

Commanding heights essay



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The purpose of this paper is threefold, first to provide a synopsis of the third episode of the PBS video ' Commanding Heights', second to assess the success or failure of NAFTA and its implications for U. S.

economy and in the future. , and thirdly to explain the three most important issues faced by the WTO and the World Bank. SYNOPSIS The third episode of the Commanding Heights series is titled " The New Rules of the Game" and examines the growth of globalization from the 1990's through today.

Globalization, which moved to a grand scale in the 1990's, has ushered in the greatest expansion of trade in world history.

This unprecedented level of trade provides many opportunities for wealth, but also creates crises which had not been previously seen. The focus of this video is what will be the " new rules of the game" in this global economy, and who will control the commanding heights of the economy. The first real test of globalization for the United States occurred with the implementation of NAFTA (North American Free Trade Agreement) in 1993. The scope of NAFTA was the North American countries of Canada, The United States and Mexico.

NAFTA was drafted and well underway during the presidency of George H. W. Bush, but fully implemented under Bill Clinton. NAFTA was well received by business leaders and Wall Street, but heavily criticized by U.

S. labor leaders. Labor leaders, specifically those at the AFL-CIO, viewed NAFTA as giving too much power to multi-national corporations and not enough power to the individual worker. These leaders were also afraid that NAFTA would lead to a reduction in U.

S. based union jobs to Mexico. The labor leader's fears were well founded, as thousands of foreign companies built factories directly across the U. S. border in Northern Mexico. The sole purpose of these factories was to export goods back into the United States.

This transition in manufacturing from the U. S. to Mexico was dramatic, including the fact that 80% of the televisions sold in the U. S.

are made in Mexico. The result in terms of trade seemed to be a win-win situation for everyone involved, as trade volume between the U. S. and Mexico alone increased seven fold in a six year period. However, there is also a downside for the estimated 400, 000 U.

S. workers whose jobs were relocated to Mexico. Despite these drawbacks, globalization was moving full speed ahead and the newly created interdependence of global economies would be tested shortly after passage of NAFTA in 1994. The day that NAFTA was passed, rebels in the Southern Mexico state Chiapas launched an uprising.

This sign of instability in Mexico caused a mass exodus in foreign investment and threatened the valuation of the Peso. The potential impact to the U. S. was estimated to be up to 9 million illegal Mexican immigrants heading to the U. S. in search of work.

The Clinton administration decided to bail out Mexico with a loan \$50 billion. The loan worked, and Mexico was able to pay off its debt and keep the value of the Peso stable. However, this move set a bad precedent for the investment community; that of governments bailing them out of high risk

moves. Other parts of the world were also feeling the positive impact of globalization in the early 1990's, most notably Asia, whose economies were collectively known as the 'Asian Tiger'.

The specific Asian countries noted in the video included, China, Thailand, Singapore and Malaysia. The impact to China has been tremendous, with up to 300 million people being lifted out of poverty. All of these Asian countries listed had opened their markets and become exporters of all kinds of goods from cars to computers. The rate of annual growth in these countries was 10% by the mid 1990's. This level of economic growth could not go on forever, and the following events in Thailand during 1997 started the fall of the 'Asian Tiger' economies and would become known as 'contagion'.

By 1997, foreign loans to Thai businesses had tripled to over \$200 billion. One flaw, which became apparent in hindsight, was the weakness in the banking system. Thai banks were approving loans for risky projects such as buildings with no tenants and an entire city the size of Boston. In addition to these risky loans, the Thai central bank pegged its currency, the baht, to that of the U. S.

dollar. The combination of risky loans and local currency pegged to the U. S. dollar, led to local Thai people requesting U. S. dollars instead of baht from the banks.

The Thai government met the people's requests in handing out U. S. dollars, however, in doing so were quickly depleting its foreign reserves. The baht came under intense market pressure, as well as 'shorting' by hedge fund managers as was forced to de-value its currency in July of 1997.

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This de-valuation was the beginning of a free fall for all 'Asian Tiger' economies, and became known as 'contagion'. Unlike Mexico, the U. S. had decided not to intervene with a bailout, as it did not see Thailand as a big market. The U.

S. was right in the fact that Thailand was not a big market, but quite wrong about the impact of the Thai currency de-valuation on the rest of Asia.

Contagion spread from Thailand to neighboring Malaysia, and then onto Indonesia and finally South Korea. In all, \$116 billion flowed out of Southeast Asian economies. The IMF responded with huge loans on the condition that these countries cut government spending, raise interest rates and eliminate corruption. Many of the Asian leaders viewed the IMF conditions as a new kind of colonialism.

This new colonialism was seen from a standpoint that the conditions imposed by the IMF on poor countries seeking help had a goal of overtaking these countries policies. The contagion finally hit South Korea in December of 1997, merely 5 months after the downfall of the Thai economy. Korea, like Mexico was given a huge bailout, the largest in history of \$55 billion. This move ended the contagion in South East Asia, but left a wake of despair as poverty once again grew in these developing Asian countries. Although the contagion in Asia was over, it had not yet started in other parts of the world. The crisis would hit Russia next, as investors envisioned low risk for an ex-super power with lots of atomic weapons.

