550	970,874	**1,219,424**
1997	375,250	984,366	**1,359,616**
1998	483,949	971,411	**1,455,360**
1999	469,923	1,063,535	**1,533,458**
2000	500,650	1,422,894	**1,923,544**

Source: INEGI, SECOFI

Table 2



Source: INA,A.C.

Table 3

Automotive Industry Resolution According To Nafta.

Requirements	**Automotive decree**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Domestic Added Value												
Autoparts Industry	30.00%	20%										0%
National Supplier												
Assembly plants	36.00%	34%	33%	32%	31%	30%	29%					
Commercial Balance												
Assembly plants	1.75[1]	80%	77.2%	74.4%	71.6%	68.9%	66.1%	63.3%	60.5%	57.7%	55%	0%
Other aspects												
Taxes with no imported vehicles	20.00%	10%	9%	8%	7%	6%	5%	4%	3%	2%	1%	0%
Regional Content			50%	51.4%	52.8%	54.2%	55.5%	56.9%	58.3%	59.7%	61.1%	62.5%
National Maquiladora Sales	20.00%	55%	60%	65%	70%	75%	80%	85%	100%			

Source: Bancomext.

[1] Monetary units of surplus in the trade balance by each import unit .

Table 4

PRODUCTION DEVELOPMENT IN NAFTA

Year	Canada %	Mexico %	USA %	total Nafta (units)
1980	**13.7**	**5.1**	**81.2**	**9.624**
1990	**15.4**	**6.5**	**78.1**	**12.523**
1994	**14.8**	**7.2**	**78.0**	**15.695**
2000	**16.5**	**10.9**	**72.6**	**17.659**

Source: INEGI, AMIA

Table 5

MANUFACTURE AND ASSEMBLY OF CARS, BUSES AND TRUCKS

ESTABLISHMENTS

(UNITS)

DATE	MICRO	SMALL	MEDIUM	BIG	TOTAL
95	7	12	3	19	41
96	10	10	5	19	44
97	12	8	5	20	45
98	17	9	4	22	52
99	19	8	8	20	55
00	16	5	11	18	50

EMPLOYMENT

DATE	MICRO	SMALL	MEDIUM	BIG	TOTAL
95	37	394	552	45297	46280
96	54	330	874	45897	47155
97	82	428	890	50341	51741
98	106	547	501	54130	56555
99	133	535	1757	54130	56555
00	132	358	2595	54533	57617

Source: Siem-Secofi 2001

ORGANISED WORKERS

YEAR	PERMANENTLY HIRED PERSONNEL	WHITE COLLARS	MANUAL WORKERS
1995	46 280	12616	33 664
1996	47 155	12 251	47 155
1997	51 741	13 380	38 361
1998	56 555	13 982	42 572
1999	56 925	13 215	43 710
2000	57 617	14 125	43 492

Source: siem- SECOFI 2001

Table 6

VEHICLE PRODUCTION IN LATIN AMERICA
(Units per thousand)

year	Argen.	Brazl	Canada	Colombia	Ecuador	Chile	Mexico	Peru	USA	Venez.	Total
90	.100	.914	1.920	.049	.017	.011	.820	.004	9.783	.043	13.661
91	.139	.96	1.888	.044	.020	.013	.989	.002	8.812	.074	12.941
92	.262	1.074	1.961	.050	.026	.019	1.080	.001	9.731	.092	14.296
93	.342	1.391	2.241	.078	.028	.021	1.080	.001	10.899	.093	16.180
94	.409	1.581	2.322	.081	.034	.019	1.123	.001	12.250	.072	17.820
95	.285	1.629	2.407	.081	.026	.021	0.935	.001	11.975	.096	17.456
96	.313	1.804	2.397	.080	.019	.022	1.219	.001	11.831	.072	17.758
97	.446	2.070	2.622	.088	.025	.026	1.359	.001	12.150	.157	18.944
98	.450	1.586	2.570	.066	.027	.019	1.455	.001	12.002	.129	18.313
99	.305	1.351	3.049	.032	.010	.014	1.533	.001	13.024	.074	19.393
00	.340	1.671	2.922	.050	.013	.019	1.923	.001	12.814	.089	19.842

Source: SECOFI, SIEM, AMIA

Table 7

AUTOMOBILE PRODUCTION SINCE IMPLEMENTATION OF NAFTA
(UNITS)

YEAR	MÉXICO	CANADA	USA
1994	1 097 381	2 321 811	12 262 737
1995	953 017	2 407 999	11 985 457
1996	1 211 297	2 396 756	11 798 905
1997	1 339 276	2 577 998	12 149 493
1998	1 427 590	2 532 800	11 935 400
1999	1 493 666	3 006 500	13 055 500
2000	1 889 486		

Source: INEGI; SIEM ; SECOFI.

Table 8

PRODUCTION IN SOUTH AMERICA

Year	Argentina	Brazil (percentage)	Chile	total South America (units)
1980	19.1	78.9	2.0	1.476
1990	9.7	89.2	1.1	1.025
1994	20.4	78.7	0.9	2.009
2000	16.8	82.3	0.9	2.030

Source: processed by INA, with information of automotive Associations of the corresponding country. In the case of Mexico AMIA and ANPACT. In Peru the annual production as of 1992 has fluctuated between 600 and 1500 units

REGIONAL PRODUCTION

<table>
<tr><th>REGION</th><th>TOTAL OF UNITS</th><th>PERCENTAGE</th><th>TOTAL OF UNITS IN THE CONTINENT</th></tr>
<tr><td>NORTH AMERICA
USA
Canada
Mexico</td><td>17 659</td><td>89%</td><td rowspan="3">19,842</td></tr>
<tr><td>SOUTH AMERICA
Brasil
Argentina
Chile</td><td>2 023</td><td>10.2%</td></tr>
<tr><td>OTHERS</td><td>158</td><td>0.8%</td></tr>
</table>

Own processing

FTAA and the Mercosur Auto Industry

IMF Regional Office for Latin America and the Caribbean

The participation of the subregion's countries in any hemispheric integration project must aim to achieve a wide-ranging and comprehensive agreement, which takes into account the national and regional interests of the countries concerned, which does not damage Mercosur and allows the subregion's products to compete in a new, bigger market and therefore improve the living conditions and employment of all.

1. The current basic premises

- **The decision to negotiate as part of a subregional bloc, Mercosur, and present a single and co-ordinated position on all substantive areas.** This decision required the formulation of a twin track strategy that involved: first, taking advantage of the strength given by operating as a subregional bloc to improve the negotiating position of all vis-à-vis the other participants in the process; and second, using the FTAA negotiations as an instrument to accelerate the tempo of the process of consolidation and development of Mercosur. Decision 32/2000 of the Council of the Common Market reaffirmed the commitment of the member states of Mercosur to negotiate jointly any agreements of a commercial nature with third party countries or groups of countries outside the zone which are granting preferential tariffs.

- **The intention to have an agenda sufficiently wide-ranging to allow balanced progress on issues reflecting the interests of all participants, so as to reduce the differences in the level development between the countries.** The agenda must reflect a balance between the new issues on the multilateral agenda (services, investment, intellectual property), proposed mainly by Canada and the United States and the old issues (market access, agriculture, subsidies) still waiting for a definitive resolution. This balanced approach should be strengthened by the adoption of a comprehensive programme preventing the adoption of interim sector agreements that would affect the future hemispheric agreement.

- **The conviction that any hemispheric integration project will provide benefits to the region only to the extent that it takes into consideration the specific interests of participants**. Mercosur has been an active participant in the hemispheric project, both in the negotiations of each one of the issues on the agenda and in acting as President and Vice Presidents in the various FTAA bodies.

- **The recognition of the need to achieve an agreement with common rights and duties, on an equal basis for all participants in the process.** The objective of having common rules does not mean that differences in the level of development and size of the economies of the hemisphere should be ignored. These must be taken into account when defining how countries will comply with the agreement. This will involve including provisions for technical aid to the least developed countries to help them integrate their economies into the FTAA and to allow them to contribute fully to its construction and implementation. To achieve that, FTAA must implement control fiscal policies that are the fruit of a transparent process involving representatives of the affected sectors.

2. The Mercosur experience

Ever since its creation, Mercosur has, in general terms, provided benefits to member countries. The available data show how it has promoted growth in trade and direct foreign investment, and how the expanded regional market has made its 'mark' on the world.

Foreign trade figures show that Brazil and Argentina experienced a constant increase in foreign trade between the establishment of the customs union and 1998. Exports and imports peaked in 1998 when the total value was 15,000 million dollars. However, the balance of trade surplus registered a significant reduction after 1995, falling from more than 1300 million in that year to a meagre 93 million in 1999, the year in which Brazil floated its currency, thus sparking a devaluation. Although it recovered to 485 million in 2000, this figure was less than 50 per cent of the average for the decade. In the first seven months of 2001, despite the persistence of the Brazilian devaluation, the figures showed a favourable trade surplus for Argentina of 417 million dollars. However, this was not due to an increase in exports, but to a fall in imports from Argentina caused by a local recession that was so deep that not even the reduction in prices of Brazilian products could compensate for it.

The figures for Brazil and Argentina's imports and exports show a significant increase in both intra-regional trade and direct foreign investment. Mercosur has therefore demonstrated that it is a good strategic alliance and a good option for dealing with the challenges of globalisation and strengthening the region's potential growth within the framework of an open regional economy.

However, we should point out that the process has taken place within the framework of a deregulated and anti-social economy that threatens to deepen the crisis, which could mean more unemployment and social exclusion.

Between 1990 and 2000, trade with Mercosur generated a surplus of 7,612 million for Argentina. In the same period, the accumulated trade balance with FTAA was in deficit to the tune of US$ 24,434 million. There is no doubt that negotiating together as a bloc strengthens member countries' capacity to negotiate and deal with existing differences.

In addition to the foreign trade aspect, the strategic dimension of the Mercosur process has been extremely important. Mercosur has become an important international economic and political player and has been treated as such by the United States and the European Union during negotiations and in the preparatory meetings for FTAA. To reorganise these and other Mercosur negotiations with the Community of Andean Nations (CAN), the Central American Common Market (CACM), the European Free Trade Area (EFTA), the Closer Economic Relations (CER(of Australia and New Zealand and the Black

Sea Economic Co-operation Organisation, could result in the bloc losing ground at the negotiating table and even to the failure of negotiations if Mercosur is not sufficiently solid.

There is no doubt that the process of integration has recently resulted in undesirable effects and this means that a profound study of Mercosur's instruments and architecture is necessary. Mercosur should be flexible enough to avoid the economic turbulence that interferes with its effectiveness as a strategic option that allows member countries to be integrated into the international economy.

The establishment of Mercosur encouraged the region's trade unions to meet to analyse the various forms of participation open to them. It promoted a wide-ranging exchange of information and an improvement in the fraternal relations between them. The metalworking sector made an important contribution to giving Mercosur a social dimension.

The regional workers' organisations have fought for the adoption of specific policies and strategies that are conducive to making regional integration favour the sustained development of the national economies, through macroeconomic policies that make the opening and integrated development of the internal markets compatible and promote an increase in employment, wages and an improvement in working conditions.

In this context, it is worth mentioning the efforts made by the trade unions to contribute to the macroeconomic management of the process of integration. The Southern Cone Trade Union Congress Co-ordinating Commission has put forward sector and general proposals to the relevant bodies. The Commission also promotes discussions between companies, governments and workers on the development of social and macroeconomic strategies for negotiation within the framework of Mercosur's management structure.

3. Trends in the auto industry

The figures for the auto industry in Argentina show the effect of the recession on economic activity. Figures published by ADEFA show that: production fell by 25.9 per cent in the first ten months of 2001, as compared to the same period in 2000; sales to dealers fell by 43%; and sales to consumers fell by 44%. Exports also fell, suffering a significant effect from the worsening of the economic situation in Brazil after the devaluation of the real.

Meanwhile, the Brazilian auto industry is going through a difficult period too. The big fall in sales was not a surprise, as the companies and dealers currently hold a stock of 200,000 vehicles. Brazilian factories have also been harmed by the sudden fall in demand on the Argentina market, for which they make particular models in agreement with their Argentinean subsidiaries. Other negative factors are, internally, the energy crisis and the increase in interest rates implemented to slow down the devaluation of the real, and, externally, the North American slow-down and the financial crisis in Argentina.

