CHAPTER 13

The United States in the World Economy

Learning Objectives

After studying this chapter, students will be able to:

13.1 **Identify major changes in U.S. economic relations that have led to bilateral and plurilateral agreements.**

13.2 **Evaluate the relative importance of the North American Free Trade Agreement, both for what it accomplished and as a model for subsequent agreements.**

13.3 **Explain when purchasing power parity estimates of income per person are superior to the alternatives and when they are inferior.**

13.4 **State the reasons why Mexico and Canada sought free trade with the United States.**

13.5 **Differentiate free trade agreements from preferential trade agreements and give examples of each.**

13.6 **State why it is difficult to have precise estimates of job gains and losses due to trade and give specific examples of how imports may create jobs and exports may occur after a loss of jobs.**

INTRODUCTION: A CHANGING WORLD ECONOMY

The relationship of the United States to the world economy is shaped by its size, its wealth, and its role as a military superpower. It is endowed with a wide range of resources, including abundant and fertile farmland, a relatively well-educated population, and a disproportionate share of the world's top research universities, Nobel Prize winners, and venture capital. It is the third most populous country after China and India and has either the largest economy in the world or the second largest after China, depending on how it is measured.

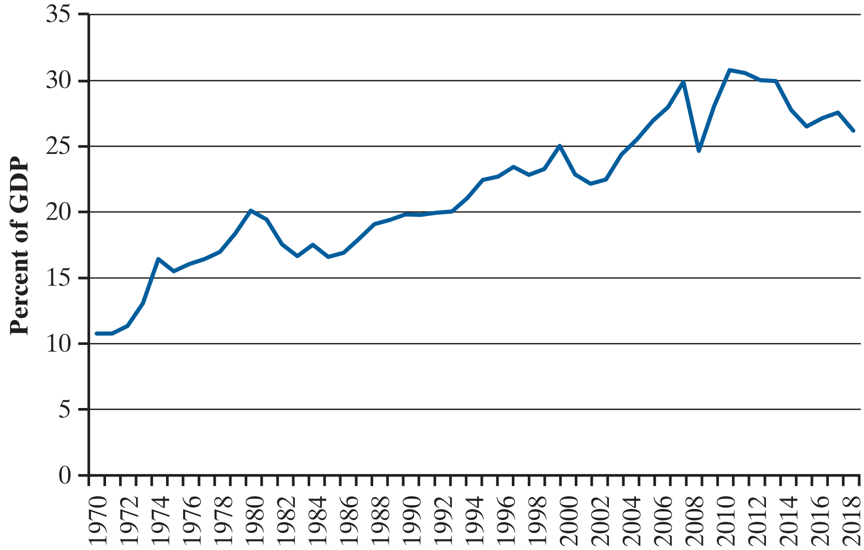
Throughout most of the post–World War II era, the United States used its size, wealth, and military power to foster a set of international economic relations that encouraged a multilateral approach to international trade and finance and economic support for low- and middle-income countries. It provided technical and military assistance and engaged in direct military intervention when it was deemed necessary. With the collapse of the Berlin Wall in 1989 and the dissolution of the Soviet Union in 1991, the bipolar world of two superpowers and two economic systems suddenly disappeared. Simultaneously, the rise of China's economy and influence, together with the economic successes of many emerging markets, began a rebalancing of the world economy. In recent years, the United States' commitment to an open, multilateral world order has declined, and support for unilateralism and nationalism has grown. Along with a more nationalistic stance, support in the United States for the institutions it helped to create, such as the WTO, the World Bank, and the IMF, has weakened to the point where the United States has actively undermined those institutions, particularly the WTO. No one can predict whether these are temporary or permanent shifts in U.S. policies, but they have already begun to have profound impacts on the world order that emerged during the second half of the twentieth century.

BACKGROUND AND CONTEXT

LO 13.1 Identify major changes in U.S. economic relations that have led to bilateral and plurilateral agreements.

Given its large economy and population, U.S. trade with the rest of the world has been a smaller share of its gross domestic product (GDP) than in most other developed economies. Nevertheless, over the past fifty years, the trade share of GDP has more than tripled. Figure 13.1 shows the long ascent of the trade-to-GDP ratio as it climbed from under 10 percent in the 1960s to around 30 percent after 2010. Within the long upward trend, there are several short-run downturns in the series, each of them during and after a recession (1974–1975, 1980–1982, 2001, 2007–2009).

FIGURE 13.1 The Trade-to-GDP Ratio for the United States, 1966–2019



The ratio of trade to GDP rose throughout the second half of the twentieth century but has fallen in recent years.

Source: Data from World Bank, © James Gerber.

Recessions cause a fall in imports due to the decline in income, and exports fall as well if other countries are also in recession. In recent years, U.S. trade has continued to grow in absolute terms but has trended downward as a share of GDP.

The top trading partners of the United States have not changed dramatically over the past several decades, with the major exception of China (Table 13.1). U.S. trading partners are well explained by the gravity model factors of proximity and size. More than one-third of all U.S. trade is with its top three trading partners: Canada, Mexico, and China, in that order (2019). Beyond those three, major markets for both U.S. imports and exports are Japan, Germany, the United Kingdom, and South Korea. The prominence of Canada and Mexico in Table 13.1 illustrates the relative importance of the **North American Free Trade Agreement (NAFTA)** and its successor agreement, the **United States-Mexico-Canada Agreement (USMCA)**.

The goods and services that make up U.S. trade have not changed much either, although services have become more important. In 1980, services were approximately 20 percent of U.S. exports but by 2019 had grown to be more than one-third (33.8 percent). Services are also an area in which the United States continues to show a trade surplus. The top categories of service exports are travel (including for educational purposes), business services, and payments for intellectual property. Taken together, they are more than 61 percent of service exports. U.S. goods exports are overwhelmingly manufactured items (83 percent) followed by oil, gas, and minerals (7 percent) and agricultural products (4.4 percent), with assorted miscellaneous items making up the remainder.

The Shifting Focus of U.S. Trade Relations

Throughout most of the post–World War II period, the United States was a strong supporter of multilateral trade opening as negotiated under the auspices of the General Agreement on Tariffs and Trade (GATT) trade rounds and then under the World Trade Organization (WTO). Support for open capital markets was less prominent until the 1980s, when it became another goal of U.S. policy. These positions were reinforced by the Cold War and the U.S. desire to ensure that developing nations joined the alliance of capitalist, democratic nations or, at a minimum, did not form strong ties with the Soviet Union.

