Dead-End Trade Deal Nears Dead End

July 16, 2007
Witness for Peace, Nicaragua *(To be published in the WFP Fall newsletter)*

Thanks to over a decade of international campaigns, many U.S. consumers know that most of their clothes are made in developing world maquilas (assembly factories) that routinely violate workers' rights through abusive and illegal treatment. Yet, if you've ever discussed the issue with family or friends, you've likely heard this matter-of-fact rebuttal: "These are poor countries. For them, a bad job is better than no job at all."

In the case of Nicaragua, this statement generally rings all too true. In a recent nationwide poll, Nicaraguans once again identified unemployment as the greatest problem facing their country.[i] In a country where one out of three people are underemployed and two out of three hold fleeting informal sector jobs,[ii] many choose to endure the maquilas' violations of labor law.

A couple of years ago, voices in both the U.S. and Nicaraguan governments promised that the Central America Free Trade Agreement (CAFTA) would bring relief. While critics argued that a projected influx of U.S.-subsidized crops would displace hundreds of thousands of farmers, CAFTA proponents assured the public that any job loss in small-scale agriculture would be outweighed by a surge in maquila investments. CAFTA would grant Nicaragua a unique Trade Preference Level (TPL), through which textile maquilas operating in the country could source up to 100 million square meters of fabric from cheaper countries that were off-limits prior to CAFTA. CAFTA proponents argued that by exclusively allowing Nicaraguan maquilas to use cheaper fabric, the agreement would spawn a wave of new maquilas, and subsequently, jobs.

Many critics responded that the weak language of CAFTA's labor chapter meant that new maquilas would continue to disregard Nicaraguan labor law and violate workers' rights. Yet, if we embrace the motto that a bad job is better than no job at all, then the success of CAFTA can in part be measured on how many jobs, albeit bad, the agreement creates. Given that CAFTA took effect in Nicaragua over a year ago (April 1, 2006), preliminary assessments are now possible.

During the first half of this year, 2 new textile maquilas have decided to invest in Nicaragua, generating an estimated 176 new jobs.[iii] During the same six months, Nicaragua has seen mass firings in at least 7 textile maquilas, in addition to 2 complete textile maquila closures, prompting the alarming loss of approximately 3,880-4,120 jobs.[iv] In nearly every closing or personnel reduction, factory management has explained that they were obliged to fire workers when the U.S. brand names contracting with the factory decided to sharply curtail their orders. Various inside sources report that the recent rash of closings and firings are due to an overall 30-50% drop in business for Nicaragua's maquilas.[v] How could this be true, though, if the very promise on which CAFTA was sold was that Nicaraguan maquilas, through the TPL provision, would attract more business?

To answer this question, we should consider a little-discussed trade arrangement called the Multi-Fiber Agreement (MFA). Since 1974 this agreement had regulated the quotas of textiles that developing countries could export to the US. The agreement granted ample quotas to various small countries like Nicaragua while restricting US market access to behemoths like China. Such favorable treatment for Nicaragua ended with the MFA's expiration on January 1, 2005.

About a month later, while touring a U.S.-owned maquila in Nicaragua, a WFP delegation asked the factory owner how the MFA expiration would affect his business. The owner flatly responded, "Listen, China can pay its workers less than what I'm legally required to pay these people. China could ship its jeans over to the US in planes and still offer Sears a better deal than me. I don't think I'll probably be here in a few years; I don't think these people will have jobs here." The owner had cause for concern. In January 2004, while under the MFA quota, China exported 941,000 cotton shirts to the U.S. In January 2005, that number soared to 18.2 million shirts. By the same comparison, Chinese exports of cotton trousers to the U.S. jumped by 1,332%.[vi]

This drastic realignment of the global textile industry is likely tied to the recent drought in business for Nicaragua's maquilas. In mid-February, 2007, a Taiwanese-owned factory closed down a few assembly lines, firing over one hundred workers. In a subsequent meeting, the factory's administration manager explained to WFP that from December through February, the various brand names for which the factory produces cotton shirts all decided to scale back their contracts, prompting a 30% reduction in production. The manager further complained that the factory had no orders for production past July, a scarcity she had not seen in a decade of Central American maquila management. When asked the reasons for the brands' decision to reduce contracts, the factory manager pointed to an overall shift in the brands' contracting preferences—a shift away from Central America and towards the cheaper labor of China.

