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# The Meaning of NAFTA and its Implications for the FTAA

*Sidney Weintraub\**

The North American Free Trade Agreement (NAFTA) and the proposed Free Trade Area of the Americas (FTAA) are related but are also distinct. Both are free trade agreements (FTAs), which mean that they involve discrimination against non-signatories, including member countries of the World Trade Organization (WTO). The most vociferous U.S. opponents of hemispheric free trade (such as the AFL-CIO and Ralph Nader's Public Citizen) have opposed granting the president fast-track authority for the FTAA negotiations because, among other arguments, they do not want "another NAFTA." The link between the two enterprises is abundantly clear.

The two are simultaneously quite different. NAFTA involves much stricter obligations of the three countries than would the FTAA for its more numerous members. NAFTA's dispute-settlement procedure for questioning the validity of antidumping (AD) and countervailing duty (CVD) decisions permits arbitration to shortcut the standard legal appeals process (in chapter 19). Mexico altered its laws to introduce more due process in order to qualify under chapter 19, something that would not be feasible for the generality of countries in Latin America and the Caribbean (LAC).

Mexico and Canada have extensive land borders with the United States and this means that the context for the three countries on a number of complex issues, such as migration, drug traffic, absentee voting, and cultural-kinship relations is different from that of the United States with distant countries, such as Brazil, Argentina, and Chile. Mexico is an ideal location for co-production of manufactured products with firms in the United States, whereas most LAC countries do not provide this proximity advantage. This reality has abetted the transformation of Mexico into the only large LAC country whose merchandise exports are overwhelmingly manufactured. Mexico and Canada are major trading nations whose exports of goods and services are, in each case, about one-third of their gross domestic products (GDP), whereas the export to GDP ratios for the two other large countries—Brazil and Argentina—are less than ten percent (1998 data). United States

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merchandise exports to either Canada or Mexico alone exceed exports to all other hemispheric countries combined.

It is thus imprecise to refer to the FTAA as an extension of NAFTA. The arrangement that has been agreed to in the FTAA negotiations is instead a single undertaking—one agreement for all participating hemispheric countries—leaving intact NAFTA, MERCOSUR, and any other sub-regional arrangement whose member countries wish for it to coexist with the FTAA. This coexistence would thus involve different degrees of obligations, deeper for NAFTA members (or MERCOSUR members) among themselves than with the remainder of countries in the projected FTAA. This distinction is not remarkable internationally—trade obligations between Chile and Bolivia with the MERCOSUR countries are less comprehensive than among the MERCOSUR countries themselves. So are rights and obligations between the European Union (EU) and Israel (where an FTA exists) or between the EU and Mexico as compared with intra-EU undertakings.

The discussion that follows will take into account these similarities and differences between NAFTA and the FTAA, without dwelling on them. The next section will lay out key reasons for the opposition to NAFTA in the United States, which still remain vociferous, and provide some of the rationale of those who support the agreement.<sup>1</sup> NAFTA, in name, is a *trade* agreement, but its significance goes well beyond the exchange of goods and services. The reality is recognized by both opponents and supporters of NAFTA, and the arguments on both sides of the debate contain a mixture of economics, politics, social concerns, and cultural aspirations. Many of the same facts are interpreted differently by the two sides. These differing positions exist as well in the FTAA debate, but less intensely.

This section will be followed by a detailed discussion of the longer-term aspirations of NAFTA and FTAA supporters. These will be contrasted with the opinions of opponents. The latter have been articulated at length, whereas those of proponents who have thought deeply about NAFTA have not. The questions I will address are: What, beyond trade and investment, makes NAFTA important? Would the FTAA have these same attributes? I have contended elsewhere that NAFTA has been an economic success but a political failure in the United States (*Los Angeles Times*, February 7, 1999, p. M2) and I will give my reasons for this assessment. My conclusions will focus on what I believe is the long-term meaning of NAFTA and then relate this to the FTAA.

## I. Support For and Opposition to NAFTA and the FTAA.

The vocal opposition to NAFTA has two main strands:

1. Its social and economic *micro* consequences; and
2. Distrust of the power of large multinational corporations (MNCs).