TABLE 13.1 Leading U.S. Trade Partners, 1990 and 2015

	Top Five Trading Partners, in Order of Importance
Exports	
1990	Canada, Japan, Mexico, UK, and Germany
2019	Canada, Mexico, China, UK, and Japan
Imports	
1990	Canada, Japan, Mexico, Germany, and Taiwan
2019	China, Mexico, Canada, Japan, and Germany

CASE STUDY

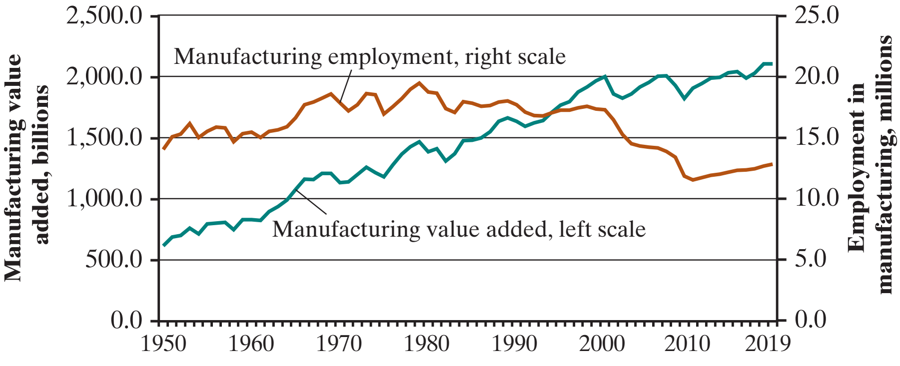
Manufacturing in the United States

In what year did the United States produce its highest output of manufactured goods? When a large group is asked this question, the guesses range from the 1960s to the 1990s. The correct answer is usually "Last year." Figure 13.2 illustrates this by plotting on the left scale the real value added in manufacturing, 1950–2019. As the graph shows, there is a long-run upward trend in the value added of manufacturing output, which is interrupted by the occasional recession, most recently in 2007–2009.

The right scale shows manufacturing employment. Employment peaked in 1979 at 19,426,000 and began a long-run decline after that. In 1980, the United States entered a mild recession and then a more severe one in 1981–1982. Manufacturing employment recovered some of its losses in 1984 but continued its trend downward particularly after 2000.

Within the story of the growth of manufacturing output and manufacturing employment decline, there are two additional stories not directly shown in the graph. First, there is the story of manufacturing relocation within the United States. Traditional industrial states in the north central part of the United States, such as Ohio and Michigan, have seen many jobs leave for other parts of the country. Some jobs have gone overseas, but quite a few have also gone to Southern states such as South Carolina, Tennessee, and Texas. When coupled with the overall decline in the total number of jobs, the plight of older manufacturing states has been grim. This has also contributed to the mistaken

FIGURE 13.2 Real Value Added and Employment in Manufacturing, 1950–2019



Since the late 1970s, manufacturing employment has declined, whereas manufacturing output has constantly risen except during recessions.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics.

(*continued*)

perception that the United States no longer has a vibrant manufacturing sector, but the story of Figure 13.2 is that the United States continues to produce a large and growing quantity of manufactured goods.

The second story is the rapid increase in productivity in the manufacturing sector. Fewer workers but more output means that each worker is producing more, and output per hour worked in manufacturing has increased at a very rapid rate. This has occurred in part through the application of new technologies and new processes, and while productivity growth speeds up and slows down, it is usually much more rapid in manufacturing than in services or agriculture. Hence, even as the United States produces more manufactured goods, fewer workers are involved.

Several factors have caused shifts in this stance. First, multilateral trade negotiations became more complicated as the GATT and then the WTO added new members. When the GATT was originally signed in 1947, it had twenty-three members, but by the time of the Uruguay Round (1986–1994), there were 128 signatories to the GATT. Currently there are 162 member countries in the WTO. The increase in membership has dramatically complicated negotiations.

Second, many quotas have been converted to tariffs, and tariffs in general have fallen dramatically (see Figure 6.4). Consequently, the new multilateral trade negotiations in the Doha Round are focused on much more difficult issues such as agricultural support systems, intellectual property, services trade, government procurement, and assistance for developing countries. These areas pose significant challenges, in part because they are not easily represented as reciprocal openings. If all countries cut their tariffs by 5 or 10 percent, it is easy to see a mutual gain, but if all countries agree to enforce intellectual property rights on an equal basis, it is hard to see the immediate benefits for countries with little or no intellectual property to defend. In addition, many of these new areas of negotiation are concerned with issues that are deeply embedded in national politics. For example, creating a level playing field in government procurement so that foreign firms can bid on contracts let by a national or sub-national government arouses resentment when domestic firms lose out in bidding to foreign ones.

Third, the end of the Cold War has removed one of the pressures that caused the United States to offer trade concessions to other countries. During the Cold War, the United States used access to its market as an incentive to keep countries from developing deeper ties to the Soviet Union. It frequently agreed to asymmetric opening of its markets without demanding equal access to foreign markets when the country in question was perceived to have geostrategic value in the Cold War. The United States also used its systems of quotas to reward nations for their cooperation by allowing them to sell more in the United States, particularly in the textile and apparel sectors but also in agriculture. The demise of the USSR removed this need to compromise or to offer asymmetric access to the U.S. market.

A fourth factor in the rise of bilateral and plurilateral agreements in place of multilateral is the growing success of countries that were previously relatively unimportant in world markets. Most notable is China's return to the world economy, but other nations such as South Korea, Taiwan, Thailand, Brazil, and India have also become important in global markets. The increased economic strength of many emerging markets has encouraged the growth of more nationalist ideology that is less committed to international cooperation and multilateral agreements.

The movement toward bilateral solutions began in earnest in 1993 with the signing of the NAFTA and its implementation on January 1, 1994. While valuable in its own right, NAFTA also served the purpose of helping to push the multilateral system toward conclusion of the Uruguay Round of the GATT agreement by expanding trade policy to include bilateral agreements. This gave the United States additional leverage in multilateral negotiations, as it signaled that there are options beyond the GATT/WTO framework. In addition, from the perspective of the United States and many other countries that have signed a growing number of trade agreements, working within a bilateral or plurilateral framework entails easier negotiations than in the multilateral case and has the additional benefit of serving as a testing ground for new types of agreements. For example, the NAFTA agreement was the first to include labor and environmental standards.

The United States currently has free trade agreements (FTA) in force with twenty countries grouped into three strategic geographical regions: the Middle East and North Africa, the Pacific Basin, and the Americas. Most agreements are with small countries that account for a small share of U.S. merchandise trade, but Canada, Mexico, and Korea are major exceptions. Table 13.2 shows the agreements in force, their dates of implementation, and the total amount of merchandise goods traded in 2019.

The final two rows of Table 13.2 summarize size and relative importance of merchandise exports with free trade areas. Free Trade Agreement (FTA) countries are around 47 percent of U.S. exports and approximately 35 percent of imports. Proponents of FTAs make the argument that U.S. markets are relatively more open than many foreign markets. Given the relative openness of the U.S. market, bilateral and plurilateral FTAs that help open foreign markets promote U.S. exports relatively more than U.S. imports instead of causing a proportional increase in both.