Incredibly, just 10 months earlier, CAFTA had been passed with the TPL provision so that Nicaragua's maquila jobs would not just stay put, but multiply. When asked to explain this conundrum, the factory manager responded, "The TPL means nothing to the brands. They only care about the wages."

As the race of U.S. clothing companies for bottom-rate wages becomes further globalized, it seems that Nicaragua is not the bottom, despite CAFTA. While a bad job may be preferable to no job, the CAFTA model does not even offer Nicaragua this dismal choice. Instead of moving from no job to a bad job, many Nicaraguans are moving in the opposite direction.

Unfortunately, this is not a new story. In 1994 the North American Free Trade Agreement (NAFTA) promised to bring massive job growth to Mexico. By contrast, the agreement soon obliterated approximately 1.3 million of Mexico's agricultural jobs thanks to a flood of U.S. subsidized grains[vii]. Even so, proponents placed hope in the manufacturing sector, which saw a swell of 800,000 jobs when US factories moved south. Soon thereafter, however, Mexico's attraction faded, maquila business migrated elsewhere, and one third of those manufacturing jobs disappeared.[viii]

Like its failed prototype, CAFTA was packaged as a gift to Nicaragua, a gift that would enable the country to further exploit its comparative advantage in cheap labor and thus create jobs. Such a gift, beyond being inherently exploitative, is short-lived. As soon as free trade is redefined to include other, more desperate developing countries, the comparative advantage evaporates along with the jobs. This proven reality must be recognized for the NAFTA/CAFTA model, and its tired myth of job creation, to be finally discarded.

Witness for Peace is a politically independent, grassroots organization that educates U.S. citizens on the impacts of U.S. policies and corporate practices in Latin America and the Caribbean. www.witnessforpeace.org

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[i] Córdoba, Matilde. "Alto porcentaje quiere votar." *El Nuevo Diario.* 13 June 2007. http://www.elnuevodiario.com.ni/2007/06/13/politica/51163.

[ii] "VIII Censo de Población y IV de Vivienda 2005." Instituto Nacional de Estadísticas y Censos. November 2006. www.inec.gob.ni

[iii] "Empresas Usuarias Aprobadas en el Año 2007." Comisión Nacional de Zonas Francas. 10 July 2007. Managua, Nicaragua.

**If counting all new maquila investments from January-June, 2007, rather than just those in the textile sector, the number of new maquilas is 7 and the number of jobs generated is 1,993. This number still pales in comparison to the 3,880-4,120 textile jobs lost during this time period.

[iv] Data compiled from multiple sources:

"Situación de Conflictos y Despidos en las Empresas del Sector Privado." Confederación Sindical de Trabajadores José Benito Escobar. 27 June 2007. Managua, Nicaragua.

Bobadilla, Harling, Roger Hernández, and Pedro Ortega. Mesa Laboral de Sindicatos de la Maquila. Personal Interview. 10 July 2007. Managua, Nicaragua.

Data was also obtained through communication with the Free Trade Zones Corporation and interviews with several former maquila workers.

[v] As cited by US Embassy personnel in Nicaragua.

[vi] Barboza, David and Elizabeth Becker. "Free of Quota, Chinese Textiles Flood the U.S." *New York Times*. 10 March 2005. http://www.globalpolicy.org/socecon/trade/2005/0310freeofquota.htm

[vii] Audley, John J., et al. "NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere." Carnegie Endowment for International Peace. 2004. www.carnegieendowment.org/files/nafta1.pdf

[viii] "The Ten Year Track Record of the North American Free Trade Agreement: The Mexican Economy, Agriculture, and Environment." Public Citizen. www.citizen.org/documents/NAFTA_10_mexico.pdf