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NAFTA AND THE USA-COLOMBIA FTA: LEARNING FROM THE PAST?

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ABSTRACT

Back in 1992, a commercial agreement was signed between USA and Mexico (and Canada), which was supposed to promote the economic growth of its members by removing barriers to trade and investment among the three nations. Twenty years later, some studies indicates that the US have lost more jobs than those created by the agreement and moved from positive to negative trade balance with Mexico, all that due to American companies reallocating their production in Mexico, limiting the possibilities of higher wage claims for low-income workers in USA. Mexico, on the other hand, has not seen the positive impact on manufacturing wages NAFTA was supposed to exert. Based on this experience, what can be expected from the Free Trade Agreement between USA and Colombia in force since May 2012, since it is expected to achieve similar goals than NAFTA using similar policies?

Key words: *NAFTA, USA-Colombia FTA, economic integration.*

RESUMEN

En el año 1992, Estados Unidos, México (y Canadá) firmaron un acuerdo comercial con el fin de promover el desarrollo económico de sus miembros a través de la eliminación de barreras al comercio y la inversión entre las tres naciones. Veinte años más tarde, algunos estudios indican que Estados Unidos ha perdido más trabajos de los que el Tratado ha creado; ha convertido en negativo el otrora positivo balance comercial con México, como consecuencia de la reubicación de empresas americanas en México y ha reducido las posibilidades de mejores sueldos entre los trabajadores de bajos ingresos en Estados Unidos. México, por su parte, no ha visto los esperados impactos positivos en los sueldos del sector manufacturero. Basados en esta experiencia, ¿qué puede esperarse del Tratado de Libre Comercio entre Estados Unidos y Colombia puesto en marcha en mayo de 2012, siendo que dicho tratado plantea utilizar políticas similares para alcanzar objetivos también similares?

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Palabras clave: *TLCAN, TLC EE.UU.-Colombia, integración económica.*

RESUMO

Em 1992, Estados Unidos, México (e Canadá) assinaram um acordo de comércio, a fim de promover o desenvolvimento económico dos seus membros através da eliminação das barreiras ao comércio e investimento entre as três nações. Vinte anos depois, alguns estudos indicam que o Estados Unidos perdeu mais trabalho que criouse o Tratado; tornouse negativo o saldo antigo positiva comércio com o México, devido a deslocalização de americano empresas no México e reduziu as possibilidades de melhores salários entre os trabalhadores de baixa renda dos Estados Unidos. México, por sua vez, não viu o impacto positivo esperado sobre os salários no setor industrial. Com base nessa experiência, o que pode esperar o acordo de livre comércio entre Estados Unidos e Colômbia, lançado em maio de 2012, sendo que esse Tratado gera usar políticas semelhantes também semelhantes objectivos?

Palavras chave: TNALC, EUA-Colombia TLC, integração económica.

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1. INTRODUCTION

In the last decades, nations all over the world have seemed to experience the need for creating alliances and signing agreements intended to facilitate the trading of goods and services, and sometimes even factors of production, among them. Most of these agreements end up just been goodwill letters and are eventually forgotten. Others evolve to reach higher and more complicated levels of integration.

Globalization forces the nations into opening their markets and exposes their economies to international forces, whether they are ready or not to deal with the opportunities and problems this may generate. Along with this globalizing process, there is another one that seems to work in opposite direction: regions tending to create alliances with selected members but imposing barriers to others.

Many have been the attempts of economic integration in Latin America since the 1980s, probably due to the need for a bigger and not that competitive market, although most of the products they could trade were similar. CARICOM[1] (1978), Mercosur[2] (1991), NAFTA[3] (1992), G3[4] (1995), CAN[5] (1996), and more recently ALBA[6] (2004), and CELAC[7] (2010) are just some of them. In addition, a series of bilateral agreements has been signed between countries, creating a complex network of relationships that point out the lack of a clear direction and the competition among countries. Particularly in Latin America, the US has signed free trade agreements with Chile (2004); El Salvador, Honduras, Nicaragua and Guatemala (2006); Dominican Republic and Panama (2007); Costa Rica and Peru (2009).

The appearance of Asian economies in this scenario has contributed to accelerate and reinforce the creation of new and stronger alliances, given the special interest shown by emerging economies such as China and South Korea on Latin American countries. That is why right now it is so common to see free trade agreements signed among countries from these two continents and explains, in part, the

1 Caribbean Community: 15 Caribbean nations.
2 Southern Common Market: Argentina, Brazil, Paraguay and Uruguay.
3 North American Free Trade Agreement: USA, Canada and Mexico.
4 G3: Colombia, Mexico (and Venezuela until 2006).
5 Andean Community: Bolivia, Colombia, Ecuador and Peru. (Venezuela until 2006 and Chile between 1969-1976)
6 Bolivarian Alliance for the Peoples of Our America: Mostly a political project promoted by Cuba and Venezuela. Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Nicaragua, Saint Vincent and the Grenadines and Venezuela.
7 Community of Latin American and Caribbean States: 33 members.

interest of the USA on a free trade agreement with both Colombia and Korea.

This paper is organized a follows. In the next section the purposes of NAFTA are refreshed, and the evolution of such an agreement is summarized, paying special attention to its incidence in the labor market, and focusing on Mexico and the USA, in order to create a proper scenario for the analysis of the agreement with Colombia. In a third section, the goals of the free trade agreement between Colombia and the USA are analyzed in the light of the experienced obtained from NAFTA. Finally some conclusions are presented.

2. NORTH AMERICAN FREE TRADE AGREEMENT, NAFTA

2.1 GENERAL IDEAS

NAFTA is a complex document with more than 1,000 pages signed by USA, Canada and Mexico in 1992 and started in 1994, with the purpose of facilitating the commercial trade among them, especially in the textile and automotive industries, through a tariff and non-tariff barriers gradually elimination program. By doing so, the country members expected to improve their economies by promoting the commercial trade, attract investments, create jobs and improve wages, as well as reduce inequalities among members.