The first is evident in repeated statements of spokespersons of the AFL-CIO and important affiliated industrial unions (see Web sites of the United Auto Workers, United Steel Workers, and the AFL-CIO itself) and the second is more stark in the material from Ralph Nader and his supporters (see Public Citizen Web site). The two strands are not fully separable, as shown in the congressional testimony of Ralph Trumka, secretary-treasurer of the AFL-CIO, that current trade policies encourage governments in developing countries “to

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1. In the interest of full disclosure, I must note that I supported United States-Mexico integration, as I did United States-Canada integration, long before either came into existence.

cheapen labor and sell out the environment in order to attract investment" and "benefit a small corporate elite." (Trumka, 1997). Jay Mazur, president of the Union of the Needletrades, Industrial, and Textile Employees (UNITE) has made related points: "The demand for enforceable labor rights in global trading accords . . . is not an effort to build walls against the global economy. It is an effort to build rules into it, and a floor under it, to lift wages and conditions up rather than drive them down." (Mazur, 2000, p. 92).

The Clinton administration has not commented explicitly on the second strand relating to the venality of corporate America, although this implicitly is an element of the official position. It is the large MNCs, many American, that are charged with moving production to developing countries in order to take advantage of lax labor and environmental conditions.

The Administration, however, has unequivocally endorsed the first strand by its insistence on incorporating labor and environmental safeguards in trade agreements. This position is strongly held, as is evident from the administration's unwillingness to seek fast-track authority without these safeguards (and its inability to obtain this authority with these safeguards). The ministerial meeting of the WTO in Seattle in November-December 1999 collapsed, in part, because President Clinton made explicit that he contemplated trade sanctions against countries not meeting the trade and environmental standards the United States sought (*Economist*, December 11, 1999, pp. 19-20).

The U.S. position is resented by leaders of important developing countries who are being accused, often directly, of indifference to their national environments and forsaking the well being of their workers in order to attract investment. Two examples of this resentment will be cited here. President Ernesto Zedillo of Mexico, referring to spokespersons from industrial countries who say that they have the interests of developing countries in mind, said during his speech at the World Economic Forum in Davos: "We should be very suspicious of the altruism of those who want homogeneous labor standards imposed through bureaucratic action as a precondition for additional trade . . . The alleged motives are very diverse, but are expressed with a very revealing common denominator: the word protection. . . ." (Zedillo, January 28, 2000). Murasoli Maran, India's minister of commerce and industry, was equally blunt: "The threat of sanctions was the last straw." He called this an act of naked protectionism by a clique of developed countries behaving like a "kangaroo court." (*Financial Times*, February 2, 2000, p. 5).

The descriptor "micro" was used above to describe organized labor's opposition to NAFTA and the FTAA. This opposition has emphasized the ability of corporations to exploit low wages that, in the Mexican case, allegedly have led to a loss of hundreds of thousands of U.S. jobs. A paper issued recently by the Economic Policy Institute concludes that 440,000 U.S. jobs were lost from 1993 to 1998 from bilateral trade deficits with Canada and Mexico (Scott, 1999). This analysis is based on three-digit trade data that, with some refinements, equate exports with job gains and imports with job losses. This mercantilistic analysis has been accompanied by citations of particular firms that abandoned production in the United States either because of increased imports from or shifting their production to Mexico to capture the benefits of low-wage workers and the ability to pollute. (See Web sites of Public Citizen, UNITE, and the AFL-CIO).

I have argued elsewhere that trade with Mexico and Canada, even with all of Latin America and the Caribbean (as in the proposed FTAA), and even globally (as would

largely be the case in a WTO negotiation), is a secondary consideration for job loss or creation for an economy as vast as that of the United States. (Weintraub, 1997, pp. 9-15). A job loss is not a static, everlasting situation, any more than a job gain is. The real job creator is the health and growth of the U.S. economy. The macroeconomic reality is that the United States is enjoying what, for all practical purposes, is full employment—job offers going begging rather than job opportunities being lost in the economy as a whole. Unemployment in the United States is now in the four percent range (monthly data from the Bureau of Labor Statistics) and an important consideration motivating the Federal Reserve Board to raise interest rates is that wage inflation will follow from this tight job market. This is most evident for skilled labor, but average weekly earnings of full-time wage and salary workers, adjusted for inflation, also rose by 2.4 percent in 1999. (Bureau of Labor Statistics, January 20, 2000).