This state of affairs has led to an increase in unemployment in Brazil. The hardest hit industries are: chemicals, rubber, clothing, textiles and metalworking. In the auto industry, Volkswagen sacked 3,000 workers (18.75% of the workforce) at its São Bernardo factory in November 2001, after the company reacted to the crisis in the industry by reducing output to adjust to depressed demand on the market. The company is also planning to reduce pay and hours at the company's other factory in Taubaté. It should be remembered that the number of workers employed in the Brazilian auto industry fell from 138,000 in 1990 to 96,000 in 2000.

Employment in the Argentinean auto industry tended to rise up to the middle of 1990, but then fell approximately 30% by 2000. In response to the current situation, companies are making big cut backs in the form of lay-offs, sackings, reductions in hours and wages and voluntary redundancies. For example, in the Province of Córdoba, the industry (including assembly plants, parts factories and dealers) has lost around 56% of jobs since 1999. According to a survey carried out by the Córdoba section of the union, SMATA, the big fall in sales by the assembly plants resulted in a fall in the number of jobs from 11,000 at the end of 1999 to 4,899 on 30 September 2001.

These figures show a loss of 6,186 jobs, and only 44% of wage earners remain in assembly plants, parts factories, service and maintenance companies and dealers. In addition, at an international level, the industry is feeling the effects of the recession caused by the terrorist attacks against the United States. It has reduced production plans and begun a programme of lay-offs.

Employment in the Automotive Industry

Brazil (1)		Argentina (2)	
Year	**Number of workers**	**Year**	**Number of Workers**
1990	138.374	1990	17.430
1991	124.859	1991	18.317
1992	119.292	1992	22.161
1993	120.635	1993	23.027
1994	122.153	1994	25.734
1995	115.212	1955	21.362
1996	111.460	1996	22.728
1997	115.349	1997	26.286
1998	108.200	1998	22.963
1999	94.100	1999	18.522
2000	96.300	2000	17.950
2001(*)	94.000	2001	14.372

(1) ANFAVEA's members (National Association of automotive vehicle producers)

(2) ADEFA's members (Association of automotive engine producers
*preliminary figures

4. Perspectives

The governments of Mercosur countries have formulated and implemented anti-social reforms including privatisation of public health services and the flexibilisation and deregulation of labour rights. They have also encouraged the weakening of the trade union movement and structure.

Projections for 2002 indicate that companies will make more adjustments to their workforces, similar to those carried out in recent months, involving sackings, lay-offs, voluntary redundancies and reductions in hours and pay.

Argentina assembly plants are today operating in one of the most uncertain climates in their history, not only because of the crisis, but also because of the problems in selling to their main export market, Brazil. Moreover, in practice, the common market rules for the auto industry have practically been suspended for the last year and a half. The auto industry agreement had offered companies the possibility of installing specialised plants in both Argentina and Brazil and a system of compensated trade with Brazil, involving rules for the minimum content of regional and national parts and common external import tariffs. The first auto industry agreement expired in 1999 and was replaced by a second formula covering the period from January 2000 to December 2005. However, the companies with investments in both countries have not been able to reach agreement on renewing the trade rules.

When considering the impact that FTAA could have on the countries of the subregion, one should not forget to analyse the case of Mexico and NAFTA. The growth in Mexican exports is commonly referred to, but it is a fantasy to imagine that our countries could experience the same growth in exports as Mexico, because of the exceptional nature of that country's location, sharing, as it does, a common border with the United States. In addition, growth in industrial employment has increased especially in the border 'maquiladora' zone and the informal sector has become more important (accounting for 30% of the country's employment). Although there has been a big increase in exports, imports, 70% of which are intermediary goods, have followed a similar pattern, and have only been kept down by government policies to hold down pay and consumption. When this policy became less effective, as happened in 2000, the country was faced with a 5.5% growth in per capita income, a 6% increase in wages and a 40% increase in the import of consumer goods.

This creates the risk of causing an unsustainable situation in relation to the external sector, resulting in the application of measures to contain economic activity and income. This shows how the liberalisation of trade could have particularly serious consequences for our countries, where the boost to imports will certainly be much weaker. Moreover, the United States has already made clear it wants to increase its share of other markets and maintain its share of its domestic market.

In addition, the United States already has a very low external tariff. This means that the negotiations should focus on the elimination of subsidies and the restrictions on market access. According to recent figures, the United States has 2,105 non-tariff barriers and provides subsidies worth about US$ 100,000 million per year (especially high in agriculture and the steel industry). It does not appear that the United States is prepared to dismantle this system of protection.

Mercosur agriculture and industry would surely not accept an agreement on these conditions, especially as it is not difficult to imagine the results of negotiations in industries such as the motor and capital goods sectors, when we bear in mind that the main world producer and exporter is at the negotiating table.

Through FTAA, which is not an integration project but the extension of a free trade agreement (NAFTA) to the whole continent, the United States could achieve measures to free trade, services and capital movements in the region, but only the free movement of capital and goods, not of people. This could cause a general decline in the labour market situation, both with regard to pay and working conditions. The impact of FTAA on the auto industry in the subregion would tend to lead to a fall in employment and cause a reduction in the number of companies. This could be accentuated by the problems in Brazil and Argentina described above and the concentration of capital caused by international company mergers.

The Southern Cone Trade Union Congress Co-ordinating Commission has made clear its rejection of FTAA, and its intention to develop regional integration and broaden it to include the whole of Latin America. This position is shared by the Mercosur metalworking and mining industries. To continue with the present undefined situation will result in the break up of Mercosur; the loss of the few, though real, social gains it has brought; and the advance of a free trade area, in which the countries of the region will lose their joint negotiating capacity.

One of the main challenges facing trade unions in the region today is to participate in the implementation of the instruments developed to improve the social dimension that Mercosur must adopt. Metalworkers have a lot to contribute to this process by putting pressure on the region's governments to formulate policies to strengthen Mercosur and its institutional structure so that it can achieve social and economic development and provide an alternative to the FTAA.

2. The Electrical and Electronics Industry

FTAA and the Electrical and Electronics Industries in the USA

Douglas Meyer, IUE-CWA, USA

One hundred and fifty years ago, a German philosopher observed that, "under capitalism, everything appeared as its opposite". With the globalization of capitalism, this observation is as true today than it was during industrial revolution of the 19th century. The corporate and political leaders of the Western Hemisphere promote the Free Trade Area of the Americas (FTAA) agreement as the path toward greater free-market competition and democracy throughout the Americas.

But the principle purpose of FTAA is exactly the opposite--to protect corporations from true competition and deny the majority of the population its democratic rights. More specifically, the FTAA will also make it more difficult to regulate monopolistic practices within the electrical and electronics industries, and exacerbate the concentration of income, wealth and political power throughout the Americas. On the eve of this trip to Quebec City in April 2001, President George W. Bush asserted that, "Striking down trade barriers is critical to sustaining democracy and generating wealth throughout the region." This quote inadvertently reflects the American President's belief that we already have enough democracy, and that generating additional wealth for multinational corporations should be the purpose of government.

Given the intrinsic diversity of the electronics industry, assessing the potential economic impact of FTAA on the global electrical and electronics sector is difficult. The effect of FTAA on consumer electronics, for example, is likely to be quite different than on household appliances or power generating equipment. Even within IUE-CWA represented firms, such as General Electric and Delphi Automotive Systems, changes in global trading rules will vary in both their positive and detrimental effects depending on the location of production facilities and on the relative importance of domestic versus international markets for their goods and services. In the case of General Electric, the analysis is further complicated by the fact that it is the world's largest non-bank financial institution and the outcome of the FTAA negotiations on financial services is likely to have a significant impact on the corporation's global investment and acquisition strategies.

For U.S. workers in the electrical and electronics industries, the direct economic impact of FTAA may in fact be minimal. The North American Free Trade Agreement (NAFTA) has already given companies the unrestricted ability to move capital and employment to Mexico and other low-wage havens, and re-import their products back into the United States. The adverse economic impact of "free trade" on U.S. workers has in large part already occurred. FTAA would enhance the ability of multinational corporations to invest in production in non-union, high-exploitation locations, and freely export goods and services to all countries within the region. In this sense, FTAA represents a simple expansion of NAFTA. Corporations will use their production platforms in Mexico as a threat, not only to unionize workers in Canada and the United States, but to workers in South America and the Caribbean as well.

Labor unions are the cornerstone of any democratic society - how else do workers have a voice in the politics that govern their lives? The very way in which the FTAA is being negotiated - behind closed doors with only the input of the transnational corporations - makes a mockery of democracy in the hemisphere. The interests of workers must be reflected in economic policies within each of the 34 nations, and in the policies that govern economic relations between these countries. The FTAA represents a threat to the fragile democracies of the region. The rules of the FTAA will make it more difficult to maintain worker and environmental protections, a minimum wage that is a living wage, and the hard-won social insurance programs that prevent income and wealth distribution from being worse than they already are. Indeed, globalization and trade liberalization has brought greater inequality in the distribution of wealth and the world's resources.

FTAA is protectionism at its worse - it protects property rights over human and labor rights. Multinational corporations will be able to hold governments accountable whenever they think their right to protect their investments has been violated. But workers will not be able to hold these same companies accountable when their rights to organize, bargain collectively, or labor under safe and healthful working conditions are violated. The Bush Administration and its allies in the U.S. Congress have already made it clear that they have no interest in including labor standards in the FTAA agreement. A Negotiating Group was originally proposed for labor rights, but never established.

For workers in the electrical and electronics industries, the primary threat of FTAA is not the further reduction of tariffs. Indeed, it is difficult to make the case that the remaining tariffs on electrical and electronic goods coming into the United States are significant enough to affect trade balances in these sectors. FTAA is primarily about creating an international economy free from any government's obstacles and regulation to the movement of investment (and thereby employment) across borders. FTAA would eliminate tariff and non-tariff barriers to investment, give companies the right to avoid national law by way to non-transparent international courts, open up government services and procurement to foreign investors, and tighten the corporate grip on intellectual property – patents, trademarks, industrial designs, and copyrights, that can be used to create new monopolies. It would also curb the ability of state and local governments to finance economic development to create jobs. In short, the FTAA agenda is much broader than cutting tariffs - it is about bank and currency deregulation, privatization of public services, dismantling of social safety nets and the destruction of collective bargaining.

New international trade and investment rules must be based upon constructing a global social contract, rather than promoting economic development based upon minimal labor standards and working conditions.

The labor unions of the hemisphere are united in calling for a process of economic integration that respects core internationally-recognized workers' rights, that allows scope for legitimate national development policies, and ensures that governments may take appropriate measures to regulate speculative and destabilizing capital flows. In short, the new rules must prioritize equitable, democratic, and sustainable development.

Because NAFTA is serving as the model for FTAA negotiators, an analysis of the trade agreement's impact on metalworkers can provide us with insights into a post-FTAA world. Despite the long period of economic expansion in the United States over the past decade, the U.S. trade deficit is higher and U.S. employment and real wages for production workers are lower today than they were on January 1, 1994 - the day NAFTA came into effect.

When non-represented workers attempt to organize, they are routinely threatened with plant closure and job loss to Mexico. When union-represented workers attempt to bargain better wages and benefits, they are threatened with plant closure and job loss to Mexico. When unions lobby the U.S. Congress and the executive branch for increases in the minimum wage and other social benefits, they are denied as a price for keeping companies in the United States.

Although the United States has experienced growing global trade deficits over the past quarter-century, the size of these deficits have grown rapidly over the past seven and a half years. In 1993, the U.S. ran a $16.6 billion trade deficit with Mexico and Canada. But by 2000, this trade balance had increased 378 percent to a $62.8 billion deficit (figures in inflation-adjusted 1992 dollars). The U.S. ran a total trade surplus with Mexico 1993, but had a trade deficit of $24.2 billion by 2000. Studies by the Washington, D.C. based Economic Policy Institute (EPI) show that, as a result of these expanding trade deficits, NAFTA has led to job losses in all 50 states and the District of Columbia[8]. The greatest job losses occurred in states where electrical-electronic production and employment were concentrated historically. Overall, EPI estimates that NAFTA led to the loss of 766,000 industrial jobs in the United States.