Opponents were mainly concerned about the impact of the agreement on the labor market since, according to them, cheap imports from Mexico and capital flows to that country would destroy jobs in the US. Supporters, on the other hand, considered that US consumers and producers would beneficiate from cheap final and intermediate goods, while Mexico's economy would grow with the exports to the US, which would create jobs in that country and contribute to discourage migration (Burfisher et al., 2001).

Like any other free trade agreement, the alliance among these three countries does not go beyond expanding trade, exchanging knowledge and services and promoting investments. In other words, the agreement does not intervene in the policy design process of each country member. In that sense, it is just at second level in a five-level integration process:

- Preferred Trade Agreement: reduction of barriers to international trade among members.
- Free Trade Agreement: elimination of all barriers to international trade of goods and services among members, which are still free to define their own international policy with respect to other non-member countries.
- Customs Union: free trade area with a common external tariff applicable to non-members.
- Common Market: Customs union with free mobility of capital and labor resources.
- Economic Union: Common market with common macroeconomic and social policies.

In almost every trade agreement signed, economic inequalities among countries are the main reasons for it and, at the same time, the main obstacle. This is because all parts are considering these alliances as ways to improve their economies, knowingly that their economies will be impacted in different ways, and the efforts for fulfilling the terms of the agreement may not be the same for all of them.

By the time NAFTA was signed, USA per capita income was four times the one observed in Mexico, although its population was one third of the one in the US; its Gini coefficient was 0.13 points smaller; the illiteracy index just 1% while Mexico´s was above 10%, and the infant mortality rate was 3.5 times smaller. The international debt of the first was 10.4% of the GDP, compared to 44.2% in Mexico.

Both countries did not have strong unemployment problems but prices in Mexico were growing up at 24% a year on average, (3% in USA), situation that apparently led to the creation in 1993 of a new currency (nuevo –new– peso) in a proportion of 1 to 1000. In addition, Mexico was a country trying to solve guerrilla[8] problems and overwhelmed by high levels of poverty (see table 1).

However, geographical proximity is an important factor in the integration process, which explains that, in spite of these inequalities, Mexico was the USA´s third most important trade partner (9.1% imports and 9.4% exports), after Canada and Japan, and as expected, USA was the Mexico´s most important one (75.5% imports and 84.2% exports). USA had a positive trade balance with Mexico y contributed with 86.95% of the total product within NAFTA.

The opening process of three economies in NAFTA did not start with the agreement. USA and Canada already had a bilateral trade agreement since at least five years and Mexico, unilaterally, had started to remove barriers to international trade, moving away from its strong protectionist policy almost ten years before. NAFTA just formalized these changes. Because of that, it is quite difficult to distinguish the effects of NAFTA from the impact of all these other changes that took place right before.

Table 1. The US and Mexico before NAFTA (1992)

	USA	Mexico
Per capita income ($)	24,508	6,920
Population (millions)	252	84
Gini coefficient	0.32	0.45
Illiteracy index (%)	1.0	10.6
External debt (% GDP)	10.4	44.2
Average inflation rate (%)	3.0	15.51
Unemployment rate (%)	7.5	3.1
Social issues		Guerrilla Poverty: 17.6%

Sources: elaborated by the authors based on information from Department of Commerce y Bureau of Labour Statistics; México and Instituto Nacional de Estadística, Geografía e Informática (INEGI) y Dirección General de Inversión Extranjera de Secretaría de Economía (DGIE-SE)

8 Guerrilla or “Little war” is a form of irregular warfare.

There exists a very rich literature regarding the effects of NAFTA on its members´ economies. For the purposes of this paper, we would ignore Canada and we will stress its impacts on Mexico and USA, considering this as a good framework to analyze what can be expected from the recently enforced free trade agreement between USA and Colombia. When reading through it, the main conclusion we can reach is that it is not clear whether or not NAFTA succeeded in its purposes. Most articles indicate that if there were any positive impact, it beneficiated Mexico more than USA. For others, only negative effects can be observed. What is clear is that no article considers the agreement as very successful. Let us see some of them, in a sort of meta-analysis, to finally set the bases to consider the effects on each country´s labor market.

2.2 TRADE BALANCE

Three products were particularly important in the commercial trade between Mexico and the USA: Corn, automotive and textiles. Among them, corn was of a special concern for both countries.

By the early 1990s, the Mexican rural labor market was about 25% of the total labor force and corn was the main product. It was produced mostly by a large number of small labor intensive farms (61% of farms were smaller than 5 hectares), as reported by the 1991 Mexico´s National Agricultural and Livestock Census, condition that has not changed that much since then. This fragmentation of agricultural production was the result of redistributive farmland policies very common in Latin America during the 50s and 60s. The general expectation was that with NAFTA, the US grain exports to Mexico would collapse Mexico´s rural labor market promoting immigration of unskilled workers to the US. Fortunately, both countries produce different kind of corn: US produces white corn for human consumption while Mexico produces yellow corn better suited for animal feeding purposes. Because of this, corn production in both countries increased with NAFTA, faster in Mexico than in the US due

to Mexican government supporting domestically produced white corn and the adoption of better technology by Mexican farmers.

During the period 1993-2002 Mexican exports to the US increased by 135.5% while imports increased by 237.4%, but still managed to end up with a positive balance. This fact may explain the substitution effect toward imported products in Mexico's consumption (16.1% imported products in 1993 compared to 26.8% in 2003). Mexican exports to the US where mainly manufacturing products (81.1%), oil (15.6%) and less than 3% agricultural products (Vázquez, 2004), proportions that have not changed significantly, not yet their composition.

