

## Simulation on NAFTA Agreement

The purpose of this simulation is recreate the NAFTA agreement between Mexico and the United States as a way to form an agreement that best suits each country.

### Using the readings assigned:

1. Understanding NAFTA: Mexico, Free Trade and the New North America by William A Orme Jr.
2. NAFTA's Mixed Record: Review from Mexico by Jorge G. Castaneda  
<http://www.foreignaffairs.com/articles/140351/jorge-g-castaneda/naftas-mixed-record>
3. NAFTA's Economic Upsides: The View from the United States by Carla A Hills  
<http://www.foreignaffairs.com/articles/140348/carla-a-hills/naftas-economic-upsidess>
4. NAFTA Labor Side Agreement: Lessons for the Workers Rights and Fast-Trade Debate by Mary Kane Bolle  
<http://fpc.state.gov/documents/organization/6211.pdf>

There will two sections in NAFTA that will be negotiated:

1. **Chapter 11:** NAFTA allows corporations to sue the national government of a NAFTA country in secret arbitration tribunals if they feel that a regulation or government decision affects their investment in conflict with these new NAFTA rights. If a corporation wins, the taxpayers of the "losing" NAFTA nation must foot the bill.
2. **Labor Rights:** The NAFTA partners signed a parallel agreement on labor cooperation designed to promote the effective enforcement of each country's labor laws and regulations and to facilitate further cooperation between NAFTA partners on labor matters.

This is a cooperative/persuasive simulation with background information and limited structure. Everyone has information on their sheet about their country and role. The information provided should help you get a clear understanding of what the people you are representing wants. Your decisions should be based on the background information provided. You may decide to disclose information with the outside group but is not mandatory. However, it is recommended to share information with your country to reach a collective goal. Facts will be provided for each role but it is the responsibility of each role to connect the facts with the issues at hand and use them to decided and amend the articles of NAFTA.

Each person will be expert in their role and it is their responsibility to convince the other roles in their countries to agree with their points and adjust each article in NAFTA to express their concerns.

### **ROUND 1**

First Round: Individual teams will come to an agreement on how the country would amend the agreement. Each team will be allotted 45 mins. This is an opportunity for each country to listen to each other's concern and come up with logistics that would like to have as a country.

## **ROUND 2**

The second round will be 1 hour and it is the opportunity for both countries to listen and come up with agreements on the NAFTA articles.

## **ROUND 3**

At the final round one delegate is chosen and allotted 45mins to change, or re-evaluate the goals and desires of the other country's demands and suggestions for the articles under the NAFTA agreement.

All decisions must be confirmed via majority vote rule.

### Set-Up

This simulation consists of 2 countries: United States and Mexico and 3 roles: Private Corporations (Group of 2) , Government Officials (Group of 2), Factory Workers (Group of 2) You each play the role of a representative of one of these countries. Research the implications the NAFTA agreement had on their role and use that along with the background information to make decisions for NAFTA.

The United States and Mexico have agreed to resign the NAFTA agreement without Canada. Both the United States and Canada **have** to come to an agreement. If no agreement can be made NAFTA will not be signed and both countries will give up half their land, and 99 Billion dollars to Canada every year for kicking Canada out of the agreement.

### **United States**

#### 1. Private Corporations:

##### **a. Chapter 11:**

- By not interfering in a company's opportunity to maximize their profit it encourages trade because more companies are willingly to enter trade.
  - Between 1993 and 2006, trade among NAFTA partners climbed 197%, from \$297 billion to \$883 billion.
  - U.S. exports to NAFTA partners grew 157%, versus 108% to the rest of the world in the same period.
- By allowing company's the opportunity to sue a country if they interfere with their profits hinders a countries opportunity to regulate the company and its potential damages to society.
  - 20 Companies have sued America because of their efforts to try to regulate Toxic Waste.

##### **b. Labor Rights:**

- There needs to be a clear and concise definition of labor rights under Mexico and the United States because leaving "labor rights" is ambiguous and does not allow corporations to attend to the needs of their employees.
  - Mexican workers who, on average, make just \$3 per hour. Their American counterparts make \$18 per hour.

- The definition of labor rights should be left to the discretion of each country because it is our responsibility to go beyond the standards that are set for the country.
  - Large multi-national companies with investment capacities, world-market savvy and capital resources have benefited from protected investment and cheap labor.
  - Corporations move high-paying jobs to countries with lower wages and bust unionization drives with threats to transfer production abroad.

## 2. Government Officials:

### a. **Chapter 11:**

- The Government of the United States is oppose on allowing companies the opportunity to sue America for lost profits because it gives companies too much power and damages Americas financial stability.
  - It is our job to reflect the interest of the people and the people are oppose to NAFTA.
  - In the US, more than 765,000 jobs have disappeared as a result of NAFTA. When these laid off workers find new jobs, they earn 23 percent less on average than at their previous employment.
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- The Government of the United States if allows companies the opportunity to maximize their profits because this encourages companies to trade within America.
  - NAFTA proponents, however, argue that increased sales to Mexico made possible by the agreement have created new jobs and raised incomes in the U.S. overall.
  - Much of this growth has been due to increased trade between the United States and Mexico, where the trade balance—the difference between exports and imports—swung from a \$1.7 billion U.S. surplus in 1993 to a \$61.4 billion deficit in 2012

### b. **Labor Rights:**

- The Government is oppose to NAFTA regulating a countries labor rights rules because it is the responsibility of the government to create rights that are fit for the citizens of the country.
  - Adopting one policy hinders America’s human rights standards because it gives it the opportunity to lower the standards to comply with Mexico’s standards.
  - Everyone deserves the opportunity to have standards of human rights.

