Trade pacts promise jobs, but do they deliver?

By Jane Bussey
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Coral Gables exporter Christopher Fulton, whose business has soared as free trade agreements have spread in the hemisphere, relishes the prospect of a trade accord with Colombia to allow him to compete in that South American market.

Now stalled in the U.S. Congress because of concerns about Colombia's spotty labor-rights record, the proposed U.S.-Colombian trade deal would eliminate import duties now levied on the PVC pipe fittings exported by Caricap, Fulton's company.

"I hear people are backing off free trade," Fulton said. But he has a hard time believing it. "This is a free trade country," he said.

But another Miami-Dade entrepreneur, Robbie Coy, contends that the trade policies of the United States sunk his screen-printing business, which once embellished T-shirts and other apparel.

"We should keep Americans working," said Coy, who had to lay off 16 workers when he closed Consortium Enterprises in December 2004 after the apparel industry moved to the Caribbean and then China. ``But we have no factories. Working-class people don't have work anymore; they are mowing lawns."

Both Fulton and Coy started their businesses small -- Fulton out of his bedroom in 1991 and Coy out of his car in 1998 -- but their experiences and views on globalization and U.S. trade policy couldn't be more different.

Such divergent opinions on trade agreements raise this question: What should be the yardstick for judging the success or failure of trade pacts? Currently there's neither agreement on what benchmarks should be used nor any one organization refereeing the debate.

Supporters of trade agreements -- chambers of commerce, U.S. corporations, exporters -- point to a series of measures of success: increases in the volume of trade, more jobs, rising productivity, more foreign direct investment, reductions in illegal immigration, wider choices for consumers and even greater numbers of bilateral trade agreements themselves.

But critics -- from labor unions and environmental groups to consumer organizations -- contend that when such measures are used, the figures don't always add up to the success claimed by free-trade advocates.

In a recent speech on trade in Miami, President Bush touted a number of pluses for trade agreements and his administration's record of implementing 11 free trade agreements, adding to the three that existed when he took office.

He said free-trade agreements had driven U.S. exports, doubling sales to Chile in the four years since a trade agreement went into effect with the South American country and boosting exports 13 percent to the Dominican Republic and Central American countries since the Central American Free Trade Agreement began to be phased in beginning in March of 2006.

But the statistics are all over the map.

U.S. exports to Venezuela -- whose current political leadership is at odds with Washington -- grew faster than those to any other Latin America nation over the past four years. They were up more than 250 percent -- beating the 195 percent growth of exports to Chile.

And U.S. exports to Paraguay, Argentina, Peru, Colombia, Brazil, Uruguay and Ecuador have risen faster over the past four years -- and even over the past 12 months -- than to any country in CAFTA or to Mexico, which joined the North American Free Trade Agreement in 1994.

Even U.S. sales to Cuba have doubled in the past four years, though the U.S. economic embargo remains in force for most products.

THE DROPPING DOLLAR

Furthermore, American exports are surging largely because a 24 percent drop in the dollar since its 2002 high has made American products cheaper around the world, especially compared to European goods. Third-quarter exports rose at their fastest rate since the same quarter in 2003.

On the import side, Chile's export growth to the United States since 2004 has been the highest among the Latin American countries, but exports from Uruguay, Ecuador and Peru have soared nearly as much. Much of the increase can be traced to rising prices for Latin America's oil and mining exports, driven by rising demand in Asia.

Critics of trade agreements say that trade is not a goal in itself, but should be viewed as just one strategy among many intended to boost prosperity and development.

"There has been a change in the arguments made by those who have been favoring trade agreements," said William Hawkins, a senior fellow at the U.S. Business and Industrial Council. They've abandoned "what they originally said these trade agreements would do, which is expand U.S. exports, bring better jobs, actual benefits to the United States," he said.

Nevertheless, the biggest selling point for free trade agreements remains claims of job creation. In his Miami speech, Bush asked Congress to approve trade agreements with Peru, Panama and Colombia for ``the American businesses and workers and farmers who will gain, who will benefit from a level playing field for their goods and services."

But polls show that many Americans are uneasy about the disappearance of American factories -- something the public can actually see -- and the loss of three million manufacturing jobs in the past six years.

Now even some economists favoring trade agreements insist the agreements are not about job loss or creation.

"Politicians on both sides are compelled to talk in sound bites," said Clyde Gary Hufbauer, a senior fellow with the Peter G. Peterson Institute of International Economics in Washington. ``The easiest thing to talk about is jobs, jobs, jobs."

But he added: ``I'm here as an economist telling you that's not what it's about. The jobs in the economy are a function of macro-economic policies."

