Comments of Harley Shaiken
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to the Committee on Ways and Means Democrats
on Labor Rights and the Trans-Pacific Partnership
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Steven Rattner, President Obama's auto czar and now Wall Street executive, published a provocative oped in the *New York Times* a few days ago titled "What's Our Duty to the People Globalization Leaves Behind?"[1] A critical often ignored question to be sure but we ought to ask another question first: how do we insure far more people are included in the benefits and fewer are left behind?

Trade policy is key. The debate over the Trans-Pacific Partnership (T.P.P.) isn't about "free trade" versus protectionism but over who wins and who loses in a highly "managed trade" agreement. No one expects a perfect agreement, but T.P.P moves in the wrong direction: it narrowly channels gains to those at the top and leaves far too many behind.

A number of provisions in the agreement from dispute settlement panels to biologic drugs have caused concern. I plan to focus on an issue that has received less attention: labor rights. In this area the two-decade experience of Nafta, Mexico, and the auto industry highlight a disturbing flaw in T.P.P.

Why this focus? Mexico alone accounts for one-third of the total trade with the U.S of all 12 T.P.P. countries and the auto industry, in particular, is the flagship manufacturing industry across North America.[2] Furthermore, labor standards were a defining issue in the Nafta debate. Proponents argued expanded trade and the labor side agreement would create jobs in the U.S. and improve labor rights in Mexico.

After two decades neither has happened. Trade between the two countries has soared but the U.S. had a record $63 billion dollar auto trade deficit with Mexico in 2014, which has cost tens of thousands of U.S. jobs, put a sharp downward pressure on U.S. wages. Auto sector pay, once the route to the middle class, has slid 12.7 percent since January 2009.[3] Averages, however, don't tell the whole story. The lower quartile of workers at auto parts companies earned just $12.63 per hour in real wages in 2013[4] making some fast food jobs a plausible alternative.

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[1] Rattner, Steven (2016). "What's Our Duty to the People Globalization Leaves Behind?". *The New York Times, 1/26/2016.* http://www.nytimes.com/2016/01/26/opinion/whats-our-duty-to-the-people-globalization-leaves-behind.html?_r=0

[2] Calmes, Jacki (2015). "Trans-Pacific Partnership Is Reached, but Faces Scrutiny in Congress". *The New York Times*, 10/5/2015. http://www.nytimes.com/2015/10/06/business/trans-pacific-partnership-trade-deal-is-reached.html

[3] Rattner, Steven (2016).

[4] Ruckelshaus, Catherine (2014). "Manufacturing Low Pay: Declining Wages in the Jobs That Built America's Middle Class". *National Employment Law Project*.

Amidst strong trade growth, Mexican workers have seen more jobs created—good news to be sure--but depressed paychecks. The result is families who have a hard time getting by—auto parts workers in Juarez can earn as little as $40 a week.

What happened? Nafta created two very different North Americas when it comes to economic integration. The trade agreement made Mexico comparable to Ohio for investment guarantees and more like Honduras for labor rights in the export sector.

We now have the Nafta paradox: Mexican workers produce more and earn less. Manufacturing productivity soared close to 80 percent between 1994—the year Nafta went into effect—and 2011 while real wages and benefits slid almost 20 percent. This productivity-wage gap isn't simply an economic reality it swallows dreams and diminishes economic growth in Mexico and pushes down on wages in the U.S.

The Nafta paradox is a powerful magnet for investment, attracting over $23 billion to the Mexican auto sector in the last two years. Since the flip side of low wages is low purchasing power—Mexican workers can't buy the cars they produce--80 percent of auto output is exported with 70 percent going to the U.S.

Auto jobs for a currently booming U.S. market are being created but they are located in new plants in Mexico not in the U.S. The Mexican auto industry added 165,000 jobs from 2007 to 2014[5] while the U.S. industry shed 117,000 jobs[6]. Overall, transportation equipment lost almost a quarter of its jobs from 2000 to 2015.[7]

You might be thinking doesn't manufacturing account for only 9 percent or so of U.S. employment in any case? The answer is yes, but manufacturing has a high multiplier effect meaning each auto job supports 6 or 7 jobs throughout the economy. These job losses and wage pressures go well beyond autoworkers impacting entire communities, states, and regions.

The problem isn't new investment in Mexico. Competition based on innovation, productivity, and quality can provide real benefits for workers and consumers in Mexico and the U.S., but competition based on low-wages and a lack of worker rights is damaging to people in both countries. It lays the basis for high-productivity poverty.

What then can we learn from the Nafta experience? Effective labor reform must be the price-of-admission to a trade agreement, not an issue to be addressed after the fact. Strong, effective language on labor rights is of course important—in fact essential--but not as a substitute for demonstrated reform prior to the agreement becoming ratified.

