file NAFTA

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

TO: Mark Gearan
David Dreyer
Bob Boorstin
Rahm Emanuel
Mike Waldman
David Gergen
Jeff Eller
Dee Dee Myers
George Stephanopaulos

FROM: Ann Walker

RE: The North American Free Trade Agreement

DATE: June 19, 1993

The following is a summary of the Clinton Administration Statement on the North American Free Trade Agreement. This was released today

The North American Free Trade Agreement

"In the face of all the pressures to do the reverse, we must compete, not retreat." -- President Clinton, February 26, 1993

Expanding Exports, Jobs and Growth

- The Clinton administration supports the North American Free Trade Agreement (NAFTA) with supplemental agreements because it will create high wage U.S. jobs, boost U.S. growth, and expand the base from which U.S. firms and workers can compete in a dynamic global economy.

Creating the Largest Market in the World

- With NAFTA, the United States, Canada, and Mexico will create the largest market in the world -- a combined economy of $6.5 trillion and 370 million people.

Leveling the Playing Field

- Mexico's trade barriers are now much higher than ours. NAFTA will level the playing field now tilted heavily in Mexico's favor.

- NAFTA will require little change on our part -- while requiring Mexico to sweep away decades of protectionism and over regulation.

- Removing Mexican restrictions against U.S. exports means that U.S. companies no longer will have to invest in Mexico or manufacture in Mexico to supply the Mexican market.

Creating Higher-Wage U.S. Jobs

- Defeating NAFTA could cause a sharp drop in exports to Mexico and thus the loss of hundreds of thousands of U.S. jobs

Protecting and Assisting U.S. Workers

- NAFTA not only will create a large number of new jobs in export industries, but also will insure that our import-sensitive industries have substantial room for adjustment.

The Wage Issue

- The idea that U.S. workers can't compete with low wage Mexican workers is a myth. If companies decided where to locate based solely on wages, investment would flock to countries much poorer than Mexico.

Immigration

- The combination of domestic reforms and NAFTA-related growth in Mexico will keep more Mexicans at home.

- It is likely that a reduction in immigration will increase the real wages of low skilled urban and rural workers in the United States.

Increasing Opportunities to Export to Mexico.

- NAFTA will "lock in" and expand trade gains achieved since Mexico began to open its economy in 1986.

- Mexico is our third largest export market and fastest growing major export market.

- Key sectors benefiting from NAFTA include automotive, agriculture, financial services, textiles, and communications.

Mexican Consumers Prefer U.S. Goods

- 70 cents of every dollar that Mexico spends on foreign products is spent on U.S. goods.

- Mexico purchases more imports per person from the United States than does the more affluent European Community countries and Japan.

Small and Medium-Size Business

- Small companies usually lack the resources to penetrate the thicket of Mexican trade barriers and regulatory restrictions. By lowering cost and dissolving barriers, NAFTA will help smaller business to penetrate the Mexican market without having to invest in Mexico.

Enhancing Environmental Protection

- NAFTA and its supplemental agreements will help ensure that economic development takes place in a way that protects and improves the environment.

Supplemental Agreements on Environment, Labor, and Import Surges

- The Administration is seeking supplemental agreements on import surges, the environment, and labor. These separate agreements will provide additional assurance that NAFTA-enhanced growth will be sensitive to environmental and labor concerns.

- The agreement on import surges would establish a tri-national committee to help ensure the effective use of NAFTA's provisions allowing temporary relief in the event of injurious import surges.

- The United States, Canada, and Mexico will establish a North American Commission on the Environment which will formally give environmental advice to trade representatives from the three NAFTA countries as well as provide a focal point to expand and strengthen existing environmental initiatives.

- The United States, Canada and Mexico will establish a North American Commission on Labor that will encourage domestic enforcement of national labor laws as well as promote the raising and strengthening of labor standards in North America.

- The supplemental agreements cannot resolve overnight all environmental and labor problems. But defeating NAFTA and the supplemental agreements would only aggravate these problems. Never has the United States had a comparable opportunity to promote improved environmental and labor conditions. If NAFTA and the supplemental agreements are successfully concluded and enacted, we will have an unparalleled opportunity with our neighbors to advance a broad agenda for economic growth and environmental improvement for our countries and all our people.

NAFTA and American Leadership

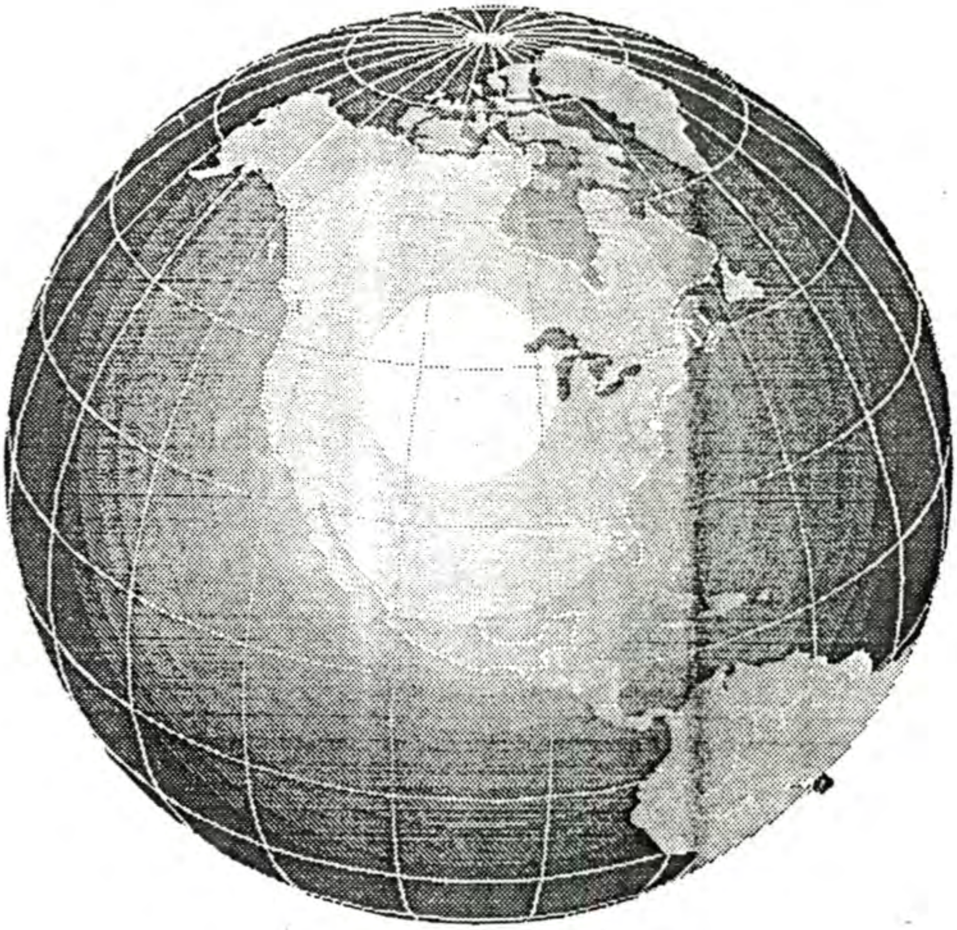
- The NAFTA has been negotiated by two Administrations. It stands as a testament to the ability of the United States to design a bipartisan foreign policy crafted to the requirements of the post-Cold War world. Its defeat would signal to the world that Washington is mired in inertia and gridlock.

Conclusion

- NAFTA will create jobs and improve our competitiveness. It will create the largest, richest market in the world. Mexico's strong and growing demand for U.S. products has created a $5.6 billion U.S. trade surplus. With a stronger Mexican economy and higher Mexican wages, demand for U.S. goods will continue to expand. Increased access to the rapidly growing Mexican market will create extraordinary new Opportunities for U.S. companies and workers. Taking advantage of these opportunities will lead to increased prosperity in the United States.

THE NAFTA

Expanding U.S. Exports, Jobs and Growth



Clinton Administration Statement
on the North American Free Trade Agreement

"In the face of all the pressures to do the reverse, we must compete, not retreat."

President Clinton, February 26, 1993

The North American Free Trade Agreement (NAFTA): Expanding Exports, Jobs and Growth

> *"The truth of our age is this—and must be this: Open and competitive commerce will enrich us as a nation... And so I say to you in the face of all the pressures to do the reverse, we must compete, not retreat."*
>
> –President Clinton, February 26, 1993
>
> *"By building together the largest free trading region in the world, Mexico, the United States and Canada are working to ensure that the future will bring increased prosperity, trade, and new jobs for the citizens of each of our countries."*
>
> –President Bush, July 15, 1992

Every generation of Americans has embraced the challenge of its times. None has shrunk from the task. Our biggest challenge today is economic—to channel a changing international economy to our benefit.

The Clinton Administration is committed to rebuilding the U.S. economy from the ground up. We must prepare our entire work force to compete in the global economy and make sure that nobody gets left behind in the process. We look at trade—and every other issue—from the viewpoint of what is best for ordinary Americans who work hard, play by the rules, and want a chance to get ahead. The key building blocks are economic growth and jobs.

The North American Free Trade Agreement (NAFTA) is a part of this forward-looking strategy. This Administration supports the NAFTA with supplemental agreements because it will create high-wage U.S. jobs, boost U.S. growth, and expand the base from which U.S. firms and workers can compete in a dynamic global economy.

Critics of NAFTA use scare tactics to assert that NAFTA will put Americans out of work. The truth is quite the opposite:

- NAFTA will spur further job gains and push jobs related to exports to Mexico toward the 1 million mark.
- Defeating NAFTA could cost hundreds of thousands of such jobs.

The facts about NAFTA:

- NAFTA will create the biggest market in the world—right at our doorstep: a $6.5 trillion market with 370 million people.
- NAFTA will level a playing field that remains—despite recent Mexican market openings—substantially tilted in Mexico's favor. Mexico's tariff barriers to U.S. goods are still 2.5 times greater than our own. All tariffs will be phased out under NAFTA.
- NAFTA will expand benefits the United States has enjoyed since Mexico began to open its markets in 1986. U.S. merchandise exports to Mexico have risen by 228% since 1986, reaching $40.6 billion in 1992.
- U.S. jobs supported by these merchandise exports rose from 274,000 in 1986 to an estimated 700,000 in 1992—and these jobs are in all 50 states. (Merchandise exports to Canada support another 1.5 million U.S. jobs.)
- NAFTA will create an estimated 200,000 additional high-wage jobs related to exports to Mexico by 1995.
- NAFTA will increase opportunities for American firms to sell to Mexico. Those opportunities are especially important for small and medium-size businesses that cannot readily overcome high Mexican border barriers.

Mexico were $8.9 billion in 1992). This will benefit such industries as enhanced telecommunications services, insurance, banking, accounting, and advertising.

- Under NAFTA, our access to Canada's service market also will be more open than it is under the existing U.S.-Canada Free Trade Agreement.

Removing Mexican restrictions against U.S. exports means that U.S. companies no longer will have to invest in Mexico or manufacture in Mexico to supply the Mexican market.

NAFTA will eliminate Mexican requirements that force our companies in Mexico to:

- Purchase Mexican goods instead of U.S.-made equipment and components;
- Export their production, usually to the United States, instead of selling directly into the Mexican market; and
- Produce in Mexico to sell in Mexico. For example, the current Auto Decree has the effect of barring automotive imports from the United States through a complex series of investment requirements that will be phased out under NAFTA.

III. Creating Higher–Wage U.S. Jobs

A strong consensus of the economic studies that have looked at the labor effects of NAFTA have found it will result in increased jobs or increased real wages—or both.

Our ***experience*** confirms the findings of these studies. Since Mexico began to open up its economy and prepare for NAFTA, the number of American workers producing merchandise exports to Mexico has risen from 274,000 in 1986 to an estimated 700,000 last year. (See Chart 2.)

- With NAFTA we anticipate 200,000 MORE export-related jobs by 1995.
- Wages of U.S. workers in jobs related to exports to Mexico are 12% HIGHER than the national average. (See Chart 3.)

NAFTA will further open the Mexican economy so that we can push employment related to exports to Mexico toward the 1 million mark.

CHART 2

U.S. Employment Supported by Merchandise Exports to Mexico

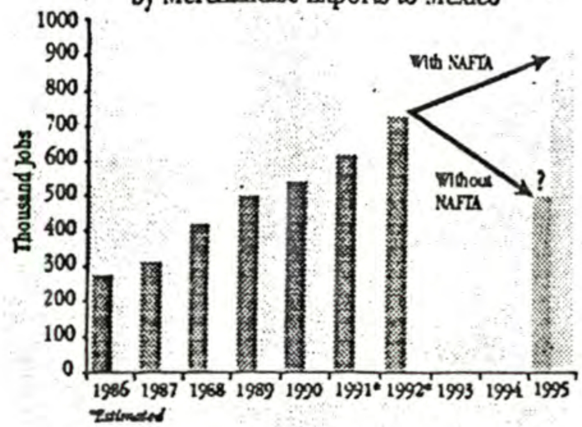


CHART 3

U.S. Jobs Supported by Exports to Mexico Pay More Than Other U.S. Jobs

Defeating NAFTA could cause a sharp drop in exports to Mexico and thus the loss of hundreds of thousands of U.S. jobs:

- Without NAFTA, we anticipate a reduction in U.S. exports and related jobs. Mexico could suffer capital flight, disinvestment, and a loss of confidence in its economy. A less healthy Mexico would be less able to afford imports produced in the United States.
- The precise impact is difficult to measure. However, in the first two years of the Mexico debt crisis (1981-1983), U.S. exports to Mexico dropped by almost half.

