The Mexican Market and NAFTA*

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I. INTRODUCTION

It is time for all of us to change our assumptions about what is and is not possible as we secure our competitive future into the twenty-first century. We must challenge the naysayers who claim that the only hope for business in the global economy is to erect protection. We must challenge those who doubt the capacity of the North American worker to adjust to the pressures and demands of the global market. And we must challenge the view that we cannot address our environmental needs at the same time that we open markets.

Many in North America must change their views about free trade. Free trade is not a factory closer and plant mover. Free trade is an export and job creator. This is why Presidents Bush and Clinton faced tremendous domestic political criticism to negotiate a North American Free Trade Agreement (NAFTA) and supplemental agreements on labor and the environment with Canada and Mexico. Their vision for NAFTA was to make America more globally competitive. Their vision was to link the United States to its first and third largest trading partners—Canada and Mexico—to form the richest market in the world: 370 million people with a total output of $6.5 trillion. Presidents Bush and Clinton knew that exports are one of the brightest spots in our economy and that a North American trade agreement would lock in export market opportunities.

Exports have accounted for 70% of our U.S. economic growth since 1988. The United States has regained its position as the world's number one exporter, with $448 billion in merchandise exports and $179 billion in services exports. These

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exports supported 7.5 million jobs in 1991, up 42% from 5.0 million in 1986. These export-related jobs pay 17% more than the average U.S. job ($3500 per year). Well over a quarter of these jobs (28%) stem from exports to our North American neighbors. Booming U.S. exports of goods and services to Mexico already support 700,000 jobs here at home—chiefly in manufacturing. Our exports to Canada support an additional 1.5 million jobs.

II. TRADE WITH OUR NORTH AMERICAN NEIGHBORS IS A SUCCESS STORY

A. *Mexico and Canada Are Major Markets*

United States' exports to our North American neighbors are growing 56% faster than our exports to the rest of the world. Combined three-way merchandise trade in 1992 was over $264 billion, and three-way services trade exceeded $42 billion in 1991.

Mexico is our fastest growing export market. United States' exports to Mexico in 1992 were $40.6 billion, up from a paltry $12 billion in 1986 and representing a 22% increase over 1991 (compared to a 5% increase in exports to other countries). Exports to Canada totalled $91 billion in 1992, representing an increase of 6% over 1991.

The result of this surge in exports has been a surge in jobs for Americans—upwards of 700,000 supported by these exports and our trade surplus with Mexico of $5.4 billion in 1992. Mexico has surpassed trading giants like Germany, France, Italy, and Great Britain to be our third-largest market after Canada and Japan. But Mexico surpassed even Japan in 1992 to be our second largest market for manufactured goods. In fact, 85% of the U.S. jobs associated with our exports to Mexico are in manufacturing. Mexico is our third-largest agricultural market (after Japan and Canada).

The U.S. surplus with Mexico in manufactured goods trade totalled $7.5 billion in 1992, representing one of our largest manufactured goods trade surpluses (with total U.S. sales of manufactured goods to Mexico totalling approximately $35 billion).

Virtually every state's exports to both Mexico and Canada have increased in the past five years. Forty-eight states have seen their exports to Mexico increase substantially since 1987. The benefits are not just going to the border states. Even states where anti-NAFTA arguments are often aimed have seen their exports to Mexico and related employment explode. Pennsylvania, New York, Illinois, Ohio, and North Carolina, all states where lobbying against NAFTA was strong, are enjoying incredible gains in their exports to Mexico. Pennsylvania saw a 310% increase from 1987 to 1992; New York, 82%; Ohio, 98%; and Illinois, 385%.

B. Low-Wage Markets Are Still Important

How can this be? How can a relatively low-wage country be so important for U.S. exports and support so many American export workers? Well, Mexicans simply are not too poor to buy U.S. goods.

Mexico prefers U.S. products, buying nearly 70% of its imports from the United States. Mexico's middle-income and higher-income market is estimated to total 20 million people: about the size of Canada's entire consumer market, or several European countries put together. No one would suggest we should ignore these markets.

Mexicans spend more of every dollar earned (15 cents of every dollar per capita) on U.S. goods than our high-income trading partners. Japan and the European Community only spend 2 cents of every dollar per capita on American imports. Last year, Mexican consumers purchased an average of $450 worth of U.S. products. By contrast, the average Japanese spent $385 on U.S. products, despite the fact that Japanese incomes are five or more times as high as the average Mexican income.

Mexico spends a higher percentage of its Gross Domestic Product on U.S. goods than Japan, the newly industrialized countries of Asia (NICs), and Eastern Europe (7.8 times more per dollar than Japan; 1.5 times more than the NICs; 4.7 times more than Japan and the NICs combined; 21.7 times more than Eastern Europe; and 4.9 times more than Japan, the NICs, and Eastern Europe combined).