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http://www.nelp.org/content/uploads/2015/03/Manufacturing-Low-Pay-Declining-Wages-Jobs-Built-Middle-Class.pdf

5 INEGI. Banco de Información Económica, Code 3361 and 3363 (Automotive and Truck Manufacturing and Automotive Parts Manufacturing). http://www.inegi.org.mx/sistemas/bie/

6 Bureau of Labor Statistics, NAICS Codes 3361, 3362, 3363 (Motor Vehicles and Parts Manufacturing). http://www.bls.gov/iag/tgs/iagauto.htm#emp_national

7 Rattner, Steven (2016).

You might ask isn't this approach a bit utopian? Not at all. Mexico demonstrated it was serious about making the country more "investment friendly" before Nafta was ever signed. Economist Jeffrey Schott, a strong Nafta proponent, told Congress admiringly in 1993, "The 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-US free trade club"[8] and of course it didn't have to do anything in the labor area.

In its present form, T.P.P. locks in the status quo when it comes to labor rights. It is not a small step in the right direction but rather a large step backwards. It sends the unmistakable signal that current labor rights are acceptable not only to Mexico but to all the T.P.P. countries. While some at the top may benefit, far more will be left behind in both Mexico and the United States.

Global trade of course offers great potential benefits. It isn't globalization that is leaving people behind but the rules-of-the-game of an unbalanced trade agreement. To realize the benefits of trade for workers, their families, and communities from Flint to Juarez and beyond, we need a trade agreement that harmonizes labor rights upwards and lays the basis for inclusive, prosperous, and democratic societies.

[8] North American Free Trade Agreement: Hearing before the Committee on Labor and Human, United States Senate, 103rd Cong. 66-68 (1993) (Testimony of Jeffrey Schott).

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The Trans-Pacific Partnership (T.P.P.) has been hailed as "the 21st century's most significant trade agreement".[9] The heated debate over T.P.P.--all 30 chapters and 5,000 plus pages of it--is not really over "free trade" versus protectionism, but rather over the rules-of-the-game for a highly "managed trade" agreement, who wins and loses. While no one expects a perfect trade agreement, T.P.P will narrowly channel gains to those at the top at the expense of a more broadly shared prosperity.

Here the two-decade experience of the North American Free Trade Agreement (Nafta) is worth examining. While commentators often point to the 12-country T.P.P. as comprising 40 percent of the global economy, the three Nafta partners—Mexico, the U.S, and Canada—account for three quarters of this GDP. Moreover, Mexico alone accounts for one third of the total trade of all T.P.P. countries with the U.S.[10]

A key concern in the T.P.P. debate today has been labor standards, which include the right to join a union, the right to bargain collectively, and the right to strike. These concerns were also central to the Nafta debate. After more than twenty years, Nafta has created two very different North Americas when it comes to economic integration. The first has harmonized investment guarantees across the continent making operating in Mexico comparable to operating in Ohio; the second has repressed labor rights in Mexico's export sector making Mexico more like Honduras. These 'two North Americas' also undermine labor rights in Canada and the United States. Mexican "protection" contracts and biased labor boards erect obstacles to forming independent unions and make effective collective bargaining somewhere between difficult and impossible.[11]

Nafta has delivered on its promise for large transnational firms while making conditions worse for workers.[12] The result has been the "Nafta paradox": Mexican manufacturing productivity has gone up while real wages have gone down. As we will see, the North American auto industry—the flagship of manufacturing in all three countries—is in the midst of a far-reaching restructuring based on this paradox. The experience of Nafta,

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9 Jane Harmon, President of the Wilson Center. https://www.wilsoncenter.org/article/wilson-perspectives-the-trans-pacific-partnership

10 Calmes, Jacki (2015). "Trans-Pacific Partnership Is Reached, but Faces Scrutiny in Congress". *The New York Times*, 10/5/2015. http://www.nytimes.com/2015/10/06/business/trans-pacific-partnership-trade-deal-is-reached.html

11 Levin, Sander (2015). "What's Still Wrong with the TPP". *Politico*, 10/1/2015. http://www.politico.com/agenda/story/2015/10/whats-still-wrong-with-the-tpp-000262

12 Levin, Sander (2015). "What's Still Wrong with the TPP". *Politico*, 10/1/2015. http://www.politico.com/agenda/story/2015/10/whats-still-wrong-with-the-tpp-000262

Mexico, and the auto industry has critical implications for T.P.P. and the likely outcome of its implementation.

