Photo by Whitney Curtis for The New York Times.

A former steel mill employee works in a union-sponsored food bank in Granite City, Illinois.

TPP & NAFTA

In Whose Interest?

Inclusive Trade vs. Corporate Protectionism

By Harley Shaiken

The photo on the opening page of The New York Times business section in late September 2016 is striking. A woman in a bright-yellow t-shirt and blue pants stacks cans for a food bank at a local union hall with her back to the viewer. Emblazoned on her t-shirt is the slogan "Fair Trade Is Our Future." The caption for the photo reads "Cathy Marsh, a former employee of the steel mill in Granite City, Ill., organized donated food for laid-off workers this month." These laid-off workers include almost 900 of the 1,250 who used to work at the U.S. Steel plant in Granite City, and their prospects are bleak.

In the article following the photo, titled "More Wealth, More Jobs, but Not for Everyone: What Fuels the Backlash on Trade," New York Times reporter Peter S. Goodman correctly points out that "economists failed to anticipate the accompanying joblessness and governments failed to help." As he observes, "across much of the industrialized world, an outsized share of the winnings has been harvested by people with advanced degrees, stock options, and the need for accountants."

Meanwhile, ordinary workers from Rotterdam to Granite City — where advanced degrees and stock options can be scarce — are feeling the pain and dislocation of lost jobs. In the United States, they fueled a sharp political backlash that resulted in the upset victory of Donald Trump as president in 2016. In emerging economies, workers from Ciudad Juárez to Hanoi may be finding new jobs — a welcome development — but wind up with few rights, low wages, and harsh conditions, in any case.

The Distorted Debate Over TPP

While proponents cast the debate over trade agreements as a titanic struggle between those embracing a global future and those seeking to retrench behind national borders, the reality of what's going on is profoundly different. The fierce debate in the United States over the Trans-Pacific Partnership (TPP), a mega-deal between the U.S. and 11 other countries, including Canada, Mexico, and Japan, is a case in point. The agreement encompasses almost 40 percent of global GDP and about 25 percent of global trade. Equally important, the TPP was meant to set the standard for trade across the globe for decades to come.

While the TPP already appeared to be on life support after a bruising electoral campaign in which both major presidential candidates opposed it, Trump pulled the plug weeks after the election when he announced, "I am going to issue our notification of intent to withdraw from the Trans-Pacific Partnership, a potential disaster for our country." That said, the U.S. Chamber of Commerce, an army of corporate lobbyists, most Republican members of Congress, and some Democrats would still like to see the TPP happen in one form or another. The Cato Institute's Daniel Ikenson pleaded in Foreign Affairs "for Mr. Trump to put the TPP on the back burner and keep open the option to reconsider it in the future, when the deal's geostrategic imperative becomes more apparent." Whatever happens with this agreement, the issues in this debate are vital for defining the role of the U.S. in the global economy going forward.

Critics of the TPP fall into two camps, one nationalist and the other internationalist. In his campaign, Trump hammered bad trade deals as the problem undermining the U.S. economy and threatened high tariffs as a critical part of the solution, a perspective that clearly resonated. However, for many others, including political leaders, labor leaders, academics, and environmentalists, the issue isn't "free trade" versus protectionism — a fascinating 19th-century debate to be sure — but rather who wins and who loses in a far more complex 21st-century global economy. These critics argue for rules of the game insuring that trade benefits workers, consumers, communities, and the environment.

Supporters of the TPP assume that "everyone wins" pretty much automatically — theoretically, production goes where it is most efficient, allowing goods to become cheaper and real incomes to rise. Yet real people with

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Jobless English workers suffer as merchants are made rich by free trade in this cartoon from 1885.

