North American Incomes and Productivity in the Global Context:
Industry Challenges

Seminar in Washington, DC
Co-Hosted by the
Carnegie Endowment for International Peace and the
North American Commission for Labor Cooperation
October 22, 2004

The following summary was prepared by Jennifer Maul,
Junior Fellow at the Carnegie Endowment

The event was opened by Mark Knouse, Executive Director of the Commission for Labor Cooperation Secretariat, and Sandra Polaski Director of the Trade, Equity and Development Project at Carnegie.

Institutional affiliations and biographies of the speakers appear at the end of the document.

Session I – CHALLENGES FOR MANUFACTURING INDUSTRIES
Moderator: Norman Caulfield, Commission for Labor Cooperation Secretariat

Dr. Daniel Trefler, “Changes in the Canadian Manufacturing Sector”

Since the start of the Canada-United States free trade agreement in 1988, Canadian manufacturing has gone through a tremendous amount of restructuring. From 1990-1997, manufacturing sector employment remained below 1988 levels. And then starting in 1994, employment began to recover and in 1998 employment exceed the pre-agreement levels. But before the agreement was implemented, manufacturing employment was already declining. With the free trade agreement, there was a reallocation of production towards more productive industries and within the plant there was expanded output but reduced variety in the types of goods produced. This has led to greater plant heterogeneity within industries with unproductive plants eliminated and surviving plants concentrating on innovation and upgrading. But even within surviving plants, there have not been the huge employment gains that competitive advantage theory would predict. Instead, gains in productivity have far outstrpped gains in employment.

The Canadian tariff cuts in the free trade agreement hastened the exit of only moderately productive plants, whereas the American tariff cuts increased the probability of entry and/or survival of very productive plants. Furthermore, productive firms with high financial leverage are more likely to benefit from tariff cuts. The free trade agreement also raised productivity via exporting since the deeper the American tariff cut, the more likely firms entered the American market and received a huge productivity bump. NAFTA (and previously the Canadian-United States Free Trade Agreement) brought about considerable heterogeneity within Canadian industries as weaker plants were forced out and the remaining plants were compelled to upgrade to stay competitive.
Dra. Monica Gambrill, “NAFTA’s Impact on Remuneration in the Mexican Transformation Industry”

After the financial crisis of the 1980s, Mexico shifted away from indirect exporting to a much more open economy, especially in the manufacturing sector. Since then, the Mexican economy has become more dependent on the maquiladora (assembly) model. But even after the implementation of NAFTA, there has not been an increase in Mexican content in manufactured goods. This shift in the economy has not necessarily been beneficial for workers, since the average wage in the maquiladoras is less than the average wage in the general manufacturing sector.

In addition to the wage loss due to the financial crisis, manufacturing wages have taken a hit from free tree trade, first from the country’s accession to GATT in 1986 and then with the implementation of NAFTA in 1994. While manufacturing wages eventually recovered from their pre-1986 level, wages have yet to recover this time around to their pre-NAFTA level. Instead, manufacturing and maquiladora wages are heading towards synchronization. In some industries that had earlier commercial opening and earlier restructuring (e.g., the electric and electronics assembly, tools, clothing, and shoes/leather sectors), this convergence has already happened. In some industries where the liberalization came later and they were only forced to liberalize under GATT (e.g., toys/sporting goods and furniture sectors), the manufacturing wage level is below the maquiladora level. Despite this overall trend towards synchronization, some industries (e.g., transportation, food, and chemical production sectors) have retained their wage differential between manufacturing and maquiladoras.

In 1998, Mexico allowed companies to import any intermediary goods needed for manufacturing (without tariffs and not necessarily for re-export) which has caused manufacturing to be become more based on a maquiladora system. To counter this trend, some products need to be removed from that list to encourage domestic Mexican manufacturing. Also, transformation needs to be defined as more than just disassembly (as is the case now). Mexico cannot depend only on the market for industrial transformation, and the government must take a more proactive stance to promote industrial upgrading policies.