The U.S. global trade deficit in the "Electrical Machinery, Sound Equipment, TV Equipment and Parts" sector increased 42.5 percent to $19.1 billion from 1994 to 2000:

[8] "Nafta's hidden Costs: Trade Agreement Results in Job Losses, Growing Inequality, and Wage Suppression for the United States", Robert Scott, Economic Policy Institute, Washington, D.C., 2001.

TABLE I(a)

U.S. GLOBAL TRADE BALANCE IN ELECTRICAL MACHINERY, SOUND EQUIPMENT, TV EQUIPMENT AND PARTS (in billions of $)

	U.S. Exports	U.S. Imports	Balance
1990	$28.4	$33.6	-$5.2
1994	$44.3	$57.7	-$13.4
2000	$89.7	$108.8	-$19.1

The U.S. trade deficit with Mexico in this sector grew 65.8 percent to $6.3 billion over the same time period:

TABLE I(b)

U.S. MEXICO TRADE BALANCE IN ELECTRICAL MACHINERY, SOUND EQUIPMENT, TV EQUIPMENT AND PARTS (in billions of $)

	U.S. Exports	U.S. Imports	Balance
1990	$ 5.3	$ 7.1	-$1.8
1994	$ 9.8	$13.6	-$3.8
2000	$29.5	$35.8	-$6.3

Over the past seven years, total employment in the United States grew nearly 18 percent to 132.4 million (**table II**). Net U.S. employment in manufacturing, however, grew by less than 0.6 percent over this same time period. Over the past twelve months, manufacturing job losses have totaled more than 500,000. In fact, in April 2001, manufacturing employment fell below 18 million for the first time since 1965. The overall expansion in the U.S. economy has masked the adverse trends occurring in key manufacturing sectors in the United States.

In the Electronic and Other Electrical Equipment Industry (SIC 36), total employment of production workers grew from 984,000 in January 1994 to 1,063,000 in January 2001. If the Electronic Components and Accessories sub-sector (SIC 367) is removed, however, employment in the rest of the industry fell by 24,000 over the seven-year period. Because the Electronics Components sector, which includes the production of semiconductors, is essential non-union in the United States, these employment shifts resulted in a drastic decline in union density in the overall electronic and electrical equipment industry in the 1990's.

TABLE II

U.S. Employment of Production Workers in Selected Industries (in thousands)

	1994	2001	Change	% Change
ALL WORKERS	112,302	132,428	20,126	17.9%
ALL MANUFACTURING WORKERS	18,155	18,257	102	0.6%
			0	
ELECTRONIC & ELECTRICAL EQUIPMENT (36)	984	1,063	79	8.0%
ELECTRIC DISTRIBUTION EQUIPMENT (361)	57.1	57.7	0.6	1.1%
TRANSFORMERS (3612)	29.7	25.8	-3.9	-13.1%
SWITCHGEAR AND APPARATUS (3613)	27.4	31.9	4.5	16.4%
ELECTRICAL INDUSTRIAL APPARATUS (362)	106.7	98.8	-7.9	-7.4%
MOTORS AND GENERATORS (3621)	58.0	50.5	-7.5	-12.9%
RELAYS AND INDUSTRIAL CONTROLS (3625)	34.9	31.1	-3.8	-10.9%
HOUSEHOLD APPLIANCES (363)	96.0	88.7	-7.3	-7.6%
HOUSEHOLD REFRIGERATORS & FREEZERS (3632)	24.9	20.0	-4.9	-19.7%
HOUSEHOLD LAUNDRY EQUIPMENT (3633)	12.9	13.7	0.8	6.2%
ELECTRIC HOUSEWARES AND FANS (3634)	21.4	16.0	-5.4	-25.2%
ELECTRIC LIGHTING & WIRING EQUIPMENT (364)	125.0	131.8	6.8	5.4%
ELECTRIC LAMPS (3641)	16.8	14.5	-2.3	-13.7%
CURRENT-CARRYING WIRING DEVICES (3643)	41.2	43.3	2.1	5.1%
NONCURRENT-CARRYING WIRING DEVICES (3644)	13.9	14.6	0.7	5.0%
RESIDENTIAL LIGHTING FIXTURES (3645)	15.7	14.0	-1.7	-10.8%
HOUSEHOLD AUDIO & VIDEO EQUIPMENT (365)	57.1	47.5	-9.6	-16.8%
HOUSEHOLD AUDIO AND VIDEO EQUIPMENT (3651)	38.5	30.5	-8.0	-20.8%
COMMUNICATIONS EQUIPMENT (366)	122.5	124.4	1.9	1.6%
TELEPHONE AND TELEGRAPH APPARATUS (3661)	59.2	60.8	1.6	2.7%
ELECTRO. COMPONENTS & ACCESSORIES (367)	310.1	412.8	102.7	33.1%
ELECTRON TUBES (3671)	16.3	13.6	-2.7	-16.6%
SEMICONDUCTORS & RELATED DEVICES (3674)	90.8	131.4	40.6	44.7%
ELECTRONIC COMPONENTS (3679)	84.5	109.2	24.7	29.2%
STORAGE BATTERIES (3691)	20.0	20.1	0.1	0.5%
ENGINE ELECTRICAL EQUIPMENT (3694)	52.3	50.8	-1.5	-2.9%
AIRCRAFT ENGINES AND PARTS (3724)	48.6	49.2	0.6	1.2%
Source: U.S. Department of Labor (BLS)				

The effect on U.S. wages from globalization and NAFTA has been even more pronounced than the employment effect. For U.S. production workers in manufacturing, real average hourly wages increased by just 1.9 percent from January 1994 to January 2001 to $14.54. Because this inflation-adjusted

TABLE III

Average Hourly Earnings of Production Workers by Selected Industries
January 1994 - January 2001

	1990	2001	Change	Real Change
MANUFACTURING	$11.93	$14.54	21.9%	1.9%
ELECTRONIC & ELECTRICAL EQUIPMENT (36)	$11.40	$14.07	23.4%	3.2%
ELECTRIC DISTRIBUTION EQUIPMENT (361)	$11.11	$14.33	29.0%	7.9%
TRANSFORMERS (3612)	$10.57	$13.02	23.2%	3.0%
SWITCHGEAR AND APPARATUS (3613)	$11.69	$15.35	31.3%	9.8%
ELECTRICAL INDUSTRIAL APPARATUS (362)	$10.77	$13.67	26.9%	6.2%
MOTORS AND GENERATORS (3621)	$10.04	$12.76	27.1%	6.3%
RELAYS AND INDUSTRIAL CONTROLS (3625)	$12.14	$15.49	27.6%	6.7%
HOUSEHOLD APPLIANCES (363)	$10.70	$13.22	23.6%	3.3%
HOUSEHOLD REFRIGERATORS & FREEZERS (3632)	$11.76	$15.59	32.6%	10.9%
HOUSEHOLD LAUNDRY EQUIPMENT (3633)	$13.42	$12.67	-5.6%	-21.0%
ELECTRIC HOUSEWARES AND FANS (3634)	$8.45	$12.77	51.1%	26.4%
ELECTRIC LIGHTING & WIRING EQUIPMENT (364)	$11.19	$13.80	23.3%	3.1%
ELECTRIC LAMPS (3641)	$11.89	$18.46	55.3%	29.8%
CURRENT-CARRYING WIRING DEVICES (3643)	$10.97	$14.28	30.2%	8.9%
NONCURRENT-CARRYING WIRING DEVICES (3644)	$10.57	$12.53	18.5%	-0.9%
RESIDENTIAL LIGHTING FIXTURES (3645)	$8.25	$12.09	46.5%	22.6%
HOUSEHOLD AUDIO AND VIDEO EQUIPMENT (365)	$11.12	$13.19	18.6%	-0.8%
HOUSEHOLD AUDIO AND VIDEO EQUIPMENT (3651)	$11.63	$12.81	10.1%	-7.9%
COMMUNICATIONS EQUIPMENT (366)	$12.06	$14.30	18.6%	-0.8%
TELEPHONE AND TELEGRAPH APPARATUS (3661)	$13.32	$14.43	8.3%	-9.4%
ELECTRONIC COMPONENTS & ACCESSORIES (367)	$11.29	$14.63	29.6%	8.4%
ELECTRON TUBES (3671)	$13.14	$15.31	16.5%	-2.6%
SEMICONDUCTORS & RELATED DEVICES (3674)	$14.41	$19.75	37.1%	14.6%
ELECTRONIC COMPONENTS (3679)	$9.64	$12.21	26.7%	5.9%
STORAGE BATTERIES (3691)	$13.78	$15.27	10.8%	-7.3%
ENGINE ELECTRICAL EQUIPMENT (3694)	$13.51	$12.51	-7.4%	-22.6%
AIRCRAFT ENGINES AND PARTS (3724)	$16.82	$20.12	19.6%	0.0%
Source: U.S. Department of Labor (BLS)				

increase is far less than increases in labor productivity over this period, there has been a worsening in the distribution of income and wealth between capital and labor. For production workers in the Electronic and Electrical Equipment Industry (SIC 36), real wages grew from $13.63 in 1994 to $14.07, or 3.2 percent, over this same period. But changes in individual sub-sectors of the industry have varied widely. Wages in Household Laundry Equipment (SIC 3633), Household Audio and Video Equipment (SIC 365), Communications Equipment (SIC 266), Engine Electrical Equipment (SIC 3694), for example, have fallen over the past seven years, while wages in Aircraft Engines and Parts (SIC 3724) remain unchanged.

Mexican workers have fared no better under NAFTA. Today, 80 percent of the population of Mexico lives in poverty. Since 1991, real income has fallen 25 percent. Six years after the devaluation of the peso, real wages of Mexican workers are thirty percent lower than before the imposition of NAFTA. Unemployment is still going up in Mexico. The FTAA will extend the disastrous effects of NAFTA on North American workers to the rest of the hemisphere.

A complete examination of the effects of free trade and globalization on electronics workers requires, however, an analysis at the company level. This is not simply because unions generally bargain and interact directly with individual employers in the industry, but also because these firms exert a great influence over the global economy, especially throughout the Americas. A ranking of 1997 Gross Domestic Products (GDP) and corporate sales shows that of the top 100 "economies" of the world, 51 were corporations, while only 49 were countries (see Appendix I). The International Metalworkers' Federation (IMF) maintains World Company Councils at many of these corporations, including General Electric, Siemens, and Philips. Indeed, for the IUE-CWA, General Electric is the corporate face of globalization. In 2000, GE had revenues of $130 billion - more than the Gross Domestic Product (GDP) of the majority of the 34 countries potentially covered by the FTAA agreement, including Colombia, Chile, Venezuela, and Peru.

Jack Welch, former CEO of General Electric, was quoted a few years ago as saying: "Ideally, you would have every plant you own on a barge." The implication of this statement is that GE, one of the world's largest and most powerful corporations, was not tied to any one country or workforce. Its globalization strategy is to move its capital and employment continually around the world to exploit workers. FTAA will make it easier to do just that. Over the past decade, GE has shut down dozen of plants in the U.S. and Canada, not because they weren't profitable, but because they were not profitable enough for GE. GE closed them so it could make even higher profits by operating in Mexico or elsewhere, where wages are low and unions non-existent.

In 1985, for example, the IUE had more than 46,000 GE members. Today, the IUE represents less than 16,000. A decade ago, the ratio of all U.S. GE employees to non-U.S. GE employees stood at more than four to one. At the end of 2000, that ratio stood at 1.15 to one. Thus, today GE has almost as many employees outside of the United States as it does within the USA. Although GE made $12 billion in net profits in 2000, it wants to continue the "race to the bottom" game of global exportation of jobs and global exploitation of workers. And it wants the FTAA to help it achieve that goal.

In the past two rounds of national GE negotiations, unions in the United States have proposed that GE adopt an international code of labor conduct that would apply to all of its global operations. Management has refused to discuss this proposal. Over the past three years, GE workers have also submitted stockholder resolutions at the GE annual meetings seeking a similar code of conduct. In 2000 in Atlanta, GA, the GE Board of Directors argued that it "does not believe that the code of conduct suggested in the proposal is necessary and recommends a vote against the proposal." The proposal would have restricted GE's ability to use child labor, prison labor, or to discriminate on the basis of race, color, sex, religion, political opinion, age, nationality, or social origin. Apparently, this is not the type of democracy GE is interested in expanding to the rest of the Americas. GE management claims such provisions are not needed because it already meets the standards in effect everywhere it does business. Not only is this untrue, it also relieves the company of meeting these standards in countries without internationally-recognized labor standards in effect. The FTAA ensures that there won't be any labor standards in the future.