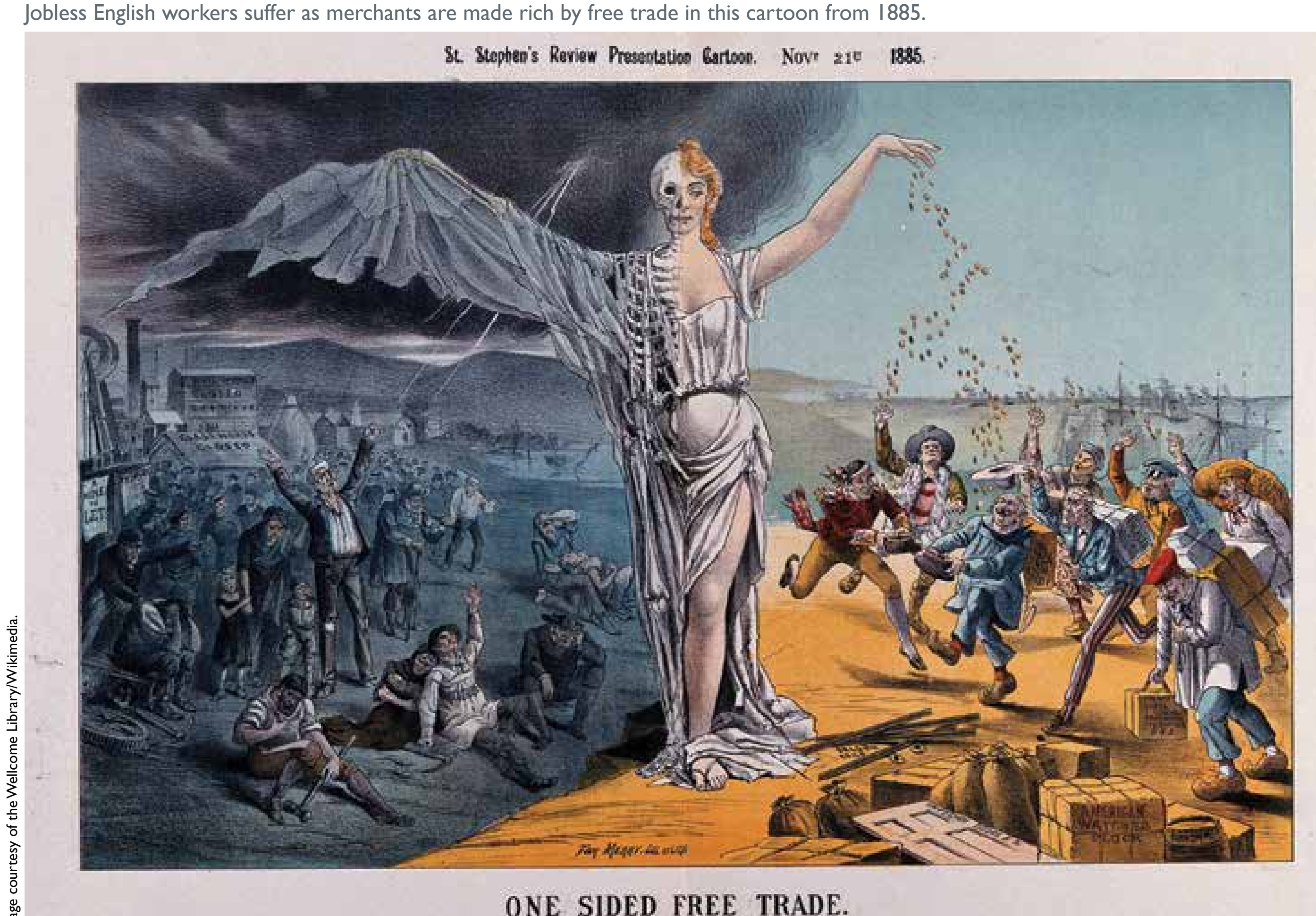

Image courtesy of the Wellcome Library/Wikimedia.

Smith etching from medallion by James Tassie. Ricardo portrait by Thomas Philips. Both from Wikimedia.

Economists Adam Smith (left) and David Ricardo.

regular jobs in Granite City or Milwaukee tend to be unconvinced by the "everyone wins" argument and rightly so. Popular thinking (and Donald Trump), however, assume winners and losers are defined primarily by national borders in a zero-sum game. In nationalist terms, "we" win because the United States negotiates well, or "we" lose because the United States negotiates badly. But the nationalist view is as far from the truth as a reflexive "everyone wins" globalist view. The division between winners and losers is within countries rather than between them. Under the structure of modern trade agreements, ordinary people in both poor and rich countries can lose, while the wealthy and the powerful win. Mexico didn't win with Nafta, and the United States didn't lose, as Donald Trump put it, but plenty of ordinary people in both countries missed the gains, and many were devastated, losing jobs, homes, college educations, and much more.

Despite these new global realities, "economists can be counted on to parrot the wonders of comparative advantage and free trade whenever trade agreements come up," Harvard economist and trade advocate Dani Rodrik points out. Congressman Sander Levin, an influential member of the U.S. House Ways and Means Committee, concurs when he observes that "the 18th- and 19th-century notion of comparative advantage tells us almost nothing about modern trade agreements." He asks, "What do David Ricardo and Adam Smith have to say about the inclusion of investor-state dispute settlement (ISDS) in our trade agreements? About biologics data exclusivity?"

Nonetheless, TPP proponents tend to launch into lectures on the abstract benefits of free trade. "Through the creation of economies of scale and the exploitation of comparative advantage, nations involved in trade become more efficient producers," a Wilson Center study informs us. "We see these benefits play out clearly in U.S.–Mexico trade." Such benefits, however, are not seen as clearly in the food bank lines in Granite City or among workers earning sharply depressed wages in Ciudad Juárez. "It's off-point and insulting to offer an off-the-shelf lecture on how trade is good because of comparative advantage and protectionists are dumb," Paul Krugman writes. He isn't arguing against the potential benefits of expanded trade by any means, but rather against the simplistic notion that textbook theories translate seamlessly to broadly shared benefits on Main Street.

