Methodological Problems in Assessing the Unfolding of NAFTA

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Free transit of Mexican trucks in the United States has been one of NAFTA's main controversies.

Introduction

The current U.S. political campaign has exhibited an almost incomprehensible rush to judgment as Democratic candidates vie with one another to denounce NAFTA. What they can possibly mean about an arrangement that is a *fait accompli* is anybody's guess, for surely they can not be proposing the re-institution of trade barriers, abolishing a development bank, controlling capital movements and repealing the labor and environmental "safeguards" that have been in place for 15 years. One suspects such talk is pure demagoguery, with NAFTA being simply a proxy variable for the nebulous concept of globalization. The demagoguery, however, has found a resonance in widespread public misgivings about the agreement despite the time elapsed since it was signed into law. Curiously, the far more consequential and trade-asymmetrical agreement with China has attracted little of the popular animus that has focused on NAFTA. Trade unions were docile, and scarcely an objection was raised, until the initial trickle of trade became a veritable flood. Even today, despite the substantial dislocations in labor and product markets aggressive Chinese practices have caused, the acceptability of that agreement has not really been challenged in a way equal to misgivings over NAFTA.

While it is not my place to go into contemporary Mexican conversations about NAFTA, no doubt some of the critical commentary is equally misguided and really addresses a different set of concerns. Given the fast-approaching formal

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completion of the tri-partite agreement, it is opportune to reflect on how an adequate assessment of the bold experiment, the first free trade compact among countries with such profound economic, social and cultural differences, might be reached. Aside from elucidating an interesting set of narrowly economic issues, such an inquiry will, when it is made, also shed light on the changing social and political dynamics of the three member countries and yield considerable insight into other issues such as cultural hybridization. All of this will be relevant to assessing the diverse impacts of globalization as well.

NAFTA EFFECTS: WHAT DO THEY INCLUDE?

Assessing the accomplishments and shortcomings of an undertaking as complex as NAFTA almost defies the analytical methods of today's social science. Not only are there a great many variables to examine, but there is ample room for honest disagreement over how the different variables should be weighted in arriving at some comprehensive summation of the impacts. Clearly, systematic evaluation is hardly a task for the treatment the matter has largely received so far in the press and in publications intended for the general public. While an abundance of scholarly studies focused on particular aspects of integration have clarified immensely what changes have been taking place, such serious inquiries tend to be overshadowed by more polemical articles, speeches and books. Inevitably, however, the end of the phase-in period will quite properly provoke serious efforts to assess the comprehensive impact of this massive economic experiment, so it is opportune to examine what problems may render such an enterprise especially difficult and problematic.

Although the core agreement focused on removing trade barriers and increasing market access over a period of 15 years, an almost inseparable corollary was the freer movement of capital across the boundaries of the three signatories. Two side agreements were added, one on environment and the other on labor, and a special financing facility, the North American Development Bank —a somewhat grandiose name for an institution with such a limited geographical and financial focus— was instituted to finance infrastructure along the U.S.-Mexico border. While these matters lie somewhat outside the central focus of the trade agreement, they, too, must be considered in assessing NAFTA's impact. In any case a comprehensive assessment must be carried out in full awareness of the opportunity costs of selecting this or that policy course, a judgment that requires some adeptness in constructing careful counterfactual histories of what might have been (in the absence of NAFTA). The old German song "*Wie schön wäre es*" may have given us a charming way of lamenting how nice it would have been, but constructing what would have happened over an exceedingly broad range of economic, political and social relationships, absent certain policy changes, is a fiendishly difficult enterprise.

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Lastly, even aggregating changes in trade flows, associated changes in the structure of production and employment in each country, changes in capital availability and costs, productivity, wages and working conditions, border infrastructure, and suchlike, one must also consider a substantial number of indirect and longer-term repercussions —externalities (both negative and positive), if you like— for which we may even be lacking agreed metrics. The standard —and useful— distinction between trade-creating and trade-diverting impacts of regional integration is just the first step toward the eventual overall assessment. In time, scholars and investigatory commissions will need to explore not only trade, investment, environmental and labor market and income effects but also the broad penumbra of relational impacts that take place in the social, demographic, political and cultural domains.

We need to keep in mind that NAFTA was not only a subnational regional development program, though one that has had repercussions on the fortunes of different regions within each of the three member countries. Neither was it, *per se*, an investment program in infrastructure, though it carried profound implications for what each country should do to maximize the benefits of the trading scheme. And it certainly was not envisaged, except very indirectly, as a means of redressing ancient income and wealth distribution issues, nor was it an instrument for alleviating poverty, except as a by-product of its functioning. It was, however, the source

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of an expectation that the strengthening of economic growth in Mexico would provide more resources with which to tackle all these matters. But, that said, there was nothing inherent in NAFTA that could provide an assurance of stable, recession-free growth any more than it would automatically provide remediation for historically problematic governance structures, for unresolved cultural conflicts and class tensions, or for, say, faulty instructional systems in each nation's schools.