The Nafta paradox distorts trade. Low-wages have become a magnet for investment in Mexico, but the flip side of low wages is low-purchasing power. Gleaming new high-technology factories produce autos, HD televisions, and other products overwhelmingly for the U.S. market. As a result, Mexico has become a more vibrant export platform than domestic market. Despite a sharp rise in trade as a percentage of GDP, Mexico's annual GDP per capita growth averaged an anemic 1.2 percent between 1990 and 2012. For the U.S. the result has been a $100 billion merchandise trade deficit with Mexico in 2014.[13] In these highly integrated economies, low wages in Toluca, Mexico press down on wages in Toledo, Ohio diminishing purchasing power in both areas.

Consider the Mexican auto industry, the flagship of the country's manufacturing base. This sector now approaches 20 percent of manufacturing GDP and almost a third of Mexico's merchandise exports. [14] It has emerged as a high-quality, high-productivity producer of motor vehicles, offering potential benefits to both Mexico and the United States. These gains are squandered, however, if Mexico's "comparative advantage" rests on an absence of basic labor rights.[15] The resulting low wages establish the competitive standard not simply for Mexico, but for all countries with which Mexico trades.

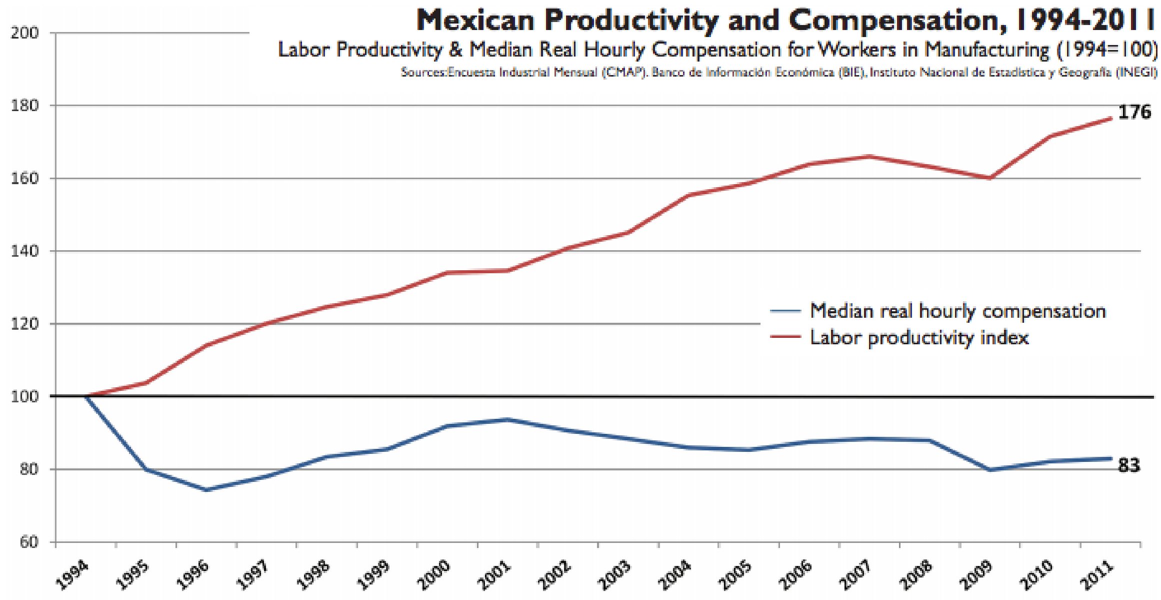
The wage-productivity gap in Mexican manufacturing predates Nafta. Productivity per hour worked rose 41 percent between 1980 and 1992, according to INEGI (the official statistical agency of the Mexican government), while hourly compensation plummeted 32 percent in manufacturing. Nafta proponents argued that the agreement would eliminate this gap. Instead, the gap widened. Manufacturing productivity rose 76 percent from 1994--the year Nafta went into effect--to 2011, while compensation slid 17 percent [Figure 1]. [16] These depressed wages, in turn, have become decisive in making location decisions for new products and plants across North America.

[13] United States International Trade Commission, http://www.usitc.gov/, domestic exports and imports for consumption.

[14] Galicia, Armando Cortés (2015). "The Mexican Automotive Industry: Leading the World". *Negocios ProMéxico*, 4/2015:10. https://www.promexico.gob.mx/documentos/revista-negocios/pdf/abr-2015.pdf

[15] North American Free Trade Agreement: Hearings before the Subcommittee on Commerce, Consumer Protection, and Competitiveness of the Committee on Energy and Commerce, House of Representatives, 103rd Cong. 24-98 (1993) (Testimony of Harley Shaiken).