Exports to Mexico are growing twice as fast as imports. Exports to Mexico have grown at an average annual rate of 23% since 1987, compared to 15% for Japan, 14% for the European Community, 9% for Canada, and 14% for the whole world. Manufactured goods exports rose to $34.5 billion in 1992, representing 85% of the total. Textile and apparel exports have tripled to $1.6 billion, creating a trade surplus in the sector of $81 million, in spite of 10% to 20% Mexican tariffs. Autos and auto parts rose from $1.8 billion in 1986 to $6.8 billion in 1992. Steel companies sell 19% of all of their exports to Mexico.

Capital goods exports rose by 133% during 1987 to 1992, to $13.6 billion. But exports of all other products rose by 203% to $27 billion. Agricultural exports have more than tripled since 1986, and high-value products now account for almost 70% of all U.S. agricultural sales to Mexico, compared to 40% in 1987. Consumer goods exports to Mexico have grown at 31% annually, compared to exports to the European Community at 16% and Japan at 15%, and have tripled since 1986 (rising from $1 billion to $3.4 billion in 1991). United States' services exports are up 137% from 1987 to 1991, reaching $8.3 billion in a very closed market.

The strong growth in exports to Mexico in 1991 significantly increased the number of related jobs to over 700,000, up from 274,000 in 1986. These jobs are largely in the production of manufactured goods, which account for 85% of U.S. exports to Mexico. Estimates are that by 1995, one million U.S. workers will owe their jobs to U.S. exports to Mexico.

Even industries like textiles, footwear, apparel, steel, and auto parts, often characterized as highly sensitive to foreign competition, are doing very well in exporting to Mexico, even with the high Mexican tariffs and other barriers that NAFTA will remove.

C. When We Trade with Mexico, Aren't We Just Selling to Ourselves?

Some people have such a hard time believing that Mexico is so important to the United States that they will say that all these export statistics are lies. They will tell you that all of these impressive exports are really just going into production-sharing operations, *maquiladoras* for processing goods to be resold to the United States. But they are dead wrong.

While U.S. export data does include exports to *maquiladoras*, these exports amounted to only about 22% of all U.S. exports to Mexico last year, and this share is declining. The U.S. International Trade Commission (ITC) estimates that exports for consumption in Mexico account for 84% of recent U.S. export growth.

Those who do not want to believe that a Latin American country can be a strategic market for North American goods claim that all we are selling to Mexico is capital goods. They define capital goods as pieces of factories that we ship to Mexico so that they can be erected to produce, with low wages, goods that will be sold back to us and put U.S. workers out of their jobs.

Wrong again. Capital goods exports happen to make the United States the world's largest exporter, and Mexico (along with Europe and Japan) is a major market for them. Capital goods exports to Mexico include things like airplanes, telephone switches, and tractors. Mexico will get these goods somewhere, and without NAFTA it has no incentive to buy them from us.

The fact is, capital goods are not a disproportionate share of U.S. exports to Mexico. They comprise 40% of our exports to the world, but only 33% of our exports to Mexico, and their share is declining. Meanwhile, our consumer goods exports and agricultural exports are rising rapidly. Eleven percent of U.S. exports to Mexico are consumer goods, nearly as large a share as our consumer goods exports to developed countries.

D. Isn't Mexico Just Sucking Away U.S. Jobs?

The next thing you might hear from those who want to maintain the stagnant status quo economy and job situation in this country is that Mexico is sucking our plants and jobs south at a frightening rate and that NAFTA just accelerates that trend. Wrong again.

Despite the sound bites that have flooded media coverage of NAFTA, Mexico is not a magnet pulling U.S. jobs and manufacturing south. Surprisingly, most U.S. manufacturing investment abroad is in high-wage, developed countries; less than a third of U.S. manufacturing investment abroad goes to low-wage countries.

Nearly all U.S. manufacturing facilities abroad are located in Western Europe (50%), Canada, Japan, and Asia's NICs—in that order. A recent survey of corporations showed that Canada is currently the most popular foreign destination for U.S. manufacturing investment (18% of the total).

Latin America as a whole accounts for only 10% of U.S. foreign direct investment. Less than 5% of all U.S. foreign direct investment was located in Mexico in 1992, far less than the value of U.S. investment in Canada. Yet, Latin America is our fastest growing regional export market, and Mexico is our fastest growing market!

The fact is, because of lower worker productivity; a lack of infrastructure, which adds to transportation costs; and a number of other factors, Mexican workers really do not compete with U.S. workers and plants. It costs $410 more to produce an automobile in Mexico than in the United States. For example, it cost Quality Coils, a Connecticut company, much more than the wage differential ($10 per hour in Connecticut versus $5 an hour—benefits included—in Mexico) to build in Mexico, so they moved back.