Dr. Gary Gereffi, “The Impact of NAFTA on the Textile and Clothing Industry: Mexico and North Carolina Compared”

Spurred on by NAFTA’s rules of origin, Mexico has been moving towards an East Asian model of production in textiles and apparel (full-package production with diversity and flexibility), but with a much narrower scope. Before NAFTA, Mexico’s key role was just assembly, but now Mexico can offer full-package production for retailers and brand names. For example, in 1993 Torreon, Mexico was only exporting to a handful of blue jeans manufacturers but in 2000 the city had six times as many clients. Torreon experienced exponential growth in the number of jeans produced per week and employment gains. And although output and employment have fallen since 2000 (when the United States entered a recession), Torreon has been maturing as an industrial district. Mexican companies have started going directly to the United States for orders and have been moving towards branded production with more value-added. The Mexicans firms that have benefited the most are those that are the most integrated, while the small and isolated firms have been the worst off.
While Mexico’s textile and apparel industry has grown substantially over the past decade, the United States (and especially the state of North Carolina which has the largest concentration of textile and apparel manufacturers in the country) has had to confront a shrinking manufacturing sector. In this time period, North Carolina has lost 200,000 manufacturing jobs, a 25% decline (from 800,000 to 600,000). The impact has been particularly striking in several counties as the job loss has been concentrated and spread unevenly. The hardest hit sector has been textiles supplying apparel firms since they are losing their American customers and many factories are moving overseas to developing countries. Despite this drop in output and employment, American textile manufactures supported NAFTA as a defensive mechanism in hopes of integrating with Mexican production, but this strategy just forestalls the inevitable decline. With the end of the Multi-Fiber Agreement in 2005, the impact on North Carolina and other textile and apparel manufacturers in the United States will be even more severe since the hardest phase-outs were saved to the end.

Session II – LUNCH

Keynote Speaker: Dr. Robert Pastor

As contrasted with Europe, which has aimed to achieve a union of peoples, North America’s Free Trade Agreement (NAFTA) has been based on the separateness of each country, and differences have been stressed more than commonalities. NAFTA aimed to reduce trade and investment barriers, and both trade and investment have nearly tripled during the past decade. North America today is the largest free trade area in the world in terms of product and territory. The gap in income between Mexico and its northern neighbors, however, has not narrowed, and illegal migration has worsened. North America’s failure to establish credible institutions has meant that each country reverts to its traditional ways to address problems or respond to crises.

To address some of these deficiencies in NAFTA and to take advantage of the region’s potential, a North American Investment Fund (with contributions from all three countries) should be established to invest in infrastructure and post-secondary education in rural Mexico, but to do so only if Mexico undertakes the kinds of reforms on taxes, pensions, and energies that would permit it to make the best use of the additional resources. As NAFTA moves into its second decade, three main challenges remain: (1) the need to narrow the development gap between Mexico and its northern neighbors; (2) the lack of rule-based institutions to address common problems in a fair manner; and (3) the need for a vision of the entire continent that would motivate the people and leaders of the three countries to respect each other and build a stronger region.

Discussant: Maria Fernanda Garza

NAFTA has spurred greater trade and investment with the United States, and the Mexican manufacturing sector has experienced growth that it did not see before the agreement. In addition, Mexico has also seen increased trade with Canada. Mexico, by virtue of its location, is able to provide products not available on the rest of the continent (e.g., tropical fruit). Over this same period, foreign direct investment from North America has increased at a greater rate than foreign direct investment from elsewhere in the world. NAFTA has also brought greater
macroeconomic stability to Mexico. Although the 1994 peso crisis came about at the same time that the agreement went into effect, this crisis was the effect of misguided Mexican public policies and NAFTA actually helped speed the recovery (which was much faster than the recovery after the 1982 crisis).

Mexico needs to use the grace period contained in the agreement to undertake needed structural reforms. Domestic businesses can no longer hide their inefficiencies behind inflation, and the competition they face from Asian countries is only going to grow more intense. The country missed carrying out structural reforms in the early years of globalization, and now it is being given another chance to reform so that more people can benefit from globalization.