[16] Shaiken, Harley (2014). "The Nafta Paradox". *Berkeley Review of Latin American Studies*, Spring 2014. http://clas.berkeley.edu/research/trade-Nafta-paradox



In the Mexican auto industry, productivity based on hours worked grew six percent[17] between 2008 and 2014, while real compensation slid by over ten percent. [18] Towards the end of this period, wages in the motor vehicle sector were around $5 an hour in Mexico. In the auto parts sector they were between $2 and $3 an hour.[19] However, these averages don't tell the full story. Auto parts workers in Juarez, for example, reportedly can earn as little as $40 dollars a week.

Do wages still matter in manufacturing?

How important is worker compensation in the auto industry? Some would minimize the role of wage and benefit costs today. Sean P. McAlinden, Executive Vice President for Research at the Center for Automotive Research (CAR), for example, pointed out that the UAW's labor bill for the Detroit Three (Ford, GM, and Fiat/Chrysler) as a percent of North American revenue, was 5.7 percent in 2014, down from 11.4 percent in 1999. [20] The key issue, however, is not compensation costs as a percent of revenue, but rather the labor bill as a percent of controllable costs in new investment. In other words, if you're planning to invest $1 billion in a factory and are deciding between Mexico and the U.S., how big a difference will labor costs make?

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[17] INEGI. Banco de Información Económica. Productividad laboral con base en las horas trabajadas, Code 3361. http://www.inegi.org.mx/sistemas/bie/

[18] INEGI. Banco de Información Económica. Remuneraciones medias reales con base en el personal ocupado, Code 3361. http://www.inegi.org.mx/sistemas/bie/

[19] McAlinden, Sean (2015). "Some Mild Commentary and Observations Regarding D3-UAW Bargaining for a New Labor Agreement". CAR Industry Briefing, 6/23/2015. http://www.cargroup.org/assets/files/bb/7_sean_mcalinden_pm.pdf

[20] McAlinden, Sean (2015). "Some Mild Commentary and Observations Regarding D3-UAW Bargaining for a New Labor Agreement". CAR Industry Briefing, 6/23/2015. http://www.cargroup.org/assets/files/bb/7_sean_mcalinden_pm.pdf

It turns out to make a very big difference. Consider the Fiat/Chrysler (FCA) Sterling Heights Assembly plant near Detroit, Michigan. The plant currently employs 3,250 people who assemble the Chrysler 200, the corporation's principal entry in the critical mid-sized auto segment.[21] FCA announced in Fall 2015 that manufacturing of the Chrysler 200 would move from Sterling Heights to Toluca, Mexico.[22] This move will save the company over $300,000,000 annually in labor costs by 2019, the last year of the new UAW contract. [Table 1] Hourly workers make up 3,049 of the 3,250 plant employees. They now cost $47 an hour on average in wages and benefits and that will grow to $56.00 an hour[23] by 2019. The average compensation for Mexican autoworkers was about $8 an hour in 2013 and we estimate this could rise to $9 an hour by 2019.[24]

If these assumptions hold, Chrysler would save roughly $287,000,000 annually for hourly workers alone by moving production to Mexico. [Table 1] Additional savings will accrue for the 200 or so salaried workers and from the suppliers who move to Mexico along with the plant. To put this $300 million plus savings in perspective, it approaches FCA's third quarter 2015 North American profit of $335 million.

Average Worker Compensation in the United States and Mexico

	Plant in United States	Plant in Mexico
# of Hourly Workers	3,049[25]	3,049[26]
# of Hours Paid Annually/Worker	2,000	2,000
Compensation/Hour	$56[27]	$9[28]
Annual Hourly Labor Cost/Plant	$341,488,000	$54,882,000

[21] Fiat Chrysler Automobiles (2015). "Sterling Heights Assembly Plant". http://media.fcanorthamerica.com/newsrelease.do;jsessionid=C1620EF58260F591009F322C9D6E9C49?&id=335&mid=3

[22] Snavely Brent and Alisa Priddle (2015). "Net gain of 103 jobs in new UAW-FCA contract". *Detroit Free Press*, 10/9/2015. http://www.freep.com/story/money/cars/chrysler/2015/10/09/net-gain-103-jobs-new-uaw-fca-contract/73683736/

[23] A somewhat lower cost than the $60.00 an hour at Ford and GM in 2019.

[24] "New Auto Pact Undercut Savings: Study". *Dow Jones Business News*, 11/20/2015. http://www.nasdaq.com/article/new-auto-wage-pacts-undercut-savings-study-20151120-00499

[25] Fiat Chrysler Automobiles (2015). "Sterling Heights Assembly Plant". http://media.fcanorthamerica.com/newsrelease.do;jsessionid=C1620EF58260F591009F322C9D6E9C49?&id=335&mid=3

[26] Although it is possible that more workers will be employed at the plant in Mexico than the plant in the United States, we calculate a conservative estimate using the same number of workers in both plants.

