

NAFTA and WTO Are Good for Oregon

by Raymond F. Mikesell Emeritus Professor of Economics University of Oregon

SINCE THE TIME OF ADAM SMITH, the vast majority of economists have strongly favored the elimination of barriers to international trade and, in recent years, have been strong supporters of international and regional agreements for the mutual freeing of trade. The traditional arguments for free trade have emphasized both the social benefits to the world and the economic benefits accruing to each nation. There have been national criticisms of trade liberalization on the grounds that particular industries or economic groups will be harmed by removing import protection, or that free trade will offset national laws for environmental protection or labor standards. Also, in recent decades some groups have opposed free trade as being antithetical to the welfare of all countries, especially the lower income countries.

Economists have generally refuted these arguments by showing that while some trade may have a temporary negative effect on individuals in particular industries, it will improve the overall economic welfare of all nations. They also argue that international agreements for freeing trade can include safeguards that will prevent free

trade from having an adverse impact on the environment.

Economists who have no special interest in promoting particular industries or businesses favor trade liberalization because an important objective of economics is to promote social welfare. The basic economic argu-

ment that supports government interference with trade as a means of maximizing economic growth or social welfare.

Actually, most critics of NAFTA and the WTO do not attack the economics of trade directly. They usually point to potential job losses in particular

...some groups have opposed free trade as being antithetical to the welfare of all countries...Economists have generally refuted these arguments.

ment for free trade is that specialization within and among countries reduces costs and trade makes it possible to concentrate production in the industries in which people are the most efficient and consume goods and services produced by others at a lower cost. The answer often given by critics of free trade is that the government should change the composition of national production in a way that benefits certain economic groups, or in a way that promotes economic growth. Most tariffs and other trade barriers are established to favor certain groups in response to their political influence. There is no respectable economic theory

that supports government interference with trade as a means of maximizing economic growth or social welfare. industries, such as textiles and apparel, and to undermining of national laws and regulations on the environment, labor standards, consumer safety, and the conservation of exhaustible natural resources. Recent trade agreements cover trade in services. (*Please see Dudley's side bar "Trade in Education?"—ed.*) as well as commodities, and require the liberalization of foreign investment and the transborder payments associated with them. The reason is that modern commodity trade is closely associated with trade in services relating to the commodities, and with investment in marketing and production facilities associated with

Trade in Education?

In November, 2002, the U.S. Trade Representative, Robert Zoellick, presented to the WTO a formal request under the provisions of the General Agreement on Trade in Services (GATS) for the inclusion of education and training services as defined below. The impact would be to open up these services to private competition where they are still publicly delivered. Under GATS, governments must give subsidies to foreign education corporations on the same basis as they do to local, public institutions. In all likelihood, the United States is making the same request under the FTAA services negotiations.

US REQUEST on EDUCATION AND TRAINING SERVICES

(HIGHER EDUCATION, ADULT EDUCATION AND OTHER)

Definition

Higher education includes all tertiary education (i.e., education beyond secondary education), including degree courses taken for college or university credits or non-degree courses taken for personal edification or pleasure or to upgrade work-related skills. Such education and training services can be provided in institutional settings, such as universities or schools, or outside of traditional settings, including workplaces, homes, or elsewhere.

The U.S. requests on education also include adult education and “other” education, as well as training services and educational testing services. Training services are very similar to education services, but training courses are generally less theoretical and more job-related than academic courses, often requiring hands-on operation of tools, equipment and certain devices. Educational testing services include designing and administering tests, as well as evaluating results. These services are a fundamental and essential part of the learning process, used to evaluate the student as well as the course material.

Market Access and National Treatment

Members who have not already done so are requested to provide full commitments for market access and national treatment for higher education and training services (as defined above), for adult education, and for “other” education. Consistent with the commitments, countries remain free to review and assess higher education and training, by governmental or non-governmental means, and to cooperate with other countries, for purposes of assuring quality education.

Barbara Dudley, guest forum editor

the goods and services traded. Limiting agreements purely to commodity trade would exclude basic elements in the trading process. For these reasons multiple-country trading agreements have been associated with the concept of globalization, regarded as detrimental to the welfare of the poor and a boon to the rich. This erroneous thinking has led radical groups to interfere with the annual meetings of the World Bank and the International Monetary Fund, agencies devoted to ending poverty in the developing world. These and other international economic assistance agencies favor globalization because all independent studies supported by statistics have found that free trade, free enterprise, and free capital movement promote economic growth in the developing world. Economies that have not liberalized have failed to grow.



