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The U.S. Economic Policy on the World Stage—from NAFTA to FTAA

The forces of globalization increased international trade dramatically, creating even greater interdependence than before. However, during the 1980s and 1990s trading systems moved away from multilateralism toward bilateral and regional arrangements. At the same time, the United States moved in the direction of regional agreements for the Americas and the Pacific Rim.¹ Even though the North American Free Trade Agreement (NAFTA) was bitterly controversial in all three of the countries taking part—the United States, Canada and Mexico—it was signed into law in the fall of 1993. NAFTA was initially crafted to “eliminate barriers to trade, promote conditions of fair competition, increase investment opportunities, provide adequate protection for intellectual property rights, establish effective procedures for ... [resolving] ... disputes, and to further trilateral, regional and multilateral cooperation.”²

This paper addresses the question whether the North American Free Trade Agreement has hurt the American economy. Critics argue that besides the loss of significant number of jobs, NAFTA has generated a number of less visible harmful effects on the American economy which include increased income equality and reduced fringe benefits. On the other hand, proponents contend that NAFTA has helped the American economy by producing better-paying jobs and contributing to increased manufacturing output in the United States since the start of NAFTA. The concluding section leads to even greater ambitions: the Free Trade Area of the Americas (FTAA).

¹ Spero, Hart (2003).

² Governments of Canada, the United States, and the United States of America (1992).

Despite its name, the agreement fell far short of scrapping all trade restrictions, and the fine print of the various exemptions and exclusions gave rise to heated argument. More than this, the agreement was attacked as bad in principle. Everybody recognized that NAFTA was an extraordinarily bold attempt to accelerate economic integration—or, as critics put it, an experiment in reckless globalization. As such, they said, it would destroy jobs, make the poor worse off and start an environmental race to the bottom.

Equally, advocates of the agreement made some bold claims about the good it would bring. Far from destroying jobs, it would create lots of new and better ones; incomes would rise and the poor would benefit proportionately; growth would accelerate and, to the extent that this posed environmental challenges, extra resources would be available to meet them.

In pressing the case for NAFTA, proponents in the United States raised two major arguments. The first argument was economic: NAFTA would produce real economic benefits. These benefits were purported to include increased employment in the United States and increased productivity. Note that these arguments were based on the economic notions of specialization and comparative advantage. The second argument was political: NAFTA would support the political and economic reforms being made in Mexico and promote further progress in these two domains. These reforms had made Mexico a “better” neighbor—that is Mexico had taken steps to become more like the United States—and NAFTA would support further positive change. Here the links are between greater economic freedom and increased political freedom as well as greater economic stability and increased political stability.³

Politically, the skeptics, ten years on, can fairly claim victory. NAFTA is unpopular in all three countries. In Mexico, which stood to gain most from freer trade (since its barriers were so

³ Swartz, Bonello (2004).

much higher at the outset) and which has indeed benefited greatly according to most economic appraisals, the agreement is widely regarded as having been useless or worse. In a poll conducted at the end of 2002 by Ipsos-Reid⁴ for the Woodrow Wilson Centre in Washington, only 29% of Mexicans interviewed said that NAFTA has benefited Mexico; 33% thought that it had hurt the country and 33% said that it had made no difference. In all three countries, the perceived results of NAFTA seem to have eroded support for further trade liberalization.

From an economic perspective, the right question to ask of NAFTA is simply whether it indeed succeeded in stimulating trade and investment. The answer is clear: it did. In 1990 the United States' exports to, and imports from, Canada and Mexico accounted for about a quarter of its trade; now they account for about a third. Why then is the agreement so widely regarded by non-economists as a failure? The answer lies partly in the interplay of politics and economics, and accordingly is different in each of the member countries. But one theme is common to all three: a tendency to blame NAFTA in particular and international integration in general, for every economic disappointment of the past ten years, however tenuous the connection may be. Debate in the United States has been preoccupied by fears over loss of jobs—by the “giant sucking sound” of work moving south, in Ross Perot's phrase from the early 1990s. A variety of estimates of NAFTA's direct effect on American labor have been made—with job losses running as high, according to one disputed study, as 110,000 a year between 1994 and 2000.⁵

But, as already noted, direct losses do not tell the whole story: changing the pattern of employment is after all one of the reasons for promoting trade. So long as lost jobs are balanced by new ones, the overall effect on employment will be small. As Gary Hufbauer and Jeffrey Schott of the Institute for International Economics point out, between 1994 and 2000 the United States

⁴ Ipsos News Center.

⁵ The Economist.

economy created more than 2 million new jobs a year. Manufacturing employment has dwindled (with NAFTA as one relatively minor cause among many); jobs in other industries have more than made up the losses. And since the mid-1990s, at any rate, the great majority of new jobs created have paid above-median wages.

Against this background, even NAFTA's highest estimated direct losses can hardly be regarded as crippling. America's evident disenchantment with liberal trade has less to do with the economic depredations of the 1990s—when the economy boomed, in fact—than with a political failure to make the case for free trade against its increasingly vocal and well-organized opponents.

In conclusion, evaluation of NAFTA is important not only for its own sake. President George W. Bush supports an expansion of NAFTA to 34 countries in North, Central, and South America. This expansion is called the Free Trade Agreement of the Americas (FTAA). Clearly, whether or not a person is willing to support FTAA depends in part on whether that person believes that NAFTA has helped or hurt the American economy. Nevertheless, the way to FTAA is long and controversial, especially, South America's biggest economy, Brazil, is not so sure. Therefore, the challenges are set and whether the FTAA becomes reality has to be seen in some other ten years.

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