Furthermore, NAFTA is a trade agreement, not an agreement to promote the flight of investment from the United States to Mexico. Only one chapter of NAFTA has anything to do with protecting the rights of investors in Canada, the United States, and Mexico. The remainder increases market access for goods and services, protects our inventions and technologies from piracy, makes it possible to produce our products in the United States and export them competitively with no tariff costs, and ensures that environmental and labor standards are never used to attract investment or for protectionist purposes.

NAFTA does not encourage plants to move south. Instead, it dismantles artificial Mexican incentives and requirements to manufacture in Mexico that impede selling to that dynamic market. Mexico's present Automotive Decree, for example, requires producers to build two cars for export for every one car built for sale in Mexico. It also requires car manufacturers to use a set percentage of Mexican-made parts in every car produced. This requirement has pressured some U.S. suppliers to move operations south of the border. By removing these requirements, NAFTA allows auto and parts makers to produce in lower-cost, world-class plants in the United States and export to Mexico, the fastest growing auto market in the entire Western Hemisphere.

All of this good news comes as a result of Mexico's unilateral economic reforms and measures to liberalize its markets. In 1986, Mexico began to dismantle its protectionist barriers—first joining the General Agreement on Tariffs and Trade (GATT) and reducing its tariffs from as high as 100% to a weighted average of 10%. Under President Salinas, market-opening reforms have continued as part of a strategy to modernize Mexico and prepare it to compete with the Asian tigers (Korea, Taiwan, Hong Kong, Indonesia) into the twenty-first century.

III. The New Mexico: A Vital Market for American Goods and Services

The Mexican economy has been expanding since 1989, increasing demand for capital goods and equipment as well as for consumer goods and agricultural products. Mexico has also made dramatic strides to open its markets. This opening, however, is not secured for U.S. exporters without NAFTA.

Mexico has dramatically reduced its foreign public debt from 74% of its Gross Domestic Product (GDP) in December 1988 to only 29% of GDP in June 1992. Mexico's public debt-to-GDP ratio (29%) compares favorably with the industrialized economies of the United States (56%), Japan (63%), Canada (76%), and Italy (103%).

Growth in Mexico benefits the United States. Mexico's nearly 90 million consumers show a pronounced preference for U.S. goods: 70% of Mexico's imports come from the United States, compared with 21% in Japan, 17% in the European Community, and 2% in Eastern Europe. By the year 2000, expectations are that there will be 100 million Mexicans buying American goods and services.

While Mexico has always been an important destination for U.S. investment, this investment has contributed not only to Mexico's growth, but also to jobs in the United States. As noted earlier, less than 5% of all U.S. foreign direct investment is located in Mexico. Yet, Mexican subsidiaries of United States companies buy much more from the United States than our subsidiaries elsewhere in the world. For every dollar spent by U.S. subsidiaries in Mexico, forty-six cents is spent on U.S. goods (capital equipment and components), the highest percentage anywhere in the world.

Even more exciting for U.S. exporters is the investment that Mexico itself is making in its infrastructure. Many of the equipment and technology purchases to improve Mexico's infrastructure are from U.S. suppliers and account for 33% of our exports to Mexico.

There is no doubting the commitment that Mexico's recent administrations (De la Madrid and Salinas) have to fundamentally restructuring their economy. Their unilateral steps to open the Mexican market and turn away from a policy of protecting domestic producers through import substitutions have started a change in how Mexico does business within the global economy.

But the Mexican market opening to date has applied equally to everyone—U.S. products and services and our competitors'. NAFTA eliminates Mexico's remaining trade barriers specifically for U.S. products. So NAFTA not only guarantees the market access we are benefitting from today, it further opens Mexico to U.S. goods and services.

Accompanying the market opening measures in Mexico, President Salinas undertook, as he has stated numerous times, an ambitious program to bring Mexico "from the third world to the first world by the end of the century." This objective has resulted in major policies and programs to invest in infrastructure, environmental protection, and systems modernization, among other things. This program is generating tremendous business opportunities for U.S. exporters. NAFTA will expand these opportunities.

A. *Infrastructure*

The Salinas Administration has made a major and highly visible commitment to turn around the stagnant investment patterns of the 1980s. Through privatization of formerly state-controlled infrastructure and a strong reliance on private investment, Mexico has undertaken a massive effort to modernize and build infrastructure of all kinds: telecommunications, roads and ocean ports, enough electrical power plants and distribution grids to effectively service the needs of its growing industry, water purification and distribution systems, and environmental cleanup infrastructure such as sewage treatment plants and incinerators. Billions of dollars in private and leveraged public dollars are being spent each year in what has to be one of the most ambitious national infrastructure improvement projects in the world.