According to the World Bank, by 2010 exports accounted for 32% of Mexico´s GDP; 80% of these exports were headed to the US, meaning that with or without NAFTA the trade between these two countries remains at the same level of importance: the US is still the Mexico´s most important trade partner and Mexico is still the US´s third one, after Canada and, now, China. The former $1.6 million US trade surplus with Mexico that used to support 29,000 jobs in that country, changed into a $97.2 billion trade deficit, near ten times larger than the surplus predicted.

Several studies conclude that this negative balance is due to macroeconomic trends following business cycles, rather than to NAFTA. Particularly, Burfisher et al. (2001) consider that the effects on a country's aggregate trade balance cannot be attributed to regional trade liberalization unless it determines a country's commitment to an open development strategy, which is not the case for USA. After all, the two-way trade with Mexico amounts less than 3% of the US GDP.

Still, some studies stress the importance of such a trade deficit, especially because NAFTA was supposed to lead to a trade surplus with Mexico resulting from the expectation that US exports to Mexico would expand faster than US imports from Mexico, since barriers to trade in Mexico were much higher than in the former, creating thousands and thousands of jobs.

2.3 FOREIGN DIRECT INVESTMENT

The reasons for the US trade deficit with Mexico can be explained by the rapidly growing investments in Mexico form private investors trying to take advantage of the duty free access to the US market as well as lower labor costs. According to Scott (2011), NAFTA made Mexico a safer and attractive place for investors to outsource the US manufacturing production thanks to mechanisms for solving disputes that were part of the agreement.

With NAFTA, investments in Mexico grew up at 2.9% a year, on average, almost three times the rate before the agreement. The US was the largest source of foreign direct investment in Mexico, going from $17 billion in 1994 to $97.9 billion in 2009, at a rate of 477% (Villarreal, 2011). And that was actually what Mexico was looking for by opening its markets.

Most of these investments took place during the first years after the agreement was enforced. After that, the US investments in Mexico decreased as well as the trade as the result of the 2008 crisis, the increased violence in Mexico, especially at Northern Border States, and the increasing role of China in the international market (Grijalba, 2004). Most of these investments went to the manufacturing industry as maquilas[9], whose number expanded from 1,920 in 1990 to 3,590 in 2000. In total, 5,245 export assembly plants (maquilas and other manufacturing) existed in Mexico by 2009, textile apparel and automotive industries being the main target. After all, key provisions of NAFTA encourage investment liberalization probably more than trade liberalization[10].

9 Factories that import material and equipment on tariff free basis for manufacturing and re-export the products back to the country of origin.

10 NAFTA protects property rights of investors and any other type of ownership interests, actual or expected, including protection against any arbitrary change of government regulations. In this way, foreign investors must be treated as national so that they can even create alliances that affect regulations (induce or reject changes in them).

Because of this, according to the World Bank, NAFTA helped Mexico to raise its level of development and decline Mexico's macroeconomic instability, by making Mexican manufacturing firms to adopt better technology faster than what would have been the case without NAFTA, with a positive impact on jobs. According to Villarreal (2011), foreign direct investments in Mexico would have been 4% lower if not for NAFTA. Therefore, the impact of the treaty at this regard is obviously stronger in Mexico than in USA. After all, Mexican direct investment in the US was just $11.4 billion. And it was Mexico the one that was able to generate jobs from that investment.

Of course not everything is perfect. It is well known that maquilas have a minimum level of integration with the local economy where they are placed (outsourcing from other industries is just about 2 to 3%) and therefore do not help to develop other sectors. Also, the effects of these investments were mostly observed at Border States, which deepened differences across regions in Mexico. The problem is that, with foreign direct investment also came the control of the Mexican banking system by foreign investors, putting in their hands a fundamental key for Mexico's development.

2.4 GROSS DOMESTIC PRODUCT

Expectations indicated that, with NAFTA, Mexico's economy would grow between 6 and 12% while the US economy would only grow at less than 0.5%. The explanation was the relative importance of the two countries on their respective trade balance and the level of reduction in barriers, which in the US was smaller since there were almost no barriers to reduce.

Before NAFTA, Mexico´s GDP was growing at 1% on average. In 1995 the GDP decreased 6.2%, probably due to the 1994 peso crisis and subsequence devaluation. Between 1996 and 2000 the economy grew up at rates oscillating between 3.6% and 6.8% to go back to less than 1% after that. Therefore the Mexican economy has been fluctuating without a clear trend, so that no stability was achieved with NAFTA. The US economy has also shown fluctuations, not as deep as those in Mexico, not attributable to the evolution of GDP in that other country but to internal macroeconomic issues and the international scenario.

As for the peso crisis itself, there is no agreement about its relation with NAFTA. Several papers conclude that such a crisis cannot be related to NAFTA, and even consider that NAFTA softened the effects of the crisis on the Mexican economy, since border states experienced less wage reduction, unemployment and informality than other regions, and even beneficiated from devaluation. Others attribute the crisis to capital inflows into Mexico that could not be controlled by the authorities due to both the protectionist policies they were used to, and the influence of foreign investors in the financial system also as result of the agreement (Blecker, 1997).

This economic grow was not enough as to offset or at least smooth income inequalities between the two countries, even though it is true that some social and economic sectors became more dynamic. If the US per capita income was 4 times the one in Mexico before NAFTA and 5 times higher by 2007. Moreover, the number of homes under poverty increased between 1991 and 2006, although this may be also explained by the availability of more accurate statistics.