[27] "New Auto Pact Undercut Savings: Study". *Dow Jones Business News*, 11/20/2015. http://www.nasdaq.com/article/new-auto-wage-pacts-undercut-savings-study-20151120-00499

[28] Compensation costs have been stagnant and in decline since before 2008.

The lure of labor cost savings of this magnitude has proven irresistible for automakers. From 2013 to early 2015, auto companies committed or announced $23.2 billion in new investment in Mexico.[29] Almost all major global automakers already have or are planning new manufacturing facilities in Mexico, including the Detroit Three, Audi, BMW, Daimler, Toyota, Nissan, VW, and Mazda. And it isn't just low-cost, subcompact vehicles. These plants build a diverse portfolio of models, from sub-compacts such as the Ford Fiesta, to massive SUVs such as the Chevy Suburban. Manufacturers new to Mexico range from mass-market entrants like Hyundai to exclusive high-end nameplates such as Jaguar, Mercedes, and Infiniti.

Mexico climbed from the tenth largest vehicle manufacturer globally in 2009 to the seventh largest in 2014, producing 3.2 million light vehicles.[30] General Motors predicts Mexico will move into sixth place by 2020, increasing output by 46 percent to five million vehicles annually.

While low wages have turbocharged production, the domestic market for vehicles in Mexico has grown more slowly. As a result, Mexico exported over 80 percent of its production, or 2.6 million vehicles in 2014, becoming the fourth largest exporter globally. Seventy-one percent of these exports went to the U.S., followed by 11 percent to Canada. GM predicts Mexico could become the second largest global exporter (after Germany) by 2020. [31] The auto parts industry in Mexico has had a similar rapid-growth trajectory. It is now the fifth largest auto parts producer in the world and exports 70 percent of its production, 90 percent of which goes to the U.S.[32]

Overall, employment in the auto sector has risen sharply in Mexico and declined in the U.S. Annual hourly employment among the assemblers in Mexico rose 46 percent from 39,000 in 2007 to 56,000 in 2014[33]. Annual hourly employment among assemblers in the U.S. slid by 10 percent from 220,000 in 2007 to 199,000 in 2014.[34] Mexico recovered jobs from the 2009 market collapse at a much more rapid rate than the U.S. quickly surpassing its 2007 peak by 2011. In contrast, U.S. auto employment has yet to fully recover, remaining about 10 percent below 2007 levels.

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[29] Bain, Ben (2014). "Cars Drive Mexico Economy as Companies Invest $20 Billion". *Bloomberg Business*, 2/5/2015. http://www.bloomberg.com/news/articles/2015-02-06/cars-drive-mexico-economy-as-global-companies-invest-20-billion

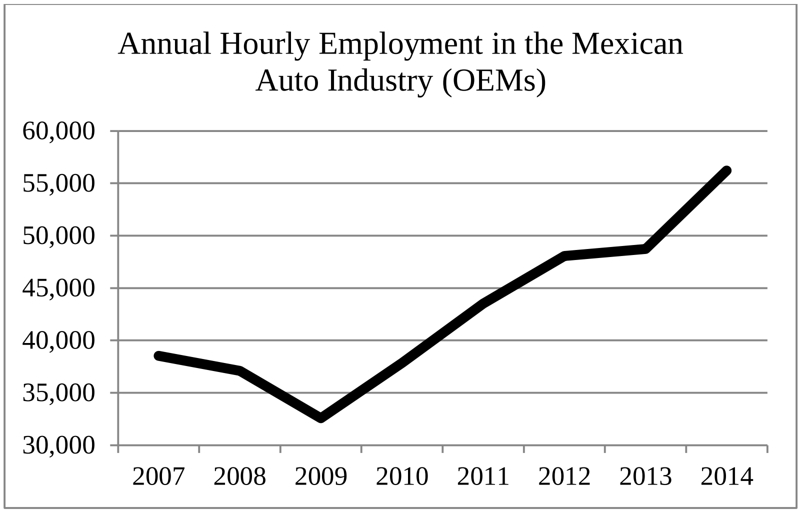
[30] ProMéxico (2015). http://mim.promexico.gob.mx/JS/MIM/PerfilDelSector/Automotriz/150601_FC_Automotriz_Terminal_EN.pdf

[31] Galicia, Armando Cortés (2015). "The Mexican Automotive Industry: Leading the World". *Negocios ProMéxico*, 4/2015: 13. https://www.promexico.gob.mx/documentos/revista-negocios/pdf/abr-2015.pdf