B. *Telecommunications*

The recently privatized state telephone monopoly, Telmex, has embarked on a huge capital investment program calling for a 63% increase in total infrastructure with expenditures of around $13 billion by the year 2000. In 1991, $1.8 billion was spent. Results for 1992 and 1993 should show $2.3 billion spent per year for a total of $6.4 billion in the first three years of privatization.

A concrete example of this capital investment is Hughes Aircraft Company's $200 million contract for two communications satellites for the Mexican government. This contract will support an average of 250 to 300 jobs over three years in Hughes Aircraft's Long Beach facility and various U.S. subcontractors.

C. Energy

Big changes are also happening in Mexico's energy sector. Market liberalization reforms, which have been so dramatic in most of the Mexican economy, have been slow to reach the energy sector largely because Mexico's Constitution restricts ownership of oil and gas resources to the state. But it is widely acknowledged that to avoid becoming a net oil importer, Mexico must dramatically overhaul its energy sector.

In June 1992, the Mexican national oil company, PEMEX, reorganized its operations into four separate subsidiaries: an exploration and production unit, a refining unit, a natural gas and primary petrochemicals unit, and a secondary petrochemicals unit. Other internal reforms within PEMEX indicate its willingness to explore creative methods of working with foreign suppliers and contractors so it can move to the level of production and efficiency in energy services that Mexican producers need to compete. NAFTA opens up government procurement opportunities for U.S. firms with PEMEX. The new structure of PEMEX will make it attractive to contract for services and equipment with U.S. energy firms.

NAFTA provides new investment opportunities for electricity generating facilities for "own use," cogeneration, and independent power production. NAFTA allows investors to acquire, establish, and operate such facilities without any involvement from the state energy monopoly, *Comisión Federal de Electricidad* (CFE). Foreign investors may also purchase or build independent power production facilities.

NAFTA also allows for the cross-border trade of natural gas and basic petrochemicals. The terms of any such sales to Mexico must be negotiated with PEMEX, which must act as the importer in Mexico.

In essence, this means that North American firms will be allowed to build, own, and operate electricity generating plants for self generation, cogeneration, and independent power production in Mexico. United States' natural gas suppliers will be able to sell to Mexican factories through PEMEX to meet import demands, which are projected to reach 800 million cubic feet per day within the next two years.

D. Procurement

New rules on government procurement that Mexico and Canada will adopt as a result of NAFTA will open up opportunities to U.S. firms seeking government contracts in those countries. NAFTA gives North American suppliers immediate and growing access to the Mexican government procurement market, not only PEMEX and CFE, but also other government entities. NAFTA also breaks new ground by including services for the first time, substantially increasing export opportunities for North American providers of a wide variety of services including construction, environmental, and software.

E. Environmental Products and Services

According to the Mexican Embassy, Mexico spends the equivalent of 1% of its gross national product on environmental improvement. In 1992, the total market for pollution control products and services in Mexico was approximately $1 billion. Average growth of the Mexican pollution control products and services market is expected to reach 20% per annum during the period 1992 to 1994, and U.S. exports of environmental products and services to Mexico are expected to grow by 20% during 1993.

Currently, very few nontariff barriers impede sales of U.S. pollution control equipment and services in Mexico. Tariffs on pollution control equipment and services range from 0% to 20%. Under NAFTA, tariffs on most pollution control equipment will be eliminated on the date of implementation of the Agreement or within five years of implementation. The elimination of tariffs will stimulate U.S. exports by further enhancing the price competitiveness of U.S. pollution control equipment and services with non-NAFTA products.

Continued growth of the Mexican economy, spurred by NAFTA, will encourage increased sales of new U.S. pollution control equipment and services in Mexico as citizens demand a cleaner environment and the financial resources exist for these purchases.

Increasingly strict Mexican enforcement of its sweeping 1988 General Law of Ecological Equilibrium and Environmental Protection will necessitate diligent maintenance of existing environmental control equipment. Mexico's recent intensification of enforcement of its environmental laws is also contributing to increased sales of U.S. environmental products and services in the Mexican market. Mexico's new superagency, the *Secretaria de Desarrollo Social* (SEDESOL), is empowered to set and enforce Mexico's environmental norms and regulations. Reports by individual Mexican businesses, as well as a report issued in 1993 by the American Chamber of Commerce in Mexico, indicate that notable increases in both the number of SEDESOL inspectors employed and the frequency and seriousness of their inspections have made compliance with Mexican environmental law a high priority for firms operating in this market. Implementation of NAFTA is likely to reinforce this trend by strengthening enforcement efforts and by generating additional resources in Mexico to address environmental problems.