Free trade as a mantra has driven the TPP debate to a surprising degree. New York Times columnist Thomas Friedman reportedly admits in a television interview, "I wrote a column supporting Cafta (Central American Free Trade Agreement) … I didn't even know what was in it. I just knew two words: free trade." Typical of much media coverage, Washington Post columnist Robert J. Samuelson refers to all opposition to the TPP as "anti-trade sentiment" rather than sentiment against the skewed terms of this agreement. One can have an internationalist vision, embrace expanded trade, and oppose rules of the game that ravage working families and communities.

The reality is that all trade is highly managed today. MIT economist Simon Johnson, a former chief economist at the International Monetary Fund, cautions that "who gains and who loses is very much dependent on … the details of the agreement." The TPP has a lot of details: 30 dense chapters and appendices are spread out over 6,000 pages. A classic free trade agreement could be laid out on a postcard: all parties agree to eliminate tariff and non-tariff barriers. What then comprises the remaining thousands of pages in the TPP? The agreement sets out enforceable rights and protections for corporations and investors — necessary in global trade to be sure — but crafted in an excessively narrow way to privilege corporate interests over those of consumers, workers, and the environment.

The outcome reflects the negotiating process. "With 500 official U.S. trade advisers representing corporate interests having been given special access to the policy process," Jared Bernstein and Lori Wallach write, "it is not surprising that corporate interests have thoroughly captured the negotiating process…" The result? Provisions such as investor-state dispute settlement (ISDS) panels reflect the sharp corporate tilt.

"This is not a trade agreement," Krugman points out. "It's about intellectual property and dispute settlement; the big beneficiaries are likely to be pharma companies and firms that want to sue governments." Proposed three-person panels — composed of corporate "experts" — allow international investors to sue in private arbitration. While the stated goal is fair treatment, Joseph Stiglitz suggests a darker purpose: "to make it harder to adopt new financial regulations, environmental laws, worker protections, and food and health safety standards." Foreign firms would be able to sue the U.S. government in these tribunals as well, he points out. "Two arbitrators can, in effect, undermine decisions of Congress and the president." The net result is corporate protection at the expense of democratic values and the well-being of ordinary people.

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A color guard marches in the 2015 Labor Day parade past the local union hall and the Granite City Steel Building.

Photo by Doug May.

"Inclusive Trade" vs. "Corporate Protectionism"

If the choice is not between "free trade" and "protectionism," what is the debate really about? The real choice is between "inclusive trade," in which most people benefit, and "corporate protectionism," in which transnational firms and savvy investors reap the gains. Expanded trade does not have to be a zero-sum game but will become just that with provisions that channel the lion's share of the gains to the top. Inclusive trade would increase the gains from trade for far more people across borders because of the shift to higher-road strategies. Ironically, those who embrace corporate protectionism are called "free-traders" while those who favor inclusive trade are referred to as "anti-trade," providing an Orwellian dimension to the policy debate and limiting the options.

While several TPP chapters have drawn sharp, substantive criticism — on issues from currency manipulation to intellectual property rights — I focus on labor rights, an issue generating intense concern among workers, unions, and human rights groups. This area is critical given a new dimension of globalization: the ability to locate high-productivity, state-of-the-art factories in low-wage economies. Well, you might be thinking, what's wrong with that? Nothing at all. It can be a very good thing for both emerging and advanced economies. The problem is when wages are not simply low, but depressed by state policy and a lack of labor rights. This structure creates the comparative advantage of exploitation, which is in no one's long-term interest.

Economists have long argued that low wages in emerging economies reflect low productivity, which was certainly the case when Ricardo was writing in 1807. Now we are seeing something very different around the world: rising productivity and sliding wages. Some benefit handsomely from this approach — whether domestic elites or international investors — but workers and families suffer real pain. In emerging economies, the result is high-productivity poverty, and the damage goes beyond its immediate victims. The flip side of depressed wages is low purchasing power, which throttles economic growth. In advanced economies, workers face shuttered factories, lacerated communities, and a downward pressure on wages and unions. In the U.S., "median income for full-time male workers is actually lower in real (inflation-adjusted) terms than it was 42 years ago," Joseph Stiglitz concludes. "At the bottom, real wages are comparable to their level 60 years ago." In the long term, these results generate highly polarized societies and squander the promise of trade.

The Nafta Experience

The two-decade experience of the North American Free Trade Agreement (Nafta) in general and the auto industry in particular provides a critical perspective for understanding what's wrong with the Trans-Pacific Partnership, regardless of whether it's dead or alive or hibernating. The three Nafta partners — Mexico, the U.S., and Canada — generate three quarters of the proposed agreement's GDP, and Mexico alone accounts for a third of TPP country trade with the U.S.

Within Nafta, the auto sector is the flagship manufacturing industry, accounting for 20 percent of manufacturing GDP in Mexico and almost a third of that country's merchandise exports. Moreover, what happens in the auto sector mirrors broader pressures throughout manufacturing in the U.S., from the Rust Belt to Los Angeles.