The fight against FTAA is both an economic and a political one. GE contributed millions of dollars to political candidates in the last U.S. federal election cycle. In the years 1999-2000, they spent $15.9 million lobbying in Washington, D.C. on issues such as FTAA. Thus, GE not only threatens its workers, and our union members, but it threatens democracy itself. GE and every other corporation must be held accountable - to their workers and the communities in which they live.

IUE-CWA believes that FTAA represents both an economic and political threat to electronic and electrical workers throughout the Americas. A major reason for the recent decline in real wage growth and employment in these key metalworking industries can be attributed to the overall U.S. current account deficit and the trade deficit in manufacturing goods. The detrimental wage and employment effects resulting from these deficits will only be exacerbated by FTAA. The fight against FTAA will not only continue to take place in the political sphere, but also at the bargaining table against multinational employers such as GE.

APPENDIX 1

of the top 100 economies, 51 are corporations, only 49 are countries

Country/Corporation	GDP/sales 1997 (US$mill)	Country/Corporation	GDP/sales 1997 (US$mill)	Country/Corporation	GDP/sales 1997 (US$mill)
1 United States	7'745'705	35 *ITOCHU*	126'691	69 *MOBIL*	59'978
2 Japan	4'201'636	36 Saudi Arabia	125'266	70 *PHILIP MORRIS*	56'114
3 Germany	2'100'110	37 *EXXON*	122'379	71 *ALLIANZ WORLDWIDE*	55'397
4 France	1'396'540	38 *WAL-MART*	119'299	72 *SONY*	55'058
5 United Kingdom	1'271'710	39 Greece	119'111	73 Czech Republic	54'890
6 Italy	1'145'370	40 Finland	116'170	74 *NISSAN MOTOR*	53'503
7 China	825'020	41 *MARUBENT*	111'173	75 *AT&T*	53'261
8 Brazil	786'466	42 *SUMITOMO*	102'443	76 *FIAT GROUP*	52'590
9 Canada	603'085	43 Malaysia	97'523	77 *HONDA MOTOR*	48'899
10 Spain	531'419	44 Portugal	97'357	78 *CREDIT SUISSE*	48'641
11 South Korea	442'543	45 Singapore	96'319	79 *UNILEVER*	48'479
12 Russia Federation	440'562	46 *TOYOTA MOTORS*	95'181	80 *HSBC CORP*	48'404
13 Australia	391'045	47 Israel	91'965	81 *NESTLE*	48'230
14 Netherlands	360'472	48 *GENERAL ELECTRIC*	90'840	82 Algeria	45'997
15 India	359'812	49 Colombia	85'202	83 *BOEING*	45'800
16 Mexico	344'766	50 Philippines	83'125	84 *TEXACO*	45'187
17 Argentina	322'730	51 *NISSHO IWAI*	81'932	85 Hungary	44'845
18 Switzerland	293'400	52 *IBM*	78'508	86 *TOSHIBA*	44'488
19 Belgium	264'400	53 *NIPPON TEL & TEL*	77'019	87 Ukraine	44'007
20 Sweden	227'751	54 *AXA-UAP*	76'869	88 STATE FARM INS.	43'957
21 Indonesia	214'593	55 Egypt	75'482	89 VEGAA GROUP	43'866
22 Austria	206'239	56 Chile	74'292	90 ELF AQUITAINE	43'570
23 Turkey	181'464	57 Ireland	72'037	91 TOMEN	43'420
24 *GENERAL MOTORS*	178'174	58 *DAIMLER BENZ*	71'536	92 TOKYO ELEC. POWER	43'017
25 Hong Kong	171'401	59 *BRITISH PETROLEUM*	71'175	93 HEWLETT-PACKARD	42'895
26 Denmark	161'107	60 *HITACHI*	68'599	94 DUPONT	41'304
27 Thailand	157'263	61 Venezuela	67'316	95 SEARS ROEBUCK	41'296
28 *FORD MOTOR*	153'627	62 *VOLKSWAGEN GROUP*	65'306	96 DEUTSCHE BANK	40'778
29 Norway	153'403	63 New Zealand	64'999	97 FUJITSU	40'632
30 *MITSUI & CO.*	142'754	64 Pakistan	64'360	98 NEC	39'945
31 Poland	135'659	65 *MATSUSHITA ELEC.*	64'310	99 PHILIPS GROUP	39'181
32 South Africa	129'094	66 *SIEMENS GROUP*	63'731	100 DEUTSCHE TELEKOM	38'956
33 *MITSUBISHI*	128'982	67 Peru	62'431		
34 *ROYAL DUTCH/SHELL GROUP*	128'108	68 *CHRYSLER*	61'147		

Source: Field Guide to the Global Economy
AFL-CIO

The Mexican Electrical and Electronics Industry and FTAA

IMF Mexico Project Office

Background

The Mexican manufacturing industry has experienced substantial changes during the past few years. As from the fifties, the Mexican government started adopting protectionist industrial policies in order to consolidate an industrialisation process, where Mexican capital could boost the different productive branches. This policy did not produce the result expected by the government. In the wake of a financial crisis and encouraged by international organisations such as the International Monetary Fund (IMF) and the World Bank (WB), the government decided to change the course of its traditional policies based on an interventionist, regulatory and national industry protectionist state.

In 1983, the industrialisation model was reshaped. Under the new conditions, the Mexican industry had to face growing market pressure, to increase productivity and improve quality in order to become more competitive.

The protection of the Mexican economy stimulated vertical, sometimes excessive, integration while trade opening worked the other way round. It led to a reduction in production integration, because efficient companies took advantage of an open economy to introduce themselves into global productive networks and detach themselves from inefficient local market manufacturers.

In view of these circumstances, the electric and electronics industry, which was traditionally located in the centre of the country (Mexico City, State of Mexico and other traditional development places such as Jalisco and Monterrey), started suffering from production relocation and readjustments due to the new forms of work organisation and, even, from the shutdown of factories which were considered obsolete (Philips' Vallejo plant, 2000).

Today, the electric and electronics industry is located all over the country. The following table shows the number of companies and people employed by states in the manufacturing industry, especially in the electric and electronics area. We can notice that the activity in this industry is marginal in some of the states, whilst it is concentrated in those near the North American border.

**Mexican Manufacturing Industry:
Electrical and Electronics Industry by States in 1998**

	Manufacturing Industry		Electric and Electronics Industry	
	Total		Total	
State	Number of companies	Employment	Number of companies	Employment
Aguascalientes	827	24, 059	129	7 571
Baja California Norte	***1,315***	***135, 573***	***355***	***93, 501***
Baja California Sur	268	833	16	43
Campeche	278	595	24	78
Coahuila	***1,875***	***84, 594***	***456***	***49, 870***
Colima	333	1, 147	37	153
Chiapas	1409	2, 770	48	135
Chihuahua	***2,059***	***241, 272***	***523***	***201, 629***
Mexico City	6,330	97, 178	1, 493	36, 463
Durango	841	7, 665	121	2, 152
Guanajuato	3,243	31, 096	387	12, 154
Guerrero	1,274	2, 246	23	88
Hidalgo	1,178	10, 933	137	2, 138
Jalisco	5409	80, 772	1, 036	37, 264
Estado de Mex.	7194	139, 208	1, 091	139 208
Michoacán	2,421	7, 620	185	1, 345
Morelos	1,180	8, 376	93	1, 873
Nayarit	496	973	13	52
Nuevo León	***4,163***	***139, 208***	***1,444***	***9,718***
Oaxaca	1,542	7, 620	61	222
Puebla	3,227	8, 376	453	8 642
Quéretaro	1,026	973	289	17 854
Quintana Roo	359	139, 709	15	8
San Luis Potosi	1,404	3, 876	258	9, 555
Sinaloa	1,366	41, 917	205	3, 105
Sonora	***1,567***	***33, 976***	***274***	***54, 967***
Tabasco	747	1, 767	34	227
Tamaulipas	***1,680***	***97, 432***	***289***	***73, 280***
Tlaxcala	746	9, 365	75	7, 715
Veracruz	2,868	10, 034	385	2, 909
Yucatan	705	4, 177	108	1, 411
Zacatecas	891	5, 480	47	3, 453

Source: INEGI

Development of the Electrical and Electronics Industry

Industrial development can be summarised in three stages :

- the first starts from the thirties lasting until 1982, when state protectionism was one of the constant features of development. This was the time when the first trade unions were created in this sector and important benefits for workers obtained such as real salary increases, social security and others.

- The second stage was much shorter, i.e. from 1982 to 1986. It is characterised by a weakening of the national entrepreneurial sector, the predominance of foreign investment in the branch and the soaring of the export/maquiladora industry. Trade unionism was in decline and there were factory shutdowns due to the crisis the country was going through.

- The third stage has continued since 1986. It is marked by a regression in the traditional entrepreneurial sector (production for domestic consumption), and by unlimited growth in the export/maquiladora industry, due to production and labour flexibility, and to the low fiscal and labour costs generated by its operation. Protection trade unionism[9] and precarious work start to develop.

Nafta and the Electrical and Electronics Industry

The trade opening did not equally affect all segments of the manufacturing industry. With the NAFTA (North American Free Trade Agreement), the electrical and electronics industry regained its dynamism both in the manufacturing industry as a whole and in the export sector. It actually raised employment and increased its contribution to GDP.

But rather than in the traditional sector, this dynamism is seen in the maquiladoras. Both Mexican and foreign entrepreneurs shifted their capital to this new entrepreneurial modus operandi, which helped them avoid fiscal charges, labour constraints in local and federal laws, while obtaining at the same time all kinds of incentives for entering into the export trade area. In this way they introduced a very flexible pattern, which meant lower fiscal and labour costs and major profits.

In spite of these developments, the Mexican manufacturing sector did not connect itself with its maquiladora counterpart as an essential supplier, because it feared for its capital. For its part, the government, which considered the maquila as a temporary industry, did not stimulate supplier integration of both the manufacturing and the maquiladora industries.

In 1998, according to figures from INEGI, the electrical and electronics sector employed 34.3% of the total workforce in the maquiladora sector, it generated 43.3% of GDP and 15% of Mexican exports. The contribution to

[9] Trade unionism which protects employers and bars the establishment of bona fide trade union organisations.

GDP does not actually come from companies in the electrical and electronics manufacturing sector, but from those that produce packaging material, brochures/instructions and wrapping-related material.

This type of new company is characterized by a significant growth of economic indicators (number of factories, employment and added value), which is linked to that of the USA. They occupy the lowest level within the product chain (labour intensive and unskilled assembly work) and are reputed as being “cost centres”[10].

On the other hand, some analysts note that a link between Mexican manufacturing and the maquiladora industries is not feasible in the short term. Indeed national enterprises do not fulfil international quality standards, they are not price competitive, geographical distances are considerable, there is not enough infrastructure to strenghten commercial links and important differences exist in administrative procedures.

In order to have a share in the capital of the export/maquiladora industries, both federal and local governments offer multinationals a series of advantages: infrastructure, industrial estates, electricity, water supply, gas, low cost telephone installations. They grant them tax incentives as well as support for labour flexibility at their convenience, including deals with the unions ensuring that these latter adapt to management needs or the promotion of protection trade unionism.

Foreign Participation in the Maquiladora Industry within the Electrical and Electronics Sector

Investment	Foreign %	Local %
1994	49%	51%
1997	81%	19%
1999	81%	19%

Source: Bancomext

Regional impact of NAFTA in Mexico

Looking at the various regions, trade development between Mexico and the USA shows significant contrasts. From 28 before the implementation of NAFTA in 1994, the number of states which participate in trade with Mexico has gone up to 44 states. Furthermore, 16 of these states export for more than one billion dollars a year.

[10] Plants dedicated to assembly work only using cheap labour

In contrast, the number of Mexican states exporting to the USA grew from five to nine, out of a total of thirty-two. In addition, most of these states have many facilities in the maquiladoras.