It is impossible to sustain a macroeconomic contention of job loss from NAFTA, even if the 440,000 figure is accepted at the micro level, in an economy that is at full employment and has created some 15 million jobs since the agreement came into effect in 1994. There undoubtedly are microeconomic problems, which bring on associated social problems for individuals who lose jobs, for their families, and their communities, but focusing on NAFTA or trade generally is so partial a context as to be a caricature. The corrective for these hardships should be to focus on the specific problems rather than to reduce welfare for the entire U.S. population, as would be the case if a protectionist solution were adopted. The U.S. International Trade Commission has estimated using general equilibrium modeling, that the U.S. welfare *gain* would have been \$14.9 billion, if all tariff and nontariff import barriers had been removed in 1996. (USITC, 1999, pp. 14-15).

Worker displacement in the United States (persons aged 20 or more who lost jobs for a variety of reasons not of their own making) is eight million a year (Bureau of Labor Statistics, August 19, 1998). Most of these people find alternative employment, sometimes better, sometimes worse, which is evident from the low overall unemployment rate in the United States and the current rise in worker earnings. The United States has a number of trade adjustment assistance programs (TAAs), those of a general nature and specifically for assistance as a result of increased imports from Canada and Mexico. The benefits of the two systems are comparable. In the roughly six years of NAFTA's existence, the total takeup of assistance from these programs has been about 125,000, which the Labor Department estimates is twenty to twenty-five percent of workers certified as eligible for assistance (Personal discussion). The clear implication is that most workers find new jobs very quickly in the buoyant U.S. economy.

None of the following figures are precise because of the inherent complexity of measurement, but the relative orders of magnitude tell a revealing story about what is going on with respect to employment in the U.S. labor market in the six years NAFTA has been in existence:

- Jobs created in the United States during the past six years, about 15 million;
  - Annual involuntary worker displacement in the United States, eight million;
  - Job loss over six years of NAFTA's existence using bilateral trade deficits with Canada and Mexico as the basic measurement criterion, 440,000;
  - TAA offers taken up over that six-year period, 125,000.
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Even though earnings by non-farm production workers have been rising in recent years, the increases are modest. At a time of sustained growth in the U.S. economy, this has led to growing income disparities. Labor spokespersons attribute this, in part, to the wage-depressing effect of the ability to find cheaper labor on production lines—or cheaper imports that are made with low-cost labor—in developing countries in general and Mexico in particular. UNITE, among others, has cited evidence that corporations use the threat to shift production to Mexico as a bargaining chip to keep wages down. (UNITE Web site, “The NAFTA Scam”). A number of respected economists agree with the contention that the ability to bring in low-wage imports (particularly when coupled with the entry of unskilled immigrants) does suppress the wages of low-skilled U.S. workers. There is disagreement about the extent of wage depression from imports.

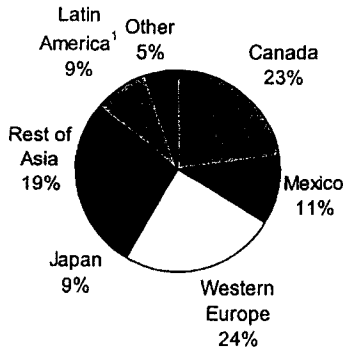
First, with respect to the wage gap itself, this is evident across job skills and educational levels and is obviously not solely an artifact of increased imports. Federal Reserve economists have argued that the biggest factor in income inequality during the last decade has been the stock market, not paychecks. (*Washington Post*, January 24, 2000). Having said this, if the supply of goods coming from low-wage countries were curtailed (such as through quantitative import restrictions), or if their import prices were increased (by higher tariffs), these actions presumably would raise wages of low-skilled workers. Consumers as a whole would then have to pick up the tab, which could be in the tens of billions of dollars. (Hufbauer and Elliott, 1994, p. 3).

