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3. During 2008–2009 many developed nations gave subsidies to their automobile producers. How might this have distorted international trade? Was this a reasonable thing to do given the circumstances?
4. What might occur if a renewed economic slowdown triggered a wave of protectionist measures around the world? Would protectionism actually protect jobs, or would it make things worse?
5. The volume of world trade rebounded sharply in 2010 on the back of a fairly modest growth rate in the world economy. What does this tell you about the

nature of international production in today's global economy? What does this tell you about the vulnerability of the world economy to any future trade wars?

Sources

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5823494 Feng Helen Liang NAFTA and Mexican Trucking

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When the North American Free Trade Agreement (NAFTA) went into effect in 1994, the treaty specified that by 2000 trucks from each nation would be allowed to cross each other's borders and deliver goods to their ultimate destination. The argument was that such a policy would lead to greater efficiencies. Before NAFTA, Mexican trucks stopped at the border, and goods had to be unloaded and reloaded onto American trucks, a process that took time and cost money. It was also argued that greater competition from Mexican trucking firms would lower the price of road transportation within NAFTA. Given that two-thirds of cross-border trade within NAFTA goes by road, supporters argued that the savings could be significant.

This provision was vigorously opposed by the Teamsters Union in the United States, which represents truck drivers. The union argued that Mexican truck drivers had poor safety records and that Mexican trucks did not adhere to the strict safety and environmental standards of the United States. To quote James Hoffa, the president of the Teamsters:

Mexican trucks are older, dirtier, and more dangerous than American trucks. American truck drivers are taken off the road if they commit a serious traffic violation in their personal vehicle. That's not so in Mexico. Limits on the hours a driver can spend behind the wheel are ignored in Mexico.

Under pressure from the Teamsters, the United States dragged its feet on implementation of the trucking agreement. Ultimately, the Teamsters sued to stop implementation of the agreement. An American court rejected its arguments and stated the country must honor the treaty. So did a NAFTA dispute settlement panel. This panel ruled in 2001 that the United States was violating the NAFTA treaty and gave Mexico the right to impose retaliatory tariffs. Mexico decided not to do that, instead giving the United States a chance to honor its commitment. The Bush administration tried to do just that, but was

thwarted by opposition in Congress, which approved a measure setting 22 new safety standards that Mexican trucks would have to meet before entering the United States.

In an attempt to break the stalemate, in 2007 the U.S. government set up a pilot program under which trucks from some 100 Mexican transportation companies could enter the United States, provided they passed American safety inspections. The Mexican trucks were tracked, and after 18 months, the program showed the Mexican carriers had a slightly better safety record than their U.S. counterparts. The Teamsters immediately lobbied Congress to kill the pilot program. In March 2009, an amendment attached to a large spending bill did just that.

This time the Mexican government did not let the United States off the hook. As allowed to under the terms of the NAFTA agreement, Mexico immediately placed tariffs on some \$2.4 billion of goods shipped from the United States to Mexico. California, an important exporter of agricultural products to Mexico, was hit hard. Table grapes now faced a 45 percent tariff, while wine, almonds, and juices would pay a 20 percent tariff. Pears, which primarily come from Washington State, faced a 20 percent tariff (4 out of 10 pears that the United States exports go to Mexico). Other products hit with the 20 percent tariff include exports of personal hygiene products and jewelry from New York, tableware from Illinois, and oil seeds from North Dakota. The U.S. Chamber of Commerce has estimated that the situation cost some 25,600 U.S. jobs. The U.S. government said it would try to come up with a new program that both addressed the "legitimate concerns" of Congress and honored its commitment to the NAFTA treaty.

In July 2011, the Obama administration signed an agreement with Mexico designed to end the long-running dispute. The agreement called for Mexican truck emissions to meet U.S. clean air standards and for Mexican drivers to submit to U.S. security checks, to meet U.S. highway

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safety standards, and to demonstrate competency in English and an understanding of U.S. highway signs. In addition, Mexican truckers are required to purchase U.S. insurance. The Teamsters Union continued to oppose the deal and tried to stop its implementation, but it was unable to do so this time. In October 2011, the first Mexican truck bound for the U.S. interior crossed the international bridge at Laredo, Texas, bound for Dallas and carrying electronic equipment.

Case Discussion Questions

1. What are the potential economic benefits of the trucking provisions in the NAFTA treaty? Who benefits? Who might lose?
2. What do you think motivated the Teamsters to object to the trucking provisions in NAFTA? Are these objections fair? Why did Congress initially align itself with the Teamsters?

3. Did it make economic sense for the United States to bear the costs of punitive tariffs as allowed for under NAFTA, as opposed to letting Mexican trucks enter the United States?
4. Why do you think the Obama administration brokered a deal with Mexico to allow Mexican truck drivers to access the United States? Do you think this is a reasonable deal?

Sources

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The Rise of the Indian Automobile Industry

India is well on its way to becoming a small car manufacturing hub for some of the world's largest automobile companies. Between 2004 and 2011, automobile exports from India jumped from 50,000 to 450,000 per year. Despite a global economic slowdown, exports are predicted to increase, reaching 720,000 vehicles a year by 2016. The leading Indian exporter is the Korean company Hyundai, which committed early to the Indian market. Hyundai began production in India in 1998, when consumers were only purchasing 300,000 cars a year, despite the country's population of almost 1 billion people (in 2011, more than 3 million cars were sold in India). Hyundai invested in a plant in the southern city of Chennai with the capacity to turn out 100,000 cheap small cars a year. It had to train most of the workers from scratch, often giving them two years of on-the-job training before hiring them full time. Soon, Hyundai's early investments were paying off as India's emerging middle class snapped up its cars. Still, the company had excess capacity, so it turned its attention to exports.

By 2004, Hyundai was the country's largest automobile exporter, shipping 70,000 cars a year overseas. Things have only improved for Hyundai since then. By 2008, Hyundai was making 500,000 cars a year in India and exporting more than a third of them. Its smallest cars, the i10, are now produced only in India and are shipped mainly to Europe. In 2005, Hyundai decided to invest around a billion dollars in a second Chennai plant. The plant, which opened in 2010, boosted its Indian output to 650,000 vehicles. Some 250,000 were exported in

2010, making Hyundai the largest exporter of manufactured goods in India. In addition to Europe, Hyundai is now considering selling its Indian-made cars in the United States.

Hyundai's success has not gone unnoticed. Among other automakers, Suzuki and Nissan have also been investing aggressively in Indian factories. Suzuki exported about 50,000 cars from India in 2007 and increased that to around 200,000 in 2010. Nissan also has big plans for India. It has invested some \$1.1 billion in a new factory close to Hyundai's in Chennai. Completed in 2010, the factory has the capacity to make some 400,000 cars a year, about half of which will be exported. Ford, BMW, GM, and Toyota are also building, or planning to build, cars in India. A notable local competitor, Tata Motors, launched a low-cost "people's car," priced at \$2,500, for the Indian market in 2009.

For all these companies, India has several attractions. For one thing, the rapidly developing country has a potentially large domestic market. Also, labor costs are low compared with many other nations. Nissan, for example, notes that wage rates in India will be one-tenth of those in its Japanese factories. As Hyundai has shown, productivity is high and Indian workers can produce quality automobiles. Hyundai's executives claim that its Indian cars are of comparable quality to those produced in Korea. Nissan's goal is to use the same highly efficient flexible manufacturing processes in India as it uses in Japan. Nissan plans to send Indian workers to its Japanese factories for training on manufacturing processes and quality control.