Discussant: Pierre Laliberte

NAFTA has failed to provide a balanced integration project for North America. Urgency was invoked in Canada in the 1980s for a Canada-United States free trade agreement because it was felt Canada would be shut out of the American market, but Canadian labor was skeptical of the one-sided agreement and the gap between workers’ and investors’ rights. NAFTA followed a corporate agenda with little regards for a social agenda. While exports to the United States have increased, there has been no move towards export diversification and no corresponding positive change in the quality of life. In addition, Canada still has not bridged its productivity gap with the United States and trade disputes between the two countries continue. On the other hand, the United States has benefited since it secured its access to energy assets and undermined Canadian national policies that it disagrees with. Unless NAFTA bridges not only the ‘development gap’ noted by Professor Pastor, but also the ‘social’ and ‘democratic’ deficits the North American project currently exhibits, there will not be any interest on the part of the labor movements to deepen the current relationship. Given the actual divergence in the values of the countries, there is little hope in the short term that NAFTA can be revived as a workable political project.

Session III – CHALLENGES FOR SERVICE AND AGRICULTURAL INDUSTRIES
Moderator: Sandra Polaski, Carnegie

Dr. Andrew Sharpe, “Productivity Performance of the Retail Trade Sector in the United States and Canada”

Canada has an inferiority complex compared to the United States in terms of productivity, since Canada’s productivity level is only 80% of the value of the U.S. level. Productivity growth in Canada has picked up since the mid-1990s, but the level and growth in Canada is still below that of the United States.

The American retail sector has experienced stronger output growth than its Canadian counterpart. The retail trade is also less capital intensive in Canada, even though in this respect Canada has recently had stronger growth than the United States.

In terms of retail trade productivity growth, Canada is lagging increasingly behind the United States. While American productivity growth averaged around 3% per year from 1987 to 2002, Canada managed growth of only 1% per year. In addition, U.S. total factor productivity growth in the sector was 2% per year, while it has remained flat in Canada. Increased labor
productivity growth in Canada is due solely to increased capital intensity whereas in the United States it was due to a combination of increases in total factor productivity and capital intensity. The United States has been on the forefront of new managerial techniques and the use of information technology as well as increasing the intensity of competition (e.g., Wal-Mart).

*Dra. Alicia Puyana and Dr. Jose Antonio Romero, “Mexican Agriculture in Transition”*

North America contains great asymmetries (in levels of development and in what the industries could assimilate). NAFTA did not seek to correct these asymmetries, but rather the agreement was just one more step in the opening of the Mexican economy. But despite this liberalization and openness to foreign competition, Mexican agricultural productivity remains less than one-third that of the American value and the gap has not been closing but rather widening. Mexico expected NAFTA would raise the productivity of its agricultural sector, especially in the production of fruits and vegetables even if it would cause a shrinkage in grain production. And although there has been gains in efficiency and increased value added per worker, Mexico cannot compete with developed countries in the subsidization of agriculture that has lead to a greater growth in agricultural imports than exports and a burgeoning agricultural trade deficit. The overvaluation of the peso has also had a further negative impact on Mexican agricultural exports.

Mexican agriculture has been hit hard by NAFTA. Many agricultural workers have been displaced as rural employment as a percentage of total employment has fallen and rural wages have not improved. And as most poor people live in the rural areas, extreme poverty has grown and relative poverty has remained constant, leading to a more unequal income distribution throughout the country. This impoverishment has influenced migration to the United States, which has been increasing since 1994. Even as domestic producers increase output, there has been a general price decline in agriculture. Since all tradable farm products compete intensely in both foreign and domestic markets, internal prices have become more closely linked to foreign prices and producers have responded by raising production and productivity.

This has all served to cause a dis-agriculturization in Mexico. The decline of agriculture as a share of Mexican GDP is likely to continue unabated and is intensifying the structural fracture of the economy (e.g., premature recessions). While exports of fruit and vegetables have increased, it has not been enough to offset the large agricultural trade deficit. The tariff advantages enjoyed by Mexico were narrow to begin with, and have already suffered erosion as a result of exchange revaluation and American free trade agreements with other countries that have product lines that compete with Mexico’s. The government has yet to respond with a comprehensive sectoral development policy. To combat some of these problems, the government needs to increase its rural investment budget, which it has been limited and decreasing in recent years. In addition, the government also needs to undertake measures to reduce the high degree of fragmentation of rural property holdings and to concentrate its supports and credits on the biggest landowners that are geared towards exporting or the production of industrial inputs.