This interpretation of Table 13.2 supports the idea that FTAs have been relatively good for the U.S. insofar as they have helped to open foreign markets. Similarly, many other countries have shifted toward signing bilateral and plurilateral agreements. Prior to 1990, twenty-seven FTAs were notified to the GATT. Since then, more than 250 agreements have been registered with the WTO, and as of 2020, 303 are in force. Some economists see the upsurge of bilateral and plurilateral agreements as one of the principal causes for the erosion of the Doha Round of the WTO because they have diverted political attention toward bilateral or regional concerns and away from global ones. Theoretically, FTAs can be "stumbling blocks" that detract from multilateral agreements or "building blocks" that create more trade than they divert and that enable countries to try new types of agreements. The WTO has concluded that in practice, most are complementary to the multilateral trading system and not substitutes for it.

THE NAFTA MODEL

LO 13.2 Evaluate the relative importance of the North American Free Trade Agreement, both for what it accomplished and as a model for subsequent agreements.

LO 13.3 Explain when purchasing power parity estimates of income per person are superior to the alternatives and when they are inferior.

LO 13.4 State the reasons why Mexico and Canada sought free trade with the United States.

Table 13.2 does not single out trade flows between the three NAFTA countries. Nevertheless, United States trade with Mexico and Canada is a very large and important part of the country's overall trade, constituting 33 percent of U.S. exports and 27 percent of imports. Given NAFTA's importance, both in terms of the volume of trade and as a model that set the pattern for subsequent trade agreements, it is useful to look at it in more detail. We begin with some background on Canada and Mexico.

Demographic and Economic Characteristics of North America

Table 13.3 gives an idea of the size of the NAFTA region. Income per capita is measured in two ways: in U.S. dollars converted from Canadian dollars and Mexican pesos at market exchange rates, and in dollars measured in terms of **purchasing power parity (PPP)**. The PPP adjustment enables us to know internal

TABLE 13.2 Free-Trade Agreements and Merchandise Goods Trade, 2019

Regions and Countries (Year of agreement)	Exports (Millions)	Imports (Millions)
Middle East and North Africa		
Israel (1985), Bahrain (2006), Morocco (2006), Oman (2009), Jordan (2010)	22,676	26,093
Trans-Pacific		
Singapore (2004), Australia (2005), Korea (2012)	114,432	117,641
Americas		
Canada (1989), Mexico (1994), Chile (2004), Dominican Republic-Guatemala-Honduras-El Salvador-Nicaragua-Costa Rica (DR-CAFTA, 2006) Peru (2009), Panama (2011), Colombia (2012)	629,418	747,836
Total merchandise trade with FTAs	766,525	891,570
Share of total merchandise trade (%)	46.6	34.7

TABLE 13.3 Population and GDP for the NAFTA Region, 2019

Country	Population (Millions)	GDP (US$, Billions)	GDP per Capita (US$)	GDP per Capita (PPP)
Canada	37.5	1,736.4	46,195	51,342
Mexico	127.6	1,258.3	9,863	20,411
United States	328.2	21,427.7	65,281	65,281
Total	493.4	24,422.4	49,497	52,618

The NAFTA market is nearly half a billion people and produces more than 24 trillion in output.

Source: Data from The World Bank, © James Gerber.

purchasing power, which is defined as the amount an average income can buy inside the country where the income is earned when it is measured in terms of the cost of a similar basket in the United States. Income per capita at market exchange rates is the external purchasing power of an average income. The differences between internal and external purchasing power are more easily understood with an example. Looking at Table 13.3, an average Mexican income can buy goods and services in Mexico that would have a value of $20,411 in the United States. This is the internal purchasing power of an average Mexican income. The external purchasing power is $9,863, which is the value of the goods and services an average income can buy if it is spent in the United States. The numbers tell us that on average, goods and services cost more in the United States than in Mexico. The PPP concept adjusts for that fact and lets us make international comparisons of income based on similarly priced baskets of goods and services.

The PPP adjustment is necessary in order to compare actual living standards, while the market exchange rates income is useful to know something about the ability of people to buy goods and services in the world economy. The two numbers are not equal because exchange rates are rarely in long-run equilibrium and because non-traded goods vary in price across national boundaries. For example, labor-intensive goods and services are inherently less expensive in Mexico where there is a relatively abundant supply of unskilled and semi-skilled labor.

As shown in Table 13.3, the NAFTA region has more than 493 million people (2019) and over $24 trillion in combined GDP. This is roughly comparable to the twenty-seven nations of the European Union, which has 446 million people and a combined GDP of 15.6 trillion (2019) when measured in U.S. dollars. With an average NAFTA-region GDP per capita (at market exchange rates) of over $49,000, it is a wealthy region by any standard.

Canada–U.S. Trade Relations

The United States and Canada have the largest bilateral trade relationship of any two countries in the world, with two-way merchandise goods and services trade in 2019 of more than $721 billion. This large sum is due to a shared border, a common historical background, and a similar culture, but it is also the result of three stages of integration over the past four and a half decades. Beginning with the **Auto Pact** of 1965, followed by the **Canada-U.S. Free Trade Agreement (CUSTA)** in 1989 and the NAFTA agreement in 1994, Canada and the United States have taken advantage of their proximity to foster a set of mutually beneficial trade ties that focus on natural resources and intra-industry trade, particularly in the auto sector.

The Auto Pact of 1965 removed barriers to trade that previously forced the major U.S. firms to set up separate plants in Canada where they were unable to capture the full economies of scale essential to the car industry. By combining their production in the United States with their Canadian plants, General Motors, Chrysler, and Ford were able to produce for a single combined market. Before the agreement, Canadian plants produced solely for the Canadian market; after the agreement was implemented, they were suddenly more productive, as they could specialize in particular car models and increase their production runs to serve both the United States and the Canadian markets. Trade in both directions increased substantially, and productivity levels in Canadian plants, which were 30 percent below U.S. levels, rose dramatically.

By the 1980s, the car industry was integrated, but several new problems became apparent. Both the United States and Canada began to feel the rise of emerging markets in Asia, and Japan's inroads into the U.S. auto market, steel, and consumer electronics were troubling as this seemed to indicate a loss of competitiveness in many U.S. and Canadian firms. Furthermore, the United States began to use antidumping and countervailing duties more often along with a new set of quotas administered under voluntary export restraint (VER) agreements. The latter were not voluntary in practice but worked the same as quotas in limiting foreign imports to a set level. The most important affected industry was the Japanese car market.

From the perspective of Canada's leadership, growing U.S. protectionism and rising Asian manufacturing competitiveness were troubling signs because Canada is very dependent on the United States as an export market and as a source of imports. One solution to these pressures was to create an FTA with the United States. This solution locked the United States into an international agreement that required it to keep its market open and, at the same time, put pressure on Canadian manufacturers to make changes to become more competitive.

The CUSTA was ratified in 1988 and implemented in 1989. CUSTA's impacts were more or less as expected. Between 1989 and 1994, Canadian exports to the United States grew 55 percent ($47 billion increase), whereas U.S. exports to Canada grew 46.6 percent ($36.5 billion increase). In percentage terms this growth is not quite as rapid as the period before and after the implementation of the Auto Pact, but given that trade was already at a high level in 1987, a 50 percent increase represents an enormous volume of trade.