Mexican States where the Maquiladora Industry is Concentrated

State	Number of Facilities
Baja Califonia	1,453
Chihuahua	593
Tamaulipas	559
Puebla	207
Sonora	358
Nuevo Leon	239
Coahuila	420
Estado ee México	88
Mexico City	56

Source: Banxico, INEGI

High export levels in certain states are basically due to the maquiladora industry and, as the bulk of it is foreign-owned, mainly by US interests, benefits do not remain in Mexico.

As far as the relationship with Canada is concerned, Mexico is its fourth commercial partner. Although bilateral trade has expanded, geographical distances limit the flow of goods between the two countries.

As a result of NAFTA, between January 1994 and May 2001, the USA made direct investments in Mexico for an amount of 47 billion dollars, which is equivalent to 62.8% of total Direct Foreign Investment (DFI) in the country. At present there are 13,379 US investment companies registered in Mexico and, in 87% of the cases, the majority capital is of US origin.

Canada invested 3,439 million dollars during the same period, a figure that represents 4.6% of DFI. Canada thus ranked third among the countries investing in Mexico.

NAFTA has been a difficult challenge to overcome for Mexican companies, the majority of them being micro, small and medium-sized enterprises. Most of them do not have sufficient resources to be competitive. Therefore, of 32 states in Mexico, only 23 are able to export.

Maquiladora Export Industry
Employment by Sector - 2000

Sector	Employment (in '000)	Percentage %	Average Growth 1995 – 2000
Electronics	418.02	33.89%	12.6%
Autoparts	228.67	18.52%	10.5%
Clothes	266.54	21.59%	23.7%
Other sectors	320.87	26.00%	12.9%
TOTAL	1,234.1	100%	15.00%

Source: INEGI

Composition of the Maquiladora Plants
in the Electrical and Electronics Industry

Size of Companies	% of facilities	% of workers
Micro/small/medium-sized enterprises	60.3%	12.6%
Large enterprises	39.7%	87.4%

Source: INEGI

Invested Capital by Country of Origin
Out of a total of 625 companies (1998)

Country	Number of Companies	% of Total	Capital Source
USA	306	49.0%	100%
Mexico	135	21.6%	100%
Japan	25	0.04%	100%

Source: INEGI

Current Situation in the Electrical and Electronics Industry

The economic slowdown in the USA will make Mexican non-oil exports fall considerably, as Mexico has failed to diversify its export range. According to information from the foreign trade bank (Banco de Comercio Exterior) foreign trade with the USA in 2000 accounted for 81% of total Mexican exports, whilst trade with the European Union is being increasingly reduced. In 2001, exports to the European Union represented only 3.4% of total exports. Mexico is the 32nd manufacturing exporter to the European Union.

The development of the electrical and electronics industry has been one of the most significant. In 2000, it counted 708 plants (representing 20% of the establishments in the maquiladora industry), employed 418,020 people, i.e. 33.9%, and had created value added totalling 5,600 million dollars, i.e. 37.6% of the total. In 2001 the assembly industry exported for an amount of 79,789.4 million dollars and imported for 61,709 million dollars.

The maquila/export industry is undergoing important changes which result from Artícle 303 of the North American Free Trade Agreement (NAFTA). This Article stipulates the withdrawal of a series of incentives of which the industry was taking advantage and import duties are now levied on raw materials from non-signatory countries.

Many multinational companies, which benefited from favorable terms, are being affected and they are threatening the government to withdraw their investments, if a solution is not found to make them more profitable. The Mexican government has proposed an option to the assembly sector in order to counterbalance the effects of Article 303, namely the Sectorial Promotion Programmes (PROSEC).

Recent market trends, marked by technological innovation to attract customers in an increasingly competitive activity, point to difficult times ahead. In the course of the past 10 years, companies in the sector of household appliances decided to take the merger route and the dozen corporations that remain enjoy a good market share. What is currently being experienced is a more extensive presence of foreign trade-marks and a wider offer than in the past. One cannot say that the market is consolidating. On the contrary, it is atomising, due to the number of competitors participating in the Mexican economy.

The most representative exported products

January-October 2000

(in million dollars)

Products	Quantity
Computers	4, 807.4
Radio and TV spare parts	3, 033.5
Radio and TV sets	1, 548.5

Source. INEGI

The most representative imported products

January-October 2000

(in million dollars)

Products	Quantity
Isolated wires	2, 006.5
Other appliances	1, 498.0
Parts for installations	1, 295.4
Radio and TV accessories and spare parts	701.3
Converters	472.1

Source: INEGI

Presence of Multinational Companies

Electrical and electronics industry's exports are concentrated on a few companies, either maquiladoras or subsidiaries of transnational corporations. As far as production of TV sets is concerned, there are four leading Asian companies, namely SONY, SAMSUMG, MATSUSHITA and SANYO, a few European, such as THOMPSON and PHILIPS, and two American - General Electric and RCA.

Maquiladoras Facilities of Asian Origin - 1999

Country	Number of Companies	Percentage of Total
Japan	94	42%
Korea	74	32%
Taiwan	27	12%
China	20	9%
Hong Kong	7	3%
Philippines	3	1%
Singapore	2	1%

Source: Bancomext

Labour and Employment Situation

The manufacturing industry, especially in the electrical and electronics branch, has tended to strengthen enterprises in the external sector, with significant productivity gains and low wage increases to the detriment of workers.

According to data provided by the INEGI (Institute of National Statistics, Geography and Information Technology), the percentage of people living in extreme poverty in Mexico grew from 16.1% a few years ago to 30.1% in 2001 and the rate of those in moderate poverty from 27.9% to 29.2%. This means that some 60 million people live on the poverty line. This is reflected in the wage contribution to GDP, which declined from 35.3% in 1994 to 28.9 in 1996. In contrast, profits on capital went up from 56.1% to 61.7% of GDP.

During the past 18 years, minimum wages in Mexico fell 76%. In the manufacturing industry they dropped by 45.8% and in the maquiladoras 31.2%. As regards productivity, it rose to 110.7% for the economy as a whole and to 128.9% in manufacturing between 1998 and 1999. This increase was due to labour intensification and to a turnover of fixed capital.

Furthermore, during the last decade, the main source of employment in manufacturing was the maquiladora industry, particularly in electronics. Yearly employment in non-maquiladora companies grew by a mere 1.3% on average, compared to 10.3% in the maquiladora industry. But this development is not to continue unabated. The slowdown in the USA economy has shown that the maquiladora industry could not keep up its growth pace and, as of October 2001, this sector had lost 212,850 jobs.

Faced with the likelihood of the FTAA's implementation, the scenario is an aggravation of all these phenomena which will lead to increasing impoverishment of the population and to the destruction of the national manufacturing industry.

Employment in the Metal Industry
(in '000)

Year	Total	Mining	Basic Metals	Metal Products, Machines & Equipment	Employment in the Electrical and Electronics Industry
1988	1,151 934	183 816	103 516	864 602	227 350
1989	1,202 314	173 139	97 038	932 137	244 400
1990	1,256 158	178 871	88 467	988 820	262 975
1991	1,257 043	176 296	81 812	998 935	282 698
1992	1,281 558	149 255	70 279	1,062 024	304 749
1993	1,215 885	131 420	59 441	1,025 021	328 521
1994	1,200 178	125 462	56 143	1,018 573	326 560
1995	1,137 027	124 098	52 788	960 141	307 500
1996	1,237 652	124 112	55 895	1,057 645	350 505
1997	1,391 365	126 780	58 949	1,205 636	396 400
1998	1,507 457	129 677	60 362	1,317 418	520 357

Source: System of National Accounts, INEGI

Facilities and Employment in the Electrical and Electronics Maquiladora Industry

Years	Number of Facilities	Employment
1990	472	166 501
1991	502	164 627
1992	527	177 554
1993	526	188 205
1994	519	211 221
1995	510	234 432
1996	535	264 624
1997	576	311 664
1998	611	346 964
1999	655	386 116
2000	717	418 930

Source: INEGI, Export Maquiladora Industry

Trade Union Situation

This industry is known for having a low level of unionization. There are several reasons for that, but there is undoubtedly connivance between the government and transnationals to discourage unionism in the hundreds of maquiladoras in the electrical and electronics industry. As far as the traditional industry is concerned, which is mostly made up of micro, small and medium-sized enterprises, there is no union because they employ only a limited number of workers or are family-type operations.

Companies without unions, such as Japanese electronic factories, which are established in Tijuana, have preferred labour relations based on the management of human relations than on the establishment of trade unions.

In a broader context, the union presence in the maquiladoras is related to the nature of the company. Plants with the lowest level of technology and intensive work consider unions as an obstacle to their projects, their productivity being based on exploitation and the flexibilization of labour relationship. Companies with production based on other factors, such as a skilled workforce, the integration of state-of-the-art technology, research centres for the development of new products, geographical location, etc., consider unions as a favorable element to achieve their production goals, because they have succeeded in making them an instrument of workers' participation in company projects.

Conclusions

The Free Trade Agreement of the Americas (FTAA), which is due for 2005, is going to hit the domestic industry hard. It will worsen the situation of the electrical and electronics industry, employment and the level of unionization.

This branch, especially, is going to be negatively affected. Production chains have not managed to integrate themselves, since traditional companies, which are mostly micro, small and medium-sized enterprises, have been left behind with many shortcomings, lack of finance, no technology and entrepreneurial incompetence. Moreover the level of unionisation is known as being very low.

Industry

The traditional electrical and electronics industry has not succeeded in connecting itself to the maquiladora sector as a supplier, which would have enabled it to be profitable, and it has built up its growth on the use of subsidies and cheap labour. The integration that North American multinationals intend to achieve with the FTAA does not permit any industrial growth to be foreseen.

NAFTA has left a disintegrated industry behind, where productive chains do not exist. The few companies that take care of the domestic market are doomed to disappear. Multinationals in this industrial branch are eager to settle on the northern border in order to respond to its largest consumer with low labour costs and the support of Mexican state governments who compete for “these companies’ investments.” On the other hand, the Mexican government has given in too often to these companies’ pressures in order to attract investments likely to reduce their deficits - but how longer will they be able to do it?.

Employment and Environment

Multinational companies are particularly interested in including issues in the FTAA that had not been considered in NAFTA, namely, that they won’t have to meet ***any performance requirements: neither in terms of job creation nor of investment levels or, even less, to care for the environment.***

Jobs likely to be created in this context will not be subject to conditions such as those mentioned by the ILO in its document concerning "Decent Employment".

What NAFTA contenders have called “downward harmonization” centered on the relocalisation of low qualified jobs and low wages may actually accelerate in Mexico.

Unions

As has been mentioned, the electrical and electronics industry is one of the industries which has prevented workers from organising at all costs and has obstructed their rights. Companies that settle down right from the beginning of FTAA are going to strengthen the current policy, i. e union free plants in the electrical and electronics industry.

This is no exaggeration. This industry is one of the most vulnerable from this point of view and the attitude that FTAA negotiators have adopted is based on the argument that the FTAA is a trade agreement and, therefore, labour issues should not be considered. This position converges with the labour reform in Mexico currently under discussion, where employers, in the name of trade union freedom and union democracy, insist on job flexibility to the point of making unions disappear.

3. The Steel Industry

Potential Impact of FTAA on the Steel Industry in the Americas

Sheila Block, USWA, Canadian National Office

This paper will raise some of the potential impacts of an FTAA on the steel industry in the Americas. It will provide: a brief statistical overview of the industry; an overview of the potential impacts based on the draft investment chapter; and, draw some implications from the impact of the free trade agreement (FTA) between Canada and the United States that was signed in 1988, and the North American Free Trade Agreement (NAFTA).

The development and maintenance of a domestic steel industry has been seen as crucial to economic development for three reasons. The first results from military uses of steel, and the desire of countries to maintain domestic control of military production. The second is the importance of the steel industry to the broader economy. Steel is an essential input to infrastructure for economic development: including the energy; transportation and construction sectors. It is also an essential input to much of the secondary manufacturing industry. The third is that the development of a steel industry has been seen as a symbol of industrialization and modernization.