*Dr. David Barkin, “Alternative Strategies for Income and Productivity in Rural Mexico”*

Economic liberalization has caused a deregulation of the public interest and has allowed governments to abdicate their responsibilities. There is a lack of respect in governments for
small producers who are unable to influence policy. Rural Mexico does not suffer from lack of an agricultural policy, but rather there is a deliberate policy attempt to reshape the country with public finance acting as a deliberate subsidy to corporations. Therefore, rural Mexico wants to stop North American globalization and stop the erosion of its quality of life. But despite this lack of technical, financial, and political support, a new dynamic of locally supported rural development has been growing through community consolidation and population growth.

Peasants have been pursuing their own strategy for production, processing, and marketing agricultural products. Maize production, along with productivity, has been rising, but this trend has been accompanied by official confusion and indecision. But for the first time in 2003, Mexico did not import white corn for human consumption (which rural Mexico specializes in), instead only importing yellow corn for non-consumption purposes. Peasants have been able to increase productivity upon demand, since peasants were unable to plant fruits and vegetables (which have greater export potential) unless they planted corn. And while there has been a decline in the real price of maize, if peasants are able to sell directly to the consumer they will receive a better price. But in the grain economy, there have been struggles over products and technologies as well as conflict over the distribution of benefits.

Peasants have adopted their own strategies for the diversification of the rural economies with 40% of rural GDP comes from non-agrarian activities. This has been accompanied by increases in rural well being and living standards through more complex livelihood strategies. This new rural society is characterized by the development of new productive systems, a concern for environmental quality, an increase in local self-governance capabilities, and the appropriation of government programs (such as those for tourism).

SPEAKER BIOGRAPHIES:

**Dr. David Barkin** is Professor of Economics at the Xochimilco Campus of the Universidad Autónoma Metropolitana in México City. He received his doctorate in economics from Yale University and was awarded the National Prize in Political Economics in 1979 for his analysis of inflation in Mexico. He is a member of the Mexican Academy of Sciences and of the National Research Council. In 1974, he was a founding member of the Ecodevelopment Center. His most recent books include: *Wealth, Poverty and Sustainable Development* and *Innovaciones Mexicanas en el Manejo del Agua*. He is interested in the process of unequal development that creates profound imbalances throughout society and promotes environmental degradation. His recent research focuses on the implementation of alternative strategies for the sustainable management of resources. Much of his work is conducted in collaboration with local communities and regional citizens’ groups.

**Norman Caulfield** - Acting Research Director for the Secretariat for the Commission for Labor Cooperation

Norman Caulfield, a native of the United States, joined the research staff of the Secretariat in June 2002. He is currently engaged in research on employment relations in North America and is on leave from Fort Hays State University in Hays, Kansas, where he is Professor of History. He earned his B.A., M.A., and Ph.D. degrees in history from the University of Houston and specializes in the fields of Mexico, Latin America, and the United States. His research interests
are labor and political economy. In 1998 he published Mexican Workers and the State: From the Porfirriato to Nafta. He also has written numerous articles on Mexican and United States labor and has plans to write another book on globalization and labor in Mexico and the United States. E-mail: ncaulfield@naalc.org

Mónica Claire Gambrill is a researcher and professor at UNAM and coordinator of the Integration Studies Area at CISAN. She holds a M.A. and a Ph.D in sociology from El Colegio de México, with a focus on industrial sociology. She currently heads a research team on “Integration in North America”. Her personal research project is on “International Subcontracting in North America”. In 2002 she published the book Globalización y sus manifestaciones en América del Norte. She has also contributed to different publications, such as the chapter “Fronteras y comunidad latina en América del Norte” in the book La reforma fiscal en la industria maquiladora, among others. She has written important articles in prestigious journals and produced a CD-Rom for Radio Nederland.