F. Services

The market for services is another very important new opportunity under NAFTA. NAFTA opens Mexico's $146 billion services market to U.S. telecommunications companies, banks, insurance firms, law and accounting firms, and transportation companies. NAFTA will also increase access to Canada's $285 billion services market. To make it possible for service providers to have real access to these markets, NAFTA allows professionals to freely cross the border. This means, for example, that an equipment vendor can offer follow-up services to its clients—a very important advantage when it comes to sales.

G. Success Stories

Every kind of American company has the opportunity to benefit from trade with Mexico and Canada, especially with the increased market access afforded by NAFTA. The U.S. Department of Commerce Mexico desk responds to over two thousand business callers a week, helping them with their questions about exporting to Mexico. Any state or city trade office or chamber of commerce will tell you that they too are flooded with business calls about the Mexican market.

Businesses from small to large, minority-owned and women-owned, in every sector of manufacturing and services, are reaping the benefits of doing business with our neighbors. And they hire new workers to handle the increased business.

- Pace Picante Sauce in San Antonio has captured 30% of the Mexican red hot sauce market in Monterrey and is planning an expansion into the rest of Mexico.
- Dell Computers in Austin, Texas is led by the youngest CEO ever to make it onto the *Fortune* 500 list, Michael Dell. It has just opened operations in Mexico to sell its personal computers and to provide the 24-hour customer service and follow-up for which Dell is famous.
- Falcon Products, a furniture manufacturer, has operations in St. Louis, Missouri; Tennessee; Arkansas; and Juarez, Mexico. Thanks to its Mexican production, it has increased employment and increased exports worldwide.
- Price Club has linked with one of Mexico's largest retail chains to serve Mexican consumers.
- Walmart's Mexico City store, just opened in October 1993, is doing the largest volume of business of all its stores.
- Detroit Diesel-Allison is also creating jobs in the United States by doing business with Mexico. Detroit Diesel has increased employment in its U.S. operations by 46% since 1990, thanks to its Mexican business. Most of these jobs are in Detroit Diesel-Allison's manufacturing facilities in Michigan and Ohio. Twenty-six percent of this increase represents brand new jobs created to fill the demand for its engines in Mexico.

Numerous other companies, ranging from architecture to environmental products and services to trucking companies, are seeing their business with Mexico grow by leaps and bounds. They look forward to the additional business they will enjoy with NAFTA.

IV. What Will NAFTA Do To Continue These Market Opportunities?

NAFTA does much more than reduce tariff barriers. It provides brand new access to key markets for services and government procurement. It safeguards our sensitive sectors. And it reduces regulations that have distorted some manufacturers' decisions to relocate investment. NAFTA will stimulate the U.S. economy in several ways.

A. Eliminating Tariffs

NAFTA will eliminate tariffs on industrial and agricultural goods made or grown chiefly in the United States, Mexico, and Canada. Mexico's tariffs are currently two-and-a-half times higher than ours. Sixty-five percent of eligible U.S. exports of industrial goods to Mexico will be duty free within five years of NAFTA's implementation. Within five years, three quarters of our auto parts exports to Mexico will be duty free. Mexican tariffs on U.S. autos and light trucks will be cut in half (from 20% to 10%) as soon as NAFTA is implemented and will be reduced to zero over the next ten years for cars and five years for light trucks.

B. Opening Huge New Markets for Services

NAFTA will open Mexico's $146 billion services market to U.S. telecommunications companies (both equipment and services), banks, insurance firms, law and accounting firms, and transportation companies. NAFTA will also increase access to Canada's $285 billion services market.

C. Lifting Restrictions That Hurt U.S. Exports

NAFTA will lift restrictions on companies in Mexico, thus freeing manufacturers to import more components from U.S. firms. Mexican trade balancing and domestic content rules will be eliminated, permitting additional sourcing of U.S. inputs. And for the first time, U.S. firms operating in Mexico will receive the same treatment as Mexican-owned firms. Mexico has agreed to drop export performance requirements, which presently force companies to export as a condition of being allowed to invest. Often, those exports have been directed at the nearest market—the United States.

D. Removing Nontariff Barriers

NAFTA will remove other trade barriers, such as Mexico's quotas and import licensing barriers to U.S. exports of corn, wheat, dairy, poultry, and other agricultural products.

Strong rules of origin require substantial North American parts and labor content before a product can benefit from NAFTA tariff cuts. These rules contain tracing requirements so that individual parts can be identified to determine the North American content of major components and subassemblies (such as engines). Tracing requirements ensure that the benefits of NAFTA flow to firms that produce in North America.

By phasing out duty drawback for goods that are shipped from outside North America for assembly in foreign trade zones or *maquiladoras*, NAFTA prevents non-NAFTA countries from shipping products duty free to the United States through Canada or Mexico.