The debate over U.S.–Canadian free trade was low key and dispassionate in the United States. In Canada, however, a heated public discussion erupted when it was announced that the United States and Canada were negotiating an agreement. The opponents of the trade agreement feared that (1) Canada might not be able to compete with U.S. firms, which had the advantages of economies of scale; (2) expanded trade might force Canada to jettison many of its social programs; and (3) Canadian culture might come to be dominated by the U.S. news, information, arts, and entertainment industries.

The issue of Canadian competitiveness was largely one about the need to gain economies of scale and to increase productivity through organizational or technological changes within firms. For the most part, the real issue for a high-income, industrialized country such as Canada is the length of time over which the changes can be expected to occur and not whether firms are capable of competing.

The Canadian opponents of CUSTA also argued that it would erode Canada's social programs. For many citizens, Canada's more extensive social programs, such as universal health care and more developed income maintenance programs, are part of a national identity that make Canada unlike the United States. The opponents of CUSTA argued that the intensification of competition with the United States would undermine these social programs and dilute the difference between the two countries. They reasoned that social programs would be cut in order to reduce business taxes and make Canadian firms more competitive. Given that taxes are one component of business costs and that, in some cases, there are offsetting reductions in cost elsewhere, it was incorrect to view a trade agreement with the United States as a threat to social programs. In the case of health care, for example, it makes more sense to argue that the United States' system is at a competitive disadvantage because the cost of hiring workers is raised when they must be provided with health care benefits by their employer. In Canada, by contrast, health care coverage is universal and is paid for out of general government revenues and individual taxes.

The final and most contentious issue from the Canadian point of view was the possibility of U.S. cultural domination. A very wide spectrum of opinion, including both opponents and proponents of expanded free trade, argues that the combination of Canada's smaller population and its proximity to the United States will destroy its national identity if it allows completely free trade in the cultural industries. These industries include music in all of its venues as well as radio, television, newspapers, publishing, magazines, drama, cinema, and painting. Under the rules of CUSTA, Canada is allowed to protect its national identity by imposing quantitative restrictions on imports of "cultural products." In most cases, the rules allow Canada to impose domestic content requirements on television, radio, and theater. For example, the content requirements make it illegal for a radio or TV station to play content originating in the United States twenty-four hours a day. Cable TV companies give preferences to Canadian-based TV networks, and there are national rules that favor Canadian theater companies, artists, and writers.

Mexican Economic Reforms

From the 1950s until the onset of a crisis in 1982, Mexican per capita growth averaged 3.3 percent per year in real terms, an impressive record that doubled living standards approximately every generation. This long boom in Mexico's growth occurred under a set of trade policies called **import substitution industrialization (ISI)** that target the development of manufacturing through support for industries that produce goods that substitute for imports. As the leading economic development strategy throughout much of the world from the end of World War II until the mid-1980s, ISI policies prescribed industrial policies for goods production, beginning with simple consumer goods such as food and beverage, textiles and apparel, furniture, and footwear and advancing through more complex consumer goods such as household appliances and into industrial goods such as generators, pumps, and conveyors. This was to be followed by the development of more sophisticated industrial goods as countries moved up the ladder of comparative advantage, gaining manufacturing experience and changing their endowment of capital and labor skills. The tools employed by ISI policy included industrial support policies of tax breaks, low-interest loans, subsidies, occasional nationalization, and high protectionist barriers.

A major weakness of ISI policies is that they discriminate against exports. They do this by raising the rate of return for firms that produce for the domestic market where they have high protectionist walls and can charge higher prices while facing little or no competition. This also hurt Mexico and other ISI economies in the long run because it reduced the incentive to innovate or make product improvements, given that there was limited competition. With higher rates of return in the production of import substitutes, labor and capital were drawn out of the export sectors and into production for the domestic market. Consequently, when a decade of poor macroeconomic management in the 1970s came to a head in the 1980s, Mexico found itself deeply in debt and with limited capacity to export.

The debt crisis that began in Mexico in August 1982 was the result of a series of factors. From Mexico, the debt crisis quickly spread to the rest of Latin America, where similar policies had resulted in poor macroeconomic management and the accumulation of a large amount of debt. This period came to be known as the **Lost Decade** and is discussed in more detail in Chapter 16 on Latin America. In Mexico, as in most countries, the underlying causes of the debt crisis were heavy borrowing from foreign banks, weak tax systems, and rising world interest rates that made debt service more expensive. Mexico had discovered new oil fields in the 1970s, and borrowing was encouraged by the belief that the price of oil would rise forever and, along with it, the country's ability to service ever-increasing amounts of debt. When oil prices began to fall in the early 1980s, the Mexican government's oil revenue began to decline, just as its interest payments on the money it had borrowed were going up. These factors were intensified in their impacts on the Mexican economy by the fact that several decades of ISI policies had weakened the export sector (other than oil, which received special treatment). Weak export performance reduced the capacity to earn dollars that might be used to make payments on foreign debt. By August 1982, Mexico had exhausted its reserves of foreign currency and could no longer pay its debts. This triggered the onset of the debt crisis, which ultimately dragged on from 1982 until 1989.

The solution to the debt crisis required multiple policy changes. In the 1980s, Mexico privatized many firms that had been drains on the federal budget (938 were privatized between 1982 and 1992), brought its federal budget under control, reduced its restrictions on foreign direct investment in the country, and began to open its market to greater competition. In 1986, Mexico joined the GATT and in 1989, President Carlos Salinas proposed an FTA with the United States. Salinas had two goals in mind. First, he wanted to solidify his reforms in an international agreement. Before the political reforms that occurred in the late 1990s, Mexican presidents were granted extensive autonomy and authority. A more protectionist president could very well overturn the reforms that he and his predecessor (Miguel de la Madrid) had implemented, but if they were embedded in an international agreement, it would be much harder. Second, Salinas wanted to attract more foreign capital to increase the low domestic savings in Mexico. More foreign investment in Mexico would spur growth, whereas greater access to the large U.S. market would be an incentive for investors to build manufacturing plants in Mexico.

The North American Free Trade Agreement

The North American Free Trade Agreement was ratified in 1993 and took effect on January 1, 1994. A modified NAFTA, called the United States-Mexico-Canada Agreement, or USMCA, was negotiated in 2018, ratified in 2020 and was implemented on July 1, 2020. Since the NAFTA agreement is the foundation for the USMCA as well as most other free trade agreements signed by the United States, it is worth looking at it more closely.

The first important feature of NAFTA was that most forms of trade barriers came down. Because the United States and Canada were relatively open economies with few trade barriers, most of the change came on the Mexican side. For example, between 1993 and 1996, average U.S. tariffs on Mexican goods fell from 2.07 to 0.65 percent. By contrast, Mexican tariffs on U.S. goods fell from 10 to 2.9 percent. These reductions in tariffs under NAFTA were a continuation of the reduction in trade barriers that began in the mid-1980s. Between 1982 and 1992, the percentage of Mexico's imports that required import licenses from the government declined from 100 to 11 percent, and tariffs fell from an average level of 27 to 13.1 percent. By 1994, Mexico's economy was substantially open to the world.