IV. Increasing Opportunities to Export to Mexico

NAFTA will "lock in" and expand trade gains achieved to date. Since Mexico began to open up its economy in 1986:

- U.S. exports to Mexico have expanded enormously, rising from $12.4 billion in 1986 to $28 billion in 1990 and a whopping $40.6 billion in 1992.
- The U.S. trade balance with Mexico has shifted from a $5.7 billion deficit in 1987 to a $5.6 billion SURPLUS in 1992. (See Chart 4.)

CHART 4

U.S. Merchandise Trade with Mexico: From Deficit to Surplus

Mexico is important to the U.S. economy because it is our:

- Third largest export market and the fastest growing major export market:

  Since 1986, U.S. merchandise exports to Mexico have increased by 228% (to $40.6 billion)—2.3 times faster than U.S. exports to the world.

- Second largest market after Canada for manufactured exports (amounting to $34.5 billion in 1992).
- Third largest market for agricultural products (after Japan and Canada), reaching $3.7 billion in 1992 (a 242% increase since 1986).

Mexican consumers prefer U.S. goods:

- 70 cents of every dollar that Mexico spends on foreign products is spent on U.S. goods. Given its location, this preference is likely to continue.
- Mexico purchases more imports per person from the United States than does the more affluent European Community countries and Japan. For example, last year, each Mexican, on the average, purchased more than $450 worth of U.S.-made products. By contrast, the average Japanese spent $385 on U.S. products, despite the fact that average Japanese incomes are five times as high as average Mexican incomes.

Key sectors benefitting from NAFTA include automotive, agriculture, financial services, textiles, and communications:

- U.S. telecommunications exports jumped 50% in 1991. Mexico is the industry's second largest export market after Canada.
- Detroit's Big 3 predict that their combined exports could rise from 1,000-plus to over 60,000 vehicles in NAFTA's first year alone.
- Mexico was primarily a bulk commodity market for U.S. agricultural exports prior to 1987. Now it is one of the United States' largest and fastest growing high-value markets. High-value products now account for almost 70% of all U.S. agricultural sales versus 40% in 1987.

Small and Medium-Size Businesses

The significant expansion of the Mexican market will benefit small and medium-size businesses in particular. These companies usually lack the resources to penetrate the thicket of Mexican trade barriers and regulatory restrictions. By lowering costs and dissolving barriers, NAFTA will help smaller businesses to penetrate the Mexican market without having to invest in Mexico.

V. Enhancing Environmental Protection

NAFTA and its supplemental agreements will help ensure that economic development takes place in a way that protects and improves the environment.

VII. NAFTA and American Leadership

In the post-Cold War world, American leadership will be measured in part by the creativity and aggressiveness of our trade policy. Bold, original, and forward-looking, NAFTA is worthy of a world leader.

- In North America, division between foreign and domestic matters narrows every day. American communities are inevitably affected by what happens in Canada and Mexico. Their problems spill over the border to harm us—just as their success adds to our welfare.
- By increasing the flows of commerce and culture and by forging new cross-border friendships among labor and environmental organizations, the NAFTA will promote prosperity and democracy in neighboring Mexico. Americans who favor freedom and good government in Mexico should favor NAFTA.

NAFTA has been negotiated by two Administrations. It stands as a testament to the ability of the United States to design a bipartisan foreign policy crafted to the requirements of the post-Cold War world. Its defeat would signal to the world that Washington is mired in inertia and gridlock.

- NAFTA's defeat would raise serious questions about America's commitment to global leadership, thereby undercutting our influence throughout the world.
- NAFTA's defeat would shock the Mexican economy, depress wages and living standards, reduce the Mexican capacity to purchase U.S. products, and stimulate immigration. It could also create tensions on a host of critical issues from illegal drugs to oil.
- NAFTA's defeat would also throw sand in the eyes of our allies throughout Central and South America, who are striving to open their markets and democratize their societies. Anti-Americanism, protectionism, and authoritarianism may well increase. A NAFTA defeat would be a major, self-inflicted setback to American leadership.

Conclusion

NAFTA will create jobs and improve our competitiveness. It will create the largest, richest market in the world. Mexico's strong and growing demand for U.S. products has created a $5.6 billion U.S. trade surplus. With a stronger Mexican economy and higher Mexican wages, demand for U.S. goods will continue to expand. Increased access to the rapidly growing Mexican market will create extraordinary new opportunities for U.S. companies and workers. Taking advantage of these opportunities will lead to increased prosperity in the United States.

NAFTA Is Good For America

Questions and Answers about NAFTA

Q. *How can Mexico, a low-income country, be such a large market for U.S. exports?*

A. Mexico now is our third-largest trading partner. Although Mexican per capita incomes are low relative to incomes in the United States, Mexico is a country of 90 million people (who prefer U.S. to other foreign products) and a developing country with an improving economic outlook. On a per capita basis, Mexico purchases more U.S. products than our trade partners in the European Community and Japan. NAFTA will help the United States take further advantage of the growing Mexican market for U.S. exports.

Q. *Will NAFTA result in massive U.S. job losses to low-wage Mexican workers?*

A. No. NAFTA will increase jobs, productivity and wages in the United States as well as in Mexico and Canada. If lower wages were the only reason that companies moved to other countries, Haiti and Bangladesh would be economic powerhouses by now. Other factors such as high worker productivity in the United States and high non-wage costs in Mexico (including transportation, infrastructure, and support service costs) make U.S. workers more competitive than their Mexican counterparts.

Q. *What has been the effect of the 1989 United States-Canada Free Trade Agreement on U.S. exports?*

A. Before the agreement, Canada had tariffs on imports that were two or three times higher than those of the United States (similar to Mexico today). After the agreement to eliminate tariffs and other barriers on all United States-Canada trade flows and many restrictions on investment and services, U.S. merchandise exports grew 27% between 1988 and 1992 (from $71.6 billion to $90 billion). U.S. service exports to Canada increased by 78% to $17.2 billion during the same time period. Also, since the agreement, there have been numerous calls from both sides of the border to accelerate the scheduled phase out of tariffs.

Q. *What long-term impact will NAFTA have on illegal immigration from Mexico?*

A. NAFTA will promote economic growth and increase wages in all three countries. This will create more economic opportunities for workers in Mexico—the single most important, long-term remedy to illegal migration from that country. According to some scholars, significant real wage increases could also occur for U.S. rural and lower skilled urban workers as a result of reduced emigration from Mexico to the United States.

Some economic studies of NAFTA considering the immigration issue have been misconstrued to suggest that hundreds of thousands of Americans would lose their jobs because of NAFTA. In fact, these studies do not show such results. The "U.S." job losses turn out to be hundreds of thousands of Mexican workers who decide to remain in Mexico because of the enhanced job opportunities created by NAFTA; without NAFTA, they would have crossed the border to compete for jobs in the United States. These are not jobs "lost" by American workers, but rather U.S. jobs foregone by Mexican workers for whom NAFTA will provide an acceptable economic alternative at home.

Without NAFTA and a stronger Mexican economy, pressures for illegal Mexican emigration to the United States would only continue to increase.

Q. *In the short term, would eliminating Mexico's barriers to U.S. agricultural imports lead to more rural Mexican unemployment and increase pressures to migrate to the United States?*

A. The NAFTA agreement contains the longest phase-in period (up to 15 years) for Mexico to liberalize agricultural trade policies with the United States and Canada. This gives Mexican farm laborers time to adjust and will help minimize short-term immigration effects. With or without NAFTA, agricultural reforms will continue to reduce Mexican agricultural employment. NAFTA will enhance the opportunities for displaced Mexican agricultural workers to find other jobs in the Mexican economy.

Q. *Won't increase trade flows from NAFTA worsen the flow of illegal drugs into the United States?*

A. While NAFTA will reduce tariffs, it will not relax customs controls on the border. As trade between the United States and Mexico has increased in recent years, cooperation in counternarcotics and law enforcement has improved. By promoting U.S.-Mexican cooperation, the NAFTA can foster a positive atmosphere for further bilateral efforts to fight drugs.

NAFTA CREATES JOBS AND IMPROVES OUR COMPETITIVENESS

- President Clinton supports the NAFTA as an important element of his strategy for harnessing change in today's competitive international economy. NAFTA will increase U.S. exports and create high-wage, high-skill jobs. At the same time, supplemental agreements and legislation envisioned by the President will ensure that increased trade does not come at the cost of workers or the environment.

- Exports create jobs, and increased access to Mexico's market of 90 million people will provide new opportunities for American exports. Mexico is already the second largest market for American manufacturing products and the third largest market for U.S. farm exports. Taking advantage of these opportunities will translate to increased prosperity in the United States.

- From 1986 to 1992, exports from the United States to Mexico increased from $12.4 billion to $40.6 billion. Our $5.7 billion trade deficit in 1987 was transformed to a $5.4 billion surplus in 1992.

- Since Mexico began opening its market in 1986, more than 400,000 export related jobs have been created. Today, over 700,000 jobs in the United States are supported by exports to Mexico. With the NAFTA, we forecast a gain of 200,000 such jobs by 1995. Without NAFTA, we would be unlikely to maintain the status quo. If exports fell by as little as one-quarter, we would lose 200,000 export related jobs. Moreover, the jobs gained are high paying; jobs related to exports to Mexico average 12 percent more than the average wage for all jobs.

- Mexico prefers U.S. goods. Last year, each Mexican, on the average, purchased more than $450 worth of U.S.-made products. By contrast, the average Japanese spent $385 on U.S. products, despite the fact that average Japanese incomes are dramatically higher than Mexican incomes.

- Through this agreement with Canada and Mexico, the NAFTA will create the largest market in the world — more than 370 million consumers and over $6.5 trillion of production. That larger market will help our products be more competitive in global markets, with Europe, Asia and the rest of the world.

- Critics claim that low wages will result in an exodus of jobs from the United States. If low wages were the driving factor in deciding where factories should locate, Haiti and Bangladesh would be world manufacturing powers. Our workers are far better paid than those of Mexico and other countries because we have the most productive workers in the world and because the United States has such a significant advantage in the other factors that go into competitiveness, such as transportation, communications, and infrastructure.

- The NAFTA eliminates Mexican import restrictions and investment requirements that have forced some manufacturers to move to Mexico in order to sell there. The NAFTA will eliminate those barriers, opening vast new opportunities in what is already the second largest market in the world for U.S. manufactured products.

- Because the U.S. market is largely already open to Mexican goods, the NAFTA will have less effect on U.S. imports as it does on exports. Half of the products we import from Mexico are already free of tariffs, and the average current U.S. tariff on Mexican products is only 4 percent, while Mexican duties on U.S. products average ten percent. Thus NAFTA eliminates much higher barriers to U.S. exports than to our imports from Mexico. NAFTA will level the playing field with a country with whom we already successfully compete.

OTHER ADMINISTRATION INITIATIVES

- The text of the NAFTA was signed last December by the United States, Canada, and Mexico. President Clinton is committed to the NAFTA with a package of supplemental agreements and domestic programs that will include strong provisions on labor, the environment, import surges, border clean-up, and worker adjustment assistance.

- The Clinton Administration has concluded supplemental agreements on labor, environment, and import surges to strengthen enforcement of national laws and promote cooperation in these areas. We will establish separate commissions on labor and the environment, chaired by appropriate Cabinet-level officials, to achieve these ends. For a more detailed description of the supplemental agreements, please see Tab E.

- Even though NAFTA will create far more and better jobs than it will cost, the Administration realizes some workers may be negatively affected. As a result, the Administration currently is formulating a strong worker adjustment program to assist those hurt by the NAFTA.

- The President also is committed to a strong and creative border cleanup package. The NEC currently is reviewing funding options, and the Administration will work with Congress and with Mexico on these issues.

TIMING

- The Administration will sign the supplemental agreements this month and begin the process of drafting the implementing legislation with the Congress shortly thereafter. Our goal is for the NAFTA to enter into force on January 1, 1994, as scheduled.

- The Administration will work with Congress, and in consultation with State and local authorities and the private sector, to develop strong implementing legislation so that we are in the best possible position to obtain the full benefits of the NAFTA. Once the implementing legislation is submitted, it will be entitled to "fast track" treatment, meaning that Congress will vote "yes" or "no" on the agreement (without making amendments) within 90 session days of Congress. Traditionally, we have not needed the full 90 days, because the Executive Branch has worked so closely with the Congress to develop a strong implementing bill.