Gary Gereffi is Professor of Sociology and Director of the Center on Globalization, Governance, and Competitiveness at Duke University, where he teaches courses in economic sociology, globalization and comparative development, and international competitiveness. He received his B.A. degree from the University of Notre Dame and his Ph.D. degree from Yale University. Gereffi has published several books and numerous articles on business-government relations in various parts of the world. His recent books include: Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia (Princeton University Press, 1990), co-edited with Donald Wyman; Commodity Chains and Global Capitalism (Praeger Publishers, 1994), co-edited with Miguel Korzeniewicz; The Value of Value Chains: Spreading the Gains from Globalisation (special issue of the IDS Bulletin, vol. 32, no. 3, July 2001), co-edited with Raphael Kaplinsky; Free Trade and Uneven Development: The North American Apparel Industry after NAFTA, co-edited with David Spener and Jennifer Bair (Temple University Press, 2002); and Latin America in the 21st Century: Toward a New Sociopolitical Matrix (Lynne Rienner Publishers, 2003), co-edited with Manuel Antonio Garretón, Marcelo Cavarozzi, Peter S. Cleaves, and Jonathan Hartlyn. Gereffi's research interests deal with social and environmental certification in global industries, the competitive strategies of global firms, and industrial upgrading in East Asia and Latin America. His three major ongoing research projects are: (1) industrial upgrading in East Asia, North America, and Eastern Europe/Central Asia; (2) a comparative analysis of global restructuring in the apparel, automotive, computer, and retail sectors; and (3) a study of the emergence of public and private governance systems in the Americas. Currently, Gereffi is writing a book on global value chains and industrial upgrading.

Mark S. Knouse - Executive Director for the Secretariat for the Commission for Labor Cooperation
Mark S. Knouse, an American, became Executive Director in August of 2004. He holds a B.A. in Political Science from American University in Washington, D.C. He's occupied a number of executive positions in the areas of communications, public policy, government affairs, public and corporate relations in both the private and the public sector, including Chief of Staff to the Lt. Governor of Pennsylvania, Chief of Staff to the Secretary and Deputy Assistant Secretary at the U.S. Department of Transportation, Director of Public Policy at BAT Industries, Vice President of External Affairs and Secretary at Union Pacific Corporation and
Union Pacific Resources, Vice President of Government Relations at the Pittsburgh Regional Alliance, and Government Affairs Consultant at the law firm Klett, Rooney, Lieber and Schorling in Washington D.C. E-mail: mknouse@naalc.org

Pierre Laliberté is Senior Economist at the Canadian Labour Congress where he, among other things, provides research, analysis and advocacy on the issue of trade and worker's rights and security. Mr. Laliberté has previously worked for the United Steelworkers of America, as well as the Canadian Council for Social Development in Ottawa. He holds a Ph.D. in economics.

María Fernanda Garza was born in Mexico City on January 8, 1962, graduated in Communications from the Universidad Ibero-Americana, Mexico City Campus in 1984. She co-founded PIDSA in 1986; in 1995 this company became part of Masco Corporation. Currently she is Executive VP for Mascomex. Maria Fernanda is a board member of Coparmex where among other duties she represents Mexican Employers interests before the U.N.’s International Labor Organization at the Geneva Conference since 1999. During 2003 she held the Presidency for the Coparmex Entrepreneurial Forum. She is a member of the “Comité Consultivo de Asuntos Internacionales de la Secretaria del Trabajo y Previsión Social” and of the “Comité Consultivo Nacional del ACLAN”. She sits on various Boards; among them, AliaRSE, a not for profit organization devoted to promote Social Responsibility in Enterprises.

Robert A. Pastor is Vice President of International Affair and Professor of International Relations at American University. He established and directs the Center for North American Studies, a public policy, research, and educational center at AU which offers an undergraduate minor and a graduate certificate in “North American Studies.” From 1985 until he came to American in 2002, Dr. Pastor was professor of political science at Emory University and Fellow and founding Director of the Carter Center’s Latin American and Caribbean Program and the Democracy and China Election Projects. He was Director of Latin American and Caribbean affairs on the National Security Council (1977-81), a Fulbright Professor at El Colegio de Mexico, a Peace Corps Volunteer in Malaysia, and Visiting Professor at Harvard University. He received his Ph.D. from Harvard University and is the author or editor of sixteen books, including Toward a North American Community: Lessons from the Old World for the New (Institute of International Economics, 2001); Exiting the Whirlpool: US Foreign Policy Toward Latin America and the Caribbean (Westview, 2002); and Democracy and Elections in North America: What Can We Learn From Our Neighbors?, Election Law Journal Symposium (2004).