Some tariffs and investment restrictions on each country's cross border investment were eliminated immediately, but in many cases, there was a variable period of phasing out tariffs and investment restrictions. The phase-out period for these remaining tariffs and investment restrictions varied from sector to sector. In cases where there was expected to be significant new competition, industries were given a longer period to prepare themselves because each country wants to avoid a sudden disruption of its economy even as it wants gains from trade.

A second feature of NAFTA is that it specifies North American content requirements for goods subject to free trade. To qualify for free trade or the reduced tariff provisions of the agreement, a specified percentage (usually 50 percent) of the value of the good must be made in North America. One of the changes to NAFTA made by the USMCA is an increase in the content requirements, particularly in autos, steel, and aluminum. The purpose of local content requirements is to prevent nonmembers from using low tariffs in one NAFTA or USMCA country to gain access to all three. Most trade economists dislike these provisions because they increase the likelihood of trade diversion. Production of inputs in lower-cost, nonmember countries could be reduced if firms move their operations to one of the member countries in order to meet the content requirements—as happened in the apparel industry, for example. Firms moved from the Caribbean to Mexico, even though Mexico was not the lowest-cost producer. Mexico's exports to the United States paid zero tariffs, so goods produced there could sell for less than goods produced in lower-cost countries and subject to high tariffs when entering the United States. Nevertheless, content requirements were politically necessary in order to pass the agreement in Canada and the United States.

A third feature of NAFTA is that it set up three separate dispute resolution mechanisms, depending on the source of the disagreement. Individual chapters cover disputes related to dumping and anti-dumping duties; treatment of foreign investors by national policies, called **investor-state disputes**; and a third dispute resolution mechanism for general disputes. Each of these areas is separate from the consultation mechanisms for disputes over labor and environmental standards, which are a fourth significant feature of the agreement. NAFTA itself did not contain language regarding labor and environmental standards or concerns, but two side agreements were ratified and implemented at the same time as the trade agreement. These are the **North American Agreement on Labor Cooperation** and the **North American Agreement on Environmental Cooperation**. The labor and environmental side agreements, along with the investor-state dispute resolution mechanism, have served as frameworks for most of the subsequent FTAs negotiated by the United States, including the USMCA, which potentially strengthens labor and environmental standards if it is adequately enforced.

Investor-state disputes are disagreements between private parties, such as a foreign investor, and governments. The dispute resolution clause is perhaps one of the most controversial parts of the entire NAFTA agreement. It was fought over in the renegotiation, but it remains in the USMCA, although Canada has opted out. This part of the agreement gives private firms the right to sue governments if the firm's executives think that government policies are applied in a discriminatory way that hurts profits. In the early years of NAFTA, it appeared that firms could use this clause to overturn new environmental or other regulations if it could be argued that they injured the firms' profitability. Since then, this point has been clarified to stress that the rule does not prevent governments from issuing new regulations as long as they are applied in a nondiscriminatory manner. Critics of trade deals still point to this part of the agreement as an unreasonable empowerment of private firms and a weakening of governments.

One key issue not addressed in either the NAFTA or USMCA is the issue of migration. Because it is a free trade area and not a common market, there is no provision for the movement of labor, except some categories of business people, nor is there any discussion of such a provision. In most contexts, a free trade area without immigration provisions is the norm, but in the context of U.S.–Mexico relations, it is a problem. Over the past four decades, the flow from Mexico has been the largest wave of immigration from a single country to the United States in U.S. history.

Mexican migrants in the United States numbered more than 11.1 million in 2018 and were 25 percent of all immigrants. Researchers estimate that just over one-half of the Mexican immigrant population is unauthorized to be in the United States. Migrants go to the United States for the usual reasons: jobs, income, and family reunification. They also leave Mexico for the United States for specific reasons: proximity, the 2,000-mile-long border that is impossible to close completely, and a lack of jobs and opportunity in their home country. Sometime in the early 2000s, the wave of migrants from Mexico to the United States began to decline, and by 2010, the absolute number of Mexican-origin migrants living in the United States reached its peak. Since then, the number has fallen. While the pattern of migration shifted as more individuals leave the United States than arrive each year, the fact that there are more than 11 million migrants, some of whom are citizens, others with legal work permits, and more than 5.5 million without authorization to be in the United States, ensures that the issue of migration will continue to be important to both countries.

CASE STUDY

North America's Automotive Value Chain

The automotive industry is one of the largest and most complex industries in the world. It is highly concentrated in a handful of countries, although more firms and more countries are increasing their participation. Beyond its sheer size, it also has important impacts on economic growth and innovation. The growing importance of green vehicles, with new power systems, greater security, and more connectedness, has caused a high level of research and development and technical innovation. In addition, new models of vehicle use, including shared vehicles, ride apps, and automated traffic controls, have created incentives for innovation and the need to develop new systems for transportation management.

The automotive industry is also one of the most integrated industries across the three NAFTA/USMCA economies. This has happened for at least four reasons. One, in 1965 the United States and Canada signed the Auto Pact and began to integrate production. Geographically, the proximity of Canadian and U.S. production in the 1960s in the Detroit-Windsor region facilitated the exchange of inputs and technologies. Two, as the U.S. industry faced greater competition from Europe, Japan, and eventually Korea, it looked for ways to cut its production costs. Firms moved south where unions were weaker, and they also began to experiment with offshoring some production to Mexico. Three, Mexico's economic reforms of the 1980s and 1990s opened the door to more foreign direct investment and facilitated the movement of traded inputs and final products across national borders. Four, when the NAFTA agreement was ratified in 1993 and implemented in 1994, automotive firms gained an added degree of assurance that the opening of Mexico's economy would not be easily reversed.

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The largest producer of passenger cars and commercial vehicles in the world is China, but it exports very few relative to its production. The United States is the second-largest producer, while Mexico is sixth and Canada eleventh. China's production is mostly for domestic use and contrasts greatly with Germany, the fourth-largest producer but by far the largest exporter of cars. Japan is the world's second-largest exporter, followed by the United States, Canada, and Mexico, in that order. Looking at car parts rather than whole vehicles, Mexico (fourth) ranks higher in exports than the United States (fifth) and considerably above Canada, which specializes more in the final product.

None of the NAFTA/USMCA countries is number one in production or exports, but all three are important to the world market. Given that they signed a free trade agreement more than twenty-five years ago, there has been plenty of time for firms to adjust both production and location. The result is a more competitive industry than would have existed if the automotive sector had been forced to produce in one country only. The key was the development and eventual deepening of global value chains that coordinate production across national borders.

Recall from Chapter 4 that a global value chain is a form of intra-industry trade in which firms move different production stages to different countries as a way to utilize the comparative advantage of those countries. Firms that participate in global value chains can have backward linkages, **forward linkages**, or both. Recall that with a backward linkage, a firm imports intermediate goods that are processed and then exported, either as a final product or as an input that is further processed. With forward linkages, a firm produces a good that is exported for further processing by the importer, who then sends it on to a third economy. A hypothetical example will illustrate these concepts more clearly. Suppose a car manufacturer in the United States imports car seats from Canada and installs them in a car that it sells in Asia. The car manufacturer is participating in a global value chain through a backward linkage with the car seat manufacturer. The car seat manufacturer is also part of a global value chain but with a forward linkage. Its output, the car seat, was exported to the United States, where it was further processed (installed in a car) and then exported to Asia as part of the car.