HOW THE NAFTA APPLIES TO THE STATES

The NAFTA will benefit the entire country, not just selected regions. Forty-eight out of fifty states increased exports to Mexico from 1986 to 1992. Twenty-one states exported more than $250 million to Mexico in 1992. Five of the top ten states exporting to Mexico are northern industrial states.

Standards

- NAFTA permits the states to set their own standards, including standards on plant and animal health and safety and the environment.

- NAFTA does not interfere with the ability of states to set mandatory standards. State standards may be more stringent than federal standards.

- NAFTA does not require states to lower their standards to make them compatible with Mexican or Canadian standards.

- NAFTA rules are simply a re-statement of sound policy-making in the health and environment area and are those we already live with, for example that health and safety measures should have a scientific basis.

Services

- NAFTA does not pre-empt the ability of states to regulate and license services, such as medical, legal, insurance and other services.

- All levels of government — state, local and federal — are covered by NAFTA and new regulations must comply with the Agreement.

- Existing measures at the state and local level that do not conform with the Agreement do not have to be changed, except for citizenship requirements affecting the licensing and certification of professionals. Existing local laws are automatically "grandfathered" (exempted from NAFTA).

- Any non-conforming state laws which states wish to exempt must be listed within two years of entry into force of the Agreement, but there are no restrictions on the number of measures that may be listed.

- The federal government will work with the states to ensure proper listing of all measures to be retained.

- We have committed ourselves to removing citizenship requirements affecting the licensing and certification of professionals within two years of entry into force of NAFTA.

Financial Services

- Like services, states will be able to maintain existing regulations, but they must be listed if they conflict with NAFTA obligations.

- For the states of California, Florida, Illinois, New York, Ohio and Texas, non-conforming measures must be listed by entry into force of the Agreement; other states must list their measures by January 1, 1995.

Government Procurement

- State government procurement practices are not subject to the NAFTA. States will have the opportunity to voluntarily enter into future procurement negotiations.

- U.S. small and minority business set-aside programs are maintained intact.

Investment

- States also will be able to take reservations (exemptions) for non-conforming measures affecting investment. As with services, the states have two years after entry into force of the Agreement to do this.

Land Transportation

- States will maintain their authority to impose and enforce safety regulations concerning land transportation services.

Telecommunications

- NAFTA does not apply to basic telecommunications services.

- There is no change required in the state or federal regulation of common carrier services, such as local telephone exchanges.

Dispute Settlement

- Should a formal dispute settlement case be brought against a state measure, the Federal government would notify and work with a state from the initiation of a challenge under NAFTA.

- State government representatives would participate in arbitration proceedings.

- A dispute settlement panel cannot force a state to change a law. It merely determines if a measure violates NAFTA.

- If a measure is determined to violate NAFTA and is not altered, the challenger may request trade compensation or withdraw trade benefits of equivalent effect if appropriate compensation is not made.

U.S. CONSUMER GOODS TO MEXICO — A BOOMING MARKET

From 1987 to 1992, exports from the United States to Mexico increased from $14.6 billion to $40.6 billion. Our $5.7 billion trade deficit in 1987 was transformed to a $5.4 billion surplus in 1992.

- Consumer goods exports to Mexico shot up dramatically in the past five years — quadrupling from $1.1 billion in 1987 to $4.4 billion in 1992.

- Consumer goods exports are growing faster to Mexico than to the rest of world. Over the past five years, consumer goods exports to Mexico grew by 31 percent annually, compared to the rest of the world at 17 percent, Japan at 15 percent, and the European Community at 16 percent.

- Mexico buys as much as developed countries. Although a developing country, Mexico compares well to developed countries in the percentage of U.S. consumer goods purchased. Eleven percent of U.S. exports to Mexico are consumer goods, compared to 12 percent in developed countries.

- Export growth to Mexico is shared broadly among product areas, with many consumer goods in our top 50 U.S. exports, ranging from musical instruments to furniture to sporting goods.

- Mexican consumers prefer U.S. goods. Last year each Mexican purchased $49 of U.S. consumer products. By contrast, each Japanese spent an average of $47, despite the fact that the average Japanese incomes are dramatically higher than the average Mexican income.

- The Mexican market is 90 million strong, and growing at twice the rate of our own market. Exports create jobs, and increased access to Mexico's 90 million people will provide new opportunities for American exporters.

- Today almost $1 out of every $10 of U.S. exports goes to Mexico. An additional $2 of that ten goes to Canada, our other NAFTA partner. Put another way, Mexico buys 70 percent of its imports from the United States.

- U.S. consumer goods companies like Colgate-Palmolive, Procter & Gamble, and 3M are enjoying booming sales in Mexico, and strongly support the NAFTA. 3M Vice President for Latin America Allan Petersen said:

  "All this growth at 3M has taken place to date with only a partial roll-back of trade barriers. The North American Free Trade Agreement will bring even freer trade. It will also give Mexico's trade policies the force of law, which ensures that they will not be revoked for short-term political reasons."

NAFTA: Why We Hafta

How I Overcame My Doubts And Learned to Like the Pact

AS A PROPONENT of a tough-minded, results-oriented trade policy, I have supported the principle of the North American Free Trade Agreement but have been concerned about its specific provisions. Nevertheless, I believe the time has now come for Congress to ratify NAFTA. Here's why:

The agreement is admittedly not flawless, and because passage is very uncertain, the administration should press for accelerated removal of trade barriers, as provided for in the treaty—as well as for a commitment from the Mexicans linking increased productivity to increased wages for Mexican workers. But even with its imperfections, NAFTA will leave America better off than before. Moreover, its passage will help us to deal better with the much more important—but much more obscure—issues of the Uruguay Round of world trade talks, and the framework negotiations with Japan that are currently being obscured by the NAFTA uproar.

Those who are rightly concerned about jobs should remember that the United States has a $5.4 billion trade *surplus* with Mexico, while its trade *deficit* with Asia is over $75 billion. This means the United States is gaining jobs as a result of trade with Mexico while losing nearly 2 million jobs in its trade with Asia. There is indeed, as Ross Perot has said, a "giant sucking sound" threatening U.S. workers, but it doesn't emanate from south of the border. For 30 years the giant sucking sound has been coming from the East, and it represents a much bigger trade and jobs policy challenge than NAFTA.

Unfortunately, the Uruguay Round is proceeding toward a planned finish on Dec. 15 with a draft agreement on the table that, if enacted, would eviscerate U.S. trade laws, making it extremely difficult to respond to the persistent dumping and subsidization that have devastated such U.S. industries as consumer electronics, steel, semiconductors and aircraft.

By comparison, NAFTA should improve our short-to-medium-term situation and may enable us to compete better with Asia in the longer term. To grasp this, it is important to understand one of the great fallacies of the NAFTA discussion—the notion that the United States is sweeping away barriers to exports from Mexico to America. Thus (it is claimed) the agreement will encourage U.S. firms to move south in search of cheap labor.

In fact, the agreement doesn't change the situation along the border that much. The United States currently has only a 4 percent average tariff rate and very few other restrictions on Mexican imports. Under the terms of NAFTA, we are giving away very little. The barriers that are being removed are mostly on the Mexican side. Ironically their removal may actually reduce incentives for U.S. firms to move south.

Take the minivan, the fastest growing segment of the vehicle market. Because of Mexican regulations, no minivans are sold south of the border. But with the Mexican auto market booming, there is demand for minivans. Under the present Mexican auto decree, to

See NAFTA, C4, Col. 1

Clyde Prestowitz is president of the Economic Strategy Institute.

Israeli army pulls back, his argument would

NAFTA: Why We Hafta

NAFTA, From C1

supply this market would require U.S. producers to build a plant in Mexico. But since that Mexican market is too small at the moment to absorb all the production of a world-class-size plant, and because of Mexican requirements that producers export large percentages of their production, the logical way for U.S. automakers to meet demand in Mexico at present is to build plants there and send the excess production to the U.S. market where tariffs on autos are only 2.5 percent.

NAFTA would change the calculations of a U.S. automaker because it makes exporting from the United States to Mexico a real possibility. Under NAFTA, a U.S. producer would probably not build a plant in Mexico, but export minivans from the United States instead. This would require less investment than a new plant in Mexico and would increase the economies of scale at U.S. factories. It would also avoid the need for hiring and training a whole new work force in Mexico.

The truth is that as far as imports from Mexico are concerned, we already have free trade. NAFTA will only make it more of a two-way proposition—as corporate behavior is already demonstrating. Raychem, a rapidly growing U.S. semiconductor and electronics firm, is moving three plants from Mexico back to the United States, and General Motors is likewise moving production that until now had to be done in Mexico back to more efficient facilities north of the border.

Beyond this, NAFTA will create an immediate jump in U.S. exports to Mexico to meet the demand for U.S. goods that has long been pent-up by Mexican barriers. And even NAFTA opponents agree that because U.S. barriers are already so low, there will be no reciprocal surge of exports from Mexico.

NAFTA opponents sometimes argue that a poor country like Mexico cannot afford to buy very much from the United States. Yet, although half of Mexico's 80-million population does indeed live in poverty, one-quarter to one-third of Mexicans have relatively high incomes, creating a market nearly the size of Canada's for U.S. goods. Mexicans already buy more per capita from the United States than Japanese or Europeans. We should not forget that Japan is getting rich in part by running trade surpluses with the small, developing countries in Asia with average income levels far below its own.

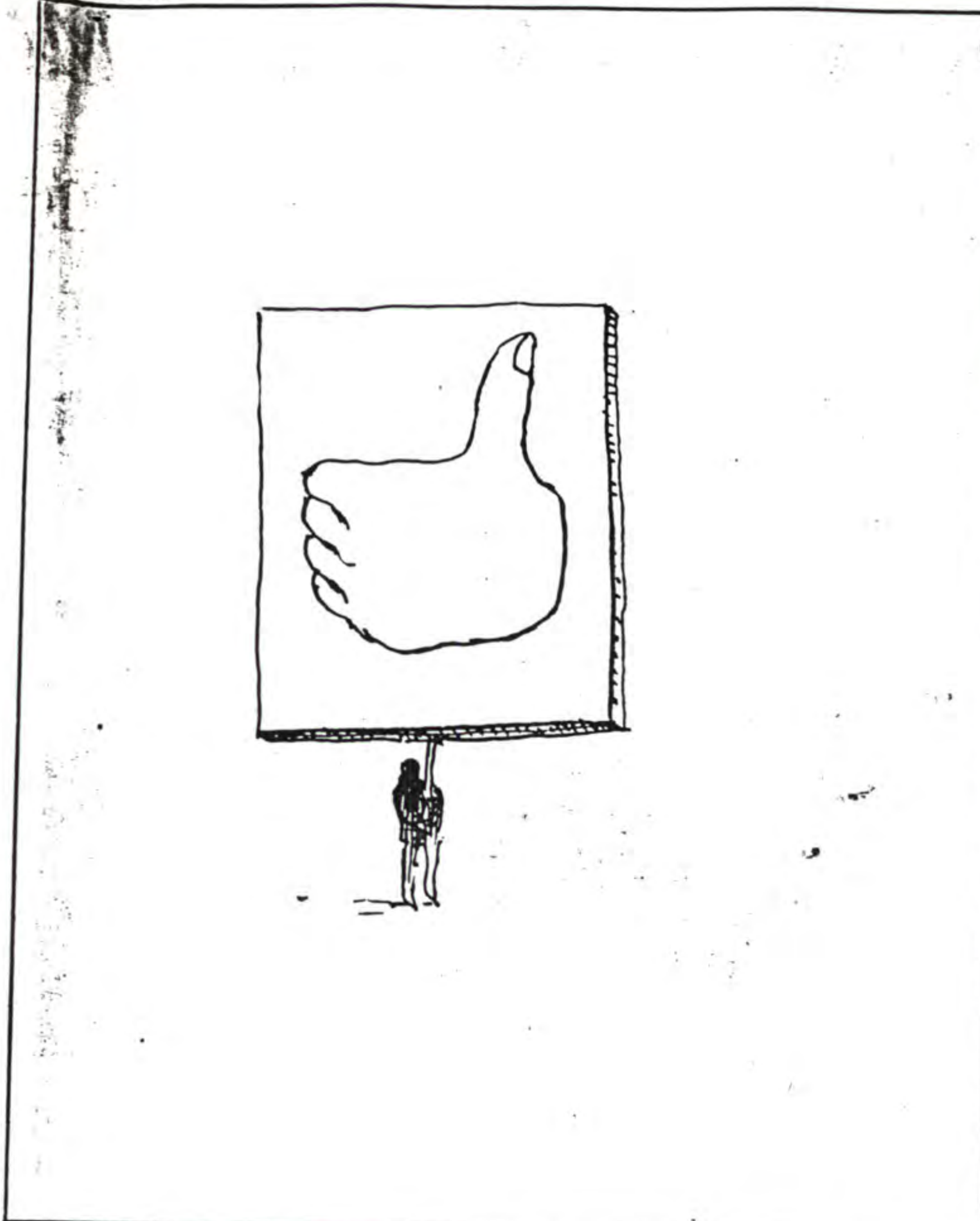
Because Mexico's barriers will only be reduced for U.S. and Canadian producers and not for Asian or European suppliers, most of the benefits of the larger market will go to U.S. companies. Japanese companies have long benefitted from having a lock on the emerging markets of Asia. NAFTA will give U.S. firms a lock on a market of their own with which to fight back.