This positive but poor effect of NAFTA on the Mexican economic grow may be explained again by the lack of interaction of the maquilas with other sectors. The foreign direct investment just generated employment at the border, especially Ciudad Juarez and Tijuana, deepening heterogeneity and inequalities among workers, productive sectors and regions in Mexico. For example, population at Border States grew much faster than in other Mexican states. Only activities such as trade, manufacturing and services experienced a significant expansion in those states; construction remained the same, and the primary sector even decreased. Besides,

maquilas may be perceived as fast sources of employment, but they are regressive in terms of wages and working conditions.

Campbell et al. (1999) point out the dualization of the Mexican economy: on one side, one sector formed by traditional firms focused on the internal market, trying to survive in a much more competitive environment after years of protection from the government; on the other side, an open sector formed by exporting firms and maquilas. Just a few traditional firms were able to cross the line and adapt themselves to the new situation: beer (Corona), cement (CEMEX), home appliances (MABE in alliance with General Electric), textiles, steel, glass and automotive, most of them beneficiated from third country competition.

Transnational penetration in the highest profitable areas, such as education and health, was promoted by both pressures to privatize these sectors to make them more competitive and the reduced ability of Mexican government to protect strategic sectors from competitors.

2.5 LABOR MARKET

According to NAFTA proponents, the treaty would lead to thousands of new jobs in the US resulting from trade surplus with Mexico. In addition to that, the US imports from Mexico and the incentives to invest in that country would help Mexico´s economy to grow, creating more jobs in equality of conditions, reducing immigration incentives and wage inequalities. However, the general thought is that evidence does not satisfy expectations.

Even though there exist a great deal of controversies about the adequacy of maquilas to contribute to the economic development of the region where they are placed, it is true that after more than 20 years Mexico has become a pillar of the manufacturing industry for exporting purposes. An advantage of the maquilas is that they are a direct source of employment.

According to Coubés (2003) NAFTA generated positive changes in the Mexican labor market by creating more employment and reducing informality. Particularly in the automotive industry 30,400 jobs were created in Mexico in 2010, compared to 24,700 in the US (Scott, 2011). Between 1990 and 2000, export oriented maquilas created 1,250,000 new jobs in Mexico to produce 47.7% of the Nation´s total exports. 83% of these jobs were in Border States where 73% of the maquilas were located: Baja California, Sonora, Chihuahua, Coahuila and Tamaulipas (Grijalba, 2004). Women entered the labor market at a rate higher than men (8% compared to 3.9%), especially in trading, manufacturing and public administration activities. 70,000 of the jobs created by maquilas were in the apparel industry.

In this way, Mexico´s northern Border States beneficiated differently from the rest of the country, creating a reallocation of productive capacities. But not all the effects were positive. Just the peso crisis, attributable to NAFTA according to some, destroyed millions of jobs in Mexico. Maquilas and competition with US farming products reallocated resources away from the primary sector were most men were employed. In spite of the increasing production of corn, Mexico lost 1.3 million jobs in the agricultural sector as the result of cheap and subsidized corn from the US and the introduction of new technology.

After year 2000 many maquilas left Mexico and moved to emerging countries, negatively affecting the employment in the region, aggravated by the fact that they never helped to promote other sectors. According to Mora (2007) jobs created in Mexico as the result of the increase in exports are less than those destroyed by the increase in imports. This may explain that, by 2005, informality was 26% of the total employment and that by 2010 there were in the US more than 7 million illegal immigrants from Mexico, with a migration rate of about 350,000 a year.

NAFTA was supposed to create a growing Mexican middle class. However, the poor quality of jobs created in that country as the result of maquilas prevented this from happening. Wages in the maquila manufacturing industry are traditionally lower than those in the non-maquila sector (this difference may be about 50%). Some studies and surveys indicate that 25% of American corporations were willing to use NAFTA to lower wages, induced by competition that forces them to lower costs. Even Mexican companies moved from central to north Mexico to take advantage of the low wages in that area, thanks to a pool of low-wage workers available, against the traditional perception of a labor shortage in the region (Campell, 1999).

According to Villarreal (2011), wages in Mexico rose steadily from 1980 to 1995, drop 15.5% in 1996 to increase again after that until 2000, with increasing wage differences between skilled and unskilled workers. Vazquez (2004) indicates that real wages in Mexico decreased by 80% since NAFTA. This may be due to the reduced bargaining power of unions and government when determining the minimum wage. Low and stagnant wages in Mexico limited the demand for export from the US, with a negative impact on them.

Wage inequalities among countries were supposed to reduce with NAFTA, as the result of the more active commercial trade activity. The US labor demand curve would shift to the left while the Mexican curve would move to the right, and wages would adjust accordingly. But there is no evidence of reduction in wage inequalities between Mexico and the other two members of the treaty.

The US labor market probably has beneficiated even less from NAFTA. The Congressional Budget Office in 1993 estimated a job lost due to NAFTA of about half a million, spread out over a decade. The Department of Labor estimated the impact on sectorial employment would be less than 2% of current sectorial employment. As shown in table 2, the US located its labor intensive manufacturing industry in Mexico to take advantage of much lower wages. This is an important strategy of US corporate firms to provide cheap products to American consumers, but at the expense of US workers. Mexican industry is too small and weak as to compete with the American industry and had no incentives to move to the US. After all, North American integration is a corporate driven process with 50 large firms corporations (mostly Americans) producing 70% of the trade, and this is what trade based on comparative advantages is all about: Mexico should specialized in the production of labor intensive products, while the US should produce the technology intensive ones.

Even though the Department of Labor considered this impact as negligible, they knew it was going to be concentrated by region and industry so that the Trade Adjustment Assistance Program (TAA) was created to help displaced workers through job training. By 1999 this program reported 238,051 displaced workers, which they assumed underestimated but yet not significant. Other studies support this finding (Burfisher et al., 2001).

Table 2. Factorial analysis of exports, 1992 (%)

	Canada	United States	Mexico
Natural Resources	24.7	14.3	25.0
No Qualified Labor	3.1	4.3	8.1
Qualified Labor	49.1	27.2	31.7
Technology	23.1	54.2	35.2

Source: Berlinsky, J. (1996).