As a result of changes in technology and in the economic environment the role of the steel industry in economic development has evolved. Despite this evolution, the industry continues to play a pivotal role in national economic development. In an environment where the IMF and World Bank demands export–led economic policies, a domestic steel industry fulfils a number of functions. The export of commodity grade steel for further processing in the industrialized countries provides the foreign-exchange earnings demanded by the IMF and World Bank. At the same time, the growth of a steel industry also provides other benefits to the domestic economy because of its role in manufacturing and infrastructure development.

A wide range of government policy levers assisted the development of Canadian and US steel industries. These included, but were not limited to: domestic market protection; subsidies; targeted procurement policies; and a variety of macro-economic levers. The proposed FTAA would deny Latin American[11] countries the ability to develop their domestic industries, including steel, in a similar manner. The FTAA would prevent all the countries in the Americas from implementing industrial policies that are not delivered through military procurement, or commodity exports.

The proposed FTAA agreement would reduce tariff revenues, and expose domestic industries to unrestrained foreign competition. However, the greatest potential damage to the steel industry or any other industry in Latin America, results from constraints on the state's flexibility in making public policy.

[11] Due to data availability, in this paper North America includes the US and Canada only.

Trade agreements are no longer only about rules governing trade. They are about restrictions on the role of the state and about guaranteeing investor rights without any attendant obligations. The introduction of these kinds of agreements, when they are not accompanied by a social charter with minimum standards on labour, environmental and human rights, encourage lowest common denominator competition. This is the inevitable result of an agreement in which providing a subsidy is considered an unfair trade practice, while leaving your health and safety legislation unenforced, or your corporate taxes uncollected is not.

If the negotiation of NAFTA and the Canada-US FTA are any indication, the FTAA will be sold on the basis that it guarantees access to the US market. In both of these agreements, no government gave up the right to use trade law to protect domestic industries from competition that they consider to be unfair. Nor should they. As a result, the promise of access to the enormous US market is largely illusory. The real agenda of the FTAA is the security and expansion of investors' rights and interests at the expense of the rights and interests of the citizens of host countries.

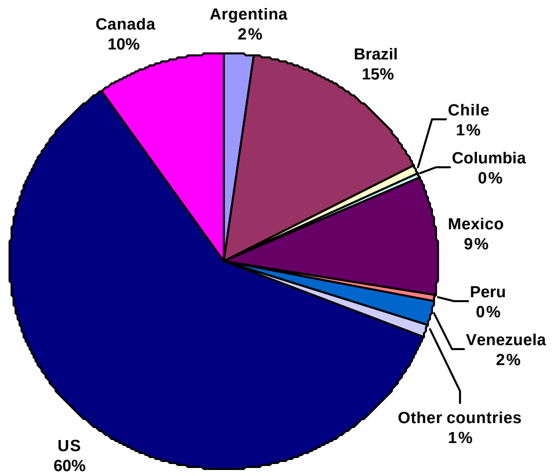
Statistical Overview of Steel Industry in the Americas

Table 1 provides a snapshot of the industry in the Americas in 1999. It includes data on production, imports, exports and apparent consumption. The data gives an indication of the enormous size of the US market. The US market and industry is larger than the rest of the region combined. The United States accounts for 57 per cent of steel production in the region.

While Latin America produced more steel than it consumes, North America consumes more steel than it produces. Both the US and Canada are net importers of steel. Latin America is a net exporter of steel, as apparent consumption is less than production. While nine per cent of North American production was exported, 35 per cent of Latin American production was exported. Per capita steel consumption in the US and Canada are 7 and 5 times the per capita consumption in Latin America.

	Table 1: 1999 Steel Statistics, tonnes				
	Raw Steel Production	Imports	Exports	Apparent consumption	
				Steel	Per capita
Latin America	55,967	7,191	19,523	44,324	90.7
North America	113,662	39,519	9,784	143,631	
Canada	16,235	6,784	4,755	18,488	458.0
United States	97,427	32,735	5,029	125,143	604.4
Source:	Latin American Iron and Steel Institute				

Chart 1 below shows shares of crude steel production by country in 1999. As above, it show United States is by far the largest steel producer in the region. No one other country comes close to US production. The next largest producer is Brazil at 15 per cent. Canada accounted for 10 per cent of total production and Mexico for 9 per cent. Argentina and Venezuela each account for 2 per cent of production.



source: Latin American iron and steel institute, OECD

Table 2 below shows trade between Latin America and North America and between these two regions and other areas:

- Latin America exported 20.2 million tonnes of steel in 1999. Of that total, 14.4 million tonnes was exported outside of the region, including 8.6 million to North America. Other important export markets to Latin America were the EU and Asian countries other than Japan. The remaining 5.8 million tonnes of exports were sold from one Latin American country to another.
- North America exported 9.8 million tonnes, all but 2 million of which were exports between the US and Canada. Of that 2 million, 1.3 million was exported to Latin America. Trade outside North America is very small in comparison to total production.
- North America imported 38.2 million tonnes. Of that total 7.8 million was imports between the US and Canada.
- Total Latin American imports were 12 million tonnes. Of that total 6.2 million were imports from outside the region.
- 42 per cent of Latin American exports are to North America. 13 per cent of North American exports are to Latin America.

Table 2: Steel Imports by Area, 1999
Million tonnes

	EU	Other Europe	Former USSR	North America	Latin America	Others	Total imp.	of which; extra reg. imports
N America	6.2	1.5	3.3	7.8	8.6	10.8	38.2	30.4
L America	1.3	0.6	1.4	1.3	5.8	1.6	12.0	6.2

Source: International Iron and Steel Institute

Table 3: Steel Trade by Area, 1999
Million tonnes

Exporting region and Destination	North America	Latin America
EU	0.2	2.3
N America	7.8	8.6
L America	1.3	5.8
Africa	0.1	0.2
Middle East	0	0.1
China	0	0.1
Japan	0	0
Other Asia	0.3	3.1
Total Exports	9.8	20.2
of which:extra regional exports	2.0	14.4
Net Export (X-M)	-28.4	8.2

Source:International Iron and Steel Institute

Analysis of the Draft Investment Chapter of the FTAA

The Hemispheric Social Alliance has prepared an analysis of the investment chapter that was leaked in April of this year.[12] Their analysis, which shows that the proposed chapter includes all the worst aspects of NAFTA, is summarized below.

Investor State Dispute Resolution

The draft text incorporates the investor-state dispute resolution mechanisms of NAFTA. It was the first trade agreement to provide a venue for corporations to directly challenge government actions, rather than requiring government to government actions. As a result, it gives foreign investors greater rights than citizens or other states. These rights allow corporations to use international arbitration in their effort to roll back democratically enacted laws and regulations. Corporations have used these rights successfully to challenge a wide range of laws and regulations.[13]

Under NAFTA's arbitration process, the "judges' are chosen by the parties, are not subject to standard judicial ethics rules, and are unaccountable for their actions. The public is excluded from the proceedings. There is no appellate body to review decisions. The draft text makes it clear that the corporate investors will be able to proceed directly to these international arbitration mechanisms, by-passing national judicial processes merely by waiving their right to do so.

Definition of Expropriation

One of the most controversial aspects of NAFTA's investment provisions is its extremely broad definition of expropriation. Traditionally, expropriation has meant the taking of property without the owners' consent for a public purpose (for example: land to build a road). Domestic law requires compensation in such cases. NAFTA also requires compensation for indirect expropriation as well as measures "tantamount to expropriation." This wording is so broad that it has allowed foreign corporations and individual investors to sue over any governmental act that may diminish their profits.

NAFTA investors and some investor-state panels have given a meaning to expropriation that goes far beyond that under the domestic law of any of the three NAFTA parties. Generally, under domestic laws, public interest regulations that restrict the use of property such as zoning or the creation of parks or that adversely affect an investors' assets have not been considered compensable expropriations. Domestically, property interests are weighed and balanced against other legitimate interests. The broad NAFTA language,

[12] NAFTA Investor Rights Plus, An Analysis of the Draft Investment Chapter of the FTAA, sponsored by the Hemispheric Social Alliance, Canadian Centre for Policy Alternative, Briefing Paper Series: Trade and Investment, Volume 2 No. 5, June19, 2001

[13] Information on the cases such as Metalclad decision, which was discussed at the last working group meeting are available in the paper, which references "Private Rights, Public Problems: A Guide to NAFTA's controversial chapter on investor rights (International Institute for Sustainable Development and World Wildlife fund, 2001) for a more detailed analysis of the trade cases.

responses by governments, and the interpretation of investor-state panels has not given that weight and balance to other issues. The draft FTAA text presents 4 alternative proposals on expropriation and compensation, but each defines expropriation as broadly as in the NAFTA text.

Fair and Equitable Treatment

Article 1105 of NAFTA is included in the draft FTAA investment text. This provision is extremely vague. It states that governments must treat investors in accordance with international law, including fair and equitable treatment and full protection and security. This broad and open-ended language has been used by trade dispute bodies when they perceive that governments are interfering with investor rights. A breach of article 1105 was found in each of the three NAFTA cases that have found in favor of investors, Metalclad, S.D. Meyers and most recently Pope and Talbot. In Pope and Talbot, the panel found that it was Canada’s only offense.

The vague and general obligation imposed by this provision is a big deterrent to policy making and regulation. Its vagueness means it is hard to determine which policies would and would not be subject to trade disciplines. However, the most dangerous aspect of this article is that it being used to expand the rights of investors.

Under NAFTA, the unilateral right of foreign investors to sue was limited to investment rules. The rest of the agreement, with two minor exceptions, is off limits to foreign investor-initiated disputes. In the Metalclad case, the tribunal found Mexico liable for violating 1105 because its regulatory regime wasn’t transparent enough. But, the transparency provisions of NAFTA are not in the investment chapter, and therefore should not be the subject of an investor state dispute. Provision 1105 was used to import into the orbit of foreign investor claims obligations that should have been beyond the reach of such claims.

In its recent review of the Metalclad case, the Supreme Court of British Columbia in Canada disagreed with the tribunal decision to incorporate NAFTA’S transparency provisions in Article 1105 and partially set aside the tribunal’s ruling. The Court’s ruling however, has no binding effect on subsequent NAFTA tribunals. As a result, it doesn’t close this avenue for expanding the scope of investor protection. It is being used now by UPS, which is making a similar argument to challenge public postal services in Canada. The company is trying to use 1105 to import article 1502 (3) (c) and (d) on monopolies and state enterprises into an investor state issue.

National treatment

National treatment means that governments must treat foreign investors and investments at least as favorably as domestic investors and investments.

For most of the last half of the 20th century, national treatment meant that once foreign goods entered a country they should be treated no less favorably than domestically produced goods. NAFTA was the first treaty to apply national treatment to investment.

The draft FTAA chapter text on investment contains almost the same wording as in NAFTA. Nearly every industrialized economy developed by opening gradually and selectively to foreign investment. In Alternatives for the Americas, The Hemispheric Social Alliance outlined the powers that governments should maintain:

- Implement viable national development policies appropriate to their peoples' goals, while remaining open to the world economy;
- Encourage productive investment that increase links between the local and national economy and screen out investments that make no net contribution to development;
- Make foreign investment play an active role in the creation for macroeconomic conditions for development
- Protect small, local family and community enterprises from unfair foreign competition; and
- Allow for legal measures that preserve public or state ownership in some sectors, exclusive national ownership in other sectors, and obligatory national participation in the ownership of other sectors.

Applying national treatment indiscriminately to the vast new area of investment would interfere unacceptably with the ability of countries throughout the hemisphere to orient investment to meet these goals.

Scope of the Agreement

Like NAFTA the draft FTAA investment chapter is top-down agreement, meaning that all measures and sectors are assumed to be covered unless they are explicitly excluded. Also like NAFTA, the FTAA would restrict measures taken by all levels of government – national, state, provincial and local.

FTAA doesn't say whether governments will be able to protect only existing measures, or whether they will have the ability to preserve their flexibility to adopt new measures in certain sectors.

Performance requirements

Performance requirements are conditions imposed on investors to maximize the social economic and environmental benefits of investment. NAFTA prohibits 7 types of performance requirements which are reproduced nearly verbatim in the draft FTAA text. These restrictions make it clear that signatories to the agreement would not be able to implement the policies that would ensure that communities and countries would benefit from foreign investment.