E. *Giving Everyone Time To Adjust*

NAFTA allows plenty of time for industries and workers in sensitive sectors to adjust to full competition by gradually phasing out tariffs over fifteen years and by providing safeguards against injurious import surges.

While much of the discussion surrounding NAFTA has focused on economic growth and jobs, the gains that will accrue to consumers in all three countries are equally important. Trade barriers bring enormous costs to consumers. For example, a recent Canadian study found that protecting the Canadian clothing industry cost lower-income households four times as much as it cost higher-income households.

The gains from free trade will be passed on to U.S. consumers in the form of greater consumer choices and lower prices. In recent congressional testimony, proponents of NAFTA have applauded, "The longer growing season in Mexico will make it possible for U.S. consumers to enjoy a wide variety of fresh products during the winter months, and without substantial detriment to U.S. producers."[1] "[T]he elimination of trade barriers among the NAFTA countries will enhance the competitiveness of U.S. businesses. This will allow for expansion of U.S.-based companies into the global marketplace and lower the cost for U.S., Mexican, and Canadian consumers of imported products."[2]

NAFTA does not change in any way U.S. laws to combat unfair trade practices, which will continue to be vigorously enforced to prevent dumping and unfair subsidies.

What do we give up in exchange? Almost nothing. Already, 50% of U.S. imports from Mexico enter duty free. And the

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1. *North American Free Trade Agreement: Hearings Before the Subcomm. on Trade of the House Comm. on Ways and Means*, 102d Cong., 2d Sess. 357 (1992) (testimony of Hon. John R. Block, former Secretary of Agriculture).

2. *Id.* at 431-32 (statement of Fermin Cuza, on behalf of the American Association of Exporters and Importers).

removal of the remainder of our tariffs on Mexico's products over the fifteen-year time period in NAFTA means dismantling an average U.S. tariff of only 4%, compared with Mexico's average tariff on our goods of 10%.

The success of NAFTA and of economic liberalization in Mexico is a powerful inducement to other Latin American countries to adopt economic, trade, and investment liberalization that will support more rapid economic growth. The U.S. goal is to encourage market liberalization throughout the hemisphere and, ultimately, the creation of a hemisphere-wide trade area. The objective of NAFTA is to open markets. It does not create a closed regional trading block and does not erect new barriers to nonparticipants. NAFTA is fully consistent with GATT criteria for free trade agreements and with U.S. support for strengthening the multilateral trading system in the Uruguay Round.

V. NAFTA AND THE ENVIRONMENT

President Bush agreed, when his request to extend the "fast track" authority to negotiate unamendable trade agreements was before Congress, that he would negotiate environment and labor issues on a parallel track with NAFTA. As a candidate, and shortly after his inauguration, President Clinton made clear that while NAFTA as signed by President Bush was a good agreement, he would not ask Congress to vote on implementing legislation for NAFTA until supplemental agreements on labor and the environment were negotiated. The United States, Canada, and Mexico concluded their negotiations on these Supplemental Agreements on Environment and Labor Cooperation, as well as agreements on import surges in September 1993.

Actually, NAFTA has an unusual amount of environmental protection built into the Agreement. The NAFTA parties agreed that economic development should take place in an environmentally sound and sustainable manner. NAFTA-led growth will generate the additional resources necessary to increase funding of environmental projects and to enforce environmental laws and regulations. According to former Administrator Reilly of the Environmental Protection Agency (EPA), NAFTA is "the greenest agreement ever negotiated" and sets a significant marker for future trade agreements.

NAFTA's unprecedented "green language" explicitly ensures our right to safeguard the environment with strong provisions on standards, health, and safety measures. NAFTA permits parties to impose stringent environmental standards on new investments, so long as they apply equally to domestic and foreign investors, while renouncing the lowering of environmental standards as a means to induce investment.

States retain their right to enact standards that are more stringent than those at the national or international level. NAFTA explicitly recognizes the right of a participating country to prohibit the importation of goods that do not meet its standards and the right to carry out border inspections.

NAFTA in no way requires the United States to lower its environmental standards. In fact, its provisions encourage NAFTA countries to strengthen environmental standards and to harmonize them. For example, we currently do not permit fruits or vegetables with non-U.S. approved pesticide residues to enter the United States. This will not change under the NAFTA.

The NAFTA process has increased environmentalists' participation in trade policy. Representatives of the environmental community have been appointed to each of the key trade policy advisory committees. The U.S. Trade Representative (USTR), with the help of EPA and other agencies, conducted and released an environmental review addressing the effects of NAFTA. Public hearings were held in six cities. The review concludes that NAFTA will enhance environmental protection by providing Mexico with additional resources to address its problems and will ease environmental pressures on the border as free trade encourages industry to expand beyond the *maquiladora* sectors.