The Economic Policy Institute reports a total of 682,900 jobs displaced by 2010 due to the trade deficit with Mexico. This net jobs displacement includes those created by exports to Mexico. Most of the jobs displaced were, as expected, in manufacturing industries (60.8%), especially in computer and electronic parts (22%) and motor vehicles and parts (15,8%). As for the regions, net job displaced was higher in Michigan (1% share of state employment); Indiana (0.81%); Ohio, Kentucky, Tennessee, New

Hampshire, Illinois and Alabama more than 0.60%. The US has not been able to recover those jobs in spite of the efforts made.

Gary Johnson said in May, 2011, the jobs lost are those the US does not want. But Scott (2011) concludes that the steadily growing trade deficit the US has been experiencing with Mexico since NAFTA was implemented is a significant contributor to the current manufacturing crisis, which has lost 5.6 million jobs since year 2000. After all, the US-trade deficit with México has increased 485% in the period 1997-2010 and the net-jobs lost by 566% in the same period.

As for wages, in 1992 the International Trade Commission estimated an increase in the US aggregate real wages of 0.1 to 0.3%. The Congressional Budget Office considered this impact would less than 1%. In other words, impact on wages would also be negligible. The hourly nominal wage of the median worker grew by 10.1% during the period 1996-2002, and 12% between 1989 and 2010. However, productivity grew up by 80% during the same period, suggesting that American workers are not perceiving the benefits of their effort. According to Mishel and Shierholz (2011), the reasons for these stagnating wages are the globalization process and related policies oriented to provide cheap products rather than supporting jobs. This has lowered the bargaining power of unions, so that the ability of the economy to produce more has not being translated into better compensations and better working conditions for workers. As Bivens (2008) points out, displacements often cause income losses and permanent damage to worker's earning power.

3. THE US-COLOMBIA FREE TRADE AGREEMENT (US-COLOMBIA FTA)

3.1 GENERAL IDEAS

The US-Colombia FTA is a treaty signed by the two countries in November 2006, approved by Colombia's Congress in 2007 and by the US congress in October 2011. According to proponents, this agreement will deliver sustained economic growth, increase investments, more and better jobs, protect workers´ rights[11], exchange technology and information, and anti-corruption reforms to Colombia and will support more American jobs, increase the US exports and enhance the US competitiveness. Therefore its goals are similar to those in NAFTA. And the steps to reach them are similar too: gradually eliminate tariffs and non-tariffs barriers to the commercial trade and capital flows between the two countries.

The US-Colombia FTA can be seen as part of the Enterprise for the Americas proposed by George Bush back in Jun 27th 1990, according to which a free trade region would be created starting with NAFTA and eventually extended to all other countries in the American continent. The Enterprise considered four main goals: gradual reduction of all barriers to commercial trade among countries to create the largest market with more than 700 million consumers, in a clear reaction to the European Union; an ambitious investment plan to industrialize Latin America; a plan to restructure the international debt of all these countries with the US, and environmental protection common policies.

Four were the countries considered by the US to initiate this process: Colombia, Chile, Mexico and Venezuela. The reasons: open market governmental policies, such as promotion of exports; stable economic grow rates, low inflation and moderate external debt; political willingness to participate in the globalization process, moving from protectionist to free competition; unsuccessful attempts to link their economies to the European Union and Japan, and political stability (Londoño, 2010). Ramoni and Orlandoni (2002) evaluated the possibility of an American Union with NAFTA starting the integration form the North and MERCOSUR from the South, but concluded that the lack of correspondence

11 The agreement provides for the protection of intellectual property rights on music, movies, and software from piracy in the digital environment, as well as state-of-the-art protection for U.S. trademarks.

among agreements, along with strong economic and social inequalities across countries and prevailing macroeconomic problems in the majority of them, seemed to be an obstacle to the integration of the western hemisphere. As for the four jaguars, as these four countries were known by the time, Mexico, Chile and now Colombia were able to integrate with the US while Venezuela has moved in a totally opposite direction since President Chavez started his socialist process.

As in Mexico, Colombia started to open its economy years before the FTA with the US. With the Andean Trade Preferences Act (ATPA) the US, unilaterally, granted trade preferences to Andean countries as a reward for their efforts against narcotraffic. In 2002, the ATPA was replaced by the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which granted free access to the US market to more than 6000 Colombian products. This Act lasted until 2006. In 2004 three countries, Colombia, Ecuador and Peru began the process to sign a free trade agreement with the US. While the President Correa's political orientation has deviated Ecuador from that goal, Peru finally implemented a FTA in 2009.

The US-Colombia FTA will create the third largest export market in Latin America and the 20th worldwide, based on population. As with Mexico, Colombia and the US are considered complementary in terms of the products they trade: Colombia exports fruits to the US in return for grain; the US exports cotton, yarn and fabric to Colombia in return for apparel.

The International Monetary Fund data indicates that by year 2010 Colombia's GDP per capita is five times smaller than the US GDP per capita. Its Gini coefficient is 0.12 points higher (0.58 compared to 0.46), with an illiteracy index of 6.8%. A healthy economy, Colombia's international debt represents less than 30% of its GDP, much smaller that the US debt; its product had been growing at rates of about 4% to 6% in the last years, with the lowest inflation rate in Latin America, a high but declining unemployment rate and, unlike Mexican peso, Colombia's peso tends to reevaluate (see table 3).

Table 3.