POLICY EVOLUTION

Hufbauer attributes the modernization and global integration of the U.S. economy in part to trade policy, pointing out the U.S. international sector is three times as large today as it was after World War II. Trade and economic liberalization, he said, ``have been big contributors to the U.S. economy. A comfortable estimate is about 10 percent of the gross domestic product."

For many U.S. trade partners, too, increased trade and potential job creation are persuasive arguments.

But in Mexico, NAFTA results are mixed. Mexico's exports increased from $50 billion in 1994 to more than $200 billion today as American companies moved factories to our southern neighbor. But in 2004, after a decade of the accord, Mexico had shed 134,000 of some 1.3 million manufacturing jobs because domestic industries were closed due to tough foreign competition. Also starting in 2001, a number of multinationals moved their assembly plants to even lower-wage China.

HUGE INVESTMENTS

NAFTA did result in huge increases in foreign direct investment, one of the Mexican government's goals in signing the trade treaty. Foreign direct investment now tops $12 billion a year, compared to some $3 billion before NAFTA.

Kevin P. Gallagher, a professor of international relations at Boston University, is a co-author of The Enclave Economy: Foreign Investment and Sustainable Development in Mexico's Silicon Valley, a book that describes how the expected benefits of foreign investment failed to emerge in the electronics industry in the Mexican city of Guadalajara.

The book cites a study that found while foreign direct investment was 13 times greater in Latin America in the 1990s than in the 1970s, economic growth was 50 percent lower. In Mexico and the rest of Latin America, per capita GDP increases -- a way to quantify economic gains for individuals -- in the past two decades were a fraction of what they were in the previous four decades.

Gallagher faults the Mexican government for failing to implement policies, such as more investment in infrastructure and measures to help direct foreign investment work with domestic industries, which would spur development.

'Latin America did a `Big Bang' liberalization," said Gallagher. ``Mexico and Latin America show that if you liberalize just about everything at the same time and don't have complementary policies to help with development, you are not a winner."

Still, there are winners in free trade agreements, mainly the companies that find their products competitive in foreign markets when tariffs are lowered.

"The reason we are so excited abut free trade is simple," said Fulton, the PVC pipe fittings exporter. "They have a 20 percent import duty in Colombia," he said. But a trade deal with Colombia would eliminate such duties on the fittings he exports for use in water, sewer and other infrastructure projects. He expects that would allow him to beat the price of Colombia's current domestic producer.

FEELING THE PAIN

Fulton, who now has four employees and annual sales of $8 million, knows that his gain will mean a loss for the Colombian company. "That's the pain of free trade," he said.

So far, U.S. pipe fittings are not only cheaper but better quality than those made in China, but that may not be the case forever. Fulton said he is constantly checking the price and quality of Chinese competitors.

Coy, who learned screen printing after he got out of the Army and moved to Miami, has already experienced the pain. Consortium Enterprises, which was located in southeast Hialeah, once had annual sales of $3 million. But then its apparel industry customers started to move offshore.

Coy tried to follow. But when he moved equipment to a partner in the Dominican Republic, it ended up being confiscated in a legal dispute there. Then a Chinese company bought the brand license of his last remaining client and moved production to China.

"I lost the work. By the time I shut down the company, I was going broke," Coy said. Today he devotes himself full time to his Sabbath Memorial Dog Rescue Center, which finds homes for stray dogs.

Like Caricap, there are hundreds of businesses that see exports increase when tariffs decline. Caterpillar, for example, boosted its exports to Chile as a reduction in Chilean tariffs coincided with a boom in the mining sector and increased demand for Caterpillar's earth-moving machinery.

Trade agreements make scores of other changes, too. They institutionalize the right of companies to sue governments, open the door for foreign firms to compete for government contracts and create stiffer protections for intellectual property.

Promoters of trade agreements also say they lead to greater consumer choice and lower prices at stores, as well as open the eyes of companies to explore new markets.

But none of these effects are easily measured by economic tools.

Finally, there are noneconomic benefits claimed for free trade agreements. Many pacts are signed for diplomatic reasons, to boost the economies of allies such as Japan after World War II. President Bush has said that trade agreements with Peru, Panama and Colombia are a way to "advance democracy" throughout the hemisphere.

The big problem with establishing accepted criteria for measuring the success of free trade agreements, however, is the lack of a national debate on international trade, said Gallagher, the Boston University professor.

"There's a good debate on immigration. There are 30 bills in Congress on energy. In trade, there's the trade deal that the United States proposes -- all or nothing," he said.