Legal protections for labor rights have gotten no real traction on the ground since Nafta's inception. Despite this dismal record, proponents point out that the TPP labor chapter would be the solution. It has better language, they argue, which is included in the main body of the agreement rather than appended as a side agreement. The lack of labor reform in Mexico's export sector, however, has little to do with either the language or its placement. Whatever the promises during the Nafta debate, once the agreement was signed government incentive for reform evaporated, and powerful economic interests exerted considerable pressure to block change. As a result, the current dysfunctional labor system remains in place — newly proposed cosmetic reforms notwithstanding — and also provides the standard for other countries.

The damage is felt not only in Chihuahua, Aguascalientes, and Toluca in Mexico, but in a highly integrated economy across the border in Flint, Cleveland, and Toledo in the U.S. "Donald Trump's come-from-behind victory over Hillary Clinton signals that the state of the U.S. auto industry was clearly on the mind of the American voter," Automotive News wrote the day after the U.S. election. "Not the industry that is reporting record profits and sales after a near-death experience, but the one that shed dozens of plants and tens of thousands of high-paying jobs in the years leading to the 2008–9 crisis, leaving just a shell of itself in once-thriving manufacturing communities across America."

Nafta has supercharged Mexico–U.S. merchandise trade beyond what proponents or critics anticipated when it went into effect on January 1, 1994. Cross-border trade soared from almost $80 billion in 1993 — the year before the agreement was implemented — to $480 billion in 2015, a six-fold increase (based on domestic exports and imports for consumption). An important dimension of this trade surge is what one might call "revolving door" trade. Existing U.S.-based supplier factories export parts to Mexico, which are assembled into cars or televisions or washing machines and then shipped for final sale in the U.S.

During the Nafta debate in the U.S., proponents argued that expanded trade along with the labor side agreement would create jobs in the U.S. and transform labor conditions in Mexico. Neither has happened. The Economic Policy Institute estimates that the U.S. shed close to 850,000 jobs between 1993 and 2013 because of Nafta, and virtually no independent unions have been created in Mexico's export sector. Instead, serious labor-rights violations remain widespread and destructive.

The U.S. trade balance with Mexico went from a $1.6 billion surplus in 1993 to a whopping $110 billion deficit with Mexico in 2015. In the auto sector alone, the U.S. registered a record $72 billion trade deficit in 2015. Auto workers' pay in the U.S., which paved the way to the middle class for millions in the last half of the 20th century, slid almost 13 percent from January 2009 through 2015, according to Steven Rattner, who led President Obama's Task Force on the Auto Industry. The lower quartile of workers at auto parts companies earned just $12.63 per hour in real wages in 2013, approaching fast-food pay in many areas.

Amid strong trade growth, Mexican workers have seen more jobs created but falling real wages across manufacturing. The result is families that have a hard time getting by — auto parts workers in Ciudad Juárez can earn as little as $40 a week — which doesn't contribute much to what legendary U.S. labor leader Walter Reuther called "high velocity purchasing power."

A protester questions the quality of jobs created under Nafta.

Nafta and the Auto Industry

What happened to the promise of Nafta? In terms of economic integration, the agreement created two very different North Americas as the business climate improved, while labor standards deteriorated. For investors and corporations, Mexico has become comparable to Ohio — minus the tough winters — while for workers in Mexico, labor rights are more like those in Honduras.

The result is the "Nafta paradox" — as Mexican workers produce more, they earn less. Manufacturing productivity rose 80 percent between 1994 and 2011, while real compensation (wages and benefits adjusted for inflation) slid almost 20 percent. In the auto sector, Mexican labor productivity rose 7 percent from 2008 through 2015 — despite the severe disruptions of the Great Recession

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Photo by Robert Daemmrich/AFP/Getty Images.

This busy Delphi auto parts plant produces steering wheels in Matamoros, Mexico.

— and median hourly real compensation for workers fell 13 percent, widening a severe long-term gap.

The experience of the last two decades underscores two critical factors: first, a new auto plant in Mexico can achieve quality and productivity comparable to a plant in the U.S. or Canada; and second, wage costs will be low and stay low. In 2013, wages in a state-of-the-art auto assembly plant in Mexico were only 19 percent of U.S. levels, and wages in the parts sector in Mexico were 12 percent of U.S. levels.

Mexico–U.S. Labor Costs
Hourly wages, 2013

	Auto Assembly	Auto Parts Plant
Mexico	$5.21	$2.40
U.S.	$27.27	$20.21

Source: Center for Automotive Research; Bureau of Labor Standards.