The US and Colombia before the FTA (2010)

	USA	COLOMBIA
Per capita income ($)	47,198	9,462
GDP (rate of growth, %)	2.8	6.0
Population (millions)	311	45.5
Gini coefficient	0.46	0.58
Illiteracy index (%)	1.0	6.8
External debt (% GDP)	70.0	20.3
Average inflation rate (%)	3.0	3.6
Unemployment rate (%)	8.3	9.2
Social issues		Guerrilla Informality (32.7%) Poverty (40.1%)

Source: Elaborated by the authors based on information from the International Monetary Fund.

According to the World Bank, Colombia is the third largest economy in Latin America, the fifth strongest economy based on GDP and number 15 based on per capita GDP. Its population of 45.5 million people is about one third of Mexico's and seven times smaller than the one is the US. Therefore, for the US it is probably not as economically attractive as Mexico back in 1992 or Brazil right now (193,300,000 people). Besides, 40.1% of Colombia's population is under poverty line and employment in the informal sector reached 32.7% of total employment in 2010. However, the 1429 Act approved in 2010 to lower the levels of informality seems to be working if we take into consideration that by 2000 more than 60% of workers were employed in informal activities.

Therefore, it is easy to see that inequalities between Colombia and the US are similar to those observed between the last one and Mexico back in 1992. However, in this new alliance there are other factors that make the difference and could play an important role in the direction of this relationship: There is not geographical proximity between the

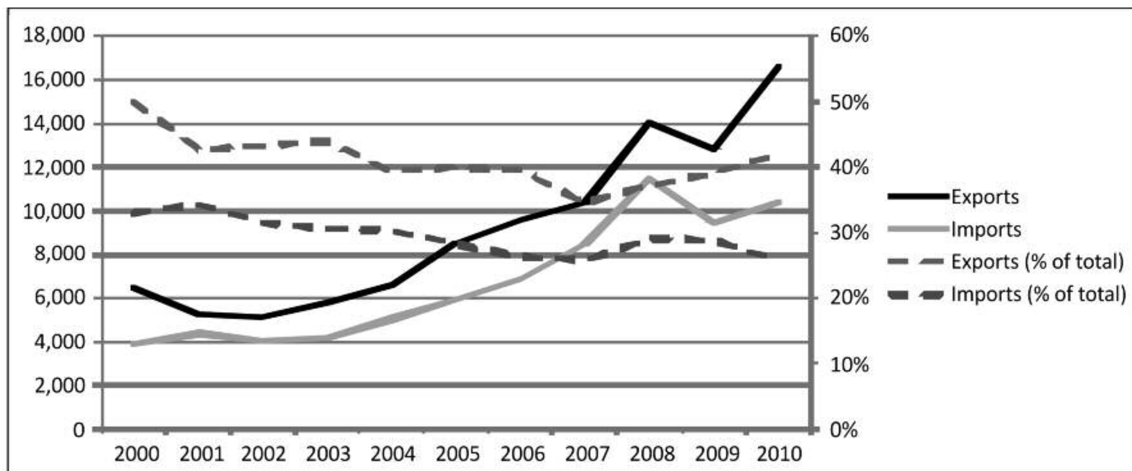
two countries, Colombia is the oldest political and military ally of the US in Latin American, exception made during the conflict between the US and Panama, and it is the US most important trade partner in Latin America, after Mexico.

Colombia has consistently had a surplus in trade balance and an almost negligible deficit with the US (see figure 1). Almost half of its exports go to the US (42.2% in 2010); 12.3% to the European Union, while its exports to Venezuela, former Colombia's second most important trade partner, has been declining to less than 4%. Imports come primarily from the US (26.2%), but at declining rate, China (12.9%) and Mexico (9.2%). A diversified economy, there are several products that make Colombia a well-known country worldwide: coffee and flowers, tobacco and cigarettes; nickel, coal, gold, emeralds, sapphires and diamonds; textiles, apparels and leather products and, more recently, oil and gas. Actually, Colombia is the World's second most important flower producer (the first US flower supplier) and has the fifth largest oil reserve in South America. On the other hand, Colombia is the US third most important partner in Latin America, after Mexico and Brazil. In 2010, American exports to Colombia were $12.1 billion, while imports were $15.6, with a deficit of about $ 3 billion.

Like Mexico at the time of signing NAFTA, Colombia exhibits political and economic stability, with a medium and steady rate of economic growth and no strong inflation problems and struggles with violence and narcotraffic. However, according to the Department of State, violence in Colombia has plummeted by no less than 40% in the last five years, thanks to the combined efforts of Colombia and the United States.

Also like Mexico, during the 1990s Colombia was trying to replace its protectionist policy by an open market, after having the highest levels of tariffs in the Andean zone (36.6%, against 17% in Venezuela).therefore, as said before the US-Colombia FTA did not start in 2005 but in 1990 with the "apertura" introduced by President Cesar Gaviria, characterized by gradually reducing trade taxes, imposing laws against unfair competition and creating free trade areas with several countries like Venezuela, Mexico and Chile. The primary goals were to increase productive and debilitate oligopolistic structure of the domestic industry and to solve inequalities with a specialization toward labor intensive industries, as well as integrate Colombia to the continent and gain access to North America market.