William Cline has concluded that twenty to twenty-five percent of the skilled/unskilled wage gap can be attributed to trade and immigration, (Cline, 1997, p. 257), whereas at the low end Robert Lawrence and Matthew Slaughter conclude that when prices are adjusted for changes in total productivity, the effect from trade is slight (Lawrence and Slaughter, 1993). Other analysts fall in between. This is a difficult issue in that most economists who find a downward effect on low-skill wages from imports from low-wage countries do not recommend protectionism to correct the problem. They generally fall back on the importance of education to reduce the skilled/unskilled wage gap, which is a more durable solution, but also one that takes much time. Labor union leaders who seek to improve core labor standards in developing countries in trade negotiations state that they are not advocating protection (see citation above of Mazur, 2000), but to lift wages and working conditions in developing countries.

It would be negligent not to take note of the explosion in U.S. merchandise exports to Canada and Mexico in recent years. United States merchandise exports to Canada grew from \$100 billion in 1993, the year before NAFTA came into existence, to close to \$157 billion in 1998. By now, total U.S.-Canada trade, imports and exports together, exceed \$1 billion a day. United States merchandise exports to Mexico rose from \$41.5 billion in 1993 to almost \$79 billion in 1998. Taken together, exports to these two countries in 1998—\$235 billion—were 34.5 percent of total U.S. merchandise exports. In 1993, the share of Canada and Mexico was four percentage points lower, 30.5 percent of the total. The average annual growth rate of U.S. exports to Canada and Mexico combined from 1993 through 1998 was 13.6 percent, compared to average annual growth of 6.7 percent of U.S. merchandise exports to the rest of the world during these years.

Figure 1 shows the direction of U.S. merchandise exports in 1998. The dollar amount that went to Canada and Mexico combined was larger than to all of Europe and Japan combined, and larger than to all of Asia.

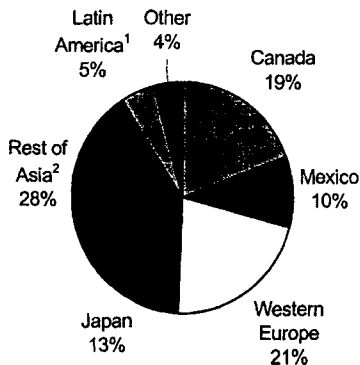
**Figure 1**  
Direction of U.S. Merchandise Exports, 1998



Source: <http://www.ita.doc.gov> (Department of Commerce)

<sup>1</sup> Includes the Caribbean and excludes Mexico.

**Figure 2**  
Origin of U.S. Merchandise Imports, 1998



Source: <http://www.ita.doc.gov> (Department of Commerce)

Note: Percentage totals may not add to 100 due to rounding.

<sup>1</sup> Includes the Caribbean and excludes Mexico.

<sup>2</sup> Imports from China were \$71 billion.

Figure 2 shows the origin of U.S. merchandise imports in 1998. The United States had merchandise trade deficits with both Canada (\$16.6 billion) and Mexico (\$15.8 billion) in 1998. The total U.S. merchandise trade deficit in 1998 was close to \$230 billion, meaning that the combined Canada-Mexico deficits were 14 percent of the global deficit.

U.S. exports of services (travel, royalties, licenses, and other non-merchandise transactions) to Canada in 1998 were \$19.5 billion and imports of services from Canada that year were \$15 billion. U.S. exports of services to Mexico in 1998 were \$11.8 billion and imports \$10 billion. (Michael A. Mann and Laura L. Brokenbaugh, 1999, p. 58).

I have already said that the relationship between bilateral trade deficits (surpluses) and job loss (creation) is tenuous because of the dominance of domestic macroeconomic policy in creating (destroying) jobs in the United States. Both the size of the trade deficit and the phenomenal job creation of recent years can be explained largely by a U.S. economy that has been more buoyant than in most other countries. The trade deficit, when examined in the total context of the U.S. economy, is a sign of health. My focus on exports is not because these are necessary for job creation, but because jobs in export activities pay, on average, between thirteen and sixteen percent more than jobs in production for domestic use. (U.S. Trade Representative, 1997, p.18; and Richardson and Rindal, 1996, pp. 7-19). The evidence shows that regional economic integration is less significant for job creation (loss) than it is for the kind of jobs involved, and their wages.