To see how this complicates our understanding of trade relations, we only have to think about how this would show up in trade statistics. The car seat is a Canadian export and a U.S. import. But it is also a U.S. export because it is included in the value of the exported car. So, is the country that imports the car receiving a U.S. export or a U.S. and Canadian export? You can see how this hides the actual economic relationship when we focus exclusively on exports and imports. The Asian car importer has an economic tie to Canada that it may not be aware of and a somewhat smaller tie to the United States than the trade statistic shows.

Cars are a good example of global value chains because they contain thousands of parts produced in many different locations. Consider the actual case of Mexico. It is the world's fifth-largest car exporter and the fourth-largest exporter of car parts. Its volume of trade in this sector illustrates one of the primary ways it has become more integrated with Canada and the United States. A significant part of its industry has grown with the aid of foreign direct investment. Global value chains depend on the proximity of producers to each other, so Mexico's shared border with the United States is a big advantage. Its automotive value chain has also grown as a result of national programs that incentivize innovation and training, the development of supply chains and technical skills, and the creation of specialized business services. While these are akin to industrial policies, in most cases they are open to all sectors and are not specifically targeted on the automotive industry.

The growth of global value chains in Mexico has been especially important in the automotive sector and has been concentrated on backward linkages more than forward, although the latter are important as well. This reflects the fact that U.S., European, and Japanese firms have incorporated Mexican firms into their supply chains. Overall, 10.7 percent of the value of Mexico's domestically produced automotive sector exports has forward linkages and 29.3 percent has backward linkages.

TRADE INITIATIVES AND PREFERENTIAL AGREEMENTS

LO 13.5 Differentiate free trade agreements from preferential trade agreements and give examples of each.

Table 13.2 shows all of the United States' free trade agreements. Over the past several decades, the United States has also implemented a number of additional agreements affecting trade, foreign investment, and its economic relations with other countries. Table 13.4 lists these by type of agreement, number of countries involved, and the goals of the agreement. To a large extent, the various types of agreements can be divided into two main categories. The first category consists of **preferential agreements** that provide duty-free access into the U.S. market to some or all of the designated countries' exports. The market access is on a unilateral basis and does not require reciprocal access for U.S. products. Mostly, the export values involved are relatively small and are from low- and middle-income developing countries. The goals of U.S. policy are to promote trade and, hopefully, economic development. The largest of these preferential agreements is the Generalized System of Preferences (GSP), which currently includes 120 counties (2019).

In addition to the three preferential agreements, the United States has a large number of trade and investment framework agreements (TFIA) and **bilateral investment treaties (BIT)**. TFIA are negotiated with individual nations and with trade blocks. In general, both types of agreements are mechanisms to discuss trade and investment rules and to provide a forum for discussing issues and settling disputes. In both the TFIA and the BIT, the United States has been able to implement rules that go beyond what is possible in the multilateral WTO. These agreements are not as ambitious about reducing trade barriers as have been the GATT and WTO talks, but the fact that they are bilateral gives the United States more leverage and simplifies the negotiation process.

TABLE 13.4 Key Trade Initiatives of the United States

Trade Initiatives	Members/Agreements	Goals
Asia-Pacific Economic Cooperation (APEC)	21 members	Free trade in theory, but in practice an economic forum for addressing issues of concern
Trade and investment framework agreements (TFIA)	Individual agreements with 35 countries plus 6 trade blocs; 100 countries in total	Serves as a discussion forum to encourage cooperation on trade and investment issues
Bilateral investment treaties (BIT)	41 individual agreements	Serves as a discussion forum where rules to protect foreign investment and encourage market oriented policies can be negotiated.
Trade Preference Programs	**Beneficiaries**	**Purpose**
Generalized System of Preferences (GSP) (1976)	120	Duty-free access for many goods from 120 low- and middle-income countries
Caribbean Basin Initiative (CBI) (1983)	17	Duty-free access for most goods from 17 Caribbean nations
African Growth and Opportunity Act (AGOA) (2000)	39	Duty-free access for most goods from 40 sub-Saharan countries; eligibility varies with political conditions

The United States has many bilateral trade and investment agreements for discussing issues of interests while it unilaterally offers enhanced market access to many low- and middle-income countries.

Source: Office of the United States Trade Representative.

The **Asia Pacific Economic Cooperation (APEC)** forum began with the ambition to create a free trade area in the Pacific region but is mainly a forum for discussing issues, much like the TFIA. APEC includes twenty-one countries, including the largest in the Pacific region: China, Japan, South Korea, Mexico, Canada, and Australia, among others. As it failed to make progress toward the goal of free trade and became a forum for discussing trade issues, the United States and some other members proposed an alternative agreement called the Trans-Pacific Partnership, or TPP. The TPP would have excluded China and was part of a U.S. trade strategy to eventually cause China to adopt more market oriented trade practices if it wanted to join. However, the presidential administration of the United States that came into office in 2017 pulled out of the agreement. Subsequently, the remaining countries concluded the agreement (now called the difficult-to-remember Compressive and Progressive Agreement for Trans-Pacific Partnership). In addition to leaving the TPP shortly before it took effect, the President terminated a set of negotiations that were directed toward a free trade agreement with the twenty-seven members of the European Union.

These moves to cancel agreements, together with threats to leave NAFTA, to remove countries from the Generalized System of Preferences, to start a trade war with China, and the imposition of new tariffs on a wide range of imports into the United States from many countries reflect a new unilateralism and nationalism in U.S. politics. Americans have never been as pro-trade as it might have seemed given the country's relatively open markets and its leadership in building the WTO and systems of open trade. The ambivalence of the U.S. public toward trade might be due to the country's enormous size and the fact that the benefits of trade are often invisible to most citizens. Regardless of the reasons, anti-trade politicians often have success in portraying international trade as one of the main causes of economic problems and U.S. trade deficits as a sign that other countries do not play fair. Whether the recent shift in U.S. policies will remain in place indefinitely or whether there will be a shift away from protectionism is uncertain at the moment.

CASE STUDY

The African Growth and Opportunity Act

Preferential trade agreements cover a variety of schemes that admit imports either tariff free or with a reduced tariff. Most high-income countries and some developing countries use these schemes to support low- and middle-income countries by letting their goods bypass the normal tariff barriers. The most common scheme is called the **Generalized System of Preferences (GSP)**. The United States implemented the GSP in 1976 and currently offers tariff-free access to its market for a large percentage of goods coming from 122 developing countries.

In addition to the GSP, the United States offers two other preferential agreements: the **Caribbean Basin Initiative (CBI)** and the **African Growth and Opportunity Act (AGOA)** (Table 13.4). Goods not covered under the GSP are covered in these additional preference schemes, although none of them cover all exports by the beneficiary countries. Each of these agreements has a political or economic objective. The CBI was implemented to diversify Caribbean exports and strengthen growth during a time of political unrest, guerilla warfare, and rising socialist parties in Central America, and the AGOA is intended to promote export diversification and economic development in sub-Saharan Africa.