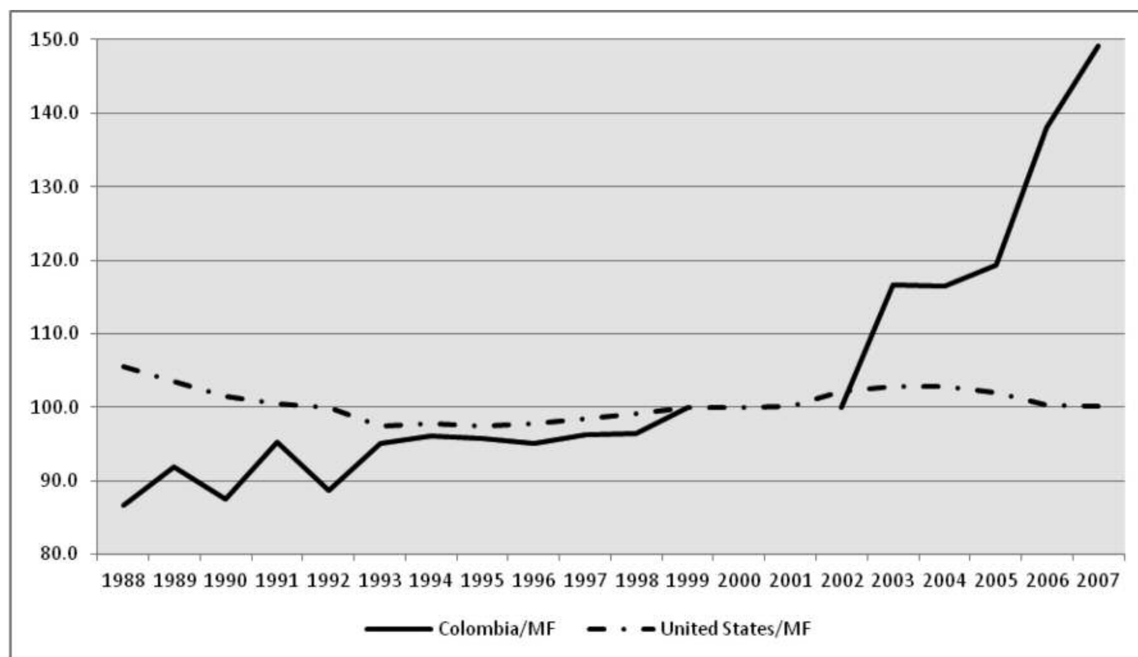
Figure 1. Colombian exports to and imports from the US



Source:Elaborated by the authors based on information from CEPAL

As for wages, the average real wage in Colombia increased 1.2% in 2009 and 2.5% in 2010. The real manufacturing wage index show the same trend, suggesting that the expansion in the Colombian labor market is not just based on new jobs but also better remunerations (see figure 2).

Figure 2. Wage evolution during the “apertura”



Source: Elaborated by the authors based on information from ILO

3.2 EXPECTED EFFECTS

According to the International Trade Commission, the US-Colombia FTA will open access to Colombian’s $166 billion service market, increase US exports to Colombia by $1.1 billion and expand the US GDP by $2.5 billion. Colombia’s economy is expected to grow at 4.2% a year; its exports to the US are estimated o move to $1700 million, and that about $2135 million will be invested in that country. Also, 380 thousand new jobs are expected to be created in Colombian, while the number for the US is not so precise. All this would mean more opportunities for American providers and thousands of new jobs. But we must be careful since this Commission has already failed to properly estimate the impact of the free trade agreements with Mexico.

Toro et al. (2005) used a multisectoral general equilibrium model to predict the impact of the FTA on the Colombian Trade Balance. Their results show an increase of at least 3 points of GDP in the commercial trade and foreign capital flows of no less than $2.3 billion until 2010. According to them, it is possible they underestimate the total impact of the agreement since this might generate new import and export activities, with a positive effect on investments and trade. On the other hand, several studies agree that the FTA will increase the Colombia’s trade balance deficit with the US, and that the economy will go up at a rate between 1 to 4 percent a year [DNP (2003), Botero y López (2004), Cárdenas y García (2004), Niño (2004) and Martín y Ramírez (2005)]. Tovar (2004) predicts

an increase in the domestic cars industry's profits and substantial gain in consumers' welfare after imported car tariffs drop from 200%.

Bussolo and Holts (2000) developed a model to predict the impact of Colombia entering the NAFTA. According to them Colombia could be the country that benefits the most, although the effects on employment are not so clear, due to the relatively small size of this market and its geographical location. Their model indicates that the treaty would intensify traditional patterns of comparative advantages for Colombia, so that the absence of appropriate policies might undermine modernization and compromise the economic development in that country. If what they predict is true, the story would repeat itself: labor intensive operations would be moved to Colombia, with the subsequence loss of jobs in the US and the creation of new but poor jobs in Colombia. However, geography may play a different role here: firms may decide to move to Colombia, not to ship final products back to the US but to other Latin American countries. And must of these firms will not be under the form of maquilas. In any case, capital inflows to Colombia will mean jobs not created in the US but in Colombia. In fact, like with Mexico, the US is the most important source of foreign investment in Colombia, with an average of $7 billion a year, and increasing. So far, these capital inflows have gone to mining and hydrocarbon projects, and just a small portion to maquilas. The Economic Policy Institute has estimated that the US-Colombia FTA will generate 55,000 displaced in the US.

Labor is an important issue in this agreement: both parts agree to preserve workers' fundamental rights as stated by the International Labor Office. This includes technological assistance and training programs to increase workers' productivity and reduce the risk of injuries; exchange of technology and information, as well as assistance to collect and improve labor statistics and mechanisms to protect and promote immigrant workers' rights and wellbeing. And, once again, Colombia might benefit the most with the treaty, although those opposing it consider Colombian cannot be rewarded with a free trade agreement since its has failed to protect workers there.

Therefore, positive and negative effects are expected. Some sustain that the "aperture" has already destroyed the Colombian agricultural sector, which seems to be the algid point in this treaty. They also consider that sectors such as textile, footwear and metal mechanic industries have been negatively affected, since they are mostly formed my small and medium firms.

Still, it seems the majority of the country is welcoming the agreement and thinks that Colombia already started receiving some benefits from FTA. Its real GDP per capita has been increasing from less $2,000 in 1969 to more than $4,000 in 2011, while the value for Venezuela, for example, although higher, has declined during the same period.