## II. The Long-Term Aspirations of NAFTA Supporters.

United States relations with Mexico are unavoidably different from interaction with any other country. Mexico is a populous, low-wage country with a highly unequal society, and is next door to the world's richest and most powerful country. This asymmetry is a constant theme in Mexican thought and writing. The economic asymmetry, coupled with other internal deficiencies, leads to migration to the United States, documented and undocumented, in numbers larger than for any other sending country. This migration was at one time officially abetted, under the *bracero* program from 1942 to 1964, and is still facilitated by U.S. producers and service providers seeking cheap labor. (See Binational Study on *Migration Between Mexico and the United States*, 1998, for data on Mexico-U.S. migration). The most recent invitation for Mexicans to migrate to the United States came from the executive council of the AFL-CIO in its meeting in New Orleans in February 2000. This was in the form of a call for an amnesty for illegal aliens in the United States and an end to sanctions against employers who knowingly hire these aliens. (*New York Times*, February 27, 2000, p. A23). Of the estimated six million undocumented aliens in the United States, the majority is Mexican.<sup>2</sup> Mexican-origin persons dominate in the legal Latino population, which in a decade or two will be the largest ethnic minority in the United States. Mexico is the logical land route for drug traffic into the United States.

There is a "special" relationship between the two countries, not out of mutual affection, but from the reality of the asymmetrical situation. In its totality, the Mexico-U.S. situation is unique in the world.

This relationship has been tense—"distant" is the word Alan Riding used (Riding, 1984)—for at least a century and a half, interspersed by efforts at amelioration, such as the Good Neighbor Policy in the 1930s. Five years before NAFTA was signed, most expert

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2. This is not the place to examine in detail the motives or implications of the AFL-CIO position, but it is another manifestation of the integration that is happening in fact between Mexico and the United States.

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opinions in both countries were that an agreement of this type was inconceivable. Sentiment in Mexico, the argument went, would not permit such a close economic embrace of the United States. United States policy rejected preferential bilateral trade agreements, but this stricture was broken when the United States entered into a free trade agreement with Canada in 1988. Still, when President Carlos Salinas in 1990 suggested the negotiation of the U.S.-Mexico FTA, the first reaction of those responsible for U.S. trade policy was to hold off until the Uruguay Round, then ongoing, was completed. The recommendation, in other words, was to let the moment pass. President Bush did not do this. The political-social reaction to President Bush's decision was split, with organized labor against free trade with Mexico and organized business (the U.S. Chamber of Commerce in the lead) in favor.

The most important consequence of NAFTA as it relates to Mexico and the United States is that it intensified an inevitable relationship and did so across the board. Mexico has since become less distant. It is now nearly impossible to name an important domestic U.S. theme that does not have a substantial Mexican component. For some subjects, this is evident: migration; labor relations; environmental protection; drugs; water; industrial production techniques; and product and service marketing come immediately to mind. Dig a bit deeper and other themes emerge: the ethnic composition of the United States; language usage; voting blocks; absentee voting by Mexicans resident in the United States on a potentially large scale; and cultural influences. If the AFL-CIO has its way, the future of organized labor in the United States may be strengthened by Mexicans who are now illegal immigrants.<sup>3</sup>

Some view these interactions with alarm. The title of a well-informed, best-selling book about Mexico was *Bordering on Chaos* (Oppenheimer, 1996). The chaos looks less likely to cross over into the United States in 2000, however, than it did in 1995. Or as presidential candidate Pat Buchanan put it about immigration of Mexican workers, "No way, José." The passage of Proposition 187 in November 1994 came at a time of economic downturn in California and was seen in Mexico as scapegoating.