AGOA is the most recent of the agreements. Signed into U.S. law in 2000, it currently covers thirty-nine countries in sub-Saharan Africa and is the primary trade-promotion initiative of the U.S. government for Africa. It provides duty-free entry for 5,200 products, covering about 86 percent of products that the U.S.

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imports. Countries that qualify for duty-free access to the U.S. market under the AGOA include some of the poorest nations of sub-Saharan Africa, many with per capita incomes under $1,000 per person per year. The goal of the United States in offering enhanced market access on a unilateral basis is to encourage export diversification and promotion as a catalyst for economic development.

Duty-free access to the U.S. market is a significant benefit for sub-Saharan Africa, and a few countries have taken advantage of the opportunity to increase exports, particularly in the automotive sector (car parts) and the relatively highly protected apparel sector. In spite of a few successes, more than half of all AGOA-designated countries export less than $1 million in goods to the United States, and many of those with significant exports mostly sell oil, the most common export. The difficulties associated with diversifying out of oil are limited by two factors. First, a few goods that are sensitive to the United States are excluded. These are primarily agricultural products and include some key sectors. For example, cotton is an important product in several countries (see the case study on losing comparative advantage in Chapter 3), as are the excluded items peanuts and sugar. Secondly, distance matters, as it leads to higher transportation costs and less competitive pricing. Western African nations are not so far from the United States, given cheap ocean transportation, but East Africa is another matter. Furthermore, the disadvantage of distance is compounded for fourteen sub-Saharan African nations that are landlocked without direct access to the sea. (Africa has more landlocked nations than any other continent.)

As noted previously, AGOA exports have grown since the implementation of the preferential scheme. Ideally, export growth would show a diversified set of manufactured goods and agricultural products, representing robust economic performance and new opportunities for these sub-Saharan nations. Yet most of the growth has been in oil exports. Increased exploration and new discoveries have led to significant increases in oil exports to the United States from Angola, Chad, Equatorial Guinea, Gabon, and Nigeria. In 2015, 35.8 percent of U.S. imports from AGOA countries were oil and related products.

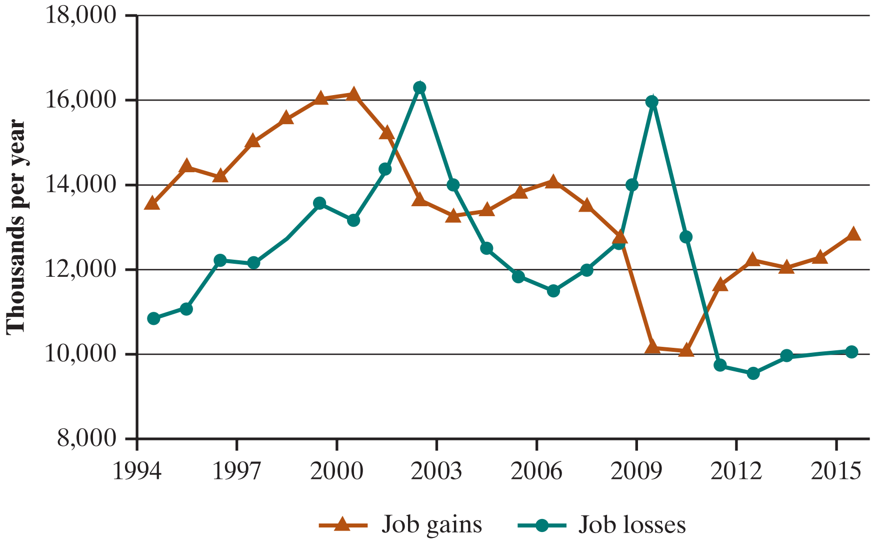
JOBS AND TRADE AGREEMENTS

LO 13.6 State why it is difficult to have precise estimates of job gains and losses due to trade and give specific examples of how imports may create jobs and exports may occur after a loss of jobs.

There are quite a few estimates of the job gains or losses caused by NAFTA and other trade agreements. Within five years of NAFTA's implementation, the estimates ranged from a net loss of 98,000 a year to a net gain of 42,000 a year. It is possible to estimate the number of workers needed to produce a given quantity of exports and to estimate the number of jobs that would be created if imports were produced at home, but these values are not the same as job creation and destruction due to a trade agreement. For example, imports may supply a firm with capital or intermediate goods that make the firm more competitive and better able to survive, and exports may supply a foreign affiliate that has been recently off-shored by the home country firm. Hence, some imports create jobs, whereas some exports exist only because jobs at home have been moved abroad. Given these conceptual difficulties, actual estimates of the number of jobs gained or lost are closer to guesses. In addition, pro-trade think tanks and scholars usually show job gains, while anti-trade think tanks show job losses. In either case, however, neither side of the debate can show large job gains or losses in the United States due to trade agreements. Given that the United States creates more than 2 million net new jobs in an average (nonrecession) year, most estimates of job losses or gains due to the trade agreement are well below 5 percent of the measured total change.

Figure 13.3 illustrates this point by plotting gross job gains and gross job losses in the U.S. economy from March 1994 through March 2015. The values on the vertical axis are in thousands. Figures are annual totals, measured from March to March. Job gains include new establishments or expansions in existing ones, while job losses include layoffs and establishment closings. Whenever job losses exceed job gains, there is net job loss, and vice versa when gains are greater. First, note that the two major episodes of job losses are during the recessions of 2001 and 2007–2009. Second, the period immediately after the implementation of NAFTA is not one with net job losses but, on the contrary, corresponds to a period of strong net job gains. That does not prove that NAFTA created jobs, but it does show that if there were job losses, they were substantially outweighed by other factors,

FIGURE 13.3 Gross Job Gains and Losses, 1994–2015



The U.S. economy creates between 10 and 16 million new jobs (gross) each year, while it loses slightly fewer in normal, nonrecession, years.

Source: Bureau of Labor Statistics.

including the strong economic growth of the second half of the 1990s. The most important point of Figure 13.3 is to stress that the U.S. economy is larger than most people realize and that it is very dynamic. A net job loss or gain of 50,000 spread over several years is a minor factor in the ups and downs of the U.S. labor market.

A second point that has often been overlooked in the evaluation of NAFTA and other trade agreements is that the United States has much less unbalanced trade with the countries that have signed FTAs. Table 13.5 shows U.S. merchandise exports, imports, and deficits for FTA countries and the rest of the world. Merchandise goods trade balances are much more favorable when countries sign an FTA because U.S. markets are already relatively open and tariff barriers are low, with the exceptions outlined in Chapter 7. When countries enter into an FTA, the required elimination of trade barriers is usually much greater outside the United States than it is inside. As foreign barriers decline, U.S. exports expand.