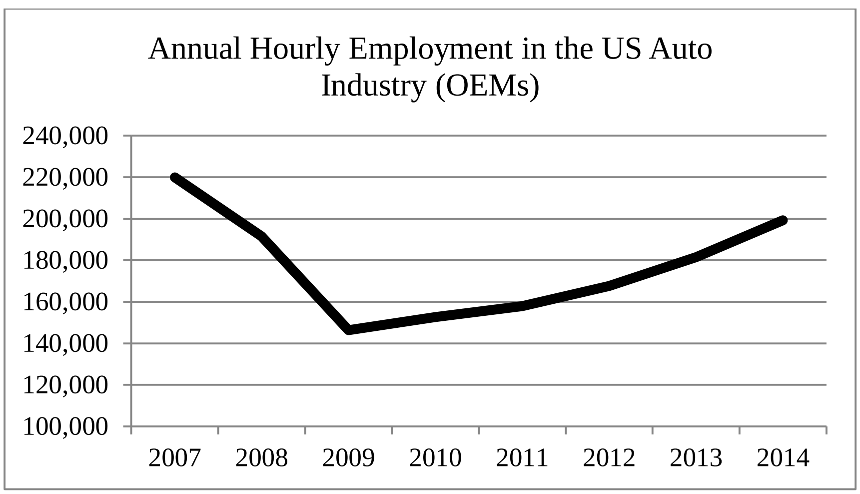
[32] Galicia, Armando Cortés (2015). "The Mexican Automotive Industry: Leading the World". *Negocios ProMéxico*, 4/2015: 13. https://www.promexico.gob.mx/documentos/revista-negocios/pdf/abr-2015.pdf

[33] INEGI. Banco de Información Económica, Code 3361 (Automotive and Truck Manufacturing). http://www.inegi.org.mx/sistemas/bie/

[34] Bureau of Labor Statistics, NAICS Code 3361 (Motor Vehicles Manufacturing). http://www.bls.gov/iag/tgs/iagauto.htm#emp_national



INEGI. Banco de Información Económica, Code 3361 (Automotive and Truck Manufacturing). http://www.inegi.org.mx/sistemas/bie/



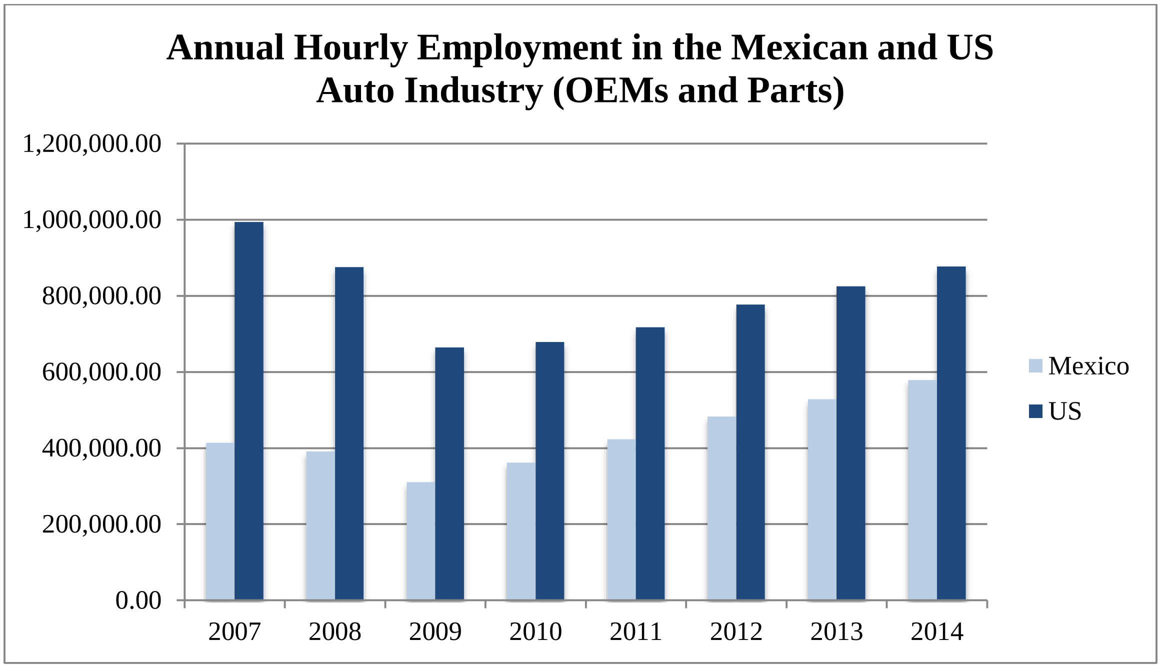
Bureau of Labor Statistics, NAICS Code 3361 (Motor Vehicles Manufacturing). http://www.bls.gov/iag/tgs/iagauto.htm#emp_national