An Integrated Border Environmental Plan has also been prepared by the EPA and its sister agency in Mexico. Public hearings were held on this plan in nine U.S. cities and seven Mexican cities—the first time the government of Mexico had held public hearings.

NAFTA's parallel environment track has expanded and strengthened our network of cooperative activities with Mexico on the full range of pollution and conservation issues. For example, several other projects to improve environmental cooperation are underway: the Bilateral Working Group on Environmental Enforcement (begun in June 1991); joint public advisory committees for border issues; programs to encourage public reporting of potential violations of environmental law;

and a trilateral commission, which will review and monitor environmental issues, including enforcement, on an ongoing basis.

The Supplemental Agreement on Environmental Cooperation, concluded in August 1993, creates the North American Commission on Environmental Cooperation. The Commission will set in motion a process for sustained, long-term, effective trilateral environmental cooperation, and represents a unique forum in which the United States, Mexico, and Canada will be able to work together to ensure that NAFTA will promote both economic growth and strong environmental protection.

The United States and Mexico also agreed in October 1993 to create two new institutions to address the environmental problems along our joint border. The first is a U.S.-Mexican Border Environment Cooperation Commission (BECC) to help coordinate projects and assemble financing packages. The second is a new U.S.-Mexican North American Development Bank (NAD Bank), to provide gap financing to support border environmental infrastructure projects and NAFTA-related community adjustment and investment programs.

The North American commitment to a sound environment represents an important commercial opportunity for U.S. providers of environmental goods and services, including environmentally-sound manufacturing processes. Trade restrictions on environmental goods and services will be among those most rapidly phased out. The manner in which the United States, Mexico, and Canada addressed the issue of the environment, in the context of trade negotiations, is precedent setting, which may explain why the Audubon Society, the National Wildlife Federation, the Natural Resources Defense Council, and the Environmental Defense Fund endorsed the passage of NAFTA.

VI. NAFTA AND LABOR

NAFTA will give Americans more opportunities in higher-skill, higher-wage jobs. Virtually every study of the economic impact of NAFTA finds that employment levels will rise in each country, as will wages.

Much research has been devoted to the potential economic and social effects of a North American free trade area. So many studies have been released, in fact, that the USTR requested the ITC to conduct an investigation on the technical merits and major findings of the economy-wide models. The ITC reported "a surprising degree of unanimity in the results regarding the aggregate effects of a NAFTA. All three countries are expected to gain from a NAFTA. The greatest impact will be on the Mexican economy, with less impact on the Canadian and U.S. economies."

These studies report that NAFTA would increase U.S. real GDP by up to 0.5%, with one study calculating a gain of as much as 2.1%. And all but one study projected U.S. employment increases.

For Mexico, estimated increases in real GDP go as high as 11.4%, and real wages increases as high as 16.2%. Although only three of the studies examined the implications of NAFTA for Canada, one study projected Canadian employment to rise between 7.3% and 11.0%.

The ITC points out that most of the studies are static and thus probably undercount the true gains from NAFTA. This means that the studies are unable to project the impact of the accelerated rate of economic growth or dynamic gains from trade that can result from the accelerated transfer of technology, access to specialized capital goods, integration of production, and accumulation of skills. Such changes will likely affect Mexico most, increasing its purchasing power for more U.S. goods and services. Calculations of dynamic effects show that Mexico's dynamic gains from NAFTA may be on the order of 50% of real Mexican GDP over twenty-five years.

In the spring of 1993, the Congressional Budget Office (CBO) released its analysis of NAFTA and its effect on U.S. employment. The CBO concluded that the anticipated displacement of U.S. workers that might occur over the fifteen years of implementation ranges between 200,000 and 500,000. The CBO concluded that this number is dwarfed by the employment dislocation that will occur in that same time period because of other factors, citing the 20 million workers in the 1980s who lost and changed jobs.

Nevertheless, much has been said about disparities in wages, worker rights, and safety standards. The NAFTA negotiations created an historic opportunity for bilateral cooperation to improve Mexican labor standards and enforcement. While economic growth in Mexico will provide increased resources for enforcement, U.S.-Mexico labor cooperation has provided an opportunity for Mexico to accelerate the benefits accruing to workers through U.S. technical assistance and training.

A plan under the auspices of the U.S.-Mexico Binational Commission, an ongoing government-to-government working group involving every cabinet agency with binational concerns, and a memorandum of understanding signed by the two secretaries of labor, has joint activities underway in the following areas:

- comparative studies in safety and health, child labor, labor law, and worker rights;
- technical assistance and training on safety in high hazard industries;
- Occupational Safety and Health Administration (OSHA) sponsored training in U.S. laboratories to help Mexico develop an improved workplace health enforcement program;
- exchange of OSHA's computer information system and regulatory language.