Anti-trade rhetoric usually assumes that trade deficits are encouraged by trade agreements, yet the data show otherwise. Anti-trade arguments also often assume that mercantilism is correct in its assertion that imports are harmful while exports are beneficial. Yet consumers have more choices and businesses are more competitive when they have access to imports. Nevertheless, it is important to try to understand the sources of anti-trade rhetoric. If FTAs are not the problem and if imports are beneficial, then why do so many people in the United States view international trade as harmful? There is no easy answer to this question, and economists have not been able to reach a consensus as to the causes of anti-trade sentiments in the wider public. It may be partially related to the loss of manufacturing jobs, to wage stagnation and growing inequality, or to the complaints of a vocal minority that has lost its livelihood as a result of trade and investment abroad. For example, research into the effects of a surge in Chinese imports after its entrance into the WTO found that there was a significant amount of job loss in communities that competed directly with the imports. The loss of jobs was large enough to have negative impacts on whole communities, although at the state or national level the harm done to local communities was less visible. Graphs of

TABLE 13.5 U.S. Merchandise Goods Exports, Imports, and Deficits, 2019

	Exports	Imports	Deficits
FTAs			
Total (billions US$)	766.5	891.5	–125.0
Share (%)	46.6	34.7	20.7
Rest of world			
Total (billions US$)	878.7	1,606.9	–728.2
Share (%)	53.4	65.3	79.3

U.S. trade deficits are much smaller with countries that sign FTAs.

Source: See Table 13.2.

national job loss or job creation do not pick up the more local effects of a plant closure or a business that ceases operations. Chapters 3 and 4 made clear that trade changes what an economy produces. Anti-trade rhetoric is a reminder that the effects on real-world communities can be dramatic.

CASE STUDY

The Gravitational Pull of the U.S. Economy

On March 1, 2018, the president of the United States carried out his monthslong threat and raised tariffs on steel and aluminum. A 25 percent tariff on steel and 10 percent on aluminum were imposed on imports from all countries, including the United States' free trade partners, Canada and Mexico. The actions followed a recently concluded investigation into the national security implications of steel and aluminum imports. When the tariffs were announced, national security was put forward as the justification.

Many observers found it surprising and ironic that the tariff fell most heavily on close allies of the United States: Canada, Mexico, and countries in the European Union. Much of the rhetoric had been about China, but the United States did not buy much steel from Chinese firms, which already faced U.S. antidumping duties before the new tariffs were announced. The United States has close military ties to Europe and, most importantly, with Canada. It shares weapons technology, sensitive secrets, and formal military alliances with Canada and many European partners and outsources the production of some military hardware to Mexico. How could the United States view Canadian or Mexican or German steel imports as a security threat?

A little over a year later, Canada and Mexico were exempted, but no other countries. For those two countries (and others), this episode raised questions about the reliability of the United States as a trade partner. The tariffs were implemented without consultation, with a rarely used and questionable national security justification, by their main trading partner and free trade associate. A reasonable and natural response by both Mexico and Canada would be to look for alternatives to the U.S. market. This would not be the first time either country tried to diversify its trade away from the United States, but the gravity model tells us that is much easier said than done.

Both Canada and Mexico trade far more with the United States than any other country. Table 3.6 shows that approximately three-fourths of their exports go to the U.S. market and around half of their imports come from there. In each case, their second and third most important partners are China, Japan, and each other, but with a small fraction of the trade they have with the

(*continued*)

TABLE 3.6 Top 3 Trade Partners, 2018

	Percent of Exports and Imports		
	Canada	**Mexico**	**United States**
Exports	United States, 75.1	United States, 76.4	Canada, 18.0
	China, 4.7	Canada, 3.1	Mexico, 16.0
	Japan, 2.2	China, 1.6	China, 7.2
Imports	United States, 51.0	United States, 46.6	China, 21.6
	China, 12.7	China, 18.0	Mexico, 13.4
	Mexico, 6.2	Japan, 3.9	Canada, 12.5

The majority of Mexican and Canadian trade is with the United States.

Source: World Trade Organization.

United States. If the European Union were considered as one trade partner, it would be in the top three but also considerably below the United States.

Both Canada and Mexico have a significant number of free trade agreements and other trade and investment cooperation agreements. Canada has fourteen FTAs, including with the twenty-seven-member European Union and a recently implemented deal among eleven countries in Asia and Latin America, called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Mexico has ten FTAs, including with the European Union, Japan, South Korea, and several Latin American countries. It is also a member of the CPTPP.

The opportunities for each country to develop trade relations beyond the United States are extensive. Each has free trade with countries that in the aggregate produce a significant share of the world's output. Yet their trade remains concentrated on U.S. markets for relatively obvious reasons. Goods traded between Canada, Mexico, and the United States have lower transportation costs and are therefore more competitive. In addition, the United States is a huge market. Consequently, many businesses have supply chains that are integrated into all three countries or two of the three, with the United States the hub since it is the largest market and centrally located. Breaking out of the gravity of the U.S. economy is not easy.

The effects described by the gravity model are two-way: U.S. trade is disproportionately concentrated on Mexico and Canada but asymmetrically given the size of its economy. U.S. GDP is sixteen times larger than Mexico's and twelve times larger than Canada's. Hence, U.S. imports and exports rely to a greater extent on markets beyond Canada and Mexico.

Summary

- The end of the Cold War and the rise of emerging markets have shifted U.S. efforts toward more bilateral and plurilateral trade agreements.
- Canada is the United States' closest ally and most important trading partner for reasons of language, cultural heritage, and proximity. Trade relations with Canada have developed through successive waves of agreements, beginning with the Auto Pact in 1965 and expanding through the Canada-United States Free Trade agreement in 1989 and the North American Free Trade Agreement in 1994.
- Mexico is the second most important trading partner with the United States, after Canada. Mexico sought an FTA with the United States as a way to lock in economic reforms and attract foreign capital for investment.
- NAFTA is the most important trade agreement for all three countries, with a much greater volume of trade than any other bilateral or plurilateral agreement signed by Canada, Mexico, or the United States. NAFTA has been renegotiated and is now called the United States-Mexico-Canada Agreement, or USMCA.
- Canada sought protection for its cultural industries when it signed CUSTA, and Canadians debated the likely impact on their social policies. In the United States, CUSTA was not a topic of debate.
- The most contentious issues in the United States related to the signing of the NAFTA agreement were those of labor policy, environmental policy and enforcement, and migration.
- To date, the main impact of NAFTA has been to continue an ongoing trend toward increased trade. It is impossible to accurately measure the effects of NAFTA on jobs and wages, but most economists estimate a small, positive effect on job creation.
- NAFTA has served as a model for other trade agreements, particularly with the inclusion of labor and environmental clauses.
- The United States has signed FTAs with twenty countries (seventeen since 2000) and has negotiated forty-two bilateral investment agreements covering the rules for investment by foreigners. The purpose of the investment agreements is to create more secure property rights and to encourage foreign direct investment. In addition, it has created four preferential trade agreements worldwide and is negotiating two larger free trade areas in the Pacific region.

Vocabulary

African Growth and Opportunity Act (AGOA)

Asia-Pacific Economic Cooperation (APEC)