Annual hourly employment in the Mexican auto industry—assemblers and parts makers--rose 40 percent from 414,000 in 2007 to 579,000 in 2014[35]; in the U.S. auto industry, jobs slid by 12 percent from 994,000 in 2007 to 877,000 in 2014[36]. Put simply, the Mexican auto industry added 165,000 jobs in this period while the U.S. industry shed

[35] INEGI. Banco de Información Económica, Code 3361 and 3363 (Automotive and Truck Manufacturing and Automotive Parts Manufacturing). http://www.inegi.org.mx/sistemas/bie/

[36] Bureau of Labor Statistics, NAICS Codes 3361, 3362, 3363 (Motor Vehicles and Parts Manufacturing). http://www.bls.gov/iag/tgs/iagauto.htm#emp_national

117,000 jobs. A steadily increasing share of North American production for the U.S. market is taking place in Mexico.



U.S./Mexico trade in autos

The attraction of high productivity and low wages under Nafta has resulted in a highly distorted trading relationship between the U.S. and Mexico in motor vehicles and parts. The U.S. imported $97.6 billion in this sector from Mexico and exported $34.5 billion to Mexico in 2014, resulting in a trade deficit of over $63 billion[37]. In auto parts alone, the U.S. imported $49 billion from Mexico and exported $29 billion, leading to a $20 billion trade deficit.[38] The U.S. imported more auto parts by value from Mexico than it did from Canada, China, and Germany combined.

If Mexican light vehicle exports grow as widely predicted from 3.2 million in 2014 to 5 million in 2020—a 56 percent rise—and the Mexican domestic market continues to flat line, the already highly unbalanced U.S. trade deficit with Mexico will grow considerably worse. Not only will the U.S. be importing almost 2 million additional vehicles annually, but many will be high-cost Mercedes, Infiniti and Jaguar models from Mexican plants, further inflating the U.S. trade deficit.

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[37] U.S. International Trade in Goods and Services. Exhibit 18: Exports and Imports of Motor Vehicles and Parts by Selected Countries. December, 2014. https://www.census.gov/foreign-trade/Press-Release/2014pr/12/ft900.pdf

[38] U.S. International Trade in Goods and Services. Exhibit 18: Exports and Imports of Motor Vehicles and Parts by Selected Countries. December, 2014. https://www.census.gov/foreign-trade/Press-Release/2014pr/12/ft900.pdf

Mexico and the 2015 Detroit/UAW contract talks.

The UAW and the three Detroit automakers engaged in tough, complex negotiations through much of Fall 2015. UAW President Dennis Williams stated a critical goal for the union "was to balance the competing demands of higher wages and job security." Joe Hinrichs, president of the Americas at the Ford Motor Company, said both sides talked extensively about "the competitiveness of our footprint and the products we build and where we build them." He emphasized Ford needed flexibility "to move some of our smaller products to other locations, which we intend to do."[39]

At the end of the day, "the deals, which culminated labor talks among the nation's three big automakers, were the most generous for workers in more than a decade," according to the *New York Times,* "and represented a striking shift from years of cuts and stagnant wages."[40] The automakers stated they would remain very competitive with the new agreement.[41]

Mexico however, introduces a new dynamic into the auto talks. The Detroit automakers are willing to invest billions in the U.S. in highly productive and profitable existing plants, but are reluctant to add new plants. In contrast, these automakers are expanding capacity and adding new plants and jobs in Mexico that will produce vehicles and parts for the U.S. market.

The Detroit Three announced $16.2 billion in new investment in the U.S. over the next four to five years. Hourly employment – currently about 137,000 workers – will likely remain the same or grow only modestly over the four-year life of the contract, even if sales remain robust. Chrysler, for example, currently employs 37,000 hourly workers in the U.S. It plans to invest $5.3 billion over the next five years, creating 3,000 new jobs. However, it also indicated that 2,900 jobs would be eliminated. The result is only 100 net new jobs. GM and Ford have followed a similar pattern, stating that a total of 11,800 jobs will be created or retained—an impressive achievement—but with no mention of how many net new jobs will result.

In contrast, the Detroit automakers have unveiled plans for new state-of-the-art plants in Mexico. Ford announced earlier in 2015 it would invest $2.5 billion to expand one plant and build two new ones, creating 3,800 new direct jobs[42] and supporting as many as 32,000 private sector jobs. In addition, Reuters reported in January 2016 Ford was

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[39] Welch, David (2015). "Detroit-to-Mexico Shift Predicted After Auto Union's Big Victory". *Bloomberg Business*, 12/9/2015. http://www.bloomberg.com/news/articles/2015-12-09/detroit-to-mexico-shift-predicted-after-auto-union-s-big-victory

[40] Vlasic, Bill and Mary Chapman (2015). "U.A.W. Contracts Change Math for Detroit Automakers". *The New York Times*. 11/24/2015. http://www.nytimes.com/2015/11/25/business/new-uaw-contracts-land-best-terms-in-over-a-decade.html