Another potential plus of NAFTA will be the displacement of Asian production by Mexican production. Over the years the Asian countries have drawn such activities as television production, semiconductor assembly and the sewing of apparel out of the United States. In the past month, I have spoken to officials of several U.S. companies who say they may move some of this activity back from Asia to Mexico. Zenith has already announced a move of television set production from Taiwan to Mexico and some semiconductor makers are considering similar shifts from Southeast Asia. The reason: Control, servicing and quick response are easier when the plant is an hour away than when it is 21 hours and 14 time zones away. And factories in Mexico are much more likely to use U.S. parts, service personnel, designers and engineers than factories in Southeast Asia—a plus for Americans.

A final potential benefit of NAFTA will be tied to the structure of new investment in Mexico. It is here that I and many other observers have had our greatest concerns. If new investment in Mexico were to be largely Japanese or European, the equipment going into the new plants, the construction companies building them, the parts and the intermediate materials used for production would probably come from Asia or Europe as well. Thus, Mexico would be turned into a foreign export platform aimed at the United States. The initial Bush administration negotiating strategy would have placed few conditions on investors in Mexico, and there was a real danger of this scenario becoming reality.

In a 1991 study of possible outcomes, the Economic Strategy Institute estimated that this foreign dominated export-platform scenario could result in substantial long-term U.S. job loss. But we found that if investors in Mexico are largely American, and the parts, capital equipment and engineering are supplied from the United States, long-term as well as short-term net U.S. job gains would result. We thus recommended crafting NAFTA to ensure that new investors in Mexico would continue to obtain parts, equipment, and other supplies and services largely from the United States.

As it now stands, NAFTA includes many of these measures. For example, steel will not qualify for duty-free treatment under NAFTA unless it is melted and poured in North America. Autos will not qualify unless 62.5 percent of their parts and components are made in North America. Textiles will not qualify unless they are made from North American fiber and yarn. Television sets will not qualify unless the picture tube is made in North America, and so forth. These measures will tend to lock in the present situation in which over 70 percent of Mexico's imports



BY JANUSZ KAPUSTA / INX

come from the United States. Thus as Mexico's industry expands, it should provide a continuously growing market for U.S. goods as well.

Beyond this there is the potential for the United States to do in Mexico what Japan has done in Thailand. There, Japanese companies have invested and assembled components shipped from Japan into products for export to the world. Japan thereby runs a trade surplus with Thailand, while both their production and exports increase. Under NAFTA, U.S. firms should be able to do the same in Mexico, turning Mexico into the same kind of export platform that Thailand provides to Japan.

It is important to correct two major fallacies that have arisen in the NAFTA debate. The first is the notion that the choice is between keeping jobs in the United States or moving them to Mexico. In fact, in many instances jobs have already moved or will move to Asia if they don't go to Mexico. For the reason noted above, if jobs are going to move, Mexico is preferable to Asia as a destination.

The second fallacy is the notion that companies make investment decisions primarily on the basis of labor costs. The truth is that it is overall costs, not labor costs, that determine investment locations. BMW recently made a major decision to locate its first plant outside of Germany. It did not choose low-labor-cost Mexico. Rather, it chose South Carolina. The reason is that despite Mexico's cheap labor, according to the Office of Technology Assessment, it costs only $8,777 to build a car in the United States versus $9,180 in Mexico. Mexico's high shipping, parts and inventory costs more than offset its low labor costs. Thus it is unlikely that there will be a major emigration of U.S. manufacturing to Mexico. More likely, and much more desirable, is a combination of Mexican and U.S. operations to make both more competitive with Asian and European enterprises.

Beyond the economic considerations, there are fundamental reasons of national security for going ahead with NAFTA. Mexico and the rest of Latin America are engaged in an historic realignment away from dictatorship and state intervention in the economy toward democracy and the free market. They are asking for our help. It is not in our interest to have an impoverished and embittered nation with a rapidly growing population on our southern border. If the Israelis can shake hands with the PLO, surely the United States can take the outstretched hand of Mexico that, after all, has been more sinned against than sinning in the history of our mutual relations.

If NAFTA is to pass, the White House and big business will have to do much more than they have done to date. Tariffs will remain higher on the Mexican than on the U.S. side of the border for several years after NAFTA's enactment even in industries such as glass, steel and chemicals in which Mexican competitors are already world-class producers. Moreover, Mexican industrial decrees and re-export requirements will be phased out slowly, thus damaging the potential for U.S. exports for several years after ratification. The agreement permits acceleration of the removal of trade barriers, and the Clinton administration ought to insist on it in key industries.

At the same time, it should be made clear to Mexico that U.S. implementation of the deal will be contingent on rapid democratization in Mexico and particularly on guarantees for the rights of labor to organize and bargain collectively.

Finally, American business, which stands to gain much from NAFTA, must assert some leadership. So far the airwaves have been dominated by opponents offering simplistic and misleading aphorisms about what business will and won't do. Where are the captains of industry at the Business Round Table, the National Association of Manufacturers and the Chamber of Commerce? They must get on "Larry King" and "Meet the Press" too. And when they do, they should recognize that some of the opposition to NAFTA is based not on the exact terms of the treaty but on a more amorphous but understandable feeling among American workers that neither big government nor big business has been vigilant enough in defending and advancing their interests.

When industry leaders campaign for NAFTA, they should be prepared to talk straight and to make some commitments to the American public. A formal pledge, like the Sullivan Principles that guided business in South Africa, might be appropriate. Such principles might include a pledge to pay the U.S. minimum wage at Mexican operations; to provide for reassignment and retraining of any displaced workers; and to maintain a company-wide trade surplus with Mexico. Such commitments would go a long way to calm the fear of losing more American jobs. It is clear that this fear must be counteracted if NAFTA is to have a chance of passage.

NAFTA TIMETABLE

Target date for NAFTA vote: November ~~23~~ 17

Introduction of unamendable Fast-Track bill: November 1

Schedule for Non-Markups and Non Conferences:

House Ways and Means:	Walk-thru	October 13
	Non-Markup	October 19-21
Senate Finance:	Walk-thru	October 14
	Non-Markup	October 20-22

Ways and Means/Finance Non-Conference: October 26-28

Other Committees:

House
- Agriculture
- Banking
- Energy and Commerce
- Foreign Affairs
- Gov. Ops.
- Judiciary
- Natural Resources
- Appropriations (possibly)

Senate
- Agriculture
- Commerce
- Environment
- Foreign Relations
- Gov. Affairs
- Judiciary

Remarks of Senator Paul Simon
On His Support For
The North American Free Trade Agreement
Brookings Institution Auditorium
Washington, D.C.
October 20, 1993

[EMBARGOED until delivered at 12:15 p.m. E.D.T.]

The proposal for a North American Free Trade agreement has evoked a greater barrage of surveys and analyses than any issue I can recall in my eighteen years in Congress, though I am sure the health care proposal will eventually surpass it.

People whose judgment I trust draw directly contradictory conclusions. The issue inspires fear on the part of many and hope for others. My study of the NAFTA agreement began skeptically. I voted against the fast track authority passed two years ago, fearful that the administration then in power would not adequately protect the interests of our nation's working men and women.

Three members of my staff who have primarily worked on this knew that I would spend the past weekend pounding on my old manual typewriter, formulating a position. I asked them where they felt the merits of this issue rest, and all three said it would be good for the nation. But all three advised me that politically the advantage is on the side of opposition.

That seems to me an accurate summary of where we are. And if that is correct, those of us in the Senate who believe NAFTA will be good for the United States need to provide leadership so that our colleagues in the House who are wavering know that they are not alone. Political prudence for Senators requires silence. Political leadership requires a stand. Illinois is an economic microcosm of the nation. By studying its impact in Illinois, I have come to believe that NAFTA will strengthen the nation's economy. I have concluded that NAFTA's overall benefits to this generation and to future generations make this a fight worth spending political capital to win.

Here is how I arrived at my position.

First, the unspoken premise of some opponents is clearly that there are only so many riches to spread around this region of the world, and if we permit our neighbors to the south to have more, we will have less. It is the same false assumption that those who wrote about population two centuries ago had: There are only so many goods to be divided, and if you increase the population, gradually everyone will become poorer. The average person in the world today has a much higher standard of living than in those days, and our population has grown tenfold. After World War II,

[MORE]

the United States was by far the wealthiest nation, and Western Europe and Japan were miserably poor. I can remember staying at a small hotel in Spain where, for one American dollar, I received my room and three meals, including steak for dinner. Today the average American income is two and one-half times greater than it was then, after adjusting for inflation, and many of our friends in Western Europe now have average wages higher than ours. We have moved ahead economically and so have they. Clearly the economic prosperity of Western Europe did not come at the expense of the United States.

I start, then, from a different premise than some who oppose the agreement. I recognize that both Mexico and the United States can benefit, but reciprocal gains are not automatic. If they were, we would not between us have the greatest disparity in the standard of living of any two neighboring nations.

There are several questions that need to be answered:

What will be the job impact of such an agreement on the United States?

The short-term impact is clear. It will create jobs in the United States and raise the standard of living of most people in both nations slightly. With an average Mexican tariff on U.S. goods of between ten and twelve percent, and an average U.S. tariff on Mexican goods of four percent, when the tariffs on both sides are removed, the United States is the larger immediate job beneficiary. On auto parts, for example, the U.S. has a tariff of less than one-half of one percent, but Mexico has a tariff that averages thirteen percent. When you drop both tariffs, Mexico gains with cheaper auto parts, and the United States benefits in jobs. Even though Mexican tariffs are higher than ours, in 1992, we had a trade surplus with Mexico of $5.4 billion, the largest trade surplus we have with any nation other than the Netherlands. Our primary trade deficits are not with low-wage countries but with high-wage trading partners, Japan being the number one example. As Secretary of Labor Robert Reich has written, "If low wages were the key to where manufacturers locate, Bangladesh and Haiti would become the manufacturing capitals of the world." George Fisher of Motorola speaks for many of today's and tomorrow's industries when he says, "The days of chasing low-cost labor are over." Of the ten nations with whom we have the largest trade deficits, our highest deficit with Japan is more than the next seven nations combined, and when the three oil-exporting countries are eliminated from the ten big deficit nations, of the remaining seven, five are high-wage nations, and two are low-wage countries."

The myth that NAFTA will result in a huge transfer of plants to Mexico is exactly that: a myth. There are economic advantages for that transfer now that will not be there after NAFTA is approved. There will be U.S. investments in infrastructure there -- in telephones, for example -- that will create jobs in Mexico, but should not result in job loss here. And generally, U.S. companies -- like all companies -- invest primarily where there are skilled workers, not where there are low wages. Three-fourths of our foreign investment is in developed countries, primarily Canada and Europe, where wages are often higher than ours.

The NAFTA agreement may temporarily stem the flow of some plants to Mexico.

[MORE]

Gatorade, made by an Illinois corporation, Quaker Oats, has major sales in Mexico, but Mexico has an eighteen percent tariff on Gatorade made in the United States. If the NAFTA agreement is approved, the Gatorade plant will remain in the United States. If it is not approved, they will build a plant in Mexico.

General Motors faces a similar decision. Our tariff on Mexican-made cars is 2.2 percent. Their tariff on our cars is twenty percent. The American Automobile Manufacturers Association says that if Congress approves NAFTA, that will boost exports to Mexico of U.S.-built cars and parts by $1 billion the first year, increasing U.S. jobs by 15,000. Only one of sixteen Mexicans owns a car. As their standard of living rises in coming years, this will be a huge market for us. There are those who argue that Mexican citizens are too poor to afford any significant amount of U.S. goods, that NAFTA will open a market that does not exist. The facts are that of Mexico's 90 million people, many are poor, but with its growing middle class, Mexico is buying seventy percent of their imports from the United States. As a nation, Mexico purchases more U.S. goods than any of our trading partners in Europe or Japan.