Steven Rattner seems to agree with the Nafta paradox: "The vast preponderance of American job losses has come simply because emerging-market countries have gotten much better at making stuff with workers earning far less." The often-unasked question, however, is, why are "workers earning far less"? The implication is that low wages are a part of the natural habitat — they come with the territory — in the way that favorable land and climate might be good for coffee production. In fact, a lack of labor rights fractures the link between rising productivity and wages, which in turn becomes a magnet for investment. Lost in this calculation is not simply the damage to workers and communities, but the larger cost of this strategy: the flipside of low wages is anemic purchasing power, which slows economic growth. In contrast, firms can be highly competitive and, at times, more productive with higher wages — turnover is lower and morale is higher — and the economy benefits. Moreover, low wages in Mexico put a downward pressure on wages in the U.S. and Canada.

Some argue that wages are no longer important in advanced manufacturing. Consider, however, a $1.5 billion investment in highly automated auto factory, which still could employ about 3,000 hourly workers. At $56 compensation per hour — wages and benefits for senior workers in a United Auto Workers (UAW) plant — the annual labor cost would be $336 million dollars in the United States. At $8 compensation per hour in a Mexican plant, the annual labor cost would be just $48 million, and the annual labor-cost savings for the corporation would approach $300 million.

What would happen if workers in Mexico had the right to form independent unions and bargain collectively in the export sector? The lives of Mexican workers would improve considerably and a more balanced trading relationship would result as Mexican workers purchase more from the U.S. and elsewhere. If the wage bill in the hypothetical plant above doubled in Mexico, the savings for the corporation would still be $240 million relative to the U.S. Moreover, significant additional corporate labor cost savings come from salaried and supplier workers nearby and throughout Mexico. Some costs — such as security or transportation — will be higher in Mexico, but the overall corporate gains remain high.

Isn't linking high productivity to growing wages a bit utopian? It wasn't for Henry Ford. In 1913, he combined the soaring productivity of the moving assembly line with the $5 day, double the prevailing wage at the time. Editorial writers, economists, and competitors warned this move was a dangerous scheme and said Ford would bankrupt the industry. Instead, profits rose and workers entered the middle class. In the aftermath of World War II, powerful industrial unions linked rising productivity to higher pay and benefits across the U.S., creating a vibrant economy. In fact, the most important model to roll off Detroit assembly lines or come out of Akron rubber plants or Pittsburgh steel mills was a rapidly expanding middle class.

Absent this wage/productivity link in Mexico, Nafta has reshaped the geography of the North American auto industry. In 2005, the U.S. produced 73 percent of all light vehicles in North America, Canada produced 16 percent, and Mexico 10 percent. Projections for 2021 indicate that while the overall volume of auto production will increase in North America, the U.S. share will fall to 64 percent, Canada will plummet to 10 percent, and Mexico will more than double to 26 percent.

North America Light Vehicle Production Share

	2005	2020 (projected)
Canada	16.7% (2.6 M)	9.9% (1.9 M)
Mexico	10.1% (1.6 M)	26.4% (5.1 M)
U.S.	73.2% (11.5 M)	(63.7% 12.2 M)

Source: The Wall Street Journal.

It's hardly a surprise that international automakers have chosen to site nine of the latest 11 major North

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Some of the auto production facilities in Mexico.

Image from ProMéxico/Gobierno de México.

In Whose Interest?

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American auto plants in Mexico. The country has attracted more than $25 billion in new auto investment from 2010 through mid-2016. Eighty percent of the output of these plants — 2.6 million vehicles — was for export in 2014, 71 percent to the U.S. and 11 percent to Canada. Mexico became the world's fourth largest light vehicle exporter, and General Motors projects that Mexico will become the second-largest global exporter (after Germany) by 2020.

Major automakers from throughout the world are siting new mega-plants in Mexico. They range from the Detroit Three — Ford, GM, and Fiat Chrysler — to luxury brands such as BMW and Mercedes. And it isn't just subcompact vehicles. These plants already build highly profitable SUVs, like the Chevy Suburban and the Audi Q5. GM expects that Mexico will become the sixth largest auto producer globally by 2020, increasing output more than 40 percent to produce more than 5 million vehicles annually from 3.5 million in 2015.

Automakers also continue to invest many billions in the U.S., but clearly the vast majority of new plant construction and expansion is taking place in Mexico. "In addition to traditional manufacturing operations, automakers are choosing Mexico as a place to locate research and development (R&D) centers," the Center for Automotive Research writes in a 2016 report, concluding "automakers will draw their supply base to Mexico." That country is now the fifth largest auto parts producer in the world, exporting 70 percent of its production, with 90 percent of these exports going to the U.S.

The $2.40 hourly wage in the Mexican auto supplier sector combined with high productivity has resulted in $54 billion auto parts exports to the U.S. in 2015 and a $24 billion U.S. auto parts trade deficit. Mexican exports to the U.S. that year were greater than Japan, Germany, South Korea, or even China. In fact, Mexican exports were greater than these four countries — all exporting powerhouses — combined.

This sprawling Nissan facility in Aguascalientes will be joined by a Daimler-Benz plant in the open space behind it.