The investors reasoned that rich countries would surely bail out Russia to avert instability if a financial crisis arose. The investors were wrong; Russia

defaulted on its loans and there was no bailout from rich nations. The sentiment within the investor community now swung from one of high risk tolerance to high risk aversion. The crisis would head to America next, when little know hedge fund LCTM (Long Term Capital Management) neared bankruptcy.

LCTM controlled \$100 billion in assets and was involved in all markets world wide, including Tokyo, Singapore, London and Hong Kong. The decline in these world markets aused losses in LCTM to spiral downward. Contagion had now come to Wall Street. Since LCTM was a private fund, the government could not bail them out.

Fortunately, U. S. banks stepped in and saved LCTM, averting disaster. The final stop of the global economic crisis was Brazil, however, by this time a loan program was put in place early with conditions that Brazil cut spending. The intervention worked, and Brazil's economy returned to normal. This marked the end of global contagion, and began a debate about globalization and what new rules were required to ensure the contagion of the late 1990's didn't happen again.

This debate manifested itself in violent protests during the World Trade Organization (WTO) meeting in Seattle during 1999. The protestors were a diverse group of radicals and main line union workers. The union protestors claimed that open global markets created an unfair playing field, as American workers had to compete with foreign workers who were not represented by unions. The developing nations at the summit were not keen to U. S.

union demands, and instead wanted more trade, and charged the U. S. with protecting its own markets. Nations such as Tanzania claimed that poverty in developing nations would be much less if the U. S. did not protect its own markets.

Poverty now became a lightning rod for the protestors as the balance of power swung from the union contingent to a more grassroots contingent. These grassroots activists claim that globalization is the cause of global poverty. However, one argument against this is the fact that 200 years ago everyone was poor and that poverty is only now in the limelight because of the wide disparity in income that globalization has spawned. The debate over globalization continues on, with voices such as those of noted Latin American Economist, Hernando De Soto. De Soto postulates that capitalism requires a system of laws, specifically property rights to work properly. A lack of well established property rights within the third world prevents poor people from getting loans and credit, and therefore becoming full participants in the world economy.

The debate shifted sharply after the terror attacks in 2001, with the focus now on the needs of emerging nations. Assess the success or failure of NAFTA and its implications for the U. S. economy currently and in the future.

Include discussions of the costs and benefits to the U. S. and other members of NAFTA. The success or failure of NAFTA depends on your perspective.

I will assess the success or failure from both the perspective of businesses/investors and workers. Businesses/Investors: NAFTA has been largely successful from the perspective of businesses and investors. The

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primary reason behind the success of NAFTA for this group is eloquently summarized in the following statement made in 2006 by the Canadian Center for Policy Alternatives. “ NAFTA is about much more than deregulating trade. It is about removing restrictions on the mobility of capital. It goes way behind the border to the heart of domestic policy-making.

It is an economic constitution, conferring enforceable rights on investors, limiting the powers of government, and making it extremely difficult for future governments to change. At its core, NAFTA is about shifting the power in the economy from governments and workers to corporations. ” This statement by the Canadian Center for Policy Alternatives is not just rhetoric from a fringe organization. An examination of the NAFTA document itself reveals the truth in how it sets out to shift the power in the economy from governments and workers to corporations. NAFTA has created specific clauses that provide for compensation for lost investments and loss of future profits due to changes in government regulations. To date, 27 cases have been reviewed under this clause, with several resulting in damages being paid or regulations removed.

This clearly illustrates the shift in power to corporations granted under NAFTA. The impact of this swing in power to U. S. businesses and investors can be easily seen by the following data: •Increase in direct foreign investment by the U. S.

with Mexico from \$23 billion in 1993 to \$124 billion in 2002. •Increase in direct foreign investment by the U. S. with Canada from \$44 billion in 1993

to \$202 billion in 2002. 2 •Movement of 879, 280 jobs from the higher priced U.

S. to lower priced Mexico between 1993 and 2002. 2 The impact of this swing in power to Mexican and Canadian businesses and investors can be easily seen by the following data: Mexico: •Increase in manufactured exports to NAFTA countries as a percentage share of GDP from 10. 6% in 1994 to 20. 5% in 2005. •Increase in foreign direct investment stock as a percentage of GDP from 7.

9% in 1994 to 27. 3% in 2006. 3 Canada Increase in manufactured exports to NAFTA countries as a percentage share of GDP from 25% in 1994 to 40% in 2006. 1 •Increase in Canadian corporation profits by 105% from 1998-2002, coupled with a reduction in workforce by 15%.

1 Workers: Unlike businesses and investors, NAFTA has been a failure from the perspective of the worker. This is true for workers in all three NAFTA countries, the U. S. , Canada and Mexico. I will asses the impact to all three countries: U.

S. The impact of NAFTA on the American worker can summed up as follows:
oLoss of jobs to other NAFTA countries, most notably Mexico
oGrowing inequality in income
Wage suppression
As illustrated previously, the total loss of jobs from the U. S. between 1993 and 2002 stood at 879, 280.