- The Government believes NAFTA should set the standards for Labor Rights because it is the responsibility of NAFTA to ensure that with the increase of corporations that workers are assured the human right standards.
  - NAFTA strengthened the ability of U.S. employers to force workers to accept lower wages and benefits. As soon as NAFTA became law, corporate managers began telling their workers that their companies intended to move to Mexico unless the workers lowered the cost of their labor
  - It caused the loss of some 700,000 jobs as production moved to Mexico because their labor rights policies are not as strict as America.

### 3. Citizens:

#### a. **Chapter 11:**

- Citizens in America would want corporations to sue the government because it allows corporations to invest in their country and ultimately produce more goods for the average consumer.
- Citizens in America would not want corporations to sue the government because a portion of the funds that will be used to pay corporations will come from tax payer's funds.

#### B. Labor Rights

- The Citizens demand more labor rights policies.
  - The primary effect in these areas has been that children under the minimum work age of 16 are working in factories as laborers. These children enter the workforce largely in order to help support their families because the low wages their parents earn are insufficient to support the family.
- The Citizens do not demand more labor right policies because citizens believe that there are adequate policies already in place.
  - There are sanctions impose for countries who do not reflect the needs of their government.
  - Mexican workers who, on average, make just \$3 per hour. Their American counterparts make \$18 per hour.

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### **Mexico:**

#### 1. Private Corporations:

##### a. **Chapter 11:**

- We are in favor of having the opportunity to sue countries if we cannot maximize our profits because it countries impose too many regulations on companies.

- Many of our other trading partners have relocated facilities to Mexico to circumvent other trade agreements with the United States.

**b. Labor Rights:**

- Private corporations should not be responsible for labor rights because there is a greater focus at hand which is helping Mexico's financial situation.
  - Maquiladoras that take in imported raw materials and produce goods for export have become the landmark of trade in Mexico. These are plants that moved to this region from the United States, hence the debate over the loss of American jobs. Hufbauer's (2005) book shows that income in the maquiladora sector has increased 15.5% since the implementation of NAFTA in 1994.
- Private corporations should be responsible for labor rights because to keep employers we need to assure they are satisfied and are unhappy.

Often workers are not given adequate training or provided with safety equipment. Physical risks such as noise, heat, vibrations, poor ventilation, and awkward posture have a high occurrence in maquiladoras. Women are further subjected to unfair discrimination in the maquiladoras.

**2. Government Officials:**

*a. Chapter 11:*

- By not interfering in a company's opportunity to maximize their profit it encourages national corporations to enter Mexico.
  - The car manufacturing and aeronautics sectors of northern Mexico have benefitted from the treaty and helped expand the country's manufacturing base.
  - NAFTA proponents, on the other hand, claimed that merely opening Mexico to free trade and unregulated foreign investment would produce the job growth and rising incomes needed to create a stay-at-home middle class.
  - Maquiladoras that take in imported raw materials and produce goods for export have become the landmark of trade in Mexico. These are plants that moved to this region from the United States, hence the debate over the loss of American jobs. Hufbauer's (2005) book shows that income in the maquiladora sector has increased 15.5% since the implementation of NAFTA in 1994.
- Companies should not be allowed to sue the government because our responsibility is to assure the Mexican citizens are protected.
  - Since the agreement went into force in 1994, the country's annual per capita growth flat-lined to an average of just 1.2 percent -- one of the lowest in the hemisphere. Its real wage has declined and unemployment is up.
  - Mexico has lost over 38 billion dollars and is continuing to lose funds because companies are suing Mexico when trying to regulate polices.

**b. Labor Rights:**

- There needs to be more labor rights regulations because companies are leaving our markets to enter others.
  - An estimated 200,000 maquiladora jobs have left Mexico for China, where workers can be had for one-eighth the Mexican wage. In a deregulated world, there is always someone who will work for less.
- There should not be more labor rights regulations because the Mexico government has imposed great policies.
- If we add to many labor rights corporations are not going to be interested in coming into Mexico for business and will result in the big financial loss.

3. Citizens:

**a. Chapter 11:**

We are for chapter 11:

- NAFTA has led to a dramatic reduction in Mexican prices for clothes, televisions, and food, which helps offset slow income growth. A Mexico City-based economic consulting firm, estimates that the cost of basic household goods in Mexico has halved since NAFTA's implementation.

We are against Chapter 11:

- Consumers lose with the imposition of a food production model heavy on chemical use, corporate concentration, genetically modified seed and processed foods

**b. Labor Rights:**

We are For more labor rights policies

- Mexican wages remain nearly as low as they were prior to NAFTA and are still a small fraction of our average wages
- Citizens of Mexico have no choice but to leave Mexico and enter the United States.
  - Illegal immigrants in the U.S. have increased to 12 million today from 3.9 million in 1993, accounting for an overall increase of over 300 percent.
  - Mexicans migrated to the United States at an unprecedented rate of half a million a year after Nafta.
- The peasant organization also demands that NAFTA be replaced by a new model, one that “is based on respect and develops social ownership of the land and which provides a larger federal budget to aid the poor” and middle-income peasants.

Debriefing:

What are some challenges that was encountered?

What have you learned about the different interest within each country?

What was the hardest part about the negotiation aspect?

How did the readings help you through the simulation?

How did interactions within each country help the simulation?  
What was the hardest part about negotiating the terms under NAFTA?  
What was the most challenging things about the roles given?