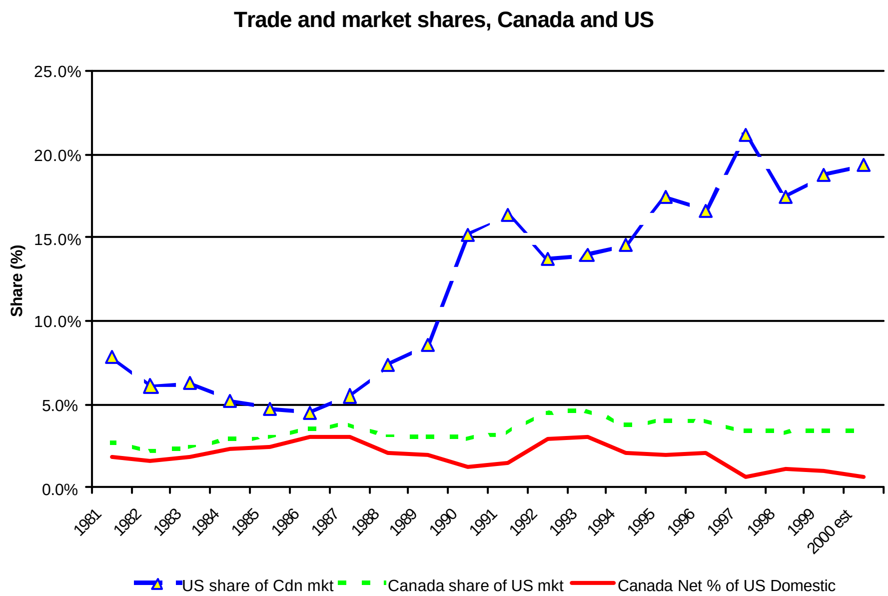
Impact of the FTA on the Canadian Steel Industry

It has now been 13 years since the implementation of the FTA. The relative size of the Canadian and US industries suggest that the Canadian experience could be similar to other countries in the Americas.

As the chart below shows, since the implementation of the free trade agreement, the share of the Canadian market supplied by the US imports has increased from just over 5 per cent in 1987 to between 17 and 21 per cent in the late 1990s.

Canadian imports have not had a similar impact on US steel consumption. It has been steady at between 3 and 5 per cent over the period.

The net impact of Canadian steel on the US market is even smaller. Canadian exports to the US, less US exports to Canada as a share of US market has been falling. From a high of 3 per cent in 1997, this figure is down to just over a half of a percent in 2000.

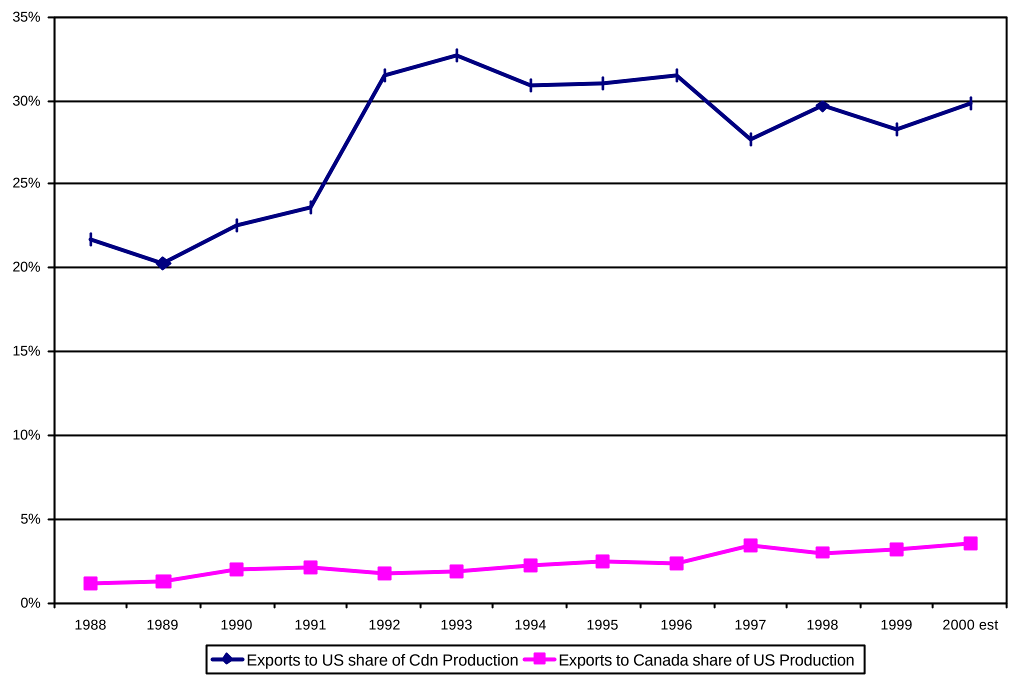


Differences in investment and ownership patterns

There has been no increase in mini-mill capacity in Canada corresponding to the big increase in the US. There have been no major US investments in Canadian facilities. In contrast, all of the major Canadian companies, with the exception of one, have significant mini-mill investments in the US. Ironically, the major reason for this Canadian investment in the US has been the failure of the Canada-US Free Trade Agreement to deliver on its promise of access to the US market.

As a result of the free trade agreements, the Canadian market has effectively been integrated into the US market. Exports to the US now account for about 30 per cent of Canadian production. Exports to Canada continue to account for less than 5 per cent of US production.

Canada-US Steel Trade and US and Canadian Production Compared



As a consequence, Canada is much more vulnerable to changes in access to the US market than the US is to changes in access to the Canadian market.

Conclusions

- There appear to be well-developed trade and investment links among the countries in the Americas that have steel industries. As a result, any gains from trade are likely to be minimal.
- The draft FTAA investment chapter includes all the worst aspects of NAFTA. It would result in an expansion of investors' rights, at the expense of citizens' rights. It would require the surrender of sovereignty and of the state's flexibility to make policy.
- The Canadian experience with the FTA shows that these kinds of agreements do not foster a strong domestic industry. The FTA did not attract increased foreign investment to Canada, or security of access to the US market. However, it did increase Canadian reliance on the US market.

Additional Tables

Apparent Consumption of Finished Steel				
(000s T)				
	1996	1997	1998	1999
Argentina	3.8	4.0	4.1	2.7
Brazil	12.5	14.6	13.9	13.6
Canada	13.3	15.2	15.3	16.1
Chile	1.6	1.7	1.6	1.4
Columbia	8.4	10.0	10.3	10.7
Mexico	8.0	9.5	10.4	10.8
Peru	0.7	1.0	1.1	0.7
United States	103.1	108.0	115.7	109.8
Venezuela	2.2	2.8	1.9	1.3
Others	1.5	2.0	2.5	2.2
Source: Latin American Iron and Steel Institute, International Iron and Steel Institute				

Steel Imports and Exports by Country, 1999		
tonnes		
	Exports	Imports
Argentina	1,629,593	997,951
Brasil	10,016,765	642,196
Chile	70,000	461,000
Colombia	36,500	1,049,000
Costa Rica	-	235,991
Cuba	200,100	107,205
Ecuador	-	150,129
El Salvador	-	83,722
Guatemala	-	191,158
Honduras	-	92,612
Mexico	5,199,874	1,904,275
Panama	-	231,100
Paraguay	2,268	53,976
Perú	71,146	278,493
República Dominicana	-	257,100
Trinidad / Tobago	704,934	69,800
Uruguay	8,783	110,714
Venezuela	1,582,643	442,558
Canada	4,755,000	6,784,000
US	5,029,000	32,735,000
Source: Latin American Iron and Steel Institute, International Iron and Steel Institute		

The Brazilian Steel Industry and the FTAA

Patricia Pelatieri – CNM/CUT- Dieese, Brazil

Introduction

Since the early 1980s, the world steel industry has been going through a period of profound changes in terms of production technology, ownership and geography.

The changes in production have involved the spread of new manufacturing technologies, such as electric steel mills operating with steel scrap, the spread of continuous casting and alternative processes such as liquid metal for LD converters, injection of carbon fines into blast furnaces, and direct and/or melting reduction.

With regard to geographical location, there has been a shift in world steel production from Europe to the countries of Latin America and Southeast Asia in the sector of low technology semi-finished steels with low added value.

In terms of ownership, there has been an intensification of concentration, justified by the increasing need of companies to seek large production scales in order to confront the new demands of the globalized market.

In this situation what we observe is an intense movement of restructuring and the world-wide spread of a new productive model for the iron and steel industry.

In this context, the Brazilian steel industry is also passing through a process of restructuring in its industrial organization, initiated by the withdrawal of the State from steel production between 1991 and 1993, moving toward a period of ownership arrangements. Under this shareholding reorganization a more intense reconversion of production is expected, making possible higher productivity and profits on production margins linked to greater specialization of mills.

The Brazilian steel industry, while lagging behind somewhat in terms of technology compared to the steel industries of the developed countries such as Japan, Germany and the United States, does possess some comparative advantages in producing steel which have ensured Brazilian enterprises one of the lowest operating costs in the world.

To achieve this restructuring of production, the steel industry has introduced new human resources management techniques in the areas of hiring, training, new work practices and benefits. The main strategy of the sector has been geared toward granting greater participation and autonomy to the workers in carrying out tasks, with a direct link to the objectives of the enterprises.

Thus, since the early 1990s the requirements for skills and knowledge have risen considerably. Presently, to get a new job in the steel industry, production workers must show knowledge of technical processes, as well as demonstrate the ability to analyze and think logically, and an aptitude for teamwork.

Key Features of the Brazilian steel industry

The Brazilian steel industry, as an industry on a significant scale, began with the awareness, both in Brazil and abroad, of the abundant iron ore reserves in Minas Gerais and with the desire to develop them as a substitute for the imported steel required by the country's economy. Although initiated in the 1920s, with the founding of the Siderúrgica Belgo Mineira Company, it was only beginning in 1946 with the inauguration of the National Steel Company (CSN) – the result of negotiations between the government of Getúlio Vargas and the US government, linked to participation of the allies in World War II – that Brazil began to expand its steel making plant. That expansion lasted until the 1980s, when the last two big mills, Açominas (1976) and Companhia Siderúrgica de Tubarão (1978) began operations.

The importance of state capital in the steel industry became apparent in the 1970s in the model of economic development adopted by the country. During the cycle of expansion of the Brazilian economy from 1968 to 1973, domestic steel consumption rose significantly, without commensurate investments to raise production, which lead to greater steel imports. It was in response to that growing dependence on imports that Siderurgia Brasileira S.A. (Siderbrás) was created in 1973.

In 1975 Siderbrás elaborated the First National Plan for the Steel Industry which provided for investments of 12 billion dollars and established the present configuration of the national steel industry. Production of flat products remained in the hands of the State, while production of non-flat and special products, performed by smaller-scale production units, remained in the private sector with official financing.

However, beginning in the 1980s the Brazilian steel industry entered a crisis caused mainly by the stagnation of the economy deriving from the country's exchange problems.

Privatizations

The privatization of Brazilian steel mills in recent decades represents the main element of change in the sector's industrial structure. The period of privatization may be divided into two clearly distinct stages: the recovery plan for the Siderbrás System, and that for PND-Siderurgia [National Program of State Divestment-Steel Industry].

The Recovery Plan for the Siderbrás System, carried out in 1988-89, was aimed at initiating the recovery of the enterprises and thus to promote the transfer to private initiative of five relatively small enterprises, Aparecida, Cosim, Cimetal, Cofavi and Usiba, which essentially produced long products. The program had a value of 180 million dollars, with an average premium of 38%. The impact of this stage on the industrial structure and competitivity of the sector led to an increase in the market share of the Gerdau and Villares groups.

Between 1991 and 1993, the PND-Siderurgia privatized all the national steel sector industries controlled by the State: Usiminas, Cosinor, Piratini, SCT, Acesita, CSN, Cosipa and Açominas. The program involved the transfer of 5.58 billion dollars, 18.6% in cash and 81.4% in securities (SIBR [Siderbrás debentures], DVR ["Debt Sold and Renegotiated", type of state bond], OFND [National Development Fund Bonds], CPs [privatization certificates]), with an average premium of 22%.

The privatization of the Brazilian steel industry was conceived more as a response to the State's debt than as a tool of a sectoral strategy or industrial policy representing a broader program to restructure the steel sector.