The growth in income inequality stems from the fact the movement of manufacturing jobs to Mexico depresses the income of manufacturing workers in the U. S. A report from 2002 indicated that the wages of the

manufacturing workforce, which comprises 72% of the total U. S. workforce, were reduced by 13%.

Lastly, the increased import competition has reduced the power of labor unions in negotiating workers wages. Mexico The impact of NAFTA on the Mexican worker has also been negative. The lack of any provisions in NAFTA for labor rights has been a contributing factor to a decline in wages for the Mexican worker. The manufacturing sector added over 1 million jobs alone in the maquiladora factories along the border with the U.

S. and Mexico, however, this creating of jobs did not lead to higher wages. Wages actually declined by 20% in the manufacturing sector between 1993 and 1999. 4 Similarly, the impact of NAFTA on the Mexican agriculture worker has also been negative. Small Mexican farmers cannot effectively compete with U. S.

agri-business, and this has led to over 2 million Mexican farmers being forced out of business. Canada The impact of NAFTA on the Canadian worker is similar to that on the American worker. Canada suffered a loss of 276, 000 jobs between 1989 and 1997. 4 Note that the date of 1989 pre-dates the implementation of NAFTA due to inclusion of the impact of the U. S. , Canadian free trade agreement implemented in 1989.

Income inequality and suppression of wages in Canada follows similar trends to that in the U. S. In summary, the impact of NAFTA on the U. S. conomy from a macroeconomic perspective has been positive per the data listed on the previous page; however, at a microeconomic level the impact has been negative due to loss of jobs and growing income disparity.

Explain what are the current issues (three most important ones) faced by WTO and World Bank. You need to include implications of such issues for the U. S The three issues which I will discuss as the most important ones facing the WTO and World Bank are: 1. WTO - dispute settlement procedures 2. WTO - intellectual property rights 3. World Bank - ineffective policies for reducing poverty in developing nations.

WTO - Dispute Settlement Procedures The dispute settlement process was originally set forth in the General Agreement on Trades and Tariffs (GATT) in 1948. The current dispute process was set up during the Uruguay round of talks, which were completed in 1994. This current dispute process has set timetables and measures that prevent a losing country from subverting the ruling. Disputes in the WTO are essentially about broken promises.

WTO members have agreed that if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally. That means abiding by the agreed procedures, and respecting judgments. The problem with the WTO dispute resolution process is that it, along with free trade in general is based upon the efficiency model which states the economic welfare is enhanced through reduction in government regulations which hinder trade. The failure of the efficiency model is that it does not distinguish between government regulations aimed at economic goals, versus those with non-economic goals, such as environment protection. One convincing argument is to adopt a federalist style system of dispute resolution where member states have more say. The primary implication of the current dispute process on the United States is one of reduced sovereignty.

WTO - Intellectual Property Rights The WTO completed the ' Trade-Related Aspects of Intellectual Property Rights' (TRIPS) agreement at the conclusion of the Uruguay round in 1994. It establishes minimum levels of protection that each government has to give to the intellectual property of fellow WTO members. This agreement has come under heavy criticism, arguing that the patent protections stifle innovation in developing countries. The TRIPS agreement incorporates 20 year patent protection and aims to prevent imitation products.

The impact of these restrictions actually reduces competition and prevents developing nations from building up their own economies. A report by Oxfam International summarizes the problem that TRIPS imposes on developing nations as follows: TRIPS will exacerbate this divide by increasing the cost of knowledge-rich goods imported by developing countries. Royalties and license fees paid by developing countries to patent holders in the industrialized world have been climbing rapidly since the mid-1980s. In 1998, the US received a net surplus of more than US\$23bn from its IP exports.

These impacts of TRIPS, along with the problematic dispute resolution process as described above, make this even more troubling for the WTO. The impact to the U. S. , along with the rest of the developed nations is reduced competition for goods. World Bank - Ineffective Policies for Reducing Poverty in Developing Nations The mission of the World Bank is to help developing nations alleviate poverty by fostering economic growth.

A recent report by the World Bank's autonomous assessment arm determined the following failure of World Bank efforts: Roughly half of such

efforts from 2001 to 2005 “ did not lead to satisfactory results. ” During that period, new World Bank loans and credits aimed directly at rural development totaled \$9. 6 billion, or about one-tenth of total bank lending, according to the group. Per capita income rose continuously from 2000 to 2005 in only two in five of the countries that borrowed from the World Bank, the study reported, and it increased for the full decade, from 1995 to 2005, in only one in five. The reason behind the failure of the World Bank’s efforts has been largely due to a focus on economic growth, and not economic distribution. Addressing this problem will require a culture change within the World Bank to ensure that economic programs are specifically tailored to help the poor as outlined in their mission.

The implications of ineffective policies by the World Bank include a poor return on investment by the U. S. which contributes approximately \$2. 75 billion annually , and the prevention of potential consumers for U.

S. goods.