A better way for Americans to look at the relationship with Mexico, in my view, is that it will never reach its constructive potential until incomes and individual career opportunities rise sufficiently in Mexico to lessen what are today obscene disparities between the two countries. Without this, the kind of blame placing that prompted Proposition 187 will recur when times are bad in the United States. The most important long-term promise of NAFTA is that it provides the basis for Mexicans to accomplish this narrowing of income and opportunity disparities through private trade and investment, which are inherently durable, rather than through official programs, which are not. This narrowing is precisely what occurred over roughly a single decade between Spain and Portugal, relatively low-income countries of the European Union, and Germany and France, the higher income countries; and the driving force there was the freeing of trade and investment within the European Union.

This potential for economic and social upgrading for the Mexican population is the most important long-term promise of NAFTA. How long is "long term?" This depends on

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3. I doubt that another massive amnesty (the previous one was in the 1996 Immigration Reform and Control Act) is likely in the foreseeable future.

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whether Mexico is able to achieve non-inflationary real annual growth of GDP of six to seven percent a year, year after year, something that it accomplished in the post-World War II years through the 1970s. This is double the steady growth potential of the more developed United States. The per capita income difference can narrow appreciably over one or two decades with comparative growth rates of three percent a year in the United States and six percent a year in Mexico. The social differences will also narrow under such a scenario.

The argument is *not* that NAFTA is the magic bullet that will bring about this kind of steady, non-inflationary economic growth. Achievement of this level of growth depends primarily on internal policy in Mexico. NAFTA provides a remarkably significant fillip to constructive domestic policy because of the trade and investment opportunities it provides. This is the long-term basis for supporting NAFTA, that it can help change the structure of North America for the benefit of all the countries involved. A richer Mexico is in the U.S. interest, as it of course is in the Mexican interest.

NAFTA also has had important political repercussions, again not in and of itself, but because of its reinforcement of market influences in Mexico. There was never a real chance that Mexico could transform its authoritarian political structure into a functioning and transparent democracy if the government controlled the key operational levers—the commanding heights—of the economy and made its deals with the favored elites with little or no public accountability. Foreign investment was negotiable and this engendered bribes to government officials and the *prestanombres* (those who lent their names to meet majority Mexican equity ownership); import licenses were available, at a price; and high import tariffs or restrictions could be evaded by dealing with customs inspectors. Government contracts were not based primarily on competitive bidding, but rather pecuniary relationships between the bidder and the awarding authorities. A serious representative democracy cannot thrive in this atmosphere. The market does not solve all problems, but it has a cleansing feature for the kinds of transactions cited above. It is telling that all democracies have market economies, even if all market economies are not democracies. Building a stronger market economy was an indispensable element in transforming Mexico from its authoritarian past to its recent democratic awakening.

Mexico opted for market opening before it decided to seek free trade with the United States. NAFTA, however, was a crucial step in solidifying the new orientation. Salinas may have failed in preventing Mexico's 1994-1995 financial-economic collapse, but he did make the market reforms largely irreversible. Even the main groups on the left in Mexico, as exemplified by the Partido de la Revolución Mexicana (PRD), accept this irreversibility. The PRD would tinker with elements of what it attacks as neo-liberal policies, but does not advocate the status-quo-ante of government control of most levers of the economy. Many PRD members, in their heart of hearts, may wish to terminate NAFTA, but the official line is more modest. One key demand is to obtain more leeway for Mexican workers to enter the United States legally; just as U.S. capital can now enter Mexico. There is much irony here in that this position favors globalization in the form of worker freedom to ignore official borders.

NAFTA has spawned an institutional flowering within Mexico and between Mexican and U.S. organizations. Government officials meet regularly, at all levels, to discuss matters that involve both countries. Two-way trade in 1998 was about half a billion dollars a day and this led logically to cross-border commercial and investment alliances. NAFTA's

environmental debate encouraged the formation of stronger environmental non-governmental organizations in Mexico. United States labor unions alienated their Mexico counterparts with their anti-import positions, but have since taken a more active role to encourage independent union organization in Mexico. The AFL-CIO's new position on illegal immigrants echoes the position both of the Mexican government and the opposition, both left and right—even as it probably runs counter to the prevailing sentiment in the United States. American studies centers have proliferated in Mexican universities, as have Mexico studies centers in the United States. Name the theme, and there probably is now an organized cross-national institution, governmental and/or non-governmental, that addresses it.