The Supplemental Agreement on Labor Cooperation ensures that labor standards will be upheld and that lax enforcement cannot be exploited for unfair advantage by NAFTA partners.

VII. The NAFTA Calendar

Negotiations over NAFTA began in July 1991. Because the three countries knew that freer North American trade was a win-win-win proposition, the negotiations were largely nonconfrontational. It was relatively easy for the three countries to find mutually beneficial positions.

Congress was consulted at every step of the negotiating process. In fact, the consultations conducted on NAFTA were far more extensive and intensive than have ever been held with Congress on a major trade agreement. According to the USTR, an average of three briefings per work day were held with members of Congress and staff since the talks were launched. In fact, Chairman Rostenkowski of the House Ways and Means Committee said in a July 1992 speech, "[W]e cannot fault the Administration for secrecy."

On August 12, 1992, U.S., Mexican, and Canadian chief negotiators completed negotiating NAFTA as a "handshake" agreement.

NAFTA was subject to fast track rules for consideration by Congress. Fast track authority is granted by Congress to allow the President to negotiate international agreements and to assure the negotiating partners that the deal reached will not be amended by the U.S. Congress. Contrary to the nickname, the process for fast track consideration was actually quite lengthy, requiring a number of steps.

After the handshake agreement was reached in August, the USTR asked its private sector advisory committees (over one thousand members) to review the agreement and write reports on its impact as required by the fast track rules. Meanwhile, lawyers began to "scrub" the text of the agreement to make sure that the legal language reflected what the negotiators had agreed to.

On September 18, 1992, President Bush formally notified Congress by submitting the agreement and the advisory committees' reports to Congress, thus starting the ninety-calendar-day "consultative period" required under fast track rules. Congress was able to ask questions about the agreement for ninety days before the President was allowed to sign it as a final agreement.

On October 7, 1992, President Bush, together with President Salinas and Prime Minister Mulroney, witnessed the "initialling" of the legal text of the agreement in San Antonio. On December 17, 1992, when the ninety-day consultation period expired, President Bush signed the agreement, as did President Salinas and Prime Minister Mulroney. The signed agreement was eligible for fast track treatment, meaning that once drafted, the implementing legislation for the agreement could be submitted to Congress for a vote at any time, with no congressional amendment allowed.

On March 17, 1993, negotiations on supplemental agreements for labor, the environment, and import surges began. On August 13, 1993, the supplemental agreements for labor, environment, and safeguards were concluded. The legal text for these agreements was submitted by the President as part of the NAFTA package of implementing legislation.

NAFTA's implementing legislation went to Congress the first week of November 1993, although hearings on the formative legislation, and even committee votes, had already been held. The House voted on and passed NAFTA on November 17 by a vote of 234 to 200. The Senate passed it three days later by a vote of 61 to 38. NAFTA's implementation date, the date when tariff reductions began, was January 1, 1994.

VIII. Conclusion

The United States, Mexico, and Canada entered into negotiations for NAFTA because it was absolutely the right thing to do for our countries. In the face of European integration and strategic partnerships in the Pacific Rim, it is vitally important for the United States to strengthen our ties with our North American commercial partners and with the rest of the Western Hemisphere.

NAFTA is an historic agreement. It is an ambitious effort to eliminate barriers to agricultural, manufacturing, and services trade, to remove investment restrictions, and to protect intellectual property rights. And, NAFTA is the first agreement in the history of U.S. trade policy that directly addresses environmental concerns.

United States' strategic policy must be focused on that which builds security for our workers: exports and the high-paying jobs they support. The real damage to U.S. workers or our common environment would be in not implementing NAFTA. As President Salinas has said, an opportunity such as this comes along once in a generation. Had we squandered this chance for beneficial growth, we would have harmed the U.S. economy, hobbled export-led job creation in the United States, and denied Mexico the resources it needs to protect the environment, improve the work place, and raise its standard of living.

We are on the verge of creating a new relationship between our three nations, one that changes attitudes and raises living standards from the rain forests of Southern Mexico to the frozen tundra of the Klondike. Capturing this moment will take tremendous effort by individuals, businesses, and governments, because change is always more difficult than defending the status quo. But across the country, businesses and workers are recognizing that NAFTA's dividends are immense.

The facts cannot be denied. It is in our national interest to secure access to Mexico's young and growing market. We would have gained nothing by freezing in our tracks, rejecting NAFTA and denying ourselves growing access to our best markets. We do nothing for America's workers and American competitiveness by running from change.

With NAFTA, the United States has a chance to join forces with our neighboring economies, to increase markets for our products and services, and to secure a better future for our workers. NAFTA provides us with leverage in global trade talks and shows the rest of Latin America that the United States is committed to free trade with developing and developed countries alike.