Right now Colombia has become a platform for US exports to other countries and a pole of attraction for domestic and foreign investment. With good access to credit and government support (exchange rate, access to tech) some sectors may beneficiate from FTA: coffee, flowers, fruits, sugar, vegetable oil, tobacco, fishing, cocoa, leather products. The expansion of the oil industry has been possible thanks to foreign investment. Of course, there exist sectors, like grains and dairy products that will need assistance and special conditions to become more competitive and survive the competition. For Colombia the success of the agreement will be based on whether or not small and medium firms are able to survive; after all, they represent 63% of total employment. Improvement in several aspects is in order: infrastructure, education, quality control processes, protection to property rights, is just some of them. The Strengths, Weaknesses, Opportunities and Threats faced by Colombia are summarized in the following SWOT matrix shown in table 4.

Table 4. SWOT Matrix

	INTERNAL ORIGIN	EXTERNAL ORIGIN
HELPFUL	Strengths Geographical position Educated and willing workers Low cost of labor force Exporting experience Low inflation rate Stable and favorable weather Natural resources Strong and stable financial system Colombia-Peru-Chile stock market	Opportunities Access to the US market Foreign direct investments Technological transfer from USA Access to other markets (China, Panama, Venezuela, Peru, Korea)
HARMFUL	Weaknesses Infrastructure physical and technological Quality control processes Peso tendency to reevaluate Protected sectors (agriculture, dairy) Corruption Barriers to credits	Threats Competition (with US, China, etc.) USS and Eurozone crises Negative trends of international markets Guerrilla (FARC) Narcotraffic

Source: Compiled by the authors

But, what is there for the US? It seems that for the US there are more disadvantages for not signing, than advantages for doing so. In this globalized world, the only way to protect a country's market share is by offering special conditions to specific economies. Failing to do so would imply fewer chances to attract capitals and/or to allocate the goods and services they produce, with a negative impact on its employment and GDP, beyond the possible displaced these agreements may create. The US needs these agreements in order to keep its competitiveness and preserve its share in the international trade market. After all, Colombia has already signed several agreements with Korea, members of the EU and Canada, and is in the process of signing a new one with China.

In other words, the US could sign these agreements not to win, but not to lose. The ties between these two countries have two additional components that may also help to explain the interest of the US on Colombia: the common fight against narcotraffic and the strategic geographical position of Colombia in the continent, reinforced by a military alliance between the two of them. These are elements that differentiate NAFTA from this other FTA and that may change the potential results of the new treaty.

4. CONCLUSIONS

Quantitative and qualitative effects assessment of NAFTA on Mexico´s and the US economy is not an easy task. International and internal economic and political events in both countries and previous steps toward an open economy in Mexico may prevent from isolating the effects of the treaty. Official studies tend to show positive results, while others are not so optimistic. In spite of this, the general perception is that NAFTA impacts on the US economy were small while larger in Mexico.

Evidence seems to indicate that NAFTA has brought modest economic and social benefits to Mexico´s economy as a whole, but not evenly distributed reinforcing the heterogeneity it was supposed to reduce. Job creation has not been as much as expected as to reduce migration, informality and regional, gender and ethnic inequalities.

Income inequalities persist as well as incentive for migration to the US. It is true that such inequalities may be due to other problems such as insufficient education, innovation and infrastructure issues, but NAFTA created many expectations about it and failed to fulfill them by offering global rather than local solutions.

Higher power gained by transnational firms in Mexico has entered strategic sectors and challenged government measures related to royalties, fees, profits, and eve taxes, forcing privatization of firms that end up being controlled by transnationals and introducing an evident bias in favor of private over public sector, which have weakened public policies instruments and labor union´s bargaining power. The results of that are lower wages and poor working conditions.

Inflows of financial capitals into Mexico helped to develop an exporting sector unattached to the domestic Mexican economy, offering poor quality jobs at low wages. The US has not seen the benefits of NAFTA. More than half a million net jobs have being lost and deficit in trade balance replaced the original surplus.

For American firms, NAFTA has made easier and cheaper the access to row material and labor and has forced them, as well as Mexican firms, to be more competitive. Since it was signed, commercial trade between the US and Mexico has quadrupled. The economy of the NAFTA as a whole has increased more than 100% and the employment level has increased more than 27%. Therefore, at the aggregate level, results seem to be positive, at least for some members.

Regarding the labor market, if similar experiences repeat themselves every time the US negotiates free trade agreements offering more attractive conditions for international capitals, the US-Colombia FTA can only mean fewer jobs for Americans and more but not necessarily better job opportunities for Colombians.

People opposing globalization think of it as disconnecting the relationship between American corporate employers and their employees, and agreements like NAFTA protecting the interests of large corporate investors, while undercutting workers' rights. The main winners of all these Agreements seem to be the large corporations. That explains why Microsoft, Coca-Cola, Wal-Mart and General Motors wrote letters to the congress to support the TPA.

However, there are factors indicating that the commercial relationship between these two countries will not be characterized by maquilas, like happened with Mexico. So far Colombia has proven to be able to deal with the increasing capital inflows that this free trade means, including strong policies against narcotraffic money laundering. Benefits from the “aperture” are evident, even though it is not clear which of them are due to the US-Colombia FTA. Product is growing fast, as well as employment. Most resources have been invested in activities different from maquila, which create better quality jobs.

Probably the most challenging part of the TPA for Colombia will be to be able to protect property rights. With an informal sector that employs more than 30% of the workers, many of them engaged in activities that violate intellectual property rights, Colombia faces a dilemma. Another obstacle for Colombia may be the inadequacy of its current infrastructure (ports, roads, airports, etc.). Several projects have been initiated at this regard already, which probably would not have been undertaken if not for the FTA. Finally, Colombia needs highly qualified workers and quality control processes to been able to compete with the USA, take advantage of all the opportunities the agreement will represents and overcome the difficulties it implies.

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