Photo courtesy of and © Nissan Motor Corporation.

Jobs on the Move

The U.S. has seen a hemorrhaging of manufacturing employment, losing 5 million jobs, or 30 percent of the total, between 1998 and 2015. Employment in this sector plummeted from 17.6 million in 1998 to 12.3 million in 2015. Many factors — from information technology to new ways of organizing work — contributed to this sharp job loss. Trade policy, however, played a significant role. The issue isn't simply jobs melting away in advanced manufacturing, but rather the high productivity/depressed wage combination exerting a strong attraction for new investment globally.

Trade policy that locks in dismal labor standards can extract a high social cost. Economists Anne Case and Nobel laureate Angus Deaton have found diminished life expectancy among groups of white, working-class Americans. In a widely cited 2016 article, MIT economists Daron Acemoglu and colleagues estimate "job losses from rising Chinese import competition over 1999–2011 in the range of 2.0–2.4 million," of which 1 million were directly in manufacturing.

Consider the auto industry in Mexico and the United States. While the industry is highly integrated, auto plants in both countries largely produce for a single market: the U.S. As a result, the number of hourly workers in each country is converging: 620,000 in Mexico and 715,000 in the U.S. in 2015. Auto sector employment in Mexico surged by 45 percent between 2007 (the earliest date available for a new data series) and 2015, adding more than 200,000 hourly jobs, while the U.S. industry dropped 90,000 hourly jobs during the same period. The U.S. industry lost 360,000 auto jobs between 1999 (when employment under Nafta peaked) and 2016. The incentives of the trade agreement — not simply automation — have contributed to U.S. job loss and a highly unbalanced trading relationship that is in neither country's long-term interest.

The Center for Automotive Research (CAR) estimates that the nine new auto assembly plants sited in Mexico will generate 22,000 new jobs directly and an additional 29,000 supplier jobs also in Mexico. These 51,000 jobs are comparable to General Motor's hourly employment in the U.S. in 2015. Had these jobs been located in the U.S., "another 162,000 jobs in downstream industries (e.g., retail, healthcare, education, real estate, construction) would have been created in the United States," for a total of 213,000 jobs, according to CAR. If past trends continue, 80 percent of the output from these new plants will be exported, mostly to the U.S.

Rather than questioning the cost of these policies to workers on both sides of the border, some observers view them as the natural outcome of "comparative advantage." "By allowing manufacturers to spread their operations and link up their supplier networks throughout North America, trade facilitates the creation of a system that combines the comparative advantages of each nation, allowing each country to specialize in the aspects of production that it does best and make the overall production process more efficient," the Wilson Center concludes. "The auto industry, which is probably the single most integrated regional industry, is a perfect example."

This idealized description may have a Ricardian flavor, but it has little to do with what's actually taking place. In an intensely competitive global market, the auto industry in both the U.S. and Mexico is highly productive. Should a lack of labor rights then be the basis of comparative advantage? While the increased profitability for firms next quarter or next year is real, is this situation in the long-term interest of most people and healthy economies on either side of the border? Not only will Mexican workers earn less — even far less — than their productivity makes possible but a strong downward pressure is exerted on U.S. wages. Proponents often interject that the consumer will

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Photo by Steven B. Heselden.

This abandoned Delphi plant in Columbus, Ohio, was replaced by a casino.

benefit from lower prices as a result of these arrangements. Not necessarily. The "savings" are more likely to go into increased corporate profits and stratospheric executive salaries; automakers hardly offer a North American "discount" on vehicles produced in Mexico.

Delphi Automotive, among the world's largest auto suppliers, illustrates the consequences of this kind of comparative advantage. The company, once a wholly owned subsidiary of General Motors, employed about 32,000 unionized hourly workers in the U.S. in 2005. The corporation filed for Chapter 11 bankruptcy that year, ultimately eliminating virtually all its U.S. hourly jobs and threatening or eliminating pensions and health care for its workers. Business Week wrote the company "was careful to exclude Delphi's 115,000-worker foreign factories, many of which operate in low-wage countries such as Mexico and China." Today, Delphi is one of Mexico's largest private employers with 54,000 workers largely producing for the U.S. market, while all UAW hourly jobs in the U.S. have been eliminated. Does it come as any great surprise that manufacturing workers in the U.S. are deeply concerned about trade issues? Again, Delphi gets higher profits, while workers in the U.S. lose and Mexican workers wind up with a minor fraction of what Delphi gains.

Mexican production cast a shadow over the Detroit UAW auto talks in 2015. Moving "production to Mexico," according to Bloomberg, "will help the automakers save cash, reduce total payrolls, and offset the union's gains." The pressures are even greater in the supplier part of the industry.