Caterpillar says signing the agreement will mean 1,200 more jobs in Illinois. If NAFTA is approved, the ten to twenty percent Mexican tariffs on Caterpillar products will be dropped but not on Caterpillar's principal competitor in Japan, with clear benefits to our country. A sample of my mail from other Illinois companies illustrates the potential: L.R. Gross of Nalco Chemical in Naperville writes: "NAFTA will help Nalco create high-skill jobs in the area of production, distribution, sales, marketing and research. Every additional $1,000,000 in sales creates four to five new Nalco jobs. The majority of these jobs will be in the United States." Lauren S. Williams of the NutraSweet Company of Deerfield says: "NAFTA will have significant positive benefits for the NutraSweet Company. . . . We have no plans to manufacture our products in Mexico when NAFTA is implemented. Our ingredients are imported into Mexico and incorporated into products by local food manufacturers. And we see great potential for growth in this market. For example, while Mexico has per capita soft drink consumption second only to the United States, the diet portion of the market is only about two percent, compared to almost thirty percent in the U.S." John Kennedy of James Electronics in Chicago: "NAFTA will have no effect on a manufacturer's decision on opening plants in Mexico. We can do it today with or without the treaty. . . . I established a sister plant in Mexico in 1989. . . 125 miles south of the border. It has not taken jobs from Chicago, but has added over 100 jobs here." John Bryan of Sara Lee, based in Chicago: NAFTA will "create additional higher-paying jobs in U.S.-based yarn and textile operations." Richard White of Flexible Steel Lacing in Downers Grove: "The elimination of Mexican tariff barriers will greatly improve our access to the fastest growing market in North America. Our sales in Mexico have grown 60 percent since 1992, and with NAFTA could triple between 1991 and 1995. 95 percent of Flexco products sold in Mexico are made in the U.S. . . . Additional unit sales volume to Mexico will help to lower our overall operating costs and enable further employment growth in Downers Grove, as well as providing us a stronger competitive position in other world markets." Charles T. Wegner IV of Jel Sert in West Chicago says that they

[MORE]

"have achieved only a modest presence in Mexico. . . . The economic and regulatory unpredictability make it imprudent to commit to any significant or long-term activity." But he writes that if NAFTA is approved, they expect a major effort in Mexico and additional jobs in our country. Sundstrand of Rockford has 2,900 Illinois employees and a total of 11,000 employees. James F. Ricketts writes: "NAFTA will have a positive impact upon employment levels both in the Sundstrand United States' facilities and in the joint venture operation in Mexico." John Thompson of IBM's Chicago office: "In 1992, IBM did approximately $1 billion worth of business in Mexico. This was a 53 percent growth rate over 1991. . . which is occurring in an environment of 10 percent to 20 percent tariffs on those exports. With the elimination of Tariffs under NAFTA, IBM will have an even greater opportunity for exports, which translates into stronger demand for IBM's U.S. manufacturing facilities." Stuart Scheyer of the Decorel Company in Mundelein, the world's largest manufacturer of picture frames, writes: "We recently made a significant investment in Mexico, a 60,000-foot factory in Durango, Mexico with 200 employees. . . . The 200 jobs that we have in Mexico are in addition to an increase in workers that we have in the Chicago area. We have not transferred a single job from the United States to Mexico." He notes that he is moving jobs from Asia to Mexico and the United States and adds: "A Mexican worker purchases U.S. products. A Far East worker does not." Illinois is the nation's leading candy manufacturing state. The National Confectioners Association estimates that the elimination of the twenty percent candy tariff by Mexico will create 750 additional jobs in Illinois. Kent Kleinschmidt of the Illinois Corngrowers expects an increase of twenty cents per bushel in the price of corn because of NAFTA and a savings to taxpayers of $1.2 billion in farm subsidies. All agriculture, with the exception of fruit and vegetable farming, is expected to benefit. Other industries that will benefit from NAFTA include machine tools and auto parts, major factors in our nation and in my state.

Illinois exports to Mexico increased 384 percent between 1987 and 1992. In terms of short-term job creation, NAFTA is a plus, but some industries and people will be hurt, and we must not ignore that reality. Much of the American middle class is in agony over the economic changes and dislocations of recent years. Families have seen their economic security slip, and many have become bitter and cynical toward a government that has seemed to do nothing to come to their aid.

NAFTA will not address the economic pain of the middle class in a meaningful way. This is not a reason to oppose NAFTA; but it places a moral obligation on NAFTA's supporters to develop a coherent plan and policy to restore economic opportunity and security.

In the medium-term, Mexico will experience more job growth than the United States as a result of the NAFTA agreement. As it becomes clear under NAFTA that there is an increasingly stable political and economic situation in Mexico, there will be more Mexican money invested in Mexico, and more money will be invested by Asian, Western European and U.S. interests. There will be some shifting of plants, particularly from Asia, to Mexico. Zenith has already announced that it will shift some television production from Taiwan to Mexico. As NAFTA increases the standard of

[MORE]

living for people in the large U.S.-Canada-Mexico market, corporations around the world will want to sell in this market. The U.S. and Canada now have an edge over Mexico in skilled workers, but that advantage is likely to diminish over the coming years as Mexico stresses education. The United States has significant transportation advantages that will bring many of these new businesses to us, but Mexico is likely to be experiencing greater growth a decade from now, both in numbers of jobs and in its standard of living. As the General Accounting Office report accurately summarizes: "Economic researchers in general agree that NAFTA would bring a small overall economic benefit to the U.S. and Canadian economies, and a larger benefit to the Mexican economy." Under NAFTA, what helps Mexico in the medium-term ultimately helps the U.S.

Long-term -- thirty years from now -- all three nations are likely to experience significant growth if all three stress developing a more skilled work force and put their fiscal houses in order. The standard of living in Mexico is not likely to be as high as we have in the United States, but the gap in the quality of life will have diminished markedly. That will make Mexico a significantly larger purchaser of U.S. products. That means jobs.

The closest comparison to the NAFTA agreement that might provide insights is the affiliation of Spain, Portugal, Ireland and Greece with the European Community -- four poorer nations joining a wealthier central body. The average growth rate of the four exceeded the growth rate of the other nations of the European Community by 3.7 percent to 2.8 percent. The affiliation of the four nations did not harm the central body.

However, it is easy to exaggerate -- on both sides -- the impact of NAFTA. It will have an impact that is generally positive, but it is not a patent-medicine cure-all for what ails us. The International Trade Commission estimates that by the end of the first year of NAFTA, there will be a net increase of 171,000 jobs in the United States, not a huge number in a nation of 240 million people. That would reduce our unemployment rate less than two-tenths of one percent. One important fact should be remembered: Whether NAFTA is approved or not, if we don't improve the skills of our work force and pay attention to the nation's fiscal problems, we will suffer a continued gradual decline in our standard of living. If we do a better job of preparing our work force and have the courage to face our fiscal deficit, we will experience an increase in our quality of life. No elixir of NAFTA or anything else is a substitute for addressing our education and fiscal problems.

<u>What about illegal immigration?</u>

Mexico today has a population of approximately ninety million people. Despite a declining birth rate, eventually, Mexico will achieve a total population of more than 200 million. Nothing speeds a decline in a national birth rate as much as an increase in the standard of living. Lifting the quality of life through NAFTA, therefore, will relieve population pressures and lessen the expected growth of illegal immigration. And the growth in job opportunities and wages reduces the attraction of employment in the north. The commission to look at illegal immigration, established by Congress in

[MORE]

1986, urged a free trade agreement between the United States and Mexico, calling it "the single most important long-term remedy to the problem." Few Mexicans come into the United States illegally because they like our cultural life; they come because they have little opportunity to earn a decent living in the country of their birth. NAFTA will not solve the illegal immigration problem, but it will assist in its solution.

Are there U.S. foreign policy considerations in this vote?

The United States has been fortunate to be bordered by two oceans, by a nation to the north we generally do not regard as a foreign nation, and a nation to the south that we have largely ignored. To continue down that path of indifference increasingly will be as difficult as it is wrong. A rebuff to NAFTA would hurt us in Mexico and in all of Latin America. Our historic cold shoulder to Mexico has been a burden to Mexico but will be a burden to us if it is continued. Former Speaker Jim Wright of Texas has written: "Not in the past 75 years has Mexico's elected leadership been so staunchly and outspokenly pro-U.S." However if NAFTA is turned down, Mexico is not likely to simply smile and docilely accept our position. If we muff this opportunity, Mexico is likely to enter into a free trade agreement with Japan or some other major economic entity. That would not be good for the United States and not as good for Mexico as a trade agreement with us, but we should be aware that you can wound the pride of a nation only so many times before it looks for other friends. If Henry Kissinger is correct that this nation "has never had a neighbor of the importance Mexico will acquire in the next century," we should weigh NAFTA carefully, recognizing that approving it will help Mexico achieve greater stability in both politics and economics. That is in our self-interest.

What about the environmental factors?

Environmental groups are split on this. Improvement would come in the border area; right now that is a mess. NAFTA would cause a significant increase in the use of natural gas in Mexico, reducing the emission of carbon monoxide, nitrogen oxides, sulfur dioxide and carbon dioxide. How effectively and strictly Mexico would enforce the environmental side agreement is not clear, though it is a good enough gamble that the National Wildlife Federation, the World Wildlife Fund, the Nature Conservancy, the Audubon Society, the Environmental Defense Fund, the Natural Resources Defense Council and Defenders of Wildlife have all endorsed NAFTA. What is indisputable historically is that as democracies have increased their living standards, they have become more sensitive to environmental factors, and NAFTA will increase the standard of living in Mexico.

What about those working men and women and businesses who will be hurt by NAFTA?

It is both morally right and smart policy to provide assistance to those harmed by NAFTA.

Assistance to businesses should be planned through loans that are not available through conventional credit sources. The Small Business Administration can help, though most businesses should find assistance from the traditional thrift institutions.

[MORE]

The problem of working men and women is more complex. It is a problem with or without NAFTA. Economic dislocations -- and the absence of any serious policy response from the federal government -- have created an enormous need for a program of economic relief and revitalization. This is complicated by an increasing bitterness and cynicism toward government that has seemed to sit idly by while our living standard has declined.

Such a program must include a serious retraining program for dislocated workers. Our economy is too dynamic, too globally linked for us to afford not to provide life-long training and retraining for our workers. That will only work if there are jobs waiting for those trained. We need to invest more in technologies; expand and accelerate improvements in our highways, water and sewer systems; promote high-speed rail and the information superhighway, and insist that our trading partners expand access to their markets for our products. We also must get our fiscal house in order: stop running huge deficits, and reduce the growth in our national debt, lowering the cost of capital and lifting our overall economy.

We need to demonstrate to middle-class Americans that government is on their side.

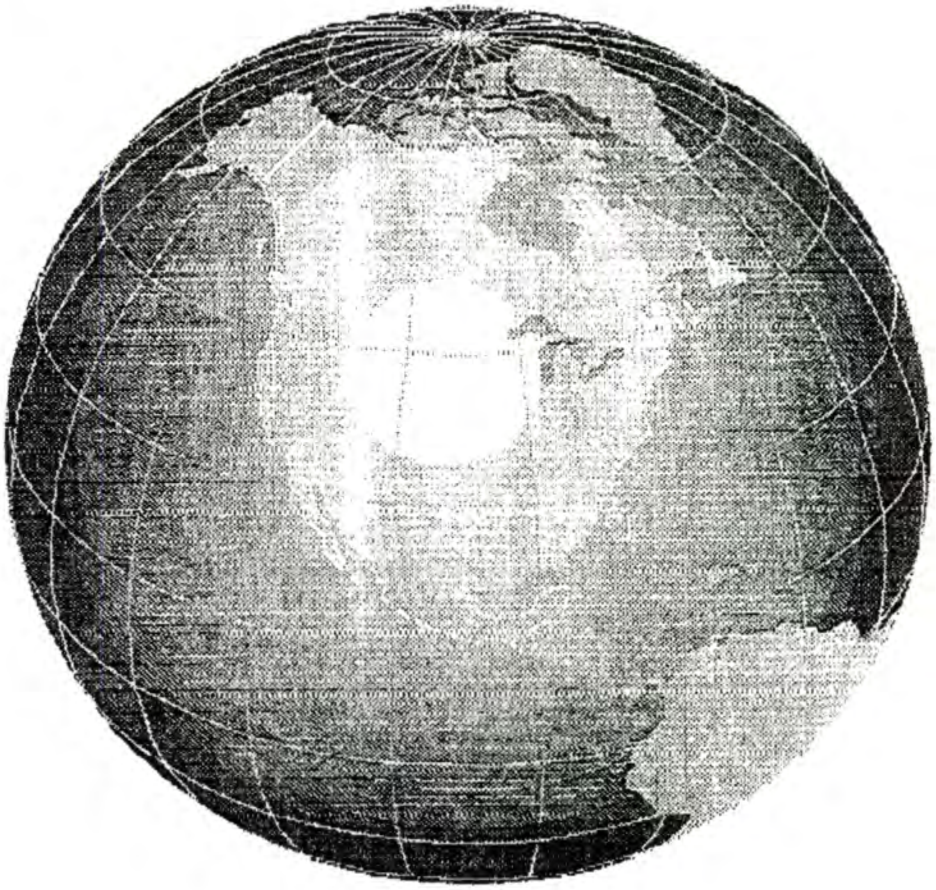
But this problem goes beyond just the middle class. More than one-fifth of the children of this nation now live in poverty, and the number is growing. No other Western industrialized country has such a miserable record. This is not the result of an act of God but the result of flawed policy. We have increasingly segregated the nation economically, and as fewer and fewer of the poor are our neighbors, it is easier and easier to ignore them. And our system of financing election to public office makes political leaders more and more responsive to the economically powerful and less and less responsive to our poorer citizens. NAFTA gives us an opportunity to reexamine our policies.