The main effect was the drastic reduction of the number of employees immediately following privatization: AFP/Aços Finos Piratini cut 25% of its total workforce, CST cut 30%, and Acesita 25%.

There was also a reduction of financial expenditures through a pre-privatization program and a change in post-privatization administrative behavior. Another important alteration was the change in the regime of prices charged by the sector, which was freed by the federal government after a recovery of 40%.

In terms of industrial relations, shareholding was fairly diversified, represented by the following groups: banks (paying with securities: Usiminas, CST, CSN and Cosipa); pension funds (Açominas); private competitors (Gerdau and CSBM); foreign groups (California Steel and Nippon Steel); and employees. As to their post-privatization strategies, the enterprises followed two paths: verticalization, adopted by some enterprises, such as Usiminas (distribution of steel and ferroalloys), Acesita (tubes and packagings) and CSN (energy, transport and cement); and horizontalization followed by Usiminas (Cosipa and Siderar), MJS (Açominas) and Acesita (CST and Villares).

In the late 1990s there was an increasing internationalization of the enterprises, with the entry of NatSteel (Singapore) into the capital of Açominas. In the case of Acesita and Aços Vallares, the acquisition involved the integralization [consolidation?] of capital and a dilution of the holdings of the old controllers.

Production

The steel-making business is complex, requires major capital inputs, it uses a lot of energy and the return on investment is slow. Its performance is vulnerable to sudden changes in economic policy, industrial policy and the conditions of long-term financing. In addition, it has been suffering from the competition of other materials (polymers, plastics and aluminum), with a heavy impact on the environment. For these reasons, the steel industry plays a strategic role in the country's economic development.

With a production of 27.8 million tons of crude steel in 2000, Brazil was the world's eighth largest producer. In Latin America it is the biggest steel producer, accounting for 49.5% of the total, and is the world's fifth biggest steel exporter (9.3 million tons).

In macroeconomic terms, the Brazilian steel sector contributes 1.6% to the Gross Domestic Product (GDP) and 5.3% to industrial production; it accounts for 1.7 billion dollars in taxes per year and contributes 1.9 billion dollars per year to the exchange balance.

Brazilian crude steel producing companies/groups in 2000
(in '000 tons)

Company	Crude Steel
CSN	4.781
Usiminas	4.438
Cosipa	2.746
CST	4.752
Grupo Gerdau	3.383
Açominas	2.620
CSBM	2.571
Grupo Villares	660
Acesita	857
V&M do Brasil	519
Demais	424
TOTAL	27.751

Source: IBS

The participation of various enterprises/groups in the production of Brazilian crude steel is more significant than in producers of flat products such as CSN, Usiminas and Cosipa, which together account for 47.6% of total production.

Competitiveness

The three main indicators of competitiveness of the steel industry both nationally and internationally are:

1) production cost;

2) share of the international market for steel products, i.e. export performance;

3) extent of use of industrial processes and new management methods.

Production costs

The Brazilian steel industry has one of the lowest operating costs in the world (US$295 per ton), resulting from the quality, availability and proximity of iron or deposits and from the low cost of labor. It has one of the highest financial costs (US$67 per ton).

Labor costs in the steel industry worldwide

Selected countries	Labour costs (USD/ ton shipped
Mexico	76,00
Brazil	57,00
South Korea	62,00
Taiwan	86,00
Canada	118,00
United Kingdom	113,00
France	132,00
USA	154,00
Japan	142.00
Germany	136,00

Source: world steel dynamics (2001[a])

As shown in the table above, Brazil has a labor cost 40% below that of the developing countries and 130% below the average of the developed countries selected in the sample.

As regards materials, Brazil presents major advantages in the cost of iron ore and disadvantages in the cost of scrap and coal. As for the degree of use of materials during the production process, the Brazilian steel industry shows a value similar to those of European and North American standards, but lower than Japanese levels.

The other components of the cost of the national steel industry are at levels much higher than the world average. This is the case for the cost of capital, expressed by the Long Term Interest Rates (LTIR).

International participation

The Brazilian steel industry was originally planned to meet the needs of the domestic market, except for CST and Açominas, which were designed to reach the world plate market. However, the establishment of those two works in the mid-70s, and the expansion of other iron and steel enterprises coincided with the drastic contraction of domestic consumption, forcing the sector to redirect increasing shares of production to the foreign market.

The entry onto the world market was successful in terms of volume exported: at present the country is the world's fifth biggest steel exporter with a level of 9.3 million tons.

The level of Brazilian steel exports rose significantly between 1990 and 1993, and then declined in 1997, 1998 and 1999. In 2000 the volume of exports fell, but their value rose to reach US$ 2.6 billion, due to an improvement in prices, especially for semi-finished products. On the other hand, domestic consumption progressed until 1997, but that growth trend was reversed in 1999 with crude steel production declining by 3% and consumption by 4.3%. In 2000, with the recovery of the domestic economy, steel production again rose by 11.2%, with domestic consumption rising by 10.8%, despite a fall in exports of 7.7% due mainly to protectionist barriers in various importing countries.

Exports (millions of tons)

1998	(%) 98/97	1999	(%)99/98	2000	(%) 00/99
8.756	4,4	10.033	14,6	9.341	-6,9

Source: BNDES, IBS.
Produced by the CNM/CUT Dieese subsection

Brazilian exports of steel products are concentrated mainly on North America (36%), followed by Asia (21%), Europe (18.9%) and Latin America (18%).

Nevertheless, it has been seen that entry into those markets has depended mainly on the sale of products with low added value, with semi-finished products representing 64% of total exports (flat products 22%, long and others 14%).

Although feasible, Brazil’s entry into the international market has been constrained by three factors:

1) exports have always been a stopgap solution to crises rather than a long-term objective;

2) the growth of Brazilian exports has taken place in an international context of recession. In this regard there has been an accumulation of anti-dumping measures and compensatory duties – applied by the US government and directed against the Brazilian steel industry – which took into account the influence of subsidies on the performance of enterprises during the period of state-owned steel enterprises. These measures may last 10 to 20 years;

3) Siderbrás’ policy favored quantitative goals over qualitative ones, in terms of stress on improving the mix of products.

In terms of international competition, although Brazil is the world’s eighth largest producer, none of the world’s top 20 enterprises is Brazilian. The biggest enterprise in the world steel sector is Nippon Steel, with a capacity higher than the total steel production of Brazil, around 25 million tons.

The biggest Brazilian enterprise, Gerdau, is number 32 in the ranking of the world’s biggest steel makers, followed by the Companhia Siderúrgica Nacional (CSN) in 36th place, and CST in 47th, and counting together the capacity of Cosipa and Usiminas would put them in 28th place internationally. It may be concluded that the Brazilian steel sector still does not operate according to international patterns of large production scales.

Indicators of the Brazilian Steel Industry

Indicators	1997	1998	1999	2000
Production capacity (1.000 tons)	30.000	30.000	31.000	32.000
Production of Crude Steel (thousands of tons)	26.153	25.760	24.996	27.865
Turnover (US$ billions)	11,8	10,2	7,8	9,9

Source: IBS & BNDES

Technological development is an important vector for an industry's competitivity. In general, technical progress in the steel industry is aimed at reducing costs and increasing flexibility of the production process.

Technological level

In terms of the technological level of processes, the results of the Brazilian steel industry have been satisfactory, from the reduction phase till the steel mill, with the technological lag concentrated mainly in the final stages of the process (ladle steel refining or inter-linking the steel mill with casting and lamination machines).

As in almost all other countries – with the exception of Japan, Germany and the US – the Brazilian steel industry built up its plants with technologies acquired from abroad. Despite being the world's 8th biggest producer, the country has not managed to develop the technical experience which could ensure the progress of new process technologies, since the volume of resources needed and the payback time limit such investments. It should, however, be noted that the country has succeeded in absorbing the new operating and maintenance technologies and adapting and optimizing production processes.

Thus, as soon as the privatization process was concluded in late 1993, the sector embarked on a program to modernize and update plant technology, with a view to finishing in the year 2000 with an investment on the order of 7.1 billion dollars. That program is essentially geared to enhancing the competitivity of steel, reducing costs and improving environmental conditions in the mills. In association with the project, the steel enterprises have been trying to eliminate operational bottlenecks and to add a few production units with a view to upgrading the product mix and to achieving more compatible scales.

The investment decisions were influenced by the auto industry's announced intention to make Brazil a major production center both for the domestic market and for export, through sectoral programs of the State, such as the creation of housing and infrastructure financing mechanisms to promote civil construction among the major steel consumers.

Productivity

Taking the physical criterion of man-hours per ton (m/h/ton) to evaluate the productivity of labor in the Brazilian steel industry, we see that in the 1990s there was an increase on the order of 150%.

Productivity development (t/h/year)

1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
188	220	250	266	283	336	375	423	432	470

Source: BNDES, 2000.
Produced by the CNM/CUT Dieese subsection

It should be noted that these improvements were based almost exclusively on the process of structural reduction of the level of employment in the sector, which fell by 23% from 1996 to 2000.

Employment development 1996-2000

Indicators	1996	1997	1998	1999	2000
Number of employees	65.227	60.425	58.879	50.578	50.365
Turnover per employee (millions US$)	142,68	161,64	164,50	125,7	159,4

Impact of the FTAA on Steelworkers

The risks related to the FTAA are greater than the opportunities. The position of the CUT – the Brazilian United Workers' Federation – is completely opposed to the FTAA. In the document of its 9th Plenary, it expresses total rejection:

"The Brazilian United Workers' Federation must follow the opposite course, rejecting the FTAA as a whole. There is not the slightest possibility of progressive clauses in that treaty, nor that they will ensure a minimum of labor rights..."

A recent CUT document sent to the Ministry of Foreign Relations reiterates that the Federation is "against Brazil's participation in a free trade agreement based on a negotiating agenda which treats unequals as equals (...) and which will only benefit the big multinational corporate conglomerates established in the region." In addition, it demands that the Brazilian government guarantee "that the Brazilian people will have access to all elements of information (on the negotiating process) and that they will be genuinely consulted through a plebiscite on whether Brazil should participate in the FTAA."

The phase of instability through which the world steel industry is presently passing, with repercussions on the Brazilian steel industry, may worsen the FTAA negotiations. The future for investments in the Brazilian steel industry is uncertain. And all of this must be taken into consideration in the negotiating process. The opportunities which may be opened for the Brazilian steel industry are closely linked to the revision and reformulation of protectionist legislation in the United States of America.

About 30% of Brazilian steel exports, which amount to 3.1 million tons, go to North America. The slowdown in the US economy, combined with the approval of the Trade Promotion Authority (TPA) by the House of Representatives, gives no authorization to the US executive to make concessions in the main areas of interest of Brazil – among others steel – and it must ensure all the advantages for the US market. Against this background, the FTAA debate does not make sense for Brazil.

Brazilian steel is highly competitive. In a more egalitarian negotiation, Brazil would have much to gain.

The US position reinforces the need for Brazil to have a national plan with a bolder policy to win foreign markets which have not played a major role so far, especially in Latin America.

ILO CORE CONVENTIONS NOT RATIFIED BY THE FTAA PARTICIPANTS
CONVENCIONES FUNDAMENTALES DE LA OIT NO RATIFICADAS POR LOS PARTICIPANTES AL ALCA

STATES/ ESTADOS	Freedom of Association/ Libertad sindical	Collective bargaining/ Negociación colectiva	Forced labour/Trabajo forzoso		Equal treatment/ Igualdad de trato		Minimum Age/ Edad mínima
	C. 87	C. 98	c.29	c. 105	c.100	c.111	c.138
Antigua & Barabuda					X		
Barbados							X
Belize					X	X	X
Bolivia			X				
Brazil	X						
Canada		X	X				X
Colombia							X
Dominican Republic							X
Ecuador							X
El Salvador	X	X			X		
Grenada						X	X
Haiti							X
Jamaica							X
Mexico		X					X
Panama							X
Paraguay							X
Peru							X
Saint Kitts &Nevis	X	X	X	X	X	X	X
Saint Lucia							X
Suriname					X	X	X
Trinidad & Tobago							X
United States	X	X	X		X	X	X

X = Conventions not ratified / convenciones no ratificadas (Situation on **1st February 2002** situación al **1º de febrero de 2002**)