You might be thinking, doesn't manufacturing account for only 8–9 percent or so of U.S. employment in any case? The answer is yes, but manufacturing has a high multiplier effect particularly in the auto sector. Each auto job supports six or seven jobs throughout the economy. These job losses and wage pressures go well beyond autoworkers and their families, impacting entire communities, states, and regions. Teachers, nurses, sales clerks, and government workers all see their employment and wages impacted. When plants close, the finances of towns collapse and infrastructure implodes. In the wake of industrial collapse, Flint slid into bankruptcy. A subsequent series of disastrous decisions under a state-appointed emergency manager resulted in the drinking water becoming so contaminated that thousands of children were victims of lead poisoning.

Rules of Origin

Other proposed features of the TPP would have exacerbated job loss across North America. "Rules of origin" stand out. In highly managed trade agreements, these rules determine which products qualify for trade benefits among the trading partners. Defining and calculating these rules are a complex, at times convoluted, process. To qualify for Nafta tariff advantages, rules of origin mandate 62.5 percent of the vehicle be produced in one or more of the three Nafta countries. Rather than raising the rules of origin over the much broader sweep of the 12 TPP countries, the rules were loosened considerably so only 45 percent of vehicle content is necessary for the preferential treatment. These more relaxed rules accommodate the global supply chains of international producers that already source in low-wage countries, say Thailand or China.

Ironically, 55 percent of a vehicle could be sourced from China without that country agreeing to any TPP provisions, displacing Mexican as well as U.S. and Canadian auto parts workers. Mexico has already seen a major surge of imports from China in a highly unbalanced trade relationship. Mexico's imports from China have soared from $500 million dollars in 1994 to $70 billion in 2015, but its exports to China have remained anemic. Even under the Nafta "rules of origin," a higher percentage of exported vehicles from Mexico could well be coming from China.

TPP for the Middle Class?

Trade can fuel a broadly shared prosperity, or it can contribute to a hyper-inequality that undermines opportunity. What the Nafta experience has shown us is that the right rules of the game are essential. While the TPP is off the table — at least for now — three labor areas are critical in trade agreements going forward: first, demonstrated reform and respect for labor rights before any agreement is signed or renegotiated; second, effective language and enforcement to ensure that worker rights continue to be respected under the agreement; and finally, a far more robust social safety net that proactively addresses the social costs of dislocation and transition.

Effective labor reform must be the price of admission to a trade agreement, not an issue to be addressed after the fact. Meaningful language on labor rights is, of course, important — in fact, essential — but not as a substitute for demonstrated reform prior to ratifying or renegotiating the agreement. Otherwise, governments will interpret what they've done before signing as all they need to do.

A precedent for this type of reform already exists. Mexico demonstrated its intention to make the country more "investment friendly" before Nafta was ever signed. Economist Jeffrey Schott, a strong Nafta proponent, was

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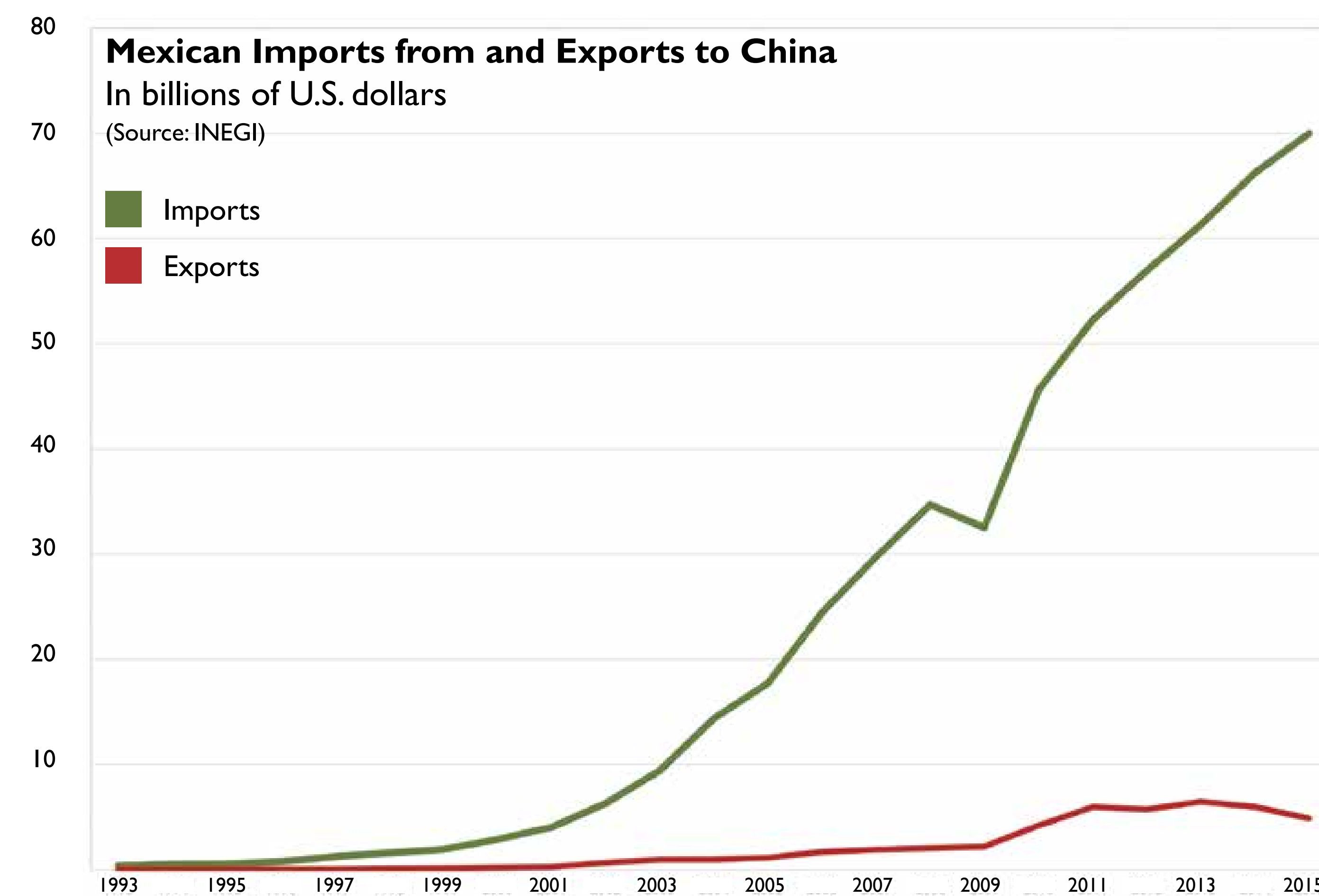