President Clinton says he wants welfare reform. So should we all. But there is no short-term, inexpensive way of achieving genuine reform. What we need is a federal jobs program similar to the old WPA. Anyone out of work five weeks or longer should have an opportunity to work on local projects four days a week at the minimum wage, and the fifth day, he or she should be trying to find a job in the private sector. At the current minimum wage, four days a week would mean $535 a month -- not a great deal of money -- but the average family on welfare in Illinois receives $367 a month; in Mississippi, $122 a month. Then, screen people as they come into the program, and if they cannot read and write, get them help; if they have no high school equivalency, enroll them where they can receive assistance; if they have no marketable skills, get them into a community college or a training program that gives them a marketable skill. We have a choice of paying people for doing nothing or for doing something, and we have made the wrong choice, both for them and for our society. We need to invest in our people. In every community of unemployed, we have large unmet needs. Why not convert the liability of unemployment into a great national asset as the nation did almost six decades ago? Such a program would have one additional, huge advantage over the present welfare

[MORE]

THE NAFTA

Expanding U.S. Exports, Jobs and Growth



Clinton Administration Statement
on the North American Free Trade Agreement

"In the face of all the pressures to do the reverse, we must compete, not retreat."

President Clinton, February 26, 1993

Administration Statement on the North American Free Trade Agreement (NAFTA)

What Does NAFTA Mean?

It Means:

- Harnessing a changing global economy for the benefit of American workers.
- 200,000 new higher-paying, export-related jobs for Americans.
- A level playing field for U.S. exporters.
- Enhanced access to Mexico, a growing market of 90 million consumers.
- Creation of the biggest market in the world.
- Better environmental protection.
- A plan to expand U.S. trade supported by both President Clinton and President Bush.
- Effective U.S. leadership to meet the requirements of the post-Cold War world.

NAFTA—The North American Free Trade Agreement
It's Good For America

July, 1993

The North American Free Trade Agreement (NAFTA): Expanding Exports, Jobs and Growth

"The truth of our age is this—and must be this: Open and competitive commerce will enrich us as a nation... And so I say to you in the face of all the pressures to do the reverse, we must compete, not retreat."

—President Clinton, February 26, 1993

"By building together the largest free trading region in the world, Mexico, the United States and Canada are working to ensure that the future will bring increased prosperity, trade, and new jobs for the citizens of each of our countries."

—President Bush, July 15, 1992

Every generation of Americans has embraced the challenge of its times. None has shrunk from the task. Our biggest challenge today is economic—to channel a changing international economy to our benefit.

The Clinton Administration is committed to rebuilding the U.S. economy from the ground up. We must prepare our entire work force to compete in the global economy and make sure that nobody gets left behind in the process. We look at trade—and every other issue—from the viewpoint of what is best for ordinary Americans who work hard, play by the rules, and want a chance to get ahead. The key building blocks are economic growth and jobs.

The North American Free Trade Agreement (NAFTA) is a part of this forward-looking strategy. This Administration supports the NAFTA with supplemental agreements because it will create high-wage U.S. jobs, boost U.S. growth, and expand the base from which U.S. firms and workers can compete in a dynamic global economy.

Critics of NAFTA use scare tactics to assert that NAFTA will put Americans out of work. The truth is quite the opposite:

- NAFTA will spur further job gains and push jobs related to exports to Mexico toward the 1 million mark.
- Defeating NAFTA could cost hundreds of thousands of such jobs.

The facts about NAFTA:

- NAFTA will create the biggest market in the world —right at our doorstep: a $6.5 trillion market with 370 million people.
- NAFTA will level a playing field that remains—despite recent Mexican market openings—substantially tilted in Mexico's favor. Mexico's tariff barriers to U.S. goods are still 2.5 times greater than our own. All tariffs will be phased out under NAFTA.
- NAFTA will expand benefits the United States has enjoyed since Mexico began to open its markets in 1986. U.S. merchandise exports to Mexico have risen by 228% since 1986, reaching $40.6 billion in 1992.
- U.S. jobs supported by these merchandise exports rose from 274,000 in 1986 to an estimated 700,000 in 1992—and these jobs are in all 50 states. (Merchandise exports to Canada support another 1.5 million U.S. jobs.)
- NAFTA will create an estimated 200,000 additional high-wage jobs related to exports to Mexico by 1995.
- NAFTA will increase opportunities for American firms to sell to Mexico. Those opportunities are especially important for small and medium-size businesses that cannot readily overcome high Mexican border barriers.

- Mexico is already our second largest market for manufactured exports—beating even the more affluent Japan. NAFTA will further increase opportunities for U.S. manufactured exports in Mexico.
- NAFTA will help us promote sustainable development in North America—economic growth with enhanced environmental protection.
- NAFTA will gradually ease many of the pressures in Mexico that currently contribute to illegal immigration across our border.

I. Creating the Biggest Market in the World

With NAFTA, the United States, Canada and Mexico will create the biggest market in the world—a combined economy of $6.5 trillion and 370 million people:

- Our competitors are expanding their markets in Europe and Asia. NAFTA is our opportunity to respond and compete.
- By increasing our export opportunities, NAFTA will enable us to take advantage of U.S. economic strengths and remain the world's biggest and best exporter.

II. Levelling the Playing Field

Mexico's trade barriers are now much higher than ours. NAFTA will level a playing field now tilted heavily in Mexico's favor:

CHART 1

Mexico's Average Tariff Barriers Against U.S. Exports are 2.5 Times Higher than Equivalent U.S. Tariff Barriers Against Imports from Mexico

- Mexico's average tariff against U.S. exports is currently 2.5 times higher than the equivalent U.S. tariff against imports from Mexico. (See Chart 1.)
- By contrast, over 50% of our imports from Mexico already enter duty free. Our average tariff on imports from Mexico is only 4%.
- Complex Mexican domestic licensing requirements further impede imports into Mexico from the United States.
- Mexico currently has no obligation to continue recent market-opening moves on which thousands of U.S. jobs already depend. NAFTA will not only lock in current access but expand that access.
- NAFTA will eliminate especially burdensome tariffs and non-tariff barriers in a number of key sectors where the United States is competitive vis-a-vis Mexico—such as autos and agriculture.

NAFTA will require relatively little change on our part—while requiring Mexico to sweep away decades of protectionism and overregulation:

- Half of all U.S. exports to Mexico will be eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994.
- U.S. exports eligible for tariff-free entry into Mexico include some of our most competitive products:
  - Semiconductors and computers
  - Machine tools
  - Aerospace equipment
  - Telecommunications equipment
  - Electronic equipment
  - Medical devices
- Within the first five years after NAFTA is implemented, two-thirds of U.S. industrial exports will enter Mexico duty-free.
- Under the NAFTA, Mexico will open its market significantly to U.S. manufactured exports. For example, for automotive parts, Mexico will eliminate 75% of its duties over five years and phase out the rest over ten years.
- NAFTA also will require Mexico to open its market to U.S. service exports (U.S. service exports to

Mexico were $8.9 billion in 1992). This will benefit such industries as enhanced telecommunications services, insurance, banking, accounting, and advertising.

- Under NAFTA, our access to Canada's service market also will be more open than it is under the existing U.S.-Canada Free Trade Agreement.

Removing Mexican restrictions against U.S. exports means that U.S. companies no longer will have to invest in Mexico or manufacture in Mexico to supply the Mexican market.

NAFTA will eliminate Mexican requirements that force our companies in Mexico to:

- Purchase Mexican goods instead of U.S.-made equipment and components;
- Export their production, usually to the United States, instead of selling directly into the Mexican market; and
- Produce in Mexico to sell in Mexico. For example, the current Auto Decree has the effect of barring automotive imports from the United States through a complex series of investment requirements that will be phased out under NAFTA.

III. Creating Higher-Wage U.S. Jobs

A strong consensus of the economic studies that have looked at the labor effects of NAFTA have found it will result in increased jobs or increased real wages—or both.

Our *experience* confirms the findings of these studies. Since Mexico began to open up its economy and prepare for NAFTA, the number of American workers producing merchandise exports to Mexico has risen from 274,000 in 1986 to an estimated 700,000 last year. (See Chart 2.)

- With NAFTA we anticipate 200,000 MORE export-related jobs by 1995.
- Wages of U.S. workers in jobs related to exports to Mexico are 12% HIGHER than the national average. (See Chart 3.)

NAFTA will further open the Mexican economy so that we can push employment related to exports to Mexico toward the 1 million mark.

CHART 2

U.S. Employment Supported by Merchandise Exports to Mexico

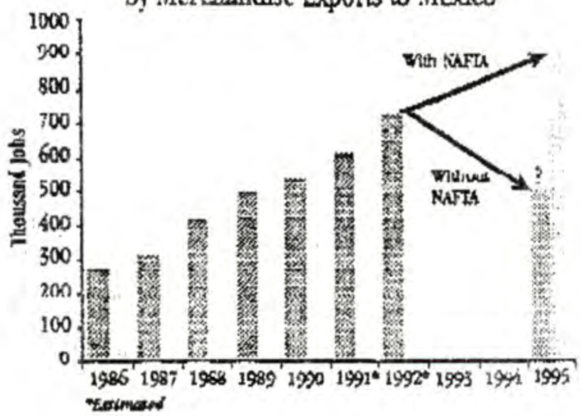
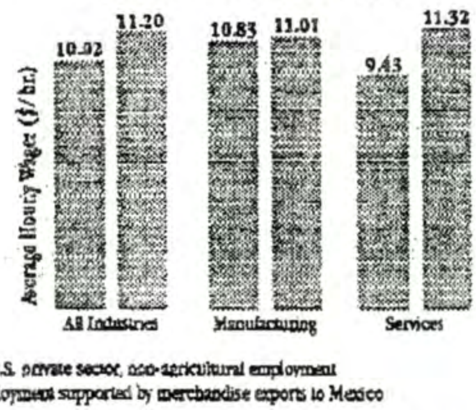


CHART 3

U.S. Jobs Supported by Exports to Mexico Pay More Than Other U.S. Jobs



Defeating NAFTA could cause a sharp drop in exports to Mexico and thus the loss of hundreds of thousands of U.S. jobs:

- Without NAFTA, we anticipate a reduction in U.S. exports and related jobs. Mexico could suffer capital flight, disinvestment, and a loss of confidence in its economy. A less healthy Mexico would be less able to afford imports produced in the United States.
- The precise impact is difficult to measure. However, in the first two years of the Mexico debt crisis (1981-1983), U.S. exports to Mexico dropped by almost half.

- If even a quarter of U.S. exports to Mexico were lost by 1995, U.S. export-related jobs would fall from the current level of 700,000 to 500,000 - a loss of 200,000 high-wage jobs (and a sharp contrast with the 900,000 projected jobs with NAFTA).

Protecting and Assisting U.S. Workers

NAFTA not only will create a large number of new jobs in export industries, but also will ensure that our import-sensitive industries have substantial room for adjustment.

- NAFTA provides for transition periods of up to 15 years in eliminating tariffs and other barriers on the most sensitive U.S. product sectors, such as household glassware, footwear, and some fruits and vegetables.
- For other products, U.S. tariffs will be phased out over 10 years or less. Only tariffs that are already very low will be eliminated immediately after the agreement enters into force.
- This gradual removal of barriers will provide companies and workers time to respond to changing competitive conditions.
- NAFTA contains special rules allowing a temporary reinstatement of U.S. tariffs or other measures to protect U.S. workers and farmers in the case of injury from a sudden surge in imports from Mexico or Canada. President Clinton has directed U.S. trade negotiators to seek a supplemental agreement to be sure this provision is used effectively.
- The United States will maintain domestic laws providing for penalties on dumped or subsidized imports that injure U.S. industry.
- Finally, NAFTA includes strict rules of origin that will prevent products of non-NAFTA countries from receiving preferential treatment under NAFTA.

Although NAFTA's net effect on U.S. jobs will be positive, it is likely also to lead to some job displacement. For those workers who may face job loss, the Clinton Administration is committed to having a **strong, fully funded worker adjustment program** to assist the transition to new market realities.

In addition, the United States, Canada, and Mexico will establish a **North American Commission on Labor.** (See section VI.)

The Wage Issue

The idea that U.S. workers can't compete with low-wage Mexican workers is a myth. If companies decided where to locate based solely on wages, investment would flock to countries much poorer than Mexico. Haiti and Bangladesh would be job and manufacturing powerhouses. That hasn't happened.

U.S. workers earn high wages because we are the most productive workers in the world. Americans can meet the challenge of international competition. NAFTA will enhance U.S. productivity and increase U.S. wages.

Mexico currently imposes no barriers on foreign investors who wish to set up production in Mexico for export. Mexico goes even further in encouraging foreign investment to service the domestic market by restricting access through imports. NAFTA will eliminate such incentives to foreign investors.

Despite the openness of the U.S. market and ability of U.S. and other foreign investors to set up shop in Mexico now, the United States is not being swamped with imports made by low-paid Mexican workers:

- If the United States were going to be flooded with such imports, it already would have happened.
- In fact the reverse is true: U.S. exports to Mexico have increased far more than U.S. imports from Mexico.
- The United States' largest bilateral surplus in manufactured products is with Mexico.