Finally, it is evident that democracy is infinitely more vibrant in Mexico today than it was ten years ago. Mexico's democratic institutions have serious shortcomings but the machinery for monitoring elections is quite sophisticated, elections are contested, votes are generally honestly counted, opposition candidates win, and the separation of powers between the executive and the congress is real. The simultaneity of market opening and democratic emergence is, arguably, sheer coincidence, but it is more likely that the diminution of government dominance over economic activity was an important contributory factor; and this undoubtedly was abetted by NAFTA.

### III. The NAFTA-FTAA Connection.

The differences and similarities between NAFTA and the FTAA were described at the outset of this essay. The most important distinction is that moving from a trilateral structure to a hemisphere-wide arrangement involving thirty-four countries (thirty-five if Cuba is later able to enter into the process) of varying size, with distinct economies, idiosyncratic political systems, and individualized legal frameworks adds exponentially to the complexity. For the United States, NAFTA is an integration arrangement with close neighbors while the FTAA is not.

The most important similarity between the two is that each seeks free trade and a welcoming setting for foreign investment; particularly direct investment. The economic model in just about all the countries of the hemisphere is compatible with the open market that the FTAA seeks. The opposition to the FTAA in the United States uses the same arguments as those opposed to NAFTA. However, no other country in Latin America and the Caribbean is as important an exporter of manufactured goods as Mexico and these exports draw most of the fire against competition from low-wage labor. Approval of an FTAA by the U.S. Congress should therefore be less arduous than was NAFTA. This conclusion, however, is belied by the fact that Congress has been unwilling to approve enhancement of trade preferences for the countries of the Caribbean and Central America, which are not major exporters of manufactured goods, other than textile products, without severe limitations that would render the legislation almost meaningless.

The arguments in favor of the FTAA laid out by experts at the Inter-American Development Bank (IDB) are (1) it would provide more secure market access for the countries of the hemisphere; (2) stimulate more efficient productive processes, needed in any event in this time of globalization; (3) create a magnet for more foreign direct investment; (4) stimulate synergies to reduce trade barriers in the global system; and (5) lock in policy reforms. (Devlin, Estevadeordal, and Garay, 1999, p. 35).

The main impediment to progress in the FTAA negotiations is the lack of fast-track authority for the president and this fact casts doubt on U.S. commitment to hemispheric free trade. Other countries have shown hesitation about meeting the 2005 deadline for concluding the negotiations, particularly Brazil, but the commitment of these countries to hemispheric free trade will not be tested as long as the United States is the obvious laggard. There is no realistic prospect for obtaining fast-track authority before the new administration and the new congress take over in the United States in 2001, and the outcome then is uncertain.

Another argument against the FTAA, one heard less today than earlier, is that preferential regionalism is inappropriate in a global economy. This is as much an argument against what the EU is doing by expanding its preferential scope as it is against the FTAA. This line of reasoning lost much of its force after the WTO ministerial meeting in Seattle late in 1999 made no progress on opening a new round of global trade negotiations. The classic argument about regionalism before Seattle was whether it was a steppingstone or a blocking boulder to multilateralism. Those who believe in multilateralism without accompanying regionalism must now confront the stark possibility of neither. Regionalism in East Asia and the Western Hemisphere has become the most active trade games in the world.

The FTAA should not be oversold; it is unlikely to provide as great a stimulus for U.S. exports to the hemisphere as NAFTA did for exports to Mexico. Geography, as stated earlier, makes co-production arrangements between the United States and Mexico more efficient than with distant countries in the Southern Cone of South America. A *Wall Street Journal* article noted that the growth of U.S. production and marketing in Mexico, especially northern Mexico, has led to "once sleepy towns . . . turning into cities, with malls and multiplexes reminiscent of the U.S. Sun Belt." (*Wall Street Journal*, October 29, 1999, p. 1). Malls and multiplexes are already taking hold throughout the hemisphere and would be further stimulated by the FTAA, but the kind of comparison with Mexico and the U.S. Southeast is more tenuous for co-production facilities with the United States.