impressed. He told Congress admiringly in 1993, "Nafta is probably the most one-sided and unbalanced agreement that the United States has ever negotiated." He then pointed out the agreement spells "out what Mexico must do to join the Canada–U.S. free trade club," and of course, there were no requirements in relation to labor.

The problem isn't new investment in Mexico. Competition based on innovation, productivity, and quality can provide real benefits for workers and consumers, but competition based on low wages and a lack of worker rights is damaging to workers, communities, and consumers in all countries. Mexican workers who share in productivity gains enter the middle class and create the "high velocity purchasing power" capable of fueling a growing, more balanced trading relationship. U.S. workers are also able to share in the gains from competitive, prosperous companies.

Second, effective enforcement of core labor rights — the right to form a union, to bargain collectively, and to strike if necessary — are essential. Congress took important steps in this direction in 2007, which were written into the U.S.–Peru Free Trade Agreement (FTA). Without the preconditions of effective labor reform prior to signing, however, Peru has been able to avoid its commitments since the agreement became operational six years ago. After the Peruvian experience, the U.S. and Colombia agreed on a Labor Action Plan to meet core international labor rights. Colombia also has not met its commitments since this agreement came into effect four years ago. When workers in Peru, Colombia, or Mexico are denied their rights, workers and unions in the U.S. are undermined.

Finally, winners and losers will still exist in global trade, and a far better social safety net is essential. Given the intensity of the political earthquakes trade has triggered, many now agree something must be done. "There are going to be losers," admits Chad P. Brown, a trade agreement proponent at the Peterson Institute for International Economics in Washington D.C., "and we need to have policies to address them."

Christine Lagarde, managing director of the IMF, Jim Yong Kim, president of the World Bank Group, and Roberto Azevedo, director-general of the World Trade Organization, wrote in The Wall Street Journal, "Governments can step up investment in education, job training, temporary income support, job-search assistance, and targeted trade-adjustment assistance, using approaches crafted to best fit their national circumstances." In fact, the U.S. spends less on retraining as a share of GDP than the 34 member countries of the OECD, with the exception of Chile and Mexico.

The issue isn't a perfect agreement, but rather a demonstrated step in the right direction and the clear ability to make further progress. During the Nafta debate, proponents insisted "don't let the best be an enemy of the good." True enough, but the so-called "good" wound up locking in a bad, in fact, dysfunctional status quo when it comes to labor standards in Mexico. We have seen this pattern replicated in other trade agreements in Latin America that have followed Nafta, such as the Central American Free Trade Agreement (Cafta) under which the promise of reform never became a reality.

Global trade, of course, offers considerable potential benefits. It isn't globalization that is leaving people behind, but unbalanced trade agreements that contribute to a polarized economy and an unequal society. The key issues go well beyond labor rights, from critical environmental concerns to consumer protections. As we have often seen, the negotiating process is crucial. Trade agreements negotiated largely by corporate lawyers and lobbyists tend to make corporations richer and ordinary workers poorer, whether they work in the U.S. or Mexico or elsewhere.

To realize the benefits of trade for workers, their families, and their communities — a broadly shared prosperity — trade agreements must lay the basis for stronger labor rights, not pull them down. These rights are the foundations for inclusive, prosperous, and democratic societies.

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References for this article are available online.

A 2014 rally in support of a liveable minimum wage.

Photo by Michael Fleshman.