Turning to the effects of NAFTA on Oregon trade, our exports to Mexico and Canada rose 104 percent between 1994 (the year NAFTA was implemented) and 2000, representing a 360 percent growth in Oregon's exports to Mexico and a 70 percent growth in its exports to Canada. Exports to these NAFTA countries have grown more rapidly than our exports to the rest of the world. Oregon's exports to Mexico are heavily weighted by transportation equipment, industrial machinery, paper, and instruments, which are relatively high-wage industries (Council of the Americas, 2001). These exports have added thousands of jobs to the Oregon economy. U.S. imports from Mexico increased by about the same percentage between 1993 and 2000 as did U.S. exports to Mexico. Studies have shown that the net effect of this trade on U.S. employment has been very small (Burfisher, et al., 2001).

The impact of NAFTA on Mexico's economy was much greater than it was on the U.S. economy, since trade with Mexico is only 1 percent of our economy while United States-Mexico trade flows account for approximately 30 percent of Mexico's GDP. Mexico did experience a financial crisis beginning in 1994 unrelated to NAFTA, caused by the loss of confidence by foreign investors in the value of the peso which was pegged to the U.S. dollar. Actually, it appears that NAFTA facilitated a quick Mexican recovery in the late 1990s by providing that country with greater access to the U.S. market (Burfisher, et al., 2001).

Oregon's economy has also benefited from the implementation of the World Trade

Organization, which replaced the General Agreement on Tariffs and Trade (GATT), at about the same time that NAFTA was implemented. Oregon's trade with the non-NAFTA countries rose by 11.4 percent between 1994 and 2000 as compared with a rise of 12.0 percent with NAFTA members. Both NAFTA and WTO provide that members may restrict imports that violate national consumer safety standards, provided they do not discriminate in favor of domestically produced goods. NAFTA also permits members to restrict imports of commodities subject to international agreements on the environment. Both NAFTA and the WTO provide for negotiation on environmental issues that affect trade, and some experts believe that these negotiations will contribute to the application of environmental standards by all countries. Members cannot apply domestic wage standards to the production of foreign goods since this would undermine the basic principle of international trade based on differences in production costs. However, there are provisions covering certain labor standards applying to international corporations.

Some economists have discouraged regional trade agreements such as NAFTA on grounds that members discriminate against trade with non-regional members. Since it is often easier for countries to negotiate trade agreements with countries in the same region than with all nations, regional agreements have been shown to initiate reductions in trade barriers, which later are applied to trade with all countries (Krueger, A. O., 1999). Therefore, NAFTA and the proposed FTAA are likely to promote the objectives of the WTO.

Conclusions

NAFTA and WTO have been good for Oregon and an expansion of the free trading area to cover all of the Americas would be a boon for all of our economies. Expanded trade and foreign investment are the most promising ways to eliminate poverty in the developing countries, and to promote growth in the developed world.

REFERENCES

1. Council of the Americas and the US Council of the Mexico/Business Committee (2001). NAFTA Delivers for Oregon, September.
2. Burfisher, Y., S. Robinson, K. Thierfelder (2001). "The Impact of NAFTA on the United States," *Journal of Economic Perspectives*, 15:1, pp. 125-144.
3. Krueger, A. O. (1999). "Are Preferential Trading Agreements Trade-Liberalizing or Protectionist?," *Journal of Economic Perspectives*, 13:4, pp. 105-124.

Raymond F. Mikesell is professor emeritus of economics at the University of Oregon. He has been a consultant to the World Bank, the IMF, the Organization of American States, the United Nations, and the U.S. Departments of Treasury and State, among others. He has also been a consultant to multinational mining corporations. In 1944 he participated in the Bretton Woods conference which established the International Monetary Fund and the World Bank. He is the author of 27 books on a variety of topics.

Oregon's Future is available at local libraries and these fine establishments throughout Oregon.

Ashland
Bloomsbury Books
541-488-0029

Astoria
Kneedeep in Books
503-325-9722

Baker City
Betty's Books
541-523-7551

Bandon
Winter River Books
541-347-4111

Bend
The Book Barn
541-389-4589

Chiloquin
Fine Books & ...
541-783-2022

Cottage Grove
Books on Main
541-942-7423

Enterprise
Book Loft
541-426-3351

Gold Beach
Bookworm Bookstore
541-247-9033

Grants Pass
Book Lore & More
541-471-5514

Hood River
Artifacts
541-387-2482

Keizer
Booksmart
503-393-2899

La Grande
Earth 'N' Book
541-963-8057

Lincoln City
Lincoln City Books
541-996-7787

Newport
Green Gables Bookstore
& Coffee House
541-574-0986

Portland
Powell's Books on Burnside
New Seasons Markets
4 locations