Immigration

To the extent that our workers compete with low-paid Mexicans, it is as much through undocumented immigration as trade. This pattern threatens low-paid, low-skill U.S. workers.

- The combination of domestic reforms and NAFTA-related growth in Mexico will keep more Mexicans at home.
- It is likely that a reduction in immigration will increase the real wages of low-skilled urban and rural workers in the United States.

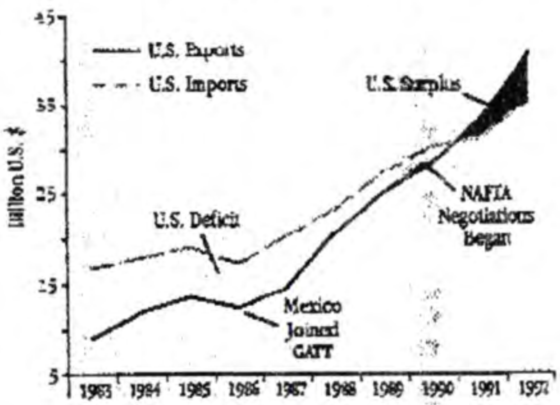
IV. Increasing Opportunities to Export to Mexico

NAFTA will "lock in" and expand trade gains achieved to date. Since Mexico began to open up its economy in 1986:

- U.S. exports to Mexico have expanded enormously, rising from $12.4 billion in 1986 to $28 billion in 1990 and a whopping $40.6 billion in 1992.
- The U.S. trade balance with Mexico has shifted from a $5.7 billion deficit in 1987 to a $5.6 billion SURPLUS in 1992. (See Chart 4.)

CHART 4

U.S. Merchandise Trade with Mexico: From Deficit to Surplus



Mexico is important to the U.S. economy because it is our:

- Third largest export market and the fastest growing major export market:

  Since 1986, U.S. merchandise exports to Mexico have increased by 228% (to $40.6 billion)—2.3 times faster than U.S. exports to the world.

- Second largest market after Canada for manufactured exports (amounting to $34.5 billion in 1992).
- Third largest market for agricultural products (after Japan and Canada), reaching $3.7 billion in 1992 (a 242% increase since 1986).

Mexican consumers prefer U.S. goods:

- 70 cents of every dollar that Mexico spends on foreign products is spent on U.S. goods. Given its location, this preference is likely to continue.
- Mexico purchases more imports per person from the United States than does the more affluent European Community countries and Japan. For example, last year, each Mexican, on the average, purchased more than $450 worth of U.S.-made products. By contrast, the average Japanese spent $385 on U.S. products, despite the fact that average Japanese incomes are five times as high as average Mexican incomes.

Key sectors benefitting from NAFTA include automotive, agriculture, financial services, textiles, and communications:

- U.S. telecommunications exports jumped 50% in 1991. Mexico is the industry's second largest export market after Canada.
- Detroit's Big 3 predict that their combined exports could rise from 1,000-plus to over 60,000 vehicles in NAFTA's first year alone.
- Mexico was primarily a bulk commodity market for U.S. agricultural exports prior to 1987. Now it is one of the United States' largest and fastest growing high-value markets. High-value products now account for almost 70% of all U.S. agricultural sales versus 40% in 1987.

Small and Medium-Size Businesses

The significant expansion of the Mexican market will benefit small and medium-size businesses in particular. These companies usually lack the resources to penetrate the thicket of Mexican trade barriers and regulatory restrictions. By lowering costs and dissolving barriers, NAFTA will help smaller businesses to penetrate the Mexican market without having to invest in Mexico.

V. Enhancing Environmental Protection

NAFTA and its supplemental agreements will help ensure that economic development takes place in a way that protects and improves the environment.

The NAFTA text itself takes a first step in recognizing the relationship between trade and the environment:

- It contains explicit endorsement by the three countries of the principle of sustainable development and calls for the "upward harmonization" of standards.
- No existing Federal or state regulation to protect health and safety will be jeopardized by NAFTA. In fact, NAFTA rules allow the participating countries (and their states and provinces) to enact tougher environmental standards.
- If a dispute arises that has environmental implications, NAFTA provides for scientific boards to guide panelists considering the dispute.
- NAFTA gives precedence to the trade provisions of certain international environmental agreements (including those on endangered species and the use of CFCs) in the event they conflict with NAFTA's rules.
- NAFTA allows countries to impose strict environmental standards on investment and NAFTA countries agree not to weaken environmental protection to attract investment.

VI. Beyond NAFTA: Supplemental Agreements on the Environment, Labor and Import Surges

President Clinton supports NAFTA as part of a growth strategy for the United States but believes that NAFTA can be enhanced. That is why the Administration is seeking supplemental agreements on import surges, the environment, and labor. These separate agreements will provide additional assurance that NAFTA-enhanced growth will be sensitive to environmental and labor concerns.

The agreement on **import surges** would establish a tri-national committee to help ensure the effective use of NAFTA's provisions allowing temporary relief in the event of injurious import surges.

The President envisages agreements that will create commissions on the **environment** and **labor**. The powers and functions of these commissions will help improve conditions for workers and the environment and will improve enforcement of national laws.

The supplemental agreement on the environment will provide for effective **enforcement**, **public access** to judicial forums to enforce environmental laws, **transparency** in the development of environmental laws, and other improvements.

Moreover, the United States, Canada, and Mexico will establish a **North American Commission on the Environment** to:

- Foster public discussion of environmental concerns;
- Strengthen domestic enforcement of national environmental laws;
- Promote an integrated North American approach to the environment;
- Provide a focal point to expand and strengthen existing environmental initiatives; and
- Formally give environmental advice to trade representatives from the three NAFTA countries.

In addition, the United States, Canada and Mexico will establish a **North American Commission on Labor** that will:

- Foster discussion and better appreciation of worker rights and labor standards in each NAFTA country.
- Encourage domestic enforcement of national labor laws; and
- Promote the raising and strengthening of labor standards in North America.

The supplemental agreements cannot resolve overnight all environmental and labor problems. But defeating NAFTA and the supplemental agreements would only aggravate these problems. Never has the United States had a comparable opportunity to promote improved environmental and labor conditions. If NAFTA and the supplemental agreements are successfully concluded and enacted, we will have an unparalleled opportunity with our neighbors to advance a broad agenda for economic growth and environmental improvement for our countries and all our people.

VII. NAFTA and American Leadership

In the post-Cold War world, American leadership will be measured in part by the creativity and aggressiveness of our trade policy. Bold, original, and forward-looking, NAFTA is worthy of a world leader.

- In North America, division between foreign and domestic matters narrows every day. American communities are inevitably affected by what happens in Canada and Mexico. Their problems spill over the border to harm us—just as their success adds to our welfare.
- By increasing the flows of commerce and culture and by forging new cross-border friendships among labor and environmental organizations, the NAFTA will promote prosperity and democracy in neighboring Mexico. Americans who favor freedom and good government in Mexico should favor NAFTA.

NAFTA has been negotiated by two Administrations. It stands as a testament to the ability of the United States to design a bipartisan foreign policy crafted to the requirements of the post-Cold War world. Its defeat would signal to the world that Washington is mired in inertia and gridlock.

- NAFTA's defeat would raise serious questions about America's commitment to global leadership, thereby undercutting our influence throughout the world.
- NAFTA's defeat would shock the Mexican economy, depress wages and living standards, reduce the Mexican capacity to purchase U.S. products, and stimulate immigration. It could also create tensions on a host of critical issues from illegal drugs to oil.
- NAFTA's defeat would also throw sand in the eyes of our allies throughout Central and South America, who are striving to open their markets and democratize their societies. Anti-Americanism, protectionism, and authoritarianism may well increase. A NAFTA defeat would be a major, self-inflicted setback to American leadership.

Conclusion

NAFTA will create jobs and improve our competitiveness. It will create the largest, richest market in the world. Mexico's strong and growing demand for U.S. products has created a $5.6 billion U.S. trade surplus. With a stronger Mexican economy and higher Mexican wages, demand for U.S. goods will continue to expand. Increased access to the rapidly growing Mexican market will create extraordinary new opportunities for U.S. companies and workers. Taking advantage of these opportunities will lead to increased prosperity in the United States.

NAFTA Is Good For America

Questions and Answers about NAFTA

Q. *How can Mexico, a low-income country, be such a large market for U.S. exports?*

A. Mexico now is our third-largest trading partner. Although Mexican per capita incomes are low relative to incomes in the United States, Mexico is a country of 90 million people (who prefer U.S. to other foreign products) and a developing country with an improving economic outlook. On a per capita basis, Mexico purchases more U.S. products than our trade partners in the European Community and Japan. NAFTA will help the United States take further advantage of the growing Mexican market for U.S. exports.

Q. *Will NAFTA result in massive U.S. job losses to low-wage Mexican workers?*

A. No. NAFTA will increase jobs, productivity and wages in the United States as well as in Mexico and Canada. If lower wages were the only reason that companies moved to other countries, Haiti and Bangladesh would be economic powerhouses by now. Other factors such as high worker productivity in the United States and high non-wage costs in Mexico (including transportation, infrastructure, and support service costs) make U.S. workers more competitive than their Mexican counterparts.

Moreover, under NAFTA's rules of origin, only products that have substantial North American materials will receive preferential treatment. With the free and fair trade and investment environment created by NAFTA, workers in all three North American countries will be better able to succeed together with non-North American producers.

Q. *How many workers would need assistance because of NAFTA?*

A. NAFTA will create many more jobs in the U.S. than are lost. The number of positions that will be lost due to NAFTA is likely to be very small. American workers are strongly competitive in world markets; U.S. barriers to imports from Mexico are already very low; and Mexico's productive capacity is very small relative to that of the United States and will —even with healthy growth—remain so for decades to come.

Since NAFTA will be phased in over a fifteen year period, a substantial part of the position losses is likely to be absorbed by attrition through voluntary retirement or resignation. Certainly any job displacement of working Americans by NAFTA will be barely perceptible relative to other changes in the U.S. economy, such as defense conversion, technological advance and changes in consumer tastes.

While the net benefits are clear, the Administration recognizes that some U.S. workers may suffer dislocation. For any U.S. worker who is in fact displaced by NAFTA, the Administration is committed to provide the assistance needed for him or her to adjust to changing market conditions.

Q. *Will wages in the United States fall in order to compete with lower-wage Mexican labor?*

A. High wages in the U.S. reflect the productivity of American workers, which is the highest in the world. Since U.S. jobs supported by exports are, on average, higher-paying, require higher skills than other jobs, and NAFTA's promotion of exports will lead to net job creation, NAFTA will strengthen rather than depress U.S. average real wages.

Without NAFTA, hundreds of thousands of Americans will lose opportunities to find good-paying jobs producing exports for the Mexican market

Q. *Are the benefits of recent U.S. export expansion overstated? Is most of this growth due to exports of parts that are assembled in Mexico and then shipped back to the United States?*

A. The bulk of U.S. exports to Mexico is for consumption in the Mexican market and not for return to the U.S. Indeed, in 1992, U.S. exports of component inputs for production sharing arrangements in Mexico (i.e., Maquildoras) comprised an estimated 22% of all U.S. exports to Mexico, compared with 32% in 1987. While incorporated into products eventually exported back to the United States, these components still support U.S. jobs related to their production. An estimated 83% of the growth in U.S. exports to Mexico in the last five years was for Mexican consumption, not re-export.

Q. *Is the United States primarily exporting machinery and equipment that Mexico will use to create industries that could then lead an export assault on our markets?*

A. In percentage terms, capital goods have been the slowest growing major export category to Mexico in the last five years. Although still the largest component of U.S. exports to Mexico, capital goods have decreased from 40% of total U.S. exports to Mexico in 1987 to 33% in 1992. In contrast, capital goods comprise 40% of U.S. exports to all developing countries and 39% of U.S. exports to the world. The United States enjoys a significant competitive trade advantage in many areas of capital goods.

In any event, U.S. exports of capital goods to Mexico should not be viewed as a liability for the U.S. economy. Such exports support production and high-paying jobs in the United States and will do so for many years to come. Mexico's need for imported capital goods is likely to continue as long as the Mexico maintains a healthy, expanding economy. Even the United States, the world's most productive economy, must expand and replace a part of its capital equipment each year.

Finally, U.S. capital goods are on the cutting edge of technology. Exports of capital goods support good, high-paying jobs.

Q. *What has been the effect of the 1989 United States-Canada Free Trade Agreement on U.S. exports?*

A. Before the agreement, Canada had tariffs on imports that were two or three times higher than those of the United States (similar to Mexico today). After the agreement to eliminate tariffs and other barriers on all United States-Canada trade flows and many restrictions on investment and services, U.S. merchandise exports grew 27% between 1988 and 1992 (from $71.6 billion to $90 billion). U.S. service exports to Canada increased by 78% to $17.2 billion during the same time period. Also, since the agreement, there have been numerous calls from both sides of the border to accelerate the scheduled phase out of tariffs.