[41] Priddle, Alisa and Brent Snavely (2015). "UAW-Ford deal passes, and new era begins for Detroit 3". *Detroit Free Press,* 11/21/2015. http://www.freep.com/story/money/cars/ford/2015/11/20/ford-workers-approve-uaw-contract-slim-margin/76136322/

[42] Ford Motor Co. (2015). "Ford Announces $2.5 Billion U.S.D Investment for New Engine, Transmission Plants in Mexico". 4/17/2015, https://media.ford.com/content/fordmedia/fna/us/en/news/2015/04/17/ford-announces-2-5-billion-usd-investment.html

planning a $1.5 billion assembly plant in San Luis Potosi, Mexico.[43] GM announced $5 billion in new investments in Mexico for the 2013-2018 period. These investments will result in 5,600 new direct jobs and contribute to an additional 40,000 private sector jobs.[44]

Chrysler now plans to move all remaining passenger car production from the U.S. to Mexico, while Ford will assemble only two cars—the Mustang and a new full-sized Lincoln—in a single U.S. plant. Both automakers will concentrate on large, more profitable pickups and SUVs in the U.S. Chrysler and Ford will be transferring models to Mexico that accounted for 500,000 units of production in the U.S. over the first 9 months of 2015, a major product shift.

Moving "production to Mexico," according to Bloomberg, "will help the automakers save cash, reduce total payrolls and offset the union's gains."[45] In effect, the Detroit automakers seek to hold labor costs constant in North America. When the UAW increases compensation in Detroit, the automakers enlarge their footprint in Mexico. Nafta facilitates this process through the combination of strong investment guarantees and weak labor rights in Mexico.

Lessons learned?

When Nafta was being debated in the U.S. Congress in 1993, its proponents conceded labor rights needed to improve in Mexico, but maintained these improvements would occur through expanded trade and a boost from the labor side agreement. The Mexican government committed to reform in the interest of ensuring the ratification of Nafta in the U.S. Congress. Instead of improving labor rights, however, the approval of Nafta signaled nothing more needed to be done. Low-wages, depressed by a lack of labor rights, became enshrined as a source of comparative advantage.

What can we learn from over two decades experience with Nafta that should inform T.P.P. in the labor area? Effective labor reform must be the price-of-admission to a trade agreement, not an issue to be addressed later. Strong, effective language on labor rights is of course important but not a substitute for demonstrated reform prior to the agreement becoming finalized.

You might ask isn't this approach a bit utopian? Not at all. Mexico demonstrated it was serious about economic reform to make the country more "investment friendly" before Nafta was signed. Economist Jeffrey Schott, a strong Nafta proponent, told Congress admiringly in 1993 "The Nafta is probably the most one-sided and unbalanced

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[43] (2016). "Update 2-Ford plans new auto plant in Mexico's San Luis Potosi-sources." *Reuters.* 01/14/2016. http://www.reuters.com/article/ford-motor-mexico-idUSL2N14Y1VR20160114

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[45] Welch, David (2015). "Detroit-to-Mexico Shift Predicted After Auto Union's Big Victory". *Bloomberg Business*, 12/9/2015. http://www.bloomberg.com/news/articles/2015-12-09/detroit-to-mexico-shift-predicted-after-auto-union-s-big-victory

agreement that the United States has ever negotiated," pointing out the agreement spells "out what Mexico must do to join the Canada-US free trade club."[46]

In its present form, T.P.P. sends the unmistakable signal that current labor rights are acceptable. T.P.P. will lock in an unacceptable status quo in Mexico and set the standard for all member countries. At stake is not only the rights and compensation of Mexican workers, but also the rights and earnings of workers in the U.S. In a highly integrated economic market, low-wages in one area become the benchmark for all areas. Low wages and a lack of rights in Juarez will press down on the wages of workers in Flint. This trade agreement is not a small step in the right direction but a large step backwards. It ignores what we have learned over 20 years under Nafta with respect to labor standards.

A vibrant, growing sustainable economy is essential for Mexico to prosper and is clearly in the interest of the U.S. This growth can be achieved even in highly competitive industries such as auto when competition is based on productivity, quality, and innovation, not on the lowest labor standards. A trade agreement in which worker rights are taken as seriously as investment guarantees is essential. What will result is a more balanced trading system in which higher wages in both the U.S. and Mexico translate into higher purchasing power, growing economies, and more trade. In short, "inclusive" trade lays the basis for a broadly shared prosperity.

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[46] North American Free Trade Agreement: Hearing before the Committee on Labor and Human, United States Senate, 103rd Cong. 66-68 (1993) (Testimony of Jeffrey Schott).