NAFTA, MARKET ACCESS AND TRADE LIBERALIZATION

The key element of any regional integration movement —as in the global liberalization that has been underway since the mid- to late 1940s with the IMF, GATT-GATS-WTO, the WIPO, and the proposed Multilateral Investment Agreement— is the reduction, and ultimately removal, of barriers to market access. So, too, with barriers to exiting from markets, an important consideration where monopolies, whether of the private sector or the public sector, are concerned. All types of markets, both product and factor, are involved, at least in principle, when economic union is the aim. But a substantial reduction or even elimination of trade-based access barriers is also the aim of less comprehensive integration schemes such as common markets, customs unions, free trade areas and, for that matter, preferential trade agreements, all of which seek some measure of trade creation. Trade creation is, however, not the only outcome. As a number of studies have pointed out, regional schemes also involve some measure of discrimination against non-members, the inevitable effect of trade preferences among members. Hence, some trade diversion appears to be inevitable, even though the primary aim is trade creation. But it is reasonable to postulate that trade creation effects dominate trade diversion effects in most of the important regional integration schemes today.[1] Certainly this was the case in NAFTA, wherein, thanks to previous liberalization policies, the trade barriers were relatively low at the agreement's outset.

As NAFTA reaches the end of its scheduled trade-barrier reductions, it is therefore opportune to reflect on what has happened in selected aspects of the integration it has entailed. Aside from gauging the agreement's effectiveness in achieving its stated goals, such a survey can also yield additional insights about the complex factors and forces that condition transactional flows in the world economy. It can also shed some light on whether, in a context of global liberalization, there is much logic anymore in regional arrangements except as way stations in a longer adjustment process as national economies become ever more fully engaged in, or some would say fully exposed to, the world economy.

For NAFTA, the impact on trade flows has been the most commonly used benchmark of achievement, with the effects on employment, both positive and negative, running a close second. In this, judging from the data, there is no doubt the trade-creating aspects have been powerful —*ipso facto* evidence of the removal or reduction of market-access barriers. The volume of trade moving in each direction has risen at a generally rapid clip, so that the U.S. and Mexican economies are far more interpenetrated than ever before. Even trade between Canada and Mexico has risen, albeit less. Apart from the volume of trade flows, NAFTA has also had quite important repercussions on the composition of trade, contributing substantially to trade diversification by product line. Inasmuch as a rise in cross-border investment flows in both directions has accompanied the generally rapid trade expansion, there is no doubt that an even stronger impetus to trade has taken place since, for a goodly number of years, an increasing portion of international trade has consisted not only of intra-industry trade but also of intra-company trade: i.e., trade between branches of the same firm located in different countries, another powerful impetus to international commerce. Taken as a whole, NAFTA has thus contributed to rising productivity, higher employment and higher real incomes for those who have benefited from trade expansion either as producers or as consumers or, more typically, some combination of both.

No doubt employment, productivity and incomes would have risen had Mexican recovery from the 1980s debacle not been accompanied by the trade agreement, but each of the beneficial effects is stronger than it would have been without NAFTA. Particularly compelling, along the way, was the elimination of quotas, general tariff reduction and, though it was not part of a trade agreement, the reduction of impediments to many types of foreign investment.[2] Not all trade impediments have vanished, but there is no question but that huge progress has been made, covering a considerable variety of categories of exports and imports of goods. True, some implicit barriers remain where phyto-sanitary requirements are concerned, and some product-safety or consumer protection barriers remain, as in pharmaceuticals, but they are by now relatively few, thanks to the long-term experience of Mexican and U.S. producers in catering to the needs of each other's markets.[3] Indeed, the statistical evidence is overwhelming, but it is so extensive that there is no way to include any of it here, given space limitations. Suffice it to say that "border barriers" have exhibited the withering away that Marx once foresaw for the state. It is, of course, another story when it comes to trade in services.

On the service side, the most notorious example is trucking, where vehicle safety and environmental protection have been at least ostensible considerations in restricting cross-border traffic. However, widespread restrictions also remain in the form of professional licensing and certification requirements, the evaluation of academic transcripts, disclosure and authentication requirements for the listing of corporate securities, generally accepted (and expected) business practices (such as the Generally Accepted Accounting Practices) and suchlike. The variety of these is considerable and could be extended to include the social capital and established industry communications networks, trade fairs, markets and such that tend to skew inter-firm transactions toward firms of the same nationality. These behind-the-border access barriers, which could even include language preferences, are harder to deal with. They are not entirely without remedy, however, as business practices in the three countries converge, as professional interaction intensifies, as business, professional and leisure travel grow and as the volume of educational exchanges increases and the segments of society they cover, as well as travel, expand. VM

NOTES

[1] Very likely, however, there was much more trade discrimination, compared with trade creation, in the old Central American Common Market, CAFTA, the Andean Common Market and similar earlier arrangements, as well as similar schemes throughout the developing world.

[2] Mexico had rarely practiced another form of trade management commonly employed elsewhere in the past, namely, various kinds of exchange rate controls: exchange licensing, multiple exchange rates and so on.

[3] It goes without saying that both countries impose mutually acceptable restrictions, even prohibitions, on trade in certain types of objects: narcotics, firearms and special types of cultural property (pre-Columbian artifacts, colonial paintings, rare books and incunabula, the works of the "modern masters").