Sandra Polaski is Director of the Trade, Equity and Development Project at the Carnegie Endowment for International Peace, a Washington-based foreign policy think tank. Her work focuses on international trade, labor and development policy. Until April 2002, Ms. Polaski served as the US Secretary of State’s Special Representative for International Labor Affairs, the senior State Department official dealing with such matters. In that capacity she played a leading role in the development of US Government policy on international labor issues and integrated those issues into US foreign policy. Among other responsibilities at the State Department, she served as the lead negotiator on labor provisions in the U.S.-Jordan Free Trade Agreement and the US-Cambodia Textile Agreement, considered models for future agreements. Ms. Polaski was responsible for the development and implementation of the State Department’s innovative “Partnerships to Eliminate Sweatshops” program, providing grants to private sector groups to
promote corporate social responsibility and good labor standards in workplaces around the globe. Previously, Ms. Polaski was the Director of Economic and Labor Law Research for the Secretariat of the North American Commission on Labor Cooperation, a NAFTA-related intergovernmental body.

**Alicia Puyana Mutis** received her Ph.D. in Economics from Oxford University, where she specialized in international economics. She has taught at universities in Bogota, Mexico, and England. She has also worked as an international economic advisor for the Colombian government and as a consultant to the United Nations Conference on Trade and Development (UNCTAD), the Inter-american Development Bank (IDB), the United Nations Development Programme (UNDP), the International Labour Organization (ILO), the National Federation of Coffee Growers of Colombia (FEDECAFÉ), Petróleos de Venezuela, and British Petroleum. She is currently a Research Professor on the Latin American Social Sciences Faculty (FLACSO) and a Senior Associate Member of both Cambridge Energy Research Associates and Oxford Analytica. Dr. Puyana Mutis was part of a research group established by El Colegio de México (COLMEX), FLACSO and the Universidad de Chapingo to work on the project “Comprehensive Study of the NAFTA Chapter on Agriculture and the Mexican Agricultural Sector” drafted under the Acuerdo Nacional para el Campo (National Farming Agreement).

**José Antonio Romero** holds a Ph.D. in Economics from the University of Texas at Austin and has been a Research Professor at El Colegio de México (COLMEX) Center for Economic Studies since 1984. He has worked as a government consultant for the Secretariats of Economy and Agriculture in Mexico, the Economic Commission for Latin America and the Caribbean (ECLAC) and the Organization for Economic Cooperation and Development (OECD), among other institutions. His areas of interest include international trade, economic development, and Mexican economy. His current topics of research are agricultural and industrial economics.

**Andrew Sharpe** is founder and Executive Director of the Ottawa-based Centre for the Study of Living Standards, a national, independent, non-profit economic research organization. He has held a variety of earlier positions, including Head of Research at the Canadian Labour Market and Productivity Centre and Chief, Business Sector Analysis at Finance Canada. He holds a M.A. and Ph.D. in economics from McGill University, a maitrise in urban geography from the Université de Paris-Sorbonne, and a B.A. from the University of Toronto. He is founder and editor of the International Productivity Monitor. In 2005, he will be assuming the position of Executive Director of the International Association for Research on Income and Wealth.

**Dan Trefler** is the J. Douglas & Ruth Grant Canada Research Chair In Competitiveness and Prosperity. Dan was born and raised in Toronto. He has degrees in economics from the University of Toronto (B.A.), Cambridge University (M.Phil.), and UCLA (Ph.D.). His affiliations have been with the University of Toronto (1989-94), the University of Chicago (1994-96) and again with the University of Toronto (since 1997). He is currently a Research Fellow at the Canadian Institute for Advanced Research and a Member of the Ontario Task Force for Competitiveness, Productivity and Economic Progress. As well, he is a Research Associate at the Institute for Policy Analysis (University of Toronto), a Research Associate at the National Bureau of Economic Research, and a member of the Academic Advisory Board for Canada’s Department of Foreign Affairs and International Trade. Most recently, he received the
Canadian Economics Association’s Rae Award for Excellence in Research and was awarded a peer-reviewed Canada Research Chair. Dan’s research centres on the interface of international trade with technological change, skill acquisition, income distribution, and domestic politics. His current research focuses on the domestic and international levers for promoting Canadian competitiveness.