I am prepared to predict that the FTAA will come into existence, despite misgivings about the speed of its creation by some Latin American countries, if the United States can demonstrate that it is serious in its purpose. This requires fast-track authority. None of the countries would want to face tariff discrimination in the vast U.S. market if the rest of the hemisphere did not.

#### IV. Conclusions.

The following conclusions emerge from the analysis in this essay:

1. The NAFTA process set the stage for the proposed FTAA, but hemispheric-wide free trade, if achieved, will not take the form of wholesale expansion of NAFTA.
2. The likely outcome is that many subregional integration arrangements—NAFTA and MERCOSUR in particular—will survive alongside the FTAA if this is achieved. In that way, member country commitments in subregional integration agreements can exceed those in the hemispheric regional agreement. However, if there is an FTAA, the proliferation of free trade agreements within the hemisphere, such as Mexico has with almost every country in sight and MERCOSUR

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as a unit has with other countries in South America, would eventually lose their preferential purpose. Such a simplification of hemispheric trading conditions should be welcomed.

3. NAFTA clearly has had considerable economic success during the six years of its existence (as of January 1, 2000). Three-way trade has skyrocketed, investment has grown sharply, cross-border alliances and contacts have proliferated, and the rickety institutional framework in Mexico is strengthening year by year. The fear of NAFTA's opponents that it would lead to widespread joblessness in the United States has been belied by the four percent unemployment rate, the lowest in thirty years.
  4. Forty percent of the general public is nevertheless concerned about unemployment arising from competition with low-wage countries. (Rielly, 1999, p. 34). NAFTA is part of the stimulus for this fear because the agreement has been trashed consistently by its opponents from day one—that it has led to U.S. bilateral trade deficits with NAFTA partners, increased U.S. unemployment, spawned runaway industry, lowered U.S. wages, reinforced a corrupt and undemocratic regime in Mexico, and did little to encourage either basic labor rights or the environment. This steady, negative stream of accusations went unanswered by the Clinton administration—indeed, the Administration reinforced the labor and environmental charges—anxious to retain labor support. It is remarkable that trade generally and NAFTA in particular has as much political support as it does in the United States in the face of an unmitigated diet of unchallenged assertions.
  5. Mexico has undergone a remarkable economic transformation, from overwhelming reliance on oil exports to being a major exporter of manufactured products; and from a rigid authoritarian regime to an emerging democracy. Opposition labor unions are gaining strength. Mexico's real GDP grew by 3.7 percent in 1999, the only major Latin American country to do this well. This was the fourth consecutive year of GDP growth following the economic disaster of 1995. The growth rates have been 1996, 5.1 percent; 1997, 6.8 percent; and 1998, 4.8 percent. (Bank of Mexico, 1999, p. 209).
  6. The significance of NAFTA should not be measured over a six-year time span, however good that looks, but rather by what it contributes to strengthening relations between the three countries of North America over the long term. In the case of Canada, NAFTA has led to much closer relations with Mexico, and has reduced the fear that existed ten years ago that economic integration with the United States would lead to a complete loss of Canadian sovereignty. Reducing tension between Mexico and the United States requires a narrowing of the per capita income gap between the two countries. The United States has a powerful interest in reducing these tensions on economic grounds, in that a more prosperous Mexico is a better market; on social grounds, to reduce the pressure to migrate to the United States; and on cultural grounds in light of the large Mexican-origin population in the United States.
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7. The FTAA will come into existence only if the U.S. president is granted fast-track authority. Failing this, the other countries in the hemisphere will have little confidence in the U.S. commitment. If fast-track authority is granted, it will be hard for any LAC country to remain outside the FTAA and face trade discrimination in the U.S. market as compared with those inside the agreement.
8. Because of the uncertainty of progress in trade liberalization in the WTO, the FTAA negotiations have taken on greater significance than before.

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