Q. *What long-term impact will NAFTA have on illegal immigration from Mexico?*

A. NAFTA will promote economic growth and increase wages in all three countries. This will create more economic opportunities for workers in Mexico—the single most important, long-term remedy to illegal migration from that country. According to some scholars, significant real wage increases could also occur for U.S. rural and lower skilled urban workers as a result of reduced emigration from Mexico to the United States.

Some economic studies of NAFTA considering the immigration issue have been misconstrued to suggest that hundreds of thousands of Americans would lose their jobs because of NAFTA. In fact, these studies do not show such results. The "U.S." job losses turn out to be hundreds of thousands of Mexican workers who decide to remain in Mexico because of the enhanced job opportunities created by NAFTA; without NAFTA, they would have crossed the border to compete for jobs in the United States. These are not jobs "lost" by American workers, but rather U.S. jobs foregone by Mexican workers for whom NAFTA will provide an acceptable economic alternative at home.

Without NAFTA and a stronger Mexican economy, pressures for illegal Mexican emigration to the United States would only continue to increase.

Q. *In the short term, would eliminating Mexico's barriers to U.S. agricultural imports lead to more rural Mexican unemployment and increase pressures to migrate to the United States?*

A. The NAFTA agreement contains the longest phase-in period (up to 15 years) for Mexico to liberalize agricultural trade policies with the United States and Canada. This gives Mexican farm laborers time to adjust and will help minimize short-term immigration effects. With or without NAFTA, agricultural reforms will continue to reduce Mexican agricultural employment. NAFTA will enhance the opportunities for displaced Mexican agricultural workers to find other jobs in the Mexican economy.

Q. *Won't increase trade flows from NAFTA worsen the flow of illegal drugs into the United States?*

A. While NAFTA will reduce tariffs, it will not relax customs controls on the border. As trade between the United States and Mexico has increased in recent years, cooperation in counternarcotics and law enforcement has improved. By promoting U.S.-Mexican cooperation, the NAFTA can foster a positive atmosphere for further bilateral efforts to fight drugs.

file Nafta

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

December 7, 1994

Alan Helene
421 E. 58th Street
Apartment 22d
New York, New York 10022

Dear Alan:

As promised, enclosed is the letter and report we submitted to the Senate Appropriations Committee regarding the steps that are being taken to encourage Mexico to increase its $50 duty exemption limit.

I look forward to receiving the materials you described.

All good wishes.

Sincerely,

Nancy LeaMond

Nancy A. LeaMond
Assistant U.S. Trade Representative
for Congressional Affairs

Attachment

✓cc: Melanne Verveer

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

DEC 1 1994

Chairman Ernest F. Hollings
Subcommittee on Commerce, Justice, State and Judiciary
United States Senate
Washington, D.C. 20510-6027

Dear Chairman Hollings:

The Senate Report accompanying H.R. 4603, the 1995 fiscal year appropriation bill for Commerce, Justice, and State, the Judiciary and related agencies, requested that the United States Trade Representative (USTR) report to the Senate Appropriations Committee by no later than December 1, 1994 regarding the steps being taken to encourage the Government of Mexico to alter its policy regarding the duty exemption limit for its residents returning from the United States. The attached report is being submitted in fulfillment of this requirement.

USTR would be pleased to answer any questions the Subcommittee has regarding this report.

Sincerely,

Michael Kantor

cc: Senator Pete V. Domenici

Report to the Committee on Appropriations
United States Senate

Mexican Provisions on Duty-Free Imports by Travellers

Submitted by the Office of the United States Trade Representative
December 1, 1994

Summary

The Senate Report accompanying H.R. 4603, the 1995 fiscal year appropriation bill for Commerce, Justice, and State, the Judiciary and related agencies, noted the Appropriations Committee's great concern, "about the move by Mexico to limit to $50/day the value of merchandise that persons returning to Mexico from the United States may bring back into that country duty-free" and observed that "Mexico's policy is having a severely adverse effect on all types of retail business along the United States border with Mexico." In concluding, the Report requested that the United States Trade Representative (USTR) report to the Senate Appropriations Committee by no later than December 1, 1994 regarding the steps that are being taken to resolve this matter. This communication is submitted in fulfillment of that requirement.

Resolving the problems associated with Mexico's $50 per crossing exemption has been one of our top bilateral trade priorities. The United States Trade Representative has raised the issue with senior Mexican government officials on a number of occasions, as have the Secretaries of State and Treasury, and the Commissioner of Customs. A number of members of Congress as well as state and local officials in the border region have also discussed the issues with their counterparts and with officials in Mexico City. The USTR and other senior officials have also met with retailers from the U.S. border region concerning this issue. The Mexican Government has been very responsive to U.S. Government requests for consultations on this subject, and has provided substantial information explaining its duty exemption policies. Mexico also has noted the many areas where its provisions are comparable or more generous than those of the United States and our common North American Free Trade Agreement (NAFTA) partner, Canada.

The issue is complex, and includes not only the impact on U.S. retailers but also legitimate Mexican concerns about customs fraud and smuggling. Despite significant effort and good will, it has not proven possible to resolve the matter during the term of the Salinas Administration, which leaves office the day this report is being submitted. We have raised the duty exemption issue with very senior members of the incoming Zedillo administration. They are cognizant of the importance of this issue to the border region, and have given their assurances they will continue to seek a mutually acceptable resolution.

enforces a $400/month limit for duty-free entry of goods brought back into this country from Mexico. The Committee understands the concern of Mexican officials which led to enforcement of this restriction. However, Mexico's policy is having a severely adverse effect on all types of retail business along the United States border with Mexico.

The Committee is deeply concerned about the lack of progress the United States Trade Representative has been able to make with his Mexican counterparts on this matter. The Committee expects the trade representative to place a high priority on expeditiously resolving this matter. The Committee expects the USTR to report to the Committee no later than December 1, 1994, regarding the steps that are being taken to resolve this matter.

Before consulting with the Government of Mexico regarding its duty exemptions, Executive agencies compared the duty exemption regimes for the three NAFTA partners: the United States, Mexico and Canada. A summary chart follows.

NAFTA Obligations

The NAFTA requires Mexico, Canada and the United States to eliminate tariff and customs fees for substantially all trade in goods which meet NAFTA origin rules. The NAFTA does not apply, however, to the duty exemptions the Parties provide for non-commercial transactions with other NAFTA parties involving goods that are not eligible for NAFTA preferential treatment. Thus, Mexico's current duty exemption procedures, and its decision to enforce the $50 limit in 1992, are not inconsistent with its NAFTA obligations. However, the NAFTA does provide certain tariff preferences for non-commercial imports from NAFTA partners above the duty-exemption limits.

For the United States, non-commercial imports in excess of the applicable duty-free limits ($400 per 30 day period) up to a limit of $1,000, are assessed a flat duty of 10 percent. For residents returning from Mexico, this rate was reduced to 9 percent for 1994, and will be further reduced in equal stages and eliminated in 2003. For imports valued above $1,400, the actual rate of duty, rather than a flat rate, is applied. Thus, at the end of the NAFTA transition period, the effective duty-exemption limit will rise to $1,400 for residents returning from Mexico. Similar provisions were applied to Canada when the U.S.-Canada FTA was implemented in 1989. The preferential duty rate for imports above the duty exemption level has been reduced over the last six years to 4 percent for U.S. residents returning from Canada and will be eliminated in 1998. For U.S. residents returning from abroad (other than Mexico) after an absence of less than 48 hours, the exemption limit is $200; a $400 limit applies for longer absences.

Mexico assesses a flat charge of 32.8 percent for imports above the duty exemption limit and below $1,000. This includes a 20 percent duty, a 10 percent valued added tax (on both the

A COMPARISON OF THE NAFTA COUNTRIES' DUTY-FREE EXEMPTIONS

	United States Residents Returning from Mexico	Mexico Residents & Non-Residents	Canada Residents
Amounts	$400 USD, or a portion of such amount, per person, every 30 days, including liquor and tobacco. It may be pooled with family members. If any of the $400 exemption has been used in the last 30 days, the exemption is $200 per crossing, including liquor and tobacco. No pooling of the $200 exemption with other family members is permitted. If the value of the good(s) exceeds $200, duties are charged on the total value of goods being imported. 30 days after the $400 exemption was totally or partially used, an exemption of up to $400 may again be claimed.	In addition to goods listed as part of the passenger's luggage: A) $50 USD per person, per crossing by land; or B) $300 USD per person, per trip, for air and sea arrivals In both cases, personal exemptions may be pooled with members of the family. In addition: C) $350 USD per month, per family residing in the border strip, of certain consumer goods, such as food, medicine, and clothing (in addition to the allowances for soft drinks, liquor, wine, beer and tobacco), regardless of the number of members in the family.	A) After 24 hours absence, $20 Canadian dollars (C$). No exemption can be claimed if the total value of goods exceeds C$20. B) C$100 after 48 hours absence. C) C$300 after 7 days absence, claimed once each calendar year. Exemptions may not be pooled with members of a family. In the case of infants or small children, the exemption may be applied only to goods for their use.
Liquor & Tobacco	Every 30 days or crossing, the following may be included in the exemptions above, up to: - One liter of liquor, wine or beer; and - 200 cigarettes and 100 cigars.	In addition to the $50 or $300 USD exemptions, passengers are allowed to bring in, per crossing, up to: - 3 liters of wine or liquor; and - 20 packs of cigarettes, or 50 cigars, or 250 grams of tobacco.	Included in the C$100 or C$300 exemptions, each adult may bring up to: - 1.14 liters of liquor or wine, or 8.5 liters of beer; and - 200 cigarettes, 50 cigars and 400 grams of tobacco.
Taxes Due	1) Duty-free articles are excluded. 2) Articles with the highest duty rates are counted toward the exemption. 3) Articles exceeding the $400 exemption, and up to $1,400, pay a flat 10% duty rate (9% from Mexico, or 4% from Canada). 4) Beyond $1,400, articles are taxed with the corresponding tariff.	Taxes are levied only on the value of dutiable goods in excess of the exemption. The importer has two options: 1) With the services of a Customs Broker, to classify the merchandise and pay the corresponding tariff (0% to 20%), plus a 10% of valued added tax on the value of the goods and on customs duties, and a .8% of customs fee; or 2) Through a simplified procedure, without the assistance of a Broker, to pay either a 20.8% combined rate, or 32.8% combined rate if the goods are not marked or labeled as made in the USA or Canada. This simplified procedure only applies when the value of the goods does not exceed $1,000 USD ($4,000 for computers).	A special 12% to 15% duty rate (including GST) on the first C$300 in excess of the exemption. Sales taxes applied at the country where the goods were purchased are included in the computation, unless such taxes were refunded to the importer.

most notably its strong desire to reduce Customs fraud and smuggling along the border and to ensure effective and efficient administration of its customs laws.

Mexico has also pointed out that the United States runs a substantial trade surplus along the border. According to statistics provided by the Secretariat for Commerce and Industrial Development (SECOFI), Mexican residents spent $4.02 billion dollars in the U.S. border strip in 1992, while U.S. residents spent slightly more than half this amount, $2.13 billion in Mexico's border region. SECOFI believes this deficit has continued for 1993 and 1994.

Mexico has suggested that a constructive approach would be to consider the issue within the Trilateral Heads of Customs Conference framework. A cooperative effort by the three NAFTA partners to standardize all possible Customs duty exemption procedures, requirements and provisions may offer the best prospects for success. Similar views have been expressed by Mexico's new President, Ernesto Zedillo. Mexican press reports note that following a meeting with Texas Governor Ann Richards on October 10, Zedillo stated his willingness to review the "franchise" rights of border residents, but added that, "This measure calls for similar action by U.S. officials so as to ensure reciprocal conditions on both sides of the border."[1]

This Administration believes such a review to be worthwhile and appropriate and should include both Mexico and Canada. As a result, U.S. Customs has agreed to place this issue on the agenda for discussion at the next meeting of the U.S./Mexico/Canada Trilateral Coordination Team (scheduled for February 1995) and the next Trilateral Heads of Customs Conference (Spring 1995). In addition to the upcoming trilateral meetings, it is likely that the United States and Mexican Customs Administrations will hold a "bilateral Customs Meeting" in early 1995. U.S. Customs will raise the exemption issue during these discussions.

USTR fully supports efforts to expand trade among the members of the NAFTA. In particular, a decision by Mexico to restore its higher duty exemption levels for border residents will benefit both Mexican consumers and U.S. retailers. All three NAFTA partners would also benefit from greater harmonization of exemption limits and regulations.

USTR intends to make resolution of the duty exemption issue one of its top priorities with the new Administration of President Zedillo and the Government of Canada. USTR supports the efforts of the U.S. Customs Service to include this issue on its trilateral meeting agenda early next year, and will provide any assistance, support and expertise this agency can offer as we work toward greater harmonization of duty exemption standards, and build on the successes we have enjoyed to date as the NAFTA expands trade, creates jobs for our workers and benefits consumers throughout North America.

---

[1] La Jornada